Firms Freeze Capital Outlays

By Patrick Barta

American companies are putting capital-spending plans on hold because of the war with Iraq, possibly setting the stage for further economic weakness, a survey said.

The survey, a joint effort by Duke University's Fuqua School of Business and Financial Executives International, a professional association for financial executives, found that 67% of 186 finance chiefs surveyed Monday and Tuesday are spending cautiously or holding off all capital investment due to war-related uncertainty.

Moreover, 45% said they have become less optimistic about the economy and 40% said they are less optimistic about their own companies. Both were record highs for the survey, which has been performed quarterly since 1986. In the last survey, only 15% were feeling less optimistic about the economy and 23% were less optimistic about their companies.

"The CFOs actually realize the severity of what we're facing, and I'm afraid that policy makers and the public don't," said Campbell Harvey, a professor of finance at Duke and a founding director of the survey.

The growing cautiousness of America corporations is one reason the economy, which appeared to be picking up momentum at the beginning of the year, has seemed to slip back into a funk in the past six weeks. Companies aren't only holding back on capital projects, they are also letting some staff go due to weakened demand.

Economists have debated whether business conditions will pick up significantly if the war is resolved rapidly. The finance chiefs surveyed were somewhat hopeful. The finance chiefs said they expect revenue to rise 8% over the next 12 months if the conflict in Iraq ends quickly. But if the war extends longer than six months, they said revenue would remain flat or decline slightly.