

Supplemental Survey Report

Firms Expect to Invest More in Equipment, Less in Structures in 2014

Supplementary questions in the February 2014 *Empire State Manufacturing Survey* and *Business Leaders Survey*—the New York Fed’s twin surveys of regional manufacturers and service firms—focused on firms’ 2014 capital spending plans and comparisons with actual spending for 2013. 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 2013 and earlier. In the latest survey, about the same proportion of manufacturing sector respondents planned reductions (34 percent) as increases (33 percent) in overall capital spending for the current year. Considerably more service firms planned to reduce (36 percent) than hike (27 percent) capital spending. In the February 2013 surveys, somewhat more firms said that they planned to increase rather than reduce capital spending.

Firms’ capital spending plans continued to vary considerably across the different categories. Among service firms, the most widespread increases were reported for computers and related hardware, and software: slightly less than 40 percent of respondents to the

Business Leaders Survey planned to spend more in 2014 than in 2013, while fewer than half as many planned to cut spending in this category. Manufacturers, however, were most likely to boost spending on non-computer-related equipment: 35 percent said they would spend more in this category in 2014 than in 2013, while 29 percent said they would spend less than last year. In contrast, increasingly widespread declines were projected for spending on structures: just 18 percent of manufacturers and 9 percent of service sector respondents said they were budgeting more for structures in 2014 than in 2013. Roughly 35 percent of manufacturers and 29 percent of service sector firms said they would cut back on such investment in 2014. These are considerably more negative balances than reported in the 2013 or 2012 surveys.

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 catalyst for increased investment was a need for labor-saving equipment; among service firms, it was long-term plans and investment schedules. The second

most widely cited driver of increased spending, in both surveys, was favorable sales and demand trends for the firm’s products. Respondents were also asked about factors holding back capital spending: the most widely cited factor, among both manufacturing and service firms, was unusually high spending in 2013, followed by cash flow constraints and balance sheet positions. This was the first time since the June 2009 survey that more respondents considered this a negative rather than a positive factor.

Finally, the median projected level of capital spending for 2014 among manufacturing firms was \$500,000—up 25 percent from the actual level of \$400,000 reported for 2013. Among service firms, however, median capital spending was projected to decline from \$512,500 in 2013 to \$450,000 in 2014. It should be emphasized that while the reported and anticipated changes in median capital spending can be thought of as reasonably representative of businesses across the region, the magnitude of these levels is largely reflective of the pool of survey respondents and should not be considered reflective of businesses across the region as a whole. ■

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 in 2014 than in 2013? How do you expect each of these capital spending categories to change?

	February 2014 Survey		February 2013 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Planning Lower Spending in 2014	Planning Higher Spending in 2014	Planning Lower Spending in 2013	Planning Higher Spending in 2013
Empire State Manufacturing Survey				
Total	34.2	32.9	32.3	33.3
Structures	35.4	17.7	27.1	18.8
Non-computer-related equipment	28.8	35.0	28.1	29.2
Computers and related hardware	21.3	28.8	20.0	31.6
Software	25.0	22.5	24.2	29.5
Business Leaders Survey				
Total	35.5	27.1	26.6	31.6
Structures	29.0	9.3	27.0	20.3
Non-computer-related equipment	23.4	22.5	28.6	15.6
Computers and related hardware	17.0	36.6	19.0	32.9
Software	14.4	37.8	16.7	32.1

QUESTION 2

How are each of the following factors contributing to changes in your capital spending budget from 2013 to 2014?

	February 2014 Survey		February 2013 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Reporting Downward Effect in 2014	Reporting Upward Effect in 2014	Reporting Downward Effect in 2013	Reporting Upward Effect in 2013
Empire State Manufacturing Survey				
Unusually high/low capital spending in 2013	27.8	13.9	22.4	12.2
Long-term plans/investment schedule	19.2	38.5	11.3	37.1
Sales/demand trends for your products	21.5	41.8	19.4	50.0
Need for labor-saving equipment	16.5	50.6	11.2	46.9
Need for energy-saving equipment	13.9	35.4	7.1	23.5
Cost or availability of external finance	13.9	10.1	8.2	17.3
Firm's cash flow/balance sheet position	25.3	26.6	18.4	27.6
Tax/regulatory considerations	21.5	16.5	25.5	18.4
Business Leaders Survey				
Unusually high/low capital spending in 2013	34.2	9.0	21.5	17.7
Long-term plans/investment schedule	28.4	40.4	31.3	33.8
Sales/demand trends for your products	30.9	34.5	27.5	27.5
Need for labor-saving equipment	12.8	20.2	10.1	25.3
Need for energy-saving equipment	5.4	14.4	6.3	25.3
Cost or availability of external finance	13.0	14.8	7.6	7.6
Firm's cash flow/balance sheet position	31.5	18.9	25.3	22.8
Tax/regulatory considerations	22.9	13.8	22.8	16.5