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BUSINESS PLANS 10-PERCENT INCREASE IN CAPITAL SPENDING IN 1978

Business plans to spend $150.9 billion for new plant and equipment in 1978, 10.1 percent above 1977, according to the annual survey conducted in November and December by the Bureau of Economic Analysis of the U. S. Department of Commerce. Spending in 1977 amounted to $137.0 billion, 13.7 percent above 1976, according to the estimate released last month.

These capital spending figures are not adjusted for price change. Preliminary data indicate that the implicit deflator for fixed nonresidential investment in the national income and product accounts increased about 5 1/2 percent in 1977, suggesting an 8-percent increase in real investment. Should capital goods prices rise 5 1/2 percent in 1978, the survey results would indicate a 4 1/2-percent increase in 1978 real investment. Survey respondents estimated that the price increase for capital goods purchased in 1977 was 8 percent, and they expect a similar increase in 1978. While little is known about how respondents estimate price changes, their estimates have been generally higher than indicated by the implicit deflator for fixed nonresidential investment.

Manufacturing industries plan to spend $67.4 billion in 1978. This represents a 10 1/2-percent increase, after a 16-percent increase in 1977. Sizable increases are expected by aircraft (23 1/2 percent), "other non-durables" (23 percent), and nonelectrical machinery (15 1/2 percent). Increases between 10 and 14 percent are expected by stone-clay-glass, electrical machinery, rubber, textiles, "other durables", motor vehicles, nonferrous metals, and food-beverage. Other manufacturing industries expect smaller increases except iron and steel, which expects a small decrease.

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Nonmanufacturing industries plan to spend $83.5 billion in 1978. This represents a 10-percent increase, after an 11 1/2 percent increase last year. The highest rate of increase is expected by air transportation firms, 29 percent; followed by mining, 19 percent; railroads, 15 percent; and public utilities, 12 percent. The "other transportation" group expects a 22-percent decline.

Coverage of report

This summary of plant and equipment expenditures is based on estimates for nonagricultural industry groups presented in the attached table. The basic data are derived from reports submitted by a large sample of companies, unincorporated as well as corporate, to the Bureau of Economic Analysis. Transportation companies report to the Interstate Commerce Commission. The estimates presented are universe totals of expenditures for new plant and equipment in the United States based on the sample data. They are compiled from reports on a company basis and not from separate reports for plants or establishments. A company's capital expenditures are assigned to a single industry in accordance with the industry classification of the company's principal products.

NOTE

The 1978 figures reported above are adjusted for systematic biases. The adjustments, computed separately for each major industry, were applied only when expected spending deviated in the same direction from actual spending in at least five of the last seven years. When this criterion was met, the adjustment was derived by taking the median deviation between expected and actual spending for the last five years. Before adjustment, planned spending for manufacturing is $68.13 billion and for nonmanufacturing, $83.80 billion.

Additional discussion will appear in the January issue of the Survey of Current Business, published monthly by the Bureau of Economic Analysis.

The Survey is available from most District Offices of the Department of Commerce, or from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402, at an annual subscription price of $19.00; single copy, $1.60.

Table 1.--Expenditures for New Plant and Equipment by U.S. Business, 1/ 1976-78

	1976	1977 p/	1978 2/	Percent Change	
	(Billions of dollars)			1976-77	1977-78
All industries	120.49	137.02	150.89	13.7	10.1
Manufacturing	52.48	61.03	67.35	16.3	10.4
Durable goods	23.68	28.26	31.57	19.3	11.7
Primary metals 3/	5.97	5.89	6.16	-1.3	4.6
Blast furnaces, steel works	2.99	2.82	2.74	-5.9	-2.5
Nonferrous metals	2.16	2.25	2.50	3.7	11.4
Electrical machinery	2.62	3.30	3.72	26.0	12.7
Machinery, except electrical	5.03	5.86	6.77	16.6	15.6
Transportation equipment 3/	3.62	5.27	5.96	45.6	13.0
Motor vehicles	2.45	4.02	4.48	63.9	11.5
Aircraft	.94	1.00	1.24	6.4	23.4
Stone, clay, and glass	1.72	2.04	2.33	18.8	14.3
Other durables	4.73	5.90	6.63	24.7	12.4
Nondurable goods	28.81	32.77	35.78	13.8	9.2
Food including beverage	3.75	4.15	4.59	10.8	10.5
Textiles	.81	.93	1.05	14.6	12.3
Paper	3.27	3.40	3.64	3.9	7.2
Chemicals	6.68	6.90	7.38	3.4	6.9
Petroleum	11.62	14.18	15.35	2[illegible].1	8.2
Rubber	1.10	1.44	1.62	31.4	12.3
Other nondurables	1.58	1.76	2.16	11.0	23.0
Nonmanufacturing	68.01	75.99	83.54	11.7	9.9
Mining	4.00	4.44	5.27	11.1	18.6
Railroad	2.52	2.90	3.34	15.2	15.2
Air transportation	1.30	1.68	2.17	29.3	28.9
Other transportation	3.63	2.41	1.88	-33.5	-21.9
Public utilities	22.28	26.14	29.27	17.3	12.0
Electric	18.80	21.74	24.25	15.6	11.5
Gas and other	3.47	4.40	5.02	26.5	14.1
Communication, commercial and other 4/	34.29	38.42	41.61	12.0	8.3

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1. Excludes agricultural business; real estate; medical, legal, educational, and cultural services; and nonprofit organizations.

2. Estimates are based on planned capital expenditures reported by business in late November and December 1977. The estimates of expected expenditures for 1978 have been corrected for biases.

3. Includes industries not shown separately.

4. Includes trade, service, construction, finance, and insurance.