FEDERAL RESERVE BANK *of* NEW YORK

Empire State Manufacturing Survey: Supplemental Report

November 2009

For release November 16, 2009

Firms Report Falling Debt Levels and Rising Cash Holdings

The supplementary questions to the November 2009 *Empire State Manufacturing Survey* focused on cash holdings and debt financing; the same questions had been asked in the November surveys in 2008 and 2007. In the current survey, 39 percent of manufacturers queried about expected changes in their outstanding debt indicated that they anticipated declines, while just 16 percent expected increases—a marked contrast to last year's survey, when nearly as many respondents had anticipated increases as decreases in debt. More than 40 percent of the respondents to the current survey expected cash holdings to increase over the next year, while 24 percent expected them to decline. These results, though similar to those from two years ago, differ sharply from those in last year's survey, when more manufacturers had expected cash holdings to decline than rise. In response to a related question about *current* cash holdings, 34 percent of firms—up from 20 percent in last year's survey—said that they were currently holding higher than usual (excess) cash balances. Roughly 30 percent of firms indicated that their cash balances were lower than usual—about the same percentage as in both the 2008 and 2007 surveys.

When asked how they planned to finance capital expenditures over the next twelve months, manufacturers expressed more of an inclination to use cash and less of an inclination to rely on debt than in earlier surveys. Respondents, on average, planned to finance nearly 60 percent of capital outlays with cash—up from 46 percent in last year's survey and 44 percent two years ago. Conversely, the proportion of capital spending that respondents expected to finance with debt fell to 25 percent, down from 38 percent in the 2008 survey and 42 percent in 2007. Respondents planned to finance 13 percent of their capital spending through the leasing of equipment, a somewhat higher proportion than in earlier surveys, and just 2 percent with equity, on average.

Finally, respondents were asked about changes in credit availability over the past three months; the same question had been asked not only in last November's survey but also in the March 2009 survey. In the current survey, 25 percent of respondents reported a tightening of credit standards, down from nearly 40 percent in both the March 2009 and November 2008 surveys. Asked to identify the effects of tighter credit on their business decisions, firms most commonly cited reduced capital investment, followed by delays in payments to vendors and workforce cuts.

1) How do you expect your firm's debt levels and cash balances to change over the next twelve months?

	Debt Levels			Cash Balances		
	Percentage of Respondents			Percentage of Respondents		
	November 2009	November 2008	November 2007	**November 2009**	November 2008	November 2007
Increase	**16**	30	30	**41**	30	39
Remain the same	**45**	37	37	**35**	31	38
Decrease	**39**	33	33	**24**	39	23

(*Continued*)

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2) How would you describe your current cash balances, relative to your level of business activity?

	Percentage of Respondents		
	November 2009	November 2008	November 2007
Higher than usual	**34**	20	16
At about the usual level	**36**	49	54
Lower than usual	**30**	30	30

3) How do you expect to finance capital spending over the next twelve months?

	Average Percentage of Expenditures		
	November 2009	November 2008	November 2007
Cash	**59**	46	44
Debt	**25**	38	42
Equity	**2**	6	5
Leasing of equipment	**13**	11	10

4) How has credit availability changed over the past three months?

	Percentage of Respondents		
	November 2009*	March 2009	November 2008
Much easier	**0.0**	1.2	0.0
Somewhat easier	**8.0**	0.0	3.8
No change	**66.7**	60.2	58.8
Somewhat tighter	**16.0**	19.3	27.5
Much tighter	**9.3**	19.3	10.0

* When firms reporting tighter credit conditions were asked to identify the effects on their business decisions, they most commonly cited a decrease in capital investment, followed by delays in paying vendors and workforce reductions.