Supplemental Survey Report

Businesses Report Only Minor Deterioration in Recent Credit Conditions, but Remain Cautious in the Near Term

Supplemental questions in the May 2023 *Empire State Manufacturing Survey* and *Business Leaders Survey* focused on current credit conditions—specifically past and projected changes in access to credit (responses were collected between May 2 and May 9). Firms were asked questions about credit availability, interest rates, maturity terms, and credit line caps for both outstanding and new loans, as well as questions geared toward assessing exposure to interest rate risk.

Businesses were first asked to report whether they engaged in borrowing through loans, debt, or active credit lines, with 44.4 percent of service firms and 57 percent of manufacturing firms indicating use of such credit channels. Respondents who reported borrowing were next asked about the share of their total outstanding borrowing amount using a floating (variable) interest rate—widely viewed as an important proxy for interest rate risk exposure. Among respondents engaged in borrowing, service firms estimated that 54.4 percent of their total outstanding borrowing used a floating rate on average, while manufacturing firms estimated an average of 47.7 percent using a floating rate—with the median firm reporting a slightly higher share in each survey. While not shown in the tables, the share with any use of floating rates among those firms engaged in borrowing was around 80 percent for both surveys. In contrast, service firms estimated that 45.6 percent of their borrowing used a fixed rate, while manufacturing firms estimated an average of 52.3 percent at a fixed rate.

Businesses were also asked how frequently they take out loans or lines of credit. The majority of respondents reported loan terms of two years or less, as indicated by 55.7 percent of service firms and 61.0 percent of manufacturing firms. Manufacturers tended to be much more concentrated in shorter-term loans, with only 15.3 percent of outstanding borrowing tied to lending frequencies greater than three years. By contrast, 35.4 percent of service firms reported lending cycles of more than three years, potentially implying greater exposure to interest rate risk among manufacturing firms.

Respondents were next asked whether access to credit had worsened (less credit availability or higher costs of financing), improved (more credit availability or lower costs), or remained unchanged, in the last three months (since February), the prior three months (between November and January), and about their credit outlook for the next three months. About 20 percent of firms in both surveys reported worsening conditions over the past three months (since February), very similar to the share reporting conditions had worsened in the three months prior (November to January). These readings suggest little change in credit availability trends over the past several months, on average.

While the relatively smooth continuation of the prior trend suggests businesses are facing similar changes in credit conditions, even in light of recent credit tightening in the economy, there remain two signs of headwinds. First, the share reporting worsening conditions for the past three months compared to the prior three months did increase just slightly. Also, while not shown in the tables, larger firms, current borrowers, and borrowers with floating rates all reported even larger shares citing a decline in credit conditions over the past three months relative to the baseline change in credit conditions over the three months prior. Second, around 30 percent of respondents in both surveys expect credit conditions to deteriorate further over the next three months, while very few expect conditions to improve.

When those reporting worsening conditions were asked about the specific factors that have been worsening over the past three months, the most highly cited factor was interest rates on both new and current loans. Eighty percent of service firms and 86.4 percent of manufacturing firms said that interest rates on new loans had worsened, while 68.6 percent of service firms and 72.7 percent of manufacturing firms cited a worsening of interest rates on current (outstanding) loans. These factors were closely followed by worsening availability of new loans. Changes in the term structure (maturity) of current and new loans were also cited although less so.

When firms were asked whether they were, or are, considering any action in response to worsening credit availability, the most widely cited measures among manufacturers were adjusting the number of employees on payroll or wages, reported by nearly three in four respondents, followed by adjusting prices, reported by about half. The most widely cited measure among service firms was price adjustments (cited by just under half). ■

Supplemental Survey Report, *continued*

QUESTION 1

Does your business currently engage in borrowing by using loans, debt, or active credit lines?

