

Supplemental Survey Report

Most Firms See Their Capital Spending Steady or Rising in 2017

Supplementary questions in the February 2017 *Empire State Manufacturing Survey* and *Business Leaders Survey*—the New York Fed’s twin surveys of regional manufacturers and service firms—focused on firms’ 2017 capital spending plans and comparisons with actual spending for 2016. 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 2016 and earlier.

In the latest survey, substantially more respondents planned to hike than to reduce overall capital spending in 2017—by a margin of 46 to 20 percent among service-sector firms, and 41 to 24 percent among manufacturers. Both of these margins are wider than in last year’s survey. Among service firms, in fact, these readings are the most positive in more than a decade. As in earlier surveys, firms’ capital spending plans varied by category.

Among service firms, the most widespread increases were reported for computer software and hardware: roughly 47 percent of respondents to the *Business Leaders Survey* planned to spend more on software in 2017 than in 2016, while 44 percent said they would boost spending on hardware;

just 13 percent said they would budget less for software, while 19 percent indicated they would spend less than last year on hardware. Somewhat more service firms said they would raise spending on non-computer-related equipment than said they would lower it—a reversal from last February’s survey. As in that earlier survey, service firms were evenly split regarding spending on structures, with 24 percent planning to raise spending and 23 percent planning to cut back.

Among manufacturers, similarly, more respondents planned to raise than lower spending in all categories except for structures. Just 21 percent said they were increasing their budgets for structures, while 27 percent said they were reducing such investment.

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 driver of increased investment was favorable trends in sales and demand, followed by a need for labor-saving equipment. Among service-sector respondents, long-term plans and investment schedules were the most widely mentioned driver of increased investment, followed by favorable sales trends—the same as in last year’s survey. Despite the sharp drop in energy prices

over the past year, a surprisingly large proportion of manufacturers still cited the need for energy-saving equipment as a factor driving capital spending. In both the manufacturing and service-sector surveys, more respondents than a year ago credited favorable cash flow and balance sheet position, as well as tax and regulatory considerations, for boosting capital spending in 2017.

Respondents were also asked about factors contributing to reductions in capital spending: the most widely cited factor by manufacturers was unusually high capital spending in 2016, followed by unfavorable sales trends. Among service firms, in contrast, only 13 percent of respondents cited unfavorable sales trends—down from 26 percent in last February’s survey.

Finally, the median projected level of capital spending for 2016 (not shown in the tables) was \$200,000 among both manufacturing and service-sector respondents—unchanged from the median actual level of \$200,000 reported for 2016. It should be noted, however, that there is substantial variation among firms in the scale of capital spending; thus, it is reasonable to compare percentage changes with earlier surveys but not levels, which can vary substantially depending upon the respondent mix in a given month. ■

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 2017 Survey		February 2016 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Planning Lower Spending in 2017	Planning Higher Spending in 2017	Planning Lower Spending in 2016	Planning Higher Spending in 2016
Empire State Manufacturing Survey				
Total	23.7	41.2	29.3	37.4
Structures	26.8	20.6	31.6	19.4
Non-computer-related equipment	24.0	29.2	31.3	32.3
Computers and related hardware	14.4	27.8	28.3	20.2
Software	16.0	27.7	25.8	24.7
Business Leaders Survey				
Total	19.5	45.9	23.1	39.6
Structures	23.2	23.9	24.3	24.3
Non-computer-related equipment	19.7	25.4	26.7	21.5
Computers and related hardware	19.0	43.7	16.2	36.8
Software	12.9	47.1	11.8	37.5

