

Supplemental Survey Report

Service Firms Note Rising Cash Balances; Businesses Report Some Effects from New York's Minimum Wage Hike

The supplementary questions to the April 2019 *Empire State Manufacturing Survey* and *Business Leaders Survey* focused on cash holdings, debt levels, and methods of financing capital spending. Identical questions had been asked in surveys conducted in April 2018 and earlier (see tables below). There were also questions on the recent hike in New York's minimum wages.

Asked about expected changes in their outstanding debt in the year ahead, 25 percent of manufacturers anticipated taking on more debt in the year ahead, while 32 percent expected to take on less. Among service firms, 16 percent of respondents predicted that their outstanding debt would rise, while 28 percent expected it would fall. The results for manufacturers fairly closely matched those in last year's survey, whereas service-sector respondents indicated somewhat less propensity to take on more debt. When asked about actual changes in debt over the past year, 30 percent of manufacturing respondents said that debt levels had fallen, while 32 percent said they had risen—the first time the latter share has exceeded the former. Among service firms, 31 percent of respondents reported falling debt levels, while about the same number (29 percent) reported rising debt.

In response to a question about projected changes in cash holdings, 46 percent of manufacturers expected cash balances to rise—down from 50 percent in last year's survey—while 27 percent predicted they would fall. Among service-sector firms, a growing proportion of businesses anticipated rising cash balances: 42 percent, up from 32 percent in last April's survey. Only 25 percent of respondents said they expect cash on hand to decline. When asked to assess their current cash holdings (relative to the level of business activity), considerably more manufacturers indicated they were relatively low (37 percent) than high (24 percent), though this is actually a somewhat narrower gap than in last year's survey. In the service-sector survey, 29 percent of respondents said cash balances were higher than usual, while just 22 percent said they were lower than usual—a fairly sharp reversal from the surveys of prior years.

When asked how they would finance capital expenditures over the next twelve months, service-sector firms planned to finance 69 percent of capital spending with cash, on average, up slightly from last year's survey; service-sector respondents planned to use slightly more debt (20 percent) but slightly less equity (5 percent) than in the 2018 survey. Manufacturers said they plan to finance

57 percent of their capital spending with cash, 30 percent with debt, and 3 percent with equity—little changed from earlier surveys.

Finally, businesses operating in New York State were asked if any aspects of their business had been noticeably affected by the latest increase in the minimum wage at the start of this year. Roughly half of manufacturing respondents said yes, as did 36 percent of service firms. Respondents were then asked about the effects this minimum wage hike had on specific aspects of their business. The most widespread impact, not surprisingly, was an upward effect on overall compensation costs, according to almost 45 percent of manufacturers and one-third of service firms. More than 30 percent of manufacturers indicated that it had reduced the number of entry-level workers they employ, while 25 percent said it had diminished their overall number of workers. Among service-sector respondents, both those proportions were about 20 percent. Slightly more than a fifth of manufacturers and slightly under a fifth of service firms reported an upward effect (mostly small) on the prices they charge. Finally, as for the bottom line, nearly 40 percent of manufacturers and nearly 30 percent of service firms indicated an adverse effect on overall profits. ■

Supplemental Survey Report, *continued*

QUESTION 1

How do you expect your firm's debt levels to change over the *next* twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2017	April 2018	April 2019	March 2017	April 2018	April 2019
Increase a lot	3.6	6.2	7.9	2.5	3.1	4.3
Increase a little	18.0	17.7	17.3	21.5	15.7	11.6
Remain the same	39.6	40.0	42.4	47.5	54.7	56.1
Decrease a little	36.0	29.2	26.6	25.9	22.6	25.0
Decrease a lot	2.7	6.9	5.8	2.5	3.8	3.0

How have your firm's debt levels changed over the *past* twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2017	April 2018	April 2019	March 2017	April 2018	April 2019
Increased a lot	8.3	10.2	15.2	8.9	9.3	8.5
Increased a little	15.6	14.8	16.7	20.4	18.0	20.1
Remained the same	34.9	35.9	38.4	41.4	46.6	40.2
Decreased a little	33.0	31.3	23.2	25.5	20.5	23.8
Decreased a lot	8.3	7.8	6.5	3.8	5.6	7.3

