

Supplemental Report:

High Capacity Utilization Spurring Increased Capital Spending

In a series of supplementary questions to the June *Empire State Manufacturing Survey*, manufacturers were asked about their capital spending plans. Looking ahead to the next six to twelve months, 43 percent of respondents indicated that they expected to increase capital spending relative to its level in the past six to twelve months, while just 16 percent planned reductions. Responses were slightly more positive than they had been in August 2010—the last time these questions were asked. At that stage of the recovery, 37 percent of respondents had anticipated increased capital spending, while 13 percent had planned to reduce spending.

Of those respondents to this month's survey who planned to hike capital spending, slightly more than half reported that at least some of the increase reflected investment that had been postponed because of the recession; in the 2010 survey, nearly three-quarters of the respondents who expected to boost spending made the same assertion.

The most widely cited *major* factor behind increased investment was high capacity utilization: 44 percent of those planning to ramp up capital spending cited this factor, up noticeably from just 27 percent in the 2010 survey. Other commonly cited factors included high expected sales growth and a need to replace non-IT (information technology) equipment; these two factors had

been the most widely cited in the 2010 survey. Roughly 30 percent of respondents in the current survey noted a need to replace IT equipment and an improved cash flow/balance sheet position as major factors. The latter was not a big driver of increased capital spending in the earlier survey.

The most widely cited factors behind steady or decreased capital investment in the current survey were low expected sales growth and limited need to replace non-IT capital goods. A sizable proportion of respondents—about the same as in 2010—cited financial/economic uncertainty as a factor restraining capital spending. Low capacity utilization was less widely cited as a factor than in the 2010 survey. ■

Supplemental Report, *continued*

QUESTION 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	
	June 2012	August 2010
Decrease	15.6	12.9
Stay the same	41.7	50.0
Increase	42.7	37.1

QUESTION 2

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

	Percentage of Respondents	
	June 2012	August 2010
A considerable fraction	17.1	26.9
Some	36.6	46.2
Not much	46.3	26.9

QUESTION 3A

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

	Percentage of Respondents	
	June 2012	August 2010
Expected growth of sales is high	39.0	38.5
Capacity utilization is currently high	43.9	26.9
Need to replace information technology equipment	31.7	30.8
Need to replace equipment that uses too much energy	14.6	7.7
Need to replace other capital goods	36.6	38.5
Cost or availability of external finance has improved	0.0	0.0
Cash flow or balance sheet position has improved	29.3	15.4
Decreased economic/financial uncertainty	9.8	7.7
Other factors	12.2	23.1

QUESTION 3B

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

	Percentage of Respondents	
	June 2012	August 2010
Expected growth of sales is low	47.3	54.5
Capacity utilization is currently low	40.0	54.5
Limited need to replace information technology equipment	34.5	38.6
Limited need to replace other capital goods	45.5	54.5
Cost or availability of external finance has deteriorated	10.9	6.8
Cash flow or balance sheet position has deteriorated	18.2	13.6
Outsourcing	1.8	11.4
Increased or high economic/financial uncertainty	41.8	45.5
Other factors	18.2	11.4