Empire State Manufacturing Survey: Supplemental Report

March 2009

For release March 16, 2009

Manufacturers Report Tighter Credit and Increased Borrowing Costs but View Borrowing Needs as Stable or Declining

Supplementary questions in the March 2009 *Empire State Manufacturing Survey* focused on recent changes in firms' borrowing needs, perceived changes in credit availability, and the causes and effects of such changes. Parallel questions had previously been asked in October 2008 (see table) and in March 2008.

In the current survey, 23 percent of respondents indicated that their borrowing needs had grown over the past year, but an even larger proportion, 28 percent, indicated that their needs had lessened. When asked about changes since December, just 15 percent of respondents reported increased borrowing needs, while more than 23 percent reported reduced needs. In last October's survey, roughly equal proportions of manufacturers noted increased and decreased needs relative to three months earlier.

In the current survey, those respondents reporting higher borrowing needs over the past three months most commonly attributed the increase to a decline in business or revenue, a factor not widely cited in last October's survey. Conversely, the need to invest in capital equipment, which was deemed a major cause of increased borrowing needs in the two prior surveys, barely figured in the current survey. Respondents reporting lower borrowing needs since December most often attributed the change to management of existing debt, an increase in revenue, and a reduced need to replace or expand capital equipment—the same reasons advanced in the October survey.

In response to a separate question on recent changes in credit availability over the past year and over the past three months, roughly 40 percent of the firms surveyed—up from 25 percent in last October's survey and just 20 percent last March—reported some tightening. Fewer than 3 percent of respondents reported easing of credit standards. Asked to identify the effects of more restricted credit on their behavior, firms most commonly cited reduced capital investment, the response that was most prevalent in last October's survey. Compared with that earlier survey, however, the March survey suggests that tightening credit is also increasingly influencing employment-related decisions: Reductions in the workforce, the workweek, and compensation are all more widely cited as significant effects now.

Firms also reported higher borrowing costs on net. Forty-five percent of respondents said that borrowing costs had increased over the past three months, while slightly more than 20 percent indicated that costs had declined; both these figures are more than 10 percentage points higher than in last October's survey, when a majority of those surveyed said that borrowing costs had remained the same. When asked about recent changes in limits (ceilings) on existing lines of credit, 70 percent of respondents reported no change, 18 percent reported lower ceilings, and 12 percent cited higher ceilings.

1) How do your current borrowing needs compare with those in past periods?

	March 2009 Survey			October 2008 Survey		
	Percentage of Firms Responding			Percentage of Firms Responding		
Past Period	Lower Now	Same	Higher Now	Lower Now	Same	Higher Now
One year earlier	**27.7**	**49.4**	**22.9**	31.2	46.8	22.1
Three months earlier	**23.5**	**61.7**	**14.8***	19.0	60.8	20.3**

*In the March survey, the reasons most widely cited for increased borrowing needs over the past three months were a decline in business/revenue and late payment of bills by customers.

**In the October survey, the reasons most widely cited for increased borrowing needs over the past three months were late payment of bills by customers, capital investment, and management of existing debt.

(*Continued*)

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2) How has credit availability changed?

	March 2009 Survey			October 2008 Survey		
	Percentage of Firms Responding			Percentage of Firms Responding		
	Easier	Same	Tighter	Easier	Same	Tighter
Over the past twelve months	**2.4**	**57.1**	**40.5**	5.1	69.6	25.3
Over the past three months	**1.2**	**60.2**	**38.6***	1.3	73.4	25.3**

*In the March survey, the most widely cited effects of credit tightening over the past three months were decreased capital investment and workforce reductions.

**In the October survey, the most widely cited effects of credit tightening over the past three months were decreased capital investment and delays in paying vendors.

3) In your experience, how have banks' requirements to extend business loans and/or credit lines changed over the past three months?

	Percentage of Firms	
	March 2009 Survey	October 2008 Survey
Much easier now	**0.0**	0.0
Somewhat easier now	**0.0**	2.6
Same	**53.0**	64.1
Somewhat tighter now	**20.5**	26.9
Much tighter now	**26.5**	6.4

4) Also in your experience, how has the cost of borrowing funds changed over the past three months?

	Percentage of Firms	
	March 2009 Survey	October 2008 Survey
Much lower now	**1.2**	0.0
Lower now	**19.3**	7.6
Same	**34.9**	58.2
Higher now	**30.1**	30.4
Much higher now	**14.5**	3.8

5) Again in your experience, how have the limits on existing business lines of credit changed over the past three months? Credit limits (ceilings) have become:

	Percentage of Firms	
	March 2009 Survey	October 2008 Survey
Much lower now	**7.2**	1.3
Lower now	**10.8**	12.7
Same	**69.9**	70.9
Higher now	**7.2**	13.9
Much higher now	**4.8**	1.3