

Supplemental Survey Report

Firms Plan Steady to Somewhat Lower Capital Spending in 2016

Supplementary questions in the February 2016 *Empire State Manufacturing Survey* and *Business Leaders Survey* focused on firms' 2016 capital spending plans and comparisons with actual spending for 2015. Respondents were asked not only about overall investment but also about spending in a few broad categories of capital. Parallel questions had been asked in surveys conducted in February 2015 and earlier.

In the latest survey, the median projected level of capital spending for 2016 (not shown in the tables) among manufacturing firms was \$287,500—down 4 percent from the actual level of \$300,000 reported for 2015. Among service firms, median capital spending was projected to remain steady at \$250,000 in 2016. It should be noted, however, that there is substantial variation among firms in the scale of capital spending; thus, it is reasonable to compare percentage changes with earlier surveys but not levels, which can vary substantially depending upon the respondent mix in a given month.

Although overall capital spending was expected to be flat to lower, respondents planning to hike overall capital spending in 2016 outnumbered those who expected to reduce spending—by a margin of 40 to 23 percent among service sector firms, and 37 to 29 percent among

manufacturers. This margin is about as wide as in last year's survey among service firms but considerably narrower among manufacturers. Still, these numbers are more positive than in the February 2014 surveys, when somewhat more firms were planning to reduce than to increase capital spending. Firms' capital spending plans continued to vary by category.

Among service firms, the most widespread increases were reported for computer hardware and software: roughly 37 percent of respondents to the *Business Leaders Survey* planned to spend more on both categories in 2016 than they spent in 2015, while 16 percent and 12 percent planned to spend less, respectively, on hardware and software. Service sector respondents were evenly split on spending on structures, with 24 percent planning to raise spending and 24 percent planning to cut back. However, respondents from service firms who said they would reduce spending on non-computer-related equipment somewhat outnumbered those who said they would increase such spending—a reversal from last February's survey. Among manufacturers, in contrast, the most widespread planned spending increases were indicated for non-computer-related equipment, followed by software. The number of manufacturing respondents who said

they planned to cut spending on structures outnumbered those who planned to hike spending, by a margin of 32 to 19 percent.

In a separate question, firms were asked about the extent to which various factors contributed to planned increases in capital spending. Among manufacturers, the biggest driver of increased investment was a need for labor-saving equipment, followed by long-term plans/investment schedules and favorable sales trends; among service sector respondents, the most widely mentioned driver of increased investment was long-term plans/investment schedules, followed by favorable sales trends. Despite the sharp drop in energy prices over the past year, a surprisingly large proportion of manufacturers still cited a need for energy-saving equipment as a factor driving capital spending.

Respondents were also asked about factors holding back capital spending: the most widely cited factor cited by both manufacturers and service firms was unfavorable sales trends—and it was much more widely cited as a negative factor than in last February's survey. A fairly large proportion of respondents in both surveys also cited cash flow and balance sheet position as a restraining factor, and a sizable number of manufacturers also cited tax and regulatory considerations. ■

Supplemental Survey Report, *continued*

QUESTION 1

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

	February 2016 Survey		February 2015 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Planning Lower Spending in 2016	Planning Higher Spending in 2016	Planning Lower Spending in 2015	Planning Higher Spending in 2015
Empire State Manufacturing Survey				
Total	29.3	37.4	22.1	40.7
Structures	31.6	19.4	23.3	18.6
Non-computer-related equipment	31.3	32.3	17.4	46.5
Computers and related hardware	28.3	20.2	18.4	33.3
Software	25.8	24.7	21.8	18.4
Business Leaders Survey				
Total	23.1	39.6	24.8	38.4
Structures	24.3	24.3	18.3	32.5
Non-computer-related equipment	26.7	21.5	21.8	25.8
Computers and related hardware	16.2	36.8	13.6	32.8
Software	11.8	37.5	8.1	38.7

QUESTION 2

How are each of the following factors contributing to changes in your capital spending budget from last year to this year?

	February 2016 Survey		February 2015 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Reporting Downward Effect in 2016	Reporting Upward Effect in 2016	Reporting Downward Effect in 2015	Reporting Upward Effect in 2015
Empire State Manufacturing Survey				
Unusually high/low capital spending last year	24.2	14.1	24.7	11.8
Long-term plans/investment schedule	20.4	39.8	12.8	34.9
Sales/demand trends for your products	32.0	39.0	20.9	55.8
Need for labor-saving equipment	12.1	49.5	11.6	53.5
Need for energy-saving equipment	10.1	30.3	12.9	29.4
Cost or availability of external finance	14.1	12.1	11.9	8.3
Firm's cash flow/balance sheet position	26.3	25.3	20.2	29.8
Tax/regulatory considerations	25.8	22.7	20.0	15.3
Business Leaders Survey				
Unusually high/low capital spending last year	13.3	9.6	10.4	14.4
Long-term plans/investment schedule	16.3	44.4	12.9	45.2
Sales/demand trends for your products	25.9	37.0	13.0	42.3
Need for labor-saving equipment	6.7	28.9	4.8	35.2
Need for energy-saving equipment	6.0	14.2	2.4	20.0
Cost or availability of external finance	11.9	19.4	5.7	23.6
Firm's cash flow/balance sheet position	25.6	25.6	17.9	37.4
Tax/regulatory considerations	16.3	21.5	15.2	17.6