FEDERAL RESERVE BANK of NEW YORK

Empire State Manufacturing Survey: Supplemental Report

January 2010

For release January 15, 2010

Manufacturers Expect to Increase Capital Spending in 2010

In a series of supplementary questions to the January *Empire State Manufacturing Survey*, manufacturers were asked about their capital spending plans. Looking ahead to the next six to twelve months, 44 percent of respondents indicated that they expected to increase capital spending relative to its level in the past six to twelve months, while just 12 percent anticipated a decline. In October 2007—shortly before the onset of the recession—the same question had been posed to survey respondents; at that time, responses were not as strongly optimistic. Forty-two percent of manufacturing respondents in the 2007 survey anticipated increased capital spending, while just under 19 percent foresaw reduced spending.

Of those respondents predicting increased capital spending in this month's survey, 41 percent noted that a considerable fraction of the increase reflected investment that had been postponed because of the recession; another 38 percent attributed some of the increase to the recession. The most commonly cited factor behind increased investment was a need to replace IT (information technology) equipment, followed closely by a need to replace other capital goods and distantly by high expectations for sales growth. Similar questions in October 2007 had elicited a very different response: high expected sales growth was, by far, the most widely cited factor behind increased investment. In the current survey, the most commonly cited reasons for steady or decreased capital investment were low capacity utilization and low expected sales growth. Other reasons that were mentioned fairly often included economic or financial uncertainty and a limited need to replace either IT or other capital equipment.

1) Do you expect your firm's spending on new plant and equipment over the next six to twelve months to increase, decrease, or be about unchanged relative to your actual spending over the past six to twelve months?

	Percentage of Respondents	
	January 2010	October 2007
Decrease	**12.0**	18.6
Stay the same	**44.0**	39.5
Increase	**44.0**	41.9

2) If you expect capital spending to increase, how much of the increase reflects investment that had been postponed because of the recession?

	Percentage of Respondents	
	January 2010	October 2007
A considerable fraction	**40.6**	n.a.
Some	**37.5**	n.a.
Not much	**21.9**	n.a.

(*Continued*)

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3a) If you expect capital spending to increase, what are the major factors behind your plan to increase spending? Please check any that apply.

	Percentage of Respondents	
	January 2010	October 2007
Expected growth of sales is high	**30.3**	58.3
Capacity utilization is currently high	**18.2**	36.1
Need to replace IT equipment	**42.4**	33.3
Need to replace equipment that uses too much energy	**15.2**	13.9
Need to replace other capital goods	**39.4**	41.7
Cost or availability of external finance has improved	**0.0**	11.1
Cash flow or balance sheet position has improved	**24.2**	30.6
Decreased economic/financial uncertainty	**18.2**	n.a.
Other factors	**36.4**	22.2

3b) If you expect capital spending to decrease or remain unchanged, what are the major factors behind your plan *not* to increase spending? Please check any that apply.

	Percentage of Respondents	
	January 2010	October 2007
Expected growth of sales is low	**54.8**	50.0
Capacity utilization is currently low	**54.8**	34.0
Limited need to replace IT equipment	**28.6**	34.0
Limited need to replace other capital goods	**35.7**	50.0
Cost or availability of external finance has deteriorated	**14.3**	10.0
Cash flow or balance sheet position has deteriorated	**19.0**	12.0
Outsourcing	**19.0**	8.0
Increased or high economic/financial uncertainty	**33.3**	n.a.
Other factors	**19.0**	14.0