

Supplemental Report:

Rising Demand, Labor Costs Prompt Firms to Hike Capital Spending in 2010

In a series of supplementary questions to the June 2010 *Empire State Manufacturing Survey*, manufacturers were asked about their capital spending plans for 2010 relative to their actual spending for 2009, both overall and for a few broad categories of capital. Similar questions had been asked in the June 2009 and June 2008 surveys (see table). In the current survey, nearly twice as many responding firms reported increases (46 percent) as reductions (25 percent) in overall capital spending in 2010. These results contrast dramatically with those from last June's survey, when far more respondents had reported decreases (56 percent) than increases (20 percent). The current results are also more positive than those from June 2008, when the percentage of respondents reporting lower capital spending slightly exceeded that reporting higher capital spending.

In the current survey, questions about changes in four major categories of capital spending revealed a split in respondents'

plans: on balance, respondents planned to spend more on software, computers (hardware), and non-computer equipment in 2010 than in 2009; however, they planned to invest somewhat less than last year in structures. In last year's survey, manufacturers had planned to spend less in all categories than they had a year earlier.

Firms were also asked about the extent to which various factors contributed positively or negatively to their planned changes in capital spending. Three in five respondents cited sales and demand trends as a positive factor, while just over one in five cited these trends as a negative factor. These findings represent a complete reversal of the June 2009 survey, when sales and demand trends were considered the most widespread negative factor. The other major drivers of spending hikes for 2010 were long-term plans (investment schedules) and a need for labor-saving equipment—half of the firms surveyed cited these as positive factors. In last year's survey, the need for labor-saving

equipment was the only significant positive contributor to capital spending decisions.

Not surprisingly, with far more respondents reporting increases than decreases in capital spending this year, firms' dollar estimates of total capital expenditures for calendar year 2010 suggest a sizable increase from calendar year 2009. The median estimated level of capital spending for 2010 was \$425,000, up from slightly more than \$300,000 in 2009—a 40 percent jump. In last June's survey, by contrast, the median level of capital spending had reportedly fallen 45 percent—from \$500,000 in 2008 to \$275,000 in 2009. ■

Supplemental Report, *continued*

QUESTION 1

To what extent do you expect your firm's spending on new plant and equipment to be higher or lower in 2010 than in 2009? How do you expect each of these capital spending categories to change?

	June 2010 Survey		June 2009 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Planning Lower Spending in 2010	Planning Higher Spending in 2010	Planning Lower Spending in 2009	Planning Higher Spending in 2009
Total	25.3	45.6	55.8	19.8
Structures	23.8	18.8	46.3	7.3
Non-computer-related equipment	18.8	38.8	47.1	20.0
Computers and related hardware	13.8	35.0	41.2	14.1
Software	17.7	32.9	40.7	14.0

QUESTION 2

How are each of the following factors contributing to changes in your capital spending budget from 2009 to 2010?

	June 2010 Survey		June 2009 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Reporting Downward Effect in 2010	Reporting Upward Effect in 2010	Reporting Downward Effect in 2009	Reporting Upward Effect in 2009
Unusually high/low capital spending in 2009	17.9	29.5	28.2	5.9
Long-term plans/investment schedule	12.8	50.0	29.1	18.6
Sales/demand trends for your products	22.5	60.0	54.7	20.9
Need for labor-saving equipment	12.8	50.0	21.2	37.6
Need for energy-saving equipment	13.9	35.4	18.6	19.8
Cost or availability of external finance	11.5	15.4	22.1	9.3
Firm's cash flow/balance sheet position	20.3	32.9	44.7	16.5
Tax/regulatory considerations	14.3	27.3	22.1	12.8

QUESTION 3

Please indicate your best estimate of your total capital expenditures for last year (calendar year 2009) and the expected amount for this year (calendar year 2010).

	June 2010 Survey	June 2009 Survey
Median capital spending in current year	\$425,000	\$275,000
Median capital spending in prior year	\$302,500	\$500,000
Percentage change	+40%	-45%