QUESTION 2

How do you expect your firm's cash balances to change over the *next* twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2017	April 2018	April 2019	March 2017	April 2018	April 2019
Increase a lot	3.6	6.9	5.0	1.9	4.3	4.9
Increase a little	37.3	43.1	40.7	27.8	27.2	36.6
Remain the same	35.5	26.2	27.1	43.0	39.5	33.5
Decrease a little	17.3	16.9	22.9	25.9	22.8	20.1
Decrease a lot	6.4	6.9	4.3	1.3	6.2	4.9

Supplemental Survey Report, *continued*

QUESTION 3

How would you describe your current cash balances relative to your level of business activity?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Percentage of Respondents			Percentage of Respondents		
	March 2017	April 2018	April 2019	March 2017	April 2018	April 2019
Higher than usual	23.6	20.9	23.7	25.5	18.6	28.5
Much higher than usual	1.8	1.6	3.6	1.9	3.1	4.2
Somewhat higher than usual	21.8	19.4	20.1	23.6	15.5	24.2
At about the usual level	45.5	38.0	38.8	44.6	51.6	49.1
Lower than usual	30.9	41.1	37.4	29.9	29.8	22.4
Somewhat lower than usual	20.9	31.8	31.7	24.2	24.8	17.0
Much lower than usual	10.0	9.3	5.8	5.7	5.0	5.5

QUESTION 4

How do you expect to finance capital spending over the next twelve months?

	Empire State Manufacturing Survey			Business Leaders Survey		
	Average Percentage of Capital Spending			Average Percentage of Capital Spending		
	March 2017	April 2018	April 2019	March 2017	April 2018	April 2019
Cash	57.6	50.8	56.5	66.5	65.4	69.0
Debt	30.6	28.9	30.4	21.3	18.1	20.0
Equity	2.6	5.3	2.9	4.6	7.1	4.5
Leasing of equipment	9.2	15.1	10.2	8.3	9.4	6.6

Supplemental Survey Report, *continued*

QUESTION 5

If your firm operates in New York State, have any aspects of your business been affected noticeably by the increase in the minimum wage, effective January 1?

	Empire State Manufacturing Survey	Business Leaders Survey
	Percentage of Respondents	Percentage of Respondents
Yes	49.6	36.3
No	50.4	63.7

Please indicate what effect you think this increase in the minimum wage has had, for your operations in New York State, on each of the following:

	Percentage of Respondents				
	Large Downward Effect	Small Downward Effect	No Effect*	Small Upward Effect	Large Upward Effect
Empire State Manufacturing Survey					
The total number of workers you employ	5.1	20.3	73.2	1.4	0.0
The number of entry-level workers you employ	10.9	19.6	67.4	0.7	1.4
The general quality of your entry-level workers	7.2	15.2	76.1	1.4	0.0
Employee turnover	3.6	8.7	72.5	11.6	3.6
Hours worked per week by your typical worker	2.2	13.8	79.7	3.6	0.7
The overall degree of automation in your business	0.0	2.2	69.3	21.2	7.3
Your business' overall compensation costs	0.0	2.2	54.0	27.3	16.5
The prices you charge	0.0	2.2	74.6	21.0	2.2
Your overall revenue	1.4	10.1	80.6	6.5	1.4
Your overall profits	6.5	31.9	57.2	4.3	0.0
Business Leaders Survey					
The total number of workers you employ	4.4	17.0	77.8	0.7	0.0
The number of entry-level workers you employ	10.4	9.6	78.5	1.5	0.0
The general quality of your entry-level workers	4.4	5.9	87.4	1.5	0.7
Employee turnover	1.5	3.7	85.2	8.9	0.7
Hours worked per week by your typical worker	4.4	14.1	80.7	0.7	0.0
The overall degree of automation in your business	0.0	0.7	84.3	11.9	3.0
Your business' overall compensation costs	0.0	0.8	65.4	21.1	12.8
The prices you charge	0.0	0.7	80.6	15.7	3.0
Your overall revenue	3.0	8.9	79.3	8.9	0.0
Your overall profits	10.4	18.5	70.4	0.7	0.0

* Includes survey participants who answered "No" to the first part of Question 5.