Businesses finally ready to spend

4/21/14

Survey finds more capital investment on drawing boards

Paul Davidson
@PDavidsonusat
USA TODAY

Businesses may finally be ready to spend the $1.6 trillion in cash they've been hoarding. And that's good for the economy.

A survey out today shows 61% of corporate economists say their firms will likely increase capital spending in the next year. That's up from an average 52% in the past four quarterly surveys by the National Association of Business Economics (NABE).

Companies with big spending plans include Whirlpool. It's investing $40 million to double the size of its KitchenAid mixer factory in Greenville, Ohio, and add 400 jobs there by 2018.

Finishing Professionals in Denver, which coats metal parts, spent nearly $1 million to automate one assembly line and add a second, says owner Dan Cahill. The economy has improved enough, he says, that his customers say they'll place steady orders.

Business investment in equipment and buildings drives growth because the companies they buy from hire workers to meet the rising demand. Factories that buy new machines often must bring on employees to operate them.

Capital spending rose early in the recovery that began in 2009 as firms replaced old equipment. It slowed in 2013 because manufacturers still had spare capacity, says UBS economist Maury Harris. He expects an upswing. In March, the portion of production capacity used by manufacturers, utilities and mining companies rose to a post-recession high of 79.2%, the Federal Reserve reported. Harris says 80% is a "tipping point" at which business equipment purchases surge.

Business spending spree

Percent of economists who say their companies' capital spending:

Rose in past 3 months	38%
Will likely rise in next 12 months	61%

Source National Association of Business Economics

Other factors fueling spending:

▶ **Easier lending standards.** About 14% of large banks the Fed surveyed in January eased credit standards for large and midsize firms the previous three months. None had tightened standards.

▶ **Slower growth of productivity.** Productivity, or output per labor hour, surged early in the recovery as companies squeezed more out of fewer workers. Growth slowed the past three years, and firms are eager to reverse the trend by adding technology, says economist Tom Porcelli of RBC Capital Markets.

▶ **Rising business confidence.** Credit the two-year budget deal that Congress reached in December. "There's less uncertainty," says NABE President Jack Kleinhenz.