

Empire State Manufacturing Survey: Supplemental Report

June 2009

For release June 15, 2009

Weaker Demand, Cash Flow Prompt Firms to Cut Capital Spending in 2009

In a series of supplementary questions to the June 2009 *Empire State Manufacturing Survey*, manufacturers were asked about their capital spending plans for 2009 relative to their actual spending for 2008, both overall and for a few broad categories of capital. Similar questions had been asked in June 2008 and June 2007 (see table). In the current survey, 56 percent of responding firms reported reductions in overall capital spending in 2009, while just 20 percent reported increases. These results contrast fairly markedly with those of the June 2008 survey, which showed nearly as many respondents reporting increases (32 percent) as decreases (36 percent). The 2009 results differ even more sharply from those of the 2007 survey, which showed far more firms reporting increases than reductions.

In the current survey, questions about changes in four major categories of capital spending revealed that reductions in each case were widespread—considerably more so than in the 2008 survey. In particular, substantially more manufacturers reported decreases than increases in investment in structures, by a margin of 46 percent to 7 percent; in last June’s survey, reported decreases had exceeded reported increases 36 percent to 21 percent. In the three remaining capital categories, 47 percent of respondents in the current survey cited reductions in spending for non-computer-related equipment, and slightly more than 40 percent reported spending reductions for both computer hardware and software. In the 2008 survey, by contrast, reductions in these three capital categories were reported by 31 to 34 percent of those surveyed.

Respondents were also asked about the extent to which various factors contributed positively or negatively to their planned changes in capital spending. Nearly 55 percent of those surveyed cited sales and demand trends as a negative factor, while just 21 percent cited these trends as a positive factor. In the 2008 survey, by contrast, sales and demand trends were more widely seen as a positive than a negative factor. The other major driver of spending reductions for 2009 was cash flow or balance sheet position: 45 percent of manufacturers cited it as a negative factor, while just 17 percent identified it as a positive contributor. In last year’s survey, responses were evenly split.

Not surprisingly, with far more respondents reporting decreases than increases in capital spending this year, firms’ dollar estimates of total capital expenditures for calendar year 2009 suggest a fairly steep decline from calendar year 2008. Estimated capital spending for 2009 across all respondent firms averaged \$1.9 million, down from \$2.5 million in 2008—a 24 percent decline—while the median decreased from \$500,000 to just \$275,000, a drop of more than 42 percent.

1) To what extent do you expect your firm’s spending on new plant and equipment to be higher or lower in 2009 than in 2008? How do you expect each of these capital spending categories to change?

	June 2009 Survey		June 2008 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Planning Lower Spending in 2009	Planning Higher Spending in 2009	Planning Lower Spending in 2008	Planning Higher Spending in 2008
Total	55.8	19.8	35.7	32.1
Structures	46.3	7.3	35.7	21.4
Non-computer-related equipment	47.1	20.0	33.7	37.3
Computers and related hardware	41.2	14.1	32.1	25.0
Software	40.7	14.0	31.0	27.4

(Continued)

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2) How are each of the following factors contributing to changes in your capital spending budget from 2008 to 2009?

	June 2009 Survey		June 2008 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Reporting Downward Effect in 2009	Reporting Upward Effect in 2009	Reporting Downward Effect in 2008	Planning Upward Effect in 2008
Unusually high/low capital spending in '08	28.2	5.9	20.0	5.9
Long-term plans/investment schedule	29.1	18.6	17.6	49.4
Sales/demand trends for your products	54.7	20.9	36.5	48.2
Need for labor-saving equipment	21.2	37.6	14.1	44.7
Need for energy-saving equipment	18.6	19.8	14.1	37.6
Cost or availability of external finance	22.1	9.3	15.5	15.5
Firm's cash flow/balance sheet position	44.7	16.5	23.5	22.4
Tax/regulatory considerations	22.1	12.8	17.6	18.8

3) Please indicate your best estimate of your total capital expenditures for last year (calendar year 2008) and the expected amount for this year (calendar year 2009).

	June 2009 Survey		June 2008 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Current Year	Prior Year	Current Year	Prior Year
Average capital spending	\$1,882,173	\$2,477,939	\$3,322,213	\$3,123,303
Median capital spending	\$275,000	\$500,000	\$500,000	\$401,000