FEDERAL RESERVE BANK of NEW YORK

Empire State Manufacturing Survey: Supplemental Report

November 2008

For release November 17, 2008

Firms Report Declining Cash Balances and Tighter Credit

The supplementary questions to the November 2008 *Empire State Manufacturing Survey* focused on cash holdings and debt financing (see table). Asked about expected changes in their outstanding debt, 30 percent of manufacturers indicated that they anticipated increases, while 33 percent expected declines—the same breakdown of responses recorded last year, when identical questions were asked. In the current survey, 30 percent of manufacturers expected cash holdings to increase over the next year, while 39 percent expected them to decline; these results contrasted sharply with last year's, when expected increases outnumbered decreases 39 percent to 23 percent. In response to a related question about *current* cash holdings, 20 percent of firms—up from 16 percent in last year's survey—said that they were currently holding higher than usual (excess) cash balances. Roughly 30 percent of firms indicated that their cash balances were lower than usual, in this year's survey as in last year's.

When asked how they planned to finance capital expenditures over the next twelve months, manufacturers expressed slightly less of an inclination to use debt than in last year's survey: respondents, on average, planned to finance 38 percent of capital outlays with debt, down from 42 percent last year. The proportion of capital spending that manufacturers expected to finance with cash edged up from 44 percent to 46 percent. Respondents planned to finance just 6 percent of their capital spending with equity and 11 percent through the leasing of equipment. These last two figures were little changed from the 2007 survey.

Finally, in both the October and November surveys, respondents were asked about changes in credit availability over the past three months. In November, 38 percent of respondents reported a tightening of credit standards, up from 25 percent in last month's survey. When asked to identify the effects of tighter credit on their business decisions, firms most commonly cited reduced capital investment, followed by workforce cuts, a shorter workweek, and delays in payments to vendors.

1) How do you expect your firm's debt levels and cash balances to change over the next twelve months?

	Debt Levels			Cash Balances		
	Percentage of Respondents			Percentage of Respondents		
	November 2008	November 2007	November 2006	**November 2008**	November 2007	November 2006
Increase	**30**	30	24	**30**	39	37
Remain the same	**37**	37	38	**31**	38	44
Decrease	**33**	33	37	**39**	23	19

(*Continued*)

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

	Percentage of Respondents	
	November 2008	November 2007
Higher than usual	**20**	16
At about the usual level	**49**	54
Lower than usual	**30**	30

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

	Average Percentage of Expenditures		
	November 2008	November 2007	November 2006
Cash	**46**	44	53
Debt	**38**	42	30
Equity	**6**	5	4
Leasing of equipment	**11**	10	13

4) How has credit availability changed over the past three months?

	Percentage of Respondents		
	November 2008*	October 2008	March 2008
Much easier	0.0	0.0	1.2
Somewhat easier	3.8	1.3	3.5
No change	58.8	73.4	74.4
Somewhat tighter	27.5	13.9	16.3
Much tighter	10.0	11.4	4.7

* When firms reporting tighter credit conditions were asked to identify the effects on their business decisions, they most commonly cited a decrease in capital investment, followed by workforce reductions, a shorter workweek, and delays in paying vendors.