

Supplemental Survey Report

Firms Expect to Hike Capital Spending in 2015

Supplementary questions in the February 2015 *Empire State Manufacturing Survey* and *Business Leaders Survey*—the New York Fed’s twin surveys of regional manufacturers and service firms—focused on firms’ 2015 capital spending plans and comparisons with actual spending for 2014. 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 2014 and earlier.

In the latest survey, respondents planning to hike overall capital spending in 2015 substantially outnumbered those who expected to reduce spending—by a margin of 38 to 25 percent among service-sector firms, and 41 to 22 percent among manufacturers. This finding marks a noteworthy shift from the February 2014 surveys, when somewhat more firms were planning to reduce than to increase capital spending. Firms’ capital spending plans continued to vary considerably by category.

Among service firms, the most widespread increases were reported for computer hardware and especially software: nearly 40 percent of respondents to the *Business Leaders Survey* planned to spend more on software in 2015 than in 2014, while just 8 percent planned to spend less. In addition, for the first time since 2012, service-sector respondents expecting to boost spending on structures outnumbered those who planned to lower spending—and by the widest margin (33 to 18 percent) since 2008. Among manufacturers, the most widespread planned spending increases were reported for non-computer-related equipment, followed by computer hardware. In contrast, the share of manufacturing respondents intending to cut spending on structures and computer software slightly exceeded the share planning to increase spending in these categories.

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 drivers of increased investment were

favorable sales trends for the firm’s products and a need for labor-saving equipment; among service firms, long-term plans and investment schedules were the most widely mentioned catalyst, followed closely by favorable sales trends. Respondents were also asked about factors holding back capital spending: Among manufacturers, the most widely cited factor was unusually high spending in 2014; service-sector respondents were most likely to cite cash flow and balance sheet constraints.

Finally, the median projected level of capital spending for 2015 among manufacturing firms (not shown in the tables) was \$300,000—up 13 percent from the actual level of \$265,000 reported for 2014. Among service firms, median capital spending was projected to surge 36 percent, from \$350,000 in 2014 to \$475,000 this year. It should be noted, however, that firms differ considerably in the scale of their capital spending; thus, it is reasonable to compare percentage changes—but not levels—across the current and past surveys, since levels can vary substantially with the respondent mix in a given survey. ■

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 this year than last? How do you expect each of these capital spending categories to change?

	February 2015 Survey		February 2014 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Planning Lower Spending in 2015	Planning Higher Spending in 2015	Planning Lower Spending in 2014	Planning Higher Spending in 2014
Empire State Manufacturing Survey				
Total	22.1	40.7	34.2	32.9
Structures	23.3	18.6	35.4	17.7
Non-computer-related equipment	17.4	46.5	28.8	35.0
Computers and related hardware	18.4	33.3	21.3	28.8
Software	21.8	18.4	25.0	22.5
Business Leaders Survey				
Total	24.8	38.4	35.5	27.1
Structures	18.3	32.5	29.0	9.3
Non-computer-related equipment	21.8	25.8	23.4	22.5
Computers and related hardware	13.6	32.8	17.0	36.6
Software	8.1	38.7	14.4	37.8

QUESTION 2

How are each of the following factors contributing to changes in your capital spending budget from last year to this year?

	February 2015 Survey		February 2014 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Reporting Downward Effect in 2015	Reporting Upward Effect in 2015	Reporting Downward Effect in 2014	Reporting Upward Effect in 2014
Empire State Manufacturing Survey				
Unusually high/low capital spending last year	24.7	11.8	27.8	13.9
Long-term plans/investment schedule	12.8	34.9	19.2	38.5
Sales/demand trends for your products	20.9	55.8	21.5	41.8
Need for labor-saving equipment	11.6	53.5	16.5	50.6
Need for energy-saving equipment	12.9	29.4	13.9	35.4
Cost or availability of external finance	11.9	8.3	13.9	10.1
Firm's cash flow/balance sheet position	20.2	29.8	25.3	26.6
Tax/regulatory considerations	20.0	15.3	21.5	16.5
Business Leaders Survey				
Unusually high/low capital spending last year	10.4	14.4	34.2	9.0
Long-term plans/investment schedule	12.9	45.2	28.4	40.4
Sales/demand trends for your products	13.0	42.3	30.9	34.5
Need for labor-saving equipment	4.8	35.2	12.8	20.2
Need for energy-saving equipment	2.4	20.0	5.4	14.4
Cost or availability of external finance	5.7	23.6	13.0	14.8
Firm's cash flow/balance sheet position	17.9	37.4	31.5	18.9
Tax/regulatory considerations	15.2	17.6	22.9	13.8