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THE PRESIDENT HAS SEEN. *0.2*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

September 3, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Plant and Equipment Spending Plans

Business demand for new plant and equipment continues to be strong according to the latest quarterly survey of spending plans conducted by the Commerce Department in July and August. On the basis of actual spending from January to June and projections for the rest of the year businessmen expect their 1974 expenditures to exceed the 1973 total by 12-1/2 percent. This is a very slightly larger increase than was projected in the survey conducted 3 months ago but the small upward revision probably reflects higher than expected plant and equipment costs rather than physical volume.

The quarterly figures show a rising trend through 1974. However, from the second to the fourth quarter that increase is essentially a reflection of higher costs.

The strength of plant and equipment demand is most apparent in the figures pertaining to new starts by manufacturing firms and public utilities in the second quarter. Manufacturers' starts had slumped in the first quarter when the impact of the energy crisis was most severe. In the second quarter, however, starts rebounded strongly -- by 20 percent. New starts by public utilities were up by an astounding 40 percent. For both manufacturing and public utilities backlogs of work started but not completed continued to rise in the second quarter.

This survey of spending plans confirms what other related surveys have been showing recently. The regular quarterly survey of The Conference Board published in late August showed a very sharp rise in new capital appropriations by large manufacturers, and last week the Commerce Department showed a strong rise in new orders received by manufacturers of capital



goods in July. The need for additional capacity is the dominant factor underlying current capital goods demand despite high interest rates which have tempered that demand and will continue to do so in the future.

These figures are for release Thursday, September 5 in the A. M.

Alan Greenspan

A handwritten signature in black ink, consisting of a large loop at the top and several intersecting lines below, resembling a stylized 'A' or 'G'.