Businesses Spending More On Equipment

Jeannine Aversa, AP Economics Writer

WASHINGTON (AP) — Businesses are finally willing to spend more money on equipment, a healthy sign for the economic recovery.

For the first time in nearly two years, companies ponied up more money for a category called "equipment and software" in the third quarter of the year.

It isn't a huge growth rate — just 1.1 percent, according to the government's report last week on U.S. economic growth. Still, equipment and software are a broad and important category of items made by such companies as Deere & Co., EMC Corp. and General Electric Co. It includes computers, software, medical equipment, industrial engines, autos, planes, furniture and farm machinery.

Business spending is especially crucial now because consumers, who normally drive a recovery, aren't doing so this time. Many shoppers are too squeezed by job losses, flat wages, tight credit and high debt.

The higher spending doesn't necessarily mean companies are swimming in cash. But in a twist on the Ant and the Grasshopper fable, some businesses managed to save enough during the recession to spend more now, analysts said. Others can't get loans to expand their plants and instead must upgrade the equipment they have, analysts said.

When businesses spend more on equipment, jobs can eventually be created at companies that make the machines and the parts that go into them.

Some makers of technology-related equipment see better business conditions. At EMC, which sells data storage machines and software, CEO Joe Tucci said he was starting to see customers become more comfortable with ramping up spending on information technology.

EMC said it expected a "slow but steady recovery."

For now, though, most businesses are reluctant to hire. To meet any pickup in demand, they're relying instead on workers they already have.

The economy isn't likely to create many jobs until a broad-based recovery has taken hold.

Edward Yardeni, president and chief investment strategist at Yardeni Research, predicts businesses will boost their spending on capital equipment at around a 10 percent annualized rate in the current October-to-December quarter. And he thinks it will continue rising after that as businesses' revenue and profits improve.

For now, companies will probably focus spending on computers, software and other technology that can boost the productivity of their existing workers, he said.

The need to frequently upgrade their technology gives many businesses another reason to spend, Yardeni said.

The government report Thursday on GDP — the value of all goods and services produced in the United States — showed the economy grew again in the third quarter for the first time in more than a year. It was the most convincing sign yet that a recovery has begun and that the worst and longest recession since the 1930s is over.

Herb Goetschius, president of McNichols Co., a Florida maker of metal gratings and other products, said his revenue is starting to rise after customer demand "fell of a cliff" late last year and earlier this year.

Some companies he sells to are spending more to replace outdated equipment and also to maintain and repair existing plants and machines. All that is boosting his revenue.

"To maximize storage at existing plants, companies are building mezzanines instead of wasting the square footage," Goetschius said. "We see our products used for that."

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