

Business Outlays Contract Further In Rebound Threat

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The long-running contraction in business investment appears to be worsening, raising fresh concerns about the sustainability of the economic recovery.

The G7 Group Inc., a closely held political and economic consulting firm, said its business-spending index fell to a preliminary reading of minus 40 for the third quarter, a sharp decline from a reading of minus 3 for the second quarter.

An index measure of minus 33 or lower suggests that business fixed investment is contracting in the current quarter. An index reading between zero and minus 33 indicates growth in the current quarter, but at slower rates than the historical average of 5%. Results greater than zero indicate above-average business investment.

The latest reading of minus 40 suggests investment is unlikely to kick in until the final months of the year at best, said Alan Blinder, a principal in the G7 Group and one of the creators of the index, which is designed to foreshadow changes in business fixed investment and is a closely watched gauge. Mr. Blinder is a former vice chairman of the Federal Reserve.

The G7 Group index is based on responses to surveys conducted by the National Federation of Independent Business, which represents small businesses, and the National Association for Business Economics, in addition to economic-growth trends.

Business investment has been one of the missing ingredients needed for a strong economic recovery. Since late last year, the U.S. economy has been buoyed largely by consumer spending -- not business spending. But many economists worry that unless businesses increase investments for plants, technology and other equipment, the U.S. recovery will lose momentum and possibly even dip back into recession. **"The consumer can't carry the ball forever," Mr. Blinder said.**

In an interview, White House chief economist Glenn Hubbard said he believed business investment would turn around by the end of the year. He cited the government's stimulative economic policies -- meaning tax cuts and low interest rates -- and a "lack of capacity overhang" as reasons for an investment turnaround. **But Mr. Blinder said he isn't convinced there will be any growth in investment for the remainder of this year.**

By many measures, the recent downturn in business investment has been the worst since the end of World War II. After booming in the late 1990s, investment has contracted for seven straight quarters -- or 21 straight months -- the longest stretch of consecutive declines on record.

According to Blue Chip Economic Indicators, a monthly economics newsletter, economists on average expect business investment to contract by 5.1% this year, about equal to the 5.2% investment contraction

in 2001. They expect a 5.5% increase in investment in 2003, even though estimates for 2003 have been lowered sharply in recent weeks.

“Profits are not doing well and sales are not exciting, and so nobody is really rushing to do a lot of spending,” said William Dunkelberg, chief economist at the NFIB.

-- *Bob Davis contributed to this article.*