	Business Leaders Survey	Empire State Manufacturing Survey
Percentage of respondents reporting		
Yes	44.4	57.1
No	55.6	42.9
Number of respondents	180	105

QUESTION 2

Please provide your best estimate for the percent of your outstanding borrowing amount that uses a fixed interest rate, versus a floating interest rate:

	Business Leaders Survey	Empire State Manufacturing Survey
Percent of borrowing amount using fixed rate		
Average	45.6	52.3
Median	33.0	50.0
Percent of borrowing amount using floating (variable) rate		
Average	54.4	47.7
Median	67.0	50.0

Note: Question 2 is only asked to respondents responding "yes" to currently engage in borrowing by using loans, debt, or active credit lines.

QUESTION 3

How frequently does your business take out new loans or lines of credit, including refinancing? Roughly every…

	Business Leaders Survey	Empire State Manufacturing Survey
Percentage of respondents reporting borrowing frequency of		
6 months or less	11.4	8.5
1 year	29.1	27.1
2 years	15.2	25.4
3 years	8.9	23.7
More than 3 years	35.4	15.3

Note: Question 3 is only asked to respondents responding "yes" to currently engage in borrowing by using loans, debt, or active credit lines.

Supplemental Survey Report, *continued*

QUESTIONS 4-6

How has your business's access to credit changed over the past three months (that is, since February of last year)?

Looking backwards, how did your business's access to credit change late last year up through the beginning of this year (that is, between November and January)?

And finally, looking forward, how do you expect your business's access to credit to change over the next three months?

	Last Three Months (since Feb)	Prior Three Months (between Nov and Jan)	Next Three Months
Business Leaders Survey			
Percentage of respondents reporting credit conditions have/will			
Worsened/Worsen	19.9	19.5	30.5
Unchanged/No change	77.3	78.2	67.2
Improved/Improve	2.8	2.3	2.3
Share improved – Share worsened	-17.1 pp	-17.2 pp	-28.2 pp
Share worsened last 3 months – Share worsened prior 3 months	0.4 pp		
Empire State Manufacturing Survey			
Percentage of respondents reporting credit conditions have/will			
Worsened/Worsen	21.0	19.0	28.8
Unchanged/No change	78.1	78.1	69.2
Improved/Improve	1.0	2.9	1.9
Share improved – Share worsened	-20.0 pp	-16.1	-26.9
Share worsened last 3 months – Share worsened prior 3 months	2.0 pp		

Note: In Questions 4 – 6, "Worsened" includes less credit availability or more expensive costs of financing in the question prompt, while "Improved" includes more credit availability or cheaper costs of financing in the question prompt.

Supplemental Survey Report, *continued*

QUESTION 7

Which of the following have worsened over the past three months? (Please select all that apply.)

Factors that have worsened *(share citing factor among those reporting worsening conditions in past 3 months)*	Business Leaders Survey	Empire State Manufacturing Survey
The interest rate on available *new* loans	80.0	86.4
The interest rate on current (outstanding) loans	68.6	72.7
The availability of *new* loans	60.0	27.3
Credit line caps and revolving / roll-over terms on available *new* loans	31.4	9.1
Credit line caps or revolving / roll-over loan terms on current (outstanding) loans	22.9	22.7
The maturity terms on available *new* loans	17.1	13.6
Supplier credit lines	8.6	13.6
The maturity terms on current (outstanding) loans	8.6	0.0

Note: Question 7 is only asked to respondents who reported credit conditions "have worsened" over the past three months.

QUESTION 8

You noted that credit conditions have worsened for your business over the past three months. Have you, or are you, considering any of the following in light of these changes? (Please select all that apply.)

Factors being considered *(share citing factor among those reporting worsening conditions in past 3 months)*	Business Leaders Survey	Empire State Manufacturing Survey
Adjusting product or service sale prices	45.7	50.0
Adjusting the number of employees on payroll, or wages	31.4	72.7
Using new forms of credit	31.4	22.7
Other	11.4	9.1

Note: Question 8 is only asked to respondents who reported credit conditions "have worsened" over the past three months.