

## Empire State Manufacturing Survey: Supplemental Report

October 2008

For release October 15, 2008

### Manufacturers Report Increased Borrowing Costs but Little Change in Borrowing Needs

Supplementary questions in the October 2008 *Empire State Manufacturing Survey* focused on recent changes in firms' borrowing needs, perceived changes in credit availability, and the causes and effects of such changes. Parallel questions had been asked in March 2008.

In the current survey, 22 percent of respondents indicated that their borrowing needs had increased over the past year, but an even larger proportion—31 percent—indicated that their needs had decreased. When asked about changes since July, roughly 20 percent reported higher borrowing needs and almost the same percentage reported lower needs. Those respondents reporting higher borrowing needs since July most commonly attributed the increase to customers' lateness in paying their bills and the need to invest in capital equipment, followed by management of existing debt. The most widely cited reasons for declines in borrowing needs since July were management of existing debt, an increase in revenue, and a reduced need to replace or expand capital equipment.

In response to a separate question on recent changes in credit availability, 25 percent of the firms surveyed reported some tightening over the past year, while just 5 percent noted some easing. A related question about the changes in credit availability over the past three months prompted 25 percent of the firms to report tighter credit standards but only 1 percent to report easier credit. Asked to identify the effects of tighter credit on their behavior, firms most commonly cited reduced capital investment, followed by delays in paying vendors.

Firms also reported increased borrowing costs on net: 34 percent of respondents reported increases in borrowing costs, while just 8 percent noted declines. When asked about recent changes in limits (ceilings) on existing lines of credit, 71 percent of respondents reported no change; 15 percent reported increases and 14 percent, decreases.

#### 1) How do your current borrowing needs compare with those in past periods?

| Past Period          | October 2008 Survey            |      |            | March 2008 Survey              |      |            |
|----------------------|--------------------------------|------|------------|--------------------------------|------|------------|
|                      | Percentage of Firms Responding |      |            | Percentage of Firms Responding |      |            |
|                      | Lower Now                      | Same | Higher Now | Lower Now                      | Same | Higher Now |
| One year earlier     | 31.2                           | 46.8 | 22.1       | 20.0                           | 58.8 | 21.2       |
| Three months earlier | 19.0                           | 60.8 | 20.3*      | 14.0                           | 66.3 | 19.8**     |

\*In the October survey, the reasons most widely cited for the increase in borrowing needs over the past three months were late payment of bills by customers, capital investment, and management of existing debt.

\*\*In the March survey, the reasons most widely cited for the increase in borrowing needs over the preceding three months were late payment of bills by customers, capital investment, and increased nonlabor costs.

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2) How has credit availability changed?

|                             | October 2008 Survey            |      |         | March 2008 Survey              |      |         |
|-----------------------------|--------------------------------|------|---------|--------------------------------|------|---------|
|                             | Percentage of Firms Responding |      |         | Percentage of Firms Responding |      |         |
|                             | Easier                         | Same | Tighter | Easier                         | Same | Tighter |
| Over the past twelve months | 5.1                            | 69.6 | 25.3    | 5.8                            | 75.6 | 18.6    |
| Over the past three months  | 1.3                            | 73.4 | 25.3*   | 4.7                            | 74.4 | 20.9*   |

\*In both the October and March surveys, the most widely cited effects of credit tightening (over the preceding three months) on firm behavior were a decrease in capital investment and delays in paying vendors.

3) In your experience, how have banks' requirements to extend business loans and/or credit lines changed over the past three months?

|                      | Percentage of Firms |                   |
|----------------------|---------------------|-------------------|
|                      | October 2008 Survey | March 2008 Survey |
| Much easier now      | 0.0                 | 0.0               |
| Somewhat easier now  | 2.6                 | 3.5               |
| Same                 | 64.1                | 65.1              |
| Somewhat tighter now | 26.9                | 25.6              |
| Much tighter now     | 6.4                 | 5.8               |

4) Also in your experience, how has the cost of borrowing funds changed over the past three months?

|                 | Percentage of Firms |                   |
|-----------------|---------------------|-------------------|
|                 | October 2008 Survey | March 2008 Survey |
| Much lower now  | 0.0                 | 3.5               |
| Lower now       | 7.6                 | 34.1              |
| Same            | 58.2                | 40.0              |
| Higher now      | 30.4                | 22.4              |
| Much higher now | 3.8                 | 0.0               |

5) Again in your experience, how have the limits on existing business lines of credit changed over the past three months? Credit limits (ceilings) have become:

|                 | Percentage of Firms |                   |
|-----------------|---------------------|-------------------|
|                 | October 2008 Survey | March 2008 Survey |
| Much lower now  | 1.3                 | 1.2               |
| Lower now       | 12.7                | 7.1               |
| Same            | 70.9                | 81.2              |
| Higher now      | 13.9                | 10.6              |
| Much higher now | 1.3                 | 0.0               |