## Supplemental Report:

# Firms Anticipate Steady Debt Levels, Rising Cash Holdings

The supplementary questions to the November 2010 *Empire State Manufacturing Survey* focused on cash holdings and debt financing; the same questions had been asked in the November surveys in 2009 and earlier years (see table). Asked about expected changes in their outstanding debt, slightly more than half of manufacturing respondents indicated that debt levels would remain unchanged over the next twelve months; 30 percent said that they anticipated declines, while 18 percent expected increases. These findings differ markedly from the results of last year's survey, in which the number of respondents anticipating decreases in debt was more than twice that expecting increases. Still, there appears to be less widespread inclination (or ability) to take on more debt than in 2008 and earlier years.

In the current survey, 42 percent of manufacturers expected cash holdings to increase over the next year, while 19 percent expected them to decline. This is a somewhat wider positive margin than in last year's survey, and a complete reversal of the November 2008 survey results, which showed that more respondents expected cash holdings to decline than rise. In response to a related question about *current* cash holdings, 35 percent of firms—roughly the same proportion as in last year's survey—said that they were currently holding higher than usual (excess) cash balances. Just 22 percent of firms indicated that their cash balances were lower than usual, down from 30 percent in each of the prior three years' surveys.

When asked how they planned to finance capital expenditures over the next twelve months, manufacturers responded in much the same way as in last November's survey: on average, they planned to finance nearly 60 percent of capital outlays with cash—the same percentage as in last year's survey but up considerably from 46 percent in the 2008 survey. Firms expected to finance 24 percent of their capital spending with debt, just 3 percent with equity, and 13 percent through the leasing, rather than the purchase, of equipment. Like the proportion of capital spending financed with cash, these percentages are almost identical to those in the 2009 survey. Prior to 2009, the use of debt to finance capital spending was nearly as widespread as the use of cash. ■

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# Supplemental Report, *continued*

QUESTION 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 2010 | November 2009 | November 2008 | November 2010 | November 2009 | November 2009 |
| Increase | 18 | 16 | 30 | 42 | 41 | 30 |
| Remain the same | 52 | 45 | 37 | 38 | 35 | 31 |
| Decrease | 30 | 39 | 33 | 19 | 24 | 39 |

QUESTION 2

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

| | Percentage of Respondents | | |
|---|---|---|---|
| | November 2010 | November 2009 | November 2008 |
| Higher than usual | 35 | 34 | 20 |
| At about the usual level | 43 | 36 | 49 |
| Lower than usual | 22 | 30 | 30 |

QUESTION 3

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

| | Average Percentage of Expenditures | | |
|---|---|---|---|
| | November 2010 | November 2009 | November 2008 |
| Cash | 59 | 59 | 46 |
| Debt | 24 | 25 | 38 |
| Equity | 3 | 2 | 6 |
| Leasing of equipment | 13 | 13 | 11 |