BUSINESS

Businesses begin spending again

onfidence in recovery spurs ompanies to invest in new equipment

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SA TODAY

WASHINGTON — A rnaround in business pending is offering the rst hint that the private ctor may be prepared to rive economic growth hen the government inds down its efforts to our consumption.

After six consecutive uarters in retreat, busiesses in the third quar- r increased spending on ew computers and soft- are at an annual rate of 1 percent. That marked n about-face from the rst quarter's annualized 36.4 percent plunge.

"That is a sign of the private sector getting some confidence back and starting to rebuild the capital stock," Christina Romer, who chairs the president's Council of Economic Advisers, told reporters.

The Commerce Department had said Thursday that the economy expanded at an annual rate of 3.5% in the third quarter, marking an apparent end to the most punishing recession since World War II.

Indications that business spending is starting to revive are vital to future growth — because there is no political support for the government to indefinitely prop up the economy. Romer, however, said she sees little danger of renewed recession next year.

"I think we're going to be fine. My anticipation is we're going to sort of grow moderately. ... We're going to have to see if the private sector comes back," she said.

The economy was propelled by incentives for consumers to buy homes and cars, among a series of extraordinary interventions by Washington in the market. But federal pump-priming won't last forever. The cash-for-clunkers program, which goosed auto sales, has expired, and the fate of a tax credit for first-time home buyers is unclear.

Likewise, although roughly half of the $787 billion stimulus remains to be spent, its biggest impact on growth occurred around midyear.

The government initiatives were designed to stabilize the economy until private companies could rebound from last year's financial crunch. With credit still tight — especially for small businesses — there have been few signs of such rebirth.

Now, resurgent equipment spending may signal that the private sector is beginning to stir, Romer said. Business spending on equipment and soft ware peaked at $1.1 trillio in the fourth quarter o 2007 before shrinking b more than 21 percen amid the global down turn.

Even after the recen uptick, business spendin of $879 billion is only a 2001's level. Companie haven't even been keep ing up with depreciation says economist Davi Hensley of JPMorga Chase in New York. "Th capital stock is declinin for the first time in de ades," he said.

Hensley expects capita spending to continue ri ing, although the cred squeeze on small bus nesses could be an obst cle.