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THE OUTLOOK

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Across U.S., Companies Plan To Put Cash to Work, Giving Possible Boost to Global Economy

By **MARK WHITEHOUSE**

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NEW YORK -- A few years ago, one could hardly have found a candidate less likely to lead a new wave of corporate investment than glassmaker **Corning** Inc. Smarting from a multibillion-dollar optical-fiber bet gone wrong, the company had become a model of thrift, accumulating cash and paying down debt.

Now, though, Corning is getting back into the global investment game. This year, the company will spend as much as \$1.5 billion as it expands a giant liquid-crystal-display plant in Taichung, Taiwan, and a clean-diesel-products plant in Erwin, New York. In 2003, the company's capital spending amounted to \$366 million.

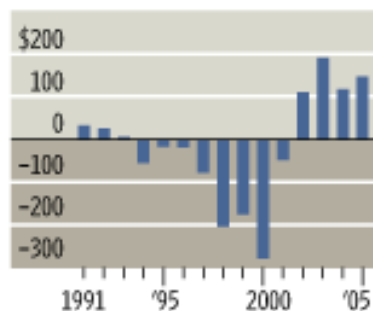
The impetus for the spending rebound: more confidence in the business environment. "We started to see new opportunities," says James Flaws, Corning's chief financial officer.

Across the U.S., companies are starting to put their money to work again, or at least are planning to do so. They have enjoyed strong growth and record profits in the past few years, but as they close in on the limits of their capacity, they face a choice: Stop growing, or start spending on people, plants and equipment.

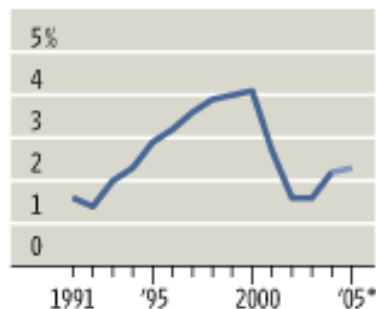
Time to Spend?

In recent years, companies have been scrupulous savers, accumulating cash and investing relatively little. If they loosen up, that could boost the economy.

Corporate saving in the U.S.¹, in billions



Corporate capital stock, real percentage change



¹Undistributed profits plus depreciation minus gross investment
*WSJ estimate

Sources: Commerce Department; Federal Reserve

Recent data suggest they are choosing the latter. They added 2.1 million jobs in the year ended February, and in a recent survey by Duke University's Fuqua School of Business, more than 300 corporate executives said they plan to increase capital spending by an average 6.5% in the coming year -- up from 4.7% in September, though still lower than a few years ago.

"Forever it seems like we've been waiting for the purse strings to open," says John Graham, a professor of finance at Fuqua. "They're not opening that wide, but they're moving in the right direction."

If sustained, companies' newfound willingness to spend could mitigate an anomalous situation: Ever since the turn of the 21st century, U.S. corporations have been scrupulous savers, in sharp contrast to consumers and the government. Combined with resurgent growth in Japan and Europe, the corporate spending could add fuel to the global economy -- or at least help it survive if flagging or falling house prices make U.S. consumers feel poorer, something many economists expect to happen this year.

"The fact that corporations are investing and hiring again is certainly an encouraging sign," says David

Mackie, an economist at J.P. Morgan in London. "As long as the household sector holds in reasonably well, this provides something of a cushion for growth."

In recent years, companies and people have started acting in ways that defy conventional economics. Typically, companies recycle a country's savings by borrowing the money to invest in new equipment, software, factories and whatever else they need to expand their businesses. That helps keep interest rates in balance, with companies' desire to invest pushing rates up and people's desire to save pushing them down.

In the past five years, though, people and companies in the U.S. have switched roles. Households have been saving less, to the point where they now spend more than they earn -- a profligacy that has helped drive huge corporate profits. Meanwhile, companies have been spending a lot less than they earn, building up huge hoards of cash.

In this way, U.S. corporations "saved" about \$560 billion in the past four years, according to J.P. Morgan -- an often-overlooked contribution to the so-called global savings glut, which some economists believe has helped keep long-term interest rates unusually low. Over the same period, they invested relatively little in their businesses: The total U.S. capital stock increased only about 8% after inflation, just more than half the rate in 1998 through 2001.

Economists offer various explanations for companies' behavior. For one, executives might have been feeling extra cautious after the excesses of the late 1990s, when they borrowed heavily to make huge investments and acquisitions that often proved financially disastrous. "I think there's a much greater level of caution -- you could also say it's a much higher level of responsibility," says David Hargreaves, chief financial officer at toy maker **Hasbro Inc.**, which went on a buying spree in the late '90s but has since built up a cash hoard of almost \$1 billion -- 29% of all its assets.

Beyond that, some companies might not have seen any opportunities that justified spending money on hiring or new capacity. That, according to Mr. Flaws, was why Corning invested less in 2002 and 2003. "We did spend according to what we saw the business opportunities to be," he says. "If they had needed more, we would have figured out a way to do more."

Now things are changing. Attractive markets for flat-screen television sets and clean-diesel trucks have inspired Corning to invest in new capacity. At Hasbro, Mr. Hargreaves says the company's cash wealth will make it more willing to expand its business through acquisitions, such as a recent purchase of a small Canadian puzzle maker.

And apparel company **Guess Inc.**, after several years of tight financial discipline, is planning to boost capital spending more than 20% this year, partly to open 38 new stores and remodel 30 existing ones. "We have gained more confidence to expand more aggressively," says Carlos Alberini, president and chief operating officer at Guess.

Meanwhile, hedge funds and other activist shareholders are putting more pressure on companies to spend unused cash. Take, for example, Carl Icahn's recent attack on **Time Warner Inc.**, which prompted the company to buy back more shares, a way of returning money to shareholders. Companies in the S&P 500 spent a total of \$104 billion on share buybacks in the fourth quarter of 2005, up 58% from a year earlier.

Buybacks aren't a great signal. At best, they represent prudent behavior on the part of companies that can't

find profitable ways to invest shareholders' money. At worst, they are a lazy way for executives to meet performance targets by mathematically boosting earnings per share and, hence, stock prices.

Still, to the extent that companies are willing to put their savings to work, their cash hoards could be a boon for the global economy.

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