QUESTION 2

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

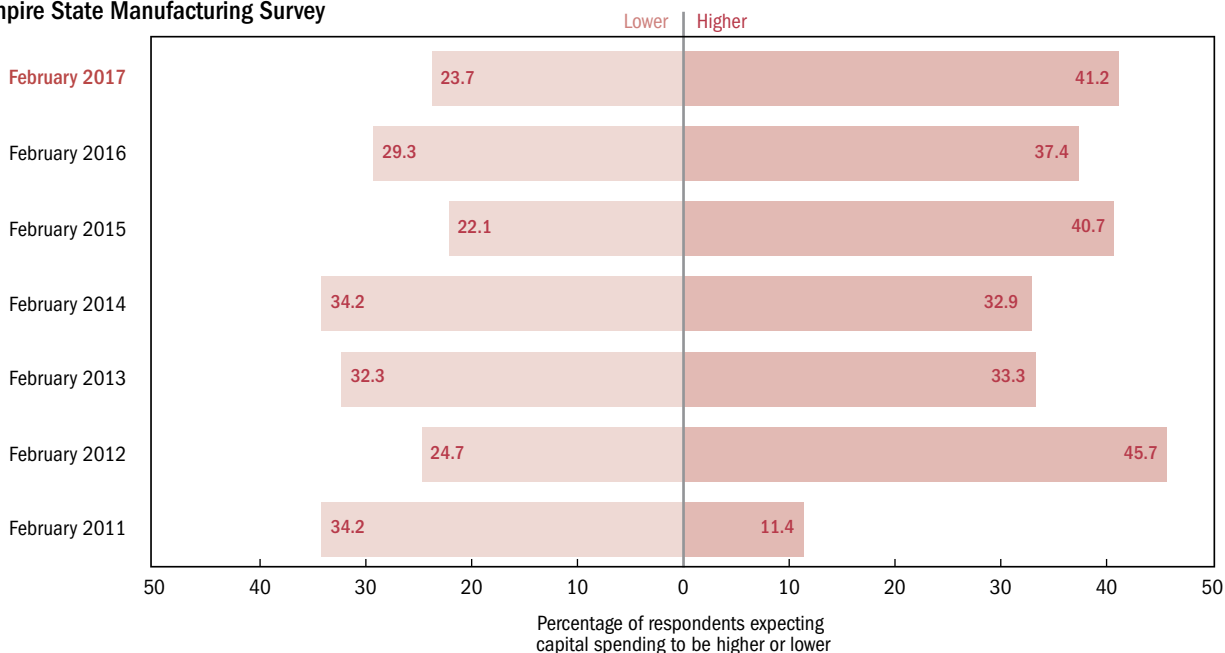
	February 2017 Survey		February 2016 Survey	
	Percentage of Respondents		Percentage of Respondents	
	Reporting Downward Effect in 2017	Reporting Upward Effect in 2017	Reporting Downward Effect in 2016	Reporting Upward Effect in 2016
Empire State Manufacturing Survey				
Unusually high/low capital spending last year	28.9	17.5	24.2	14.1
Long-term plans/investment schedule	17.5	41.2	20.4	39.8
Sales/demand trends for your products	23.7	55.7	32.0	39.0
Need for labor-saving equipment	9.6	50.0	12.1	49.5
Need for energy-saving equipment	8.2	26.8	10.1	30.3
Cost or availability of external finance	14.4	18.6	14.1	12.1
Firm's cash flow/balance sheet position	19.6	35.1	26.3	25.3
Tax/regulatory considerations	11.3	32.0	25.8	22.7
Business Leaders Survey				
Unusually high/low capital spending last year	14.6	14.6	13.3	9.6
Long-term plans/investment schedule	11.2	48.3	16.3	44.4
Sales/demand trends for your products	12.7	43.7	25.9	37.0
Need for labor-saving equipment	11.1	31.3	6.7	28.9
Need for energy-saving equipment	6.9	19.4	6.0	14.2
Cost or availability of external finance	11.1	20.1	11.9	19.4
Firm's cash flow/balance sheet position	18.2	33.6	25.6	25.6
Tax/regulatory considerations	15.4	26.6	16.3	21.5

Supplemental Survey Report, *continued*

HISTORICAL OVERVIEW FOR QUESTION 1

To what extent do you expect your firm's overall spending on new plant and equipment to be higher or lower this year than last?

Empire State Manufacturing Survey



Business Leaders Survey

