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STATEMENT BY HAROLD C. PASSER, ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, ON SURVEY OF BUSINESS PLANT AND EQUIPMENT EXPECTATIONS

The latest projection of plant and equipment spending by business is highly encouraging for economic prospects in 1972. The survey announced today by the Bureau of Economic Analysis indicates that expenditures for capital investment will total about $90 billion, an increase of $8½ billion, or 10½ percent over 1971. This compares with a gain of less than 2 percent in 1971 over 1970.

This survey calls for a larger increase in capital spending in 1972 than the previous survey, taken in late 1971, when the expected gain for 1972 was 9 percent. Most private and government forecasts of the national economy in 1972 have assumed a rise in capital spending in the range of 8 to 9 percent.

Although the largest gains are scheduled for the first half of the year, outlays are expected to be rising throughout 1972. It is noteworthy that the capital spending advance is broadly based, with almost all major industry categories anticipating sizeable gains this year.

Dramatic turnarounds are scheduled in capital spending in several key sectors in 1972. Durable goods manufacturers are scheduling a rise of almost 14 percent in plant and equipment outlays compared with a drop of 10½ percent in 1971. Airlines are anticipating a jump of 28 percent in capital expenditures following a 38 percent drop last year and railroads expect to increase their outlays by 5 percent after a 6 percent decline in 1971.

Within the durable goods manufacturing sector, the most dramatic gains are anticipated by automotive producers, 18 percent, aircraft manufacturers, 12 percent, and producers of non-electrical machinery, 13 percent. Public utilities and communications firms are also scheduling large increases in investment outlays.

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The expected large increase in 1972 investment spending is consistent with the recent report on new orders received at the factory, which showed that orders for producers' capital goods rose substantially from December to January.

The BEA survey also showed high sales expectations, particularly in manufacturing and public utilities. This is only one of several factors underlying the expected gains in capital investment. Corporate cash flows, augmented by improving profits and accelerated depreciation, are increasing and interest rates are low. The investment tax credit is an additional incentive for increasing capital spending.

The expected capital spending gains in 1972 will not only result in increased output and employment in the capital goods-producing sector but will also enhance productivity. This, in turn, will help in the battle against inflation and in improving the international competitiveness of U.S. industry.

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