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Ahead Of the Tape

—Today's Market Forecast—

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Out of Order

■ Investors carp that the world has entered an era of low returns. Companies are acting as if they share this view.

Even though it is five years since the tech bubble began deflating and three years after the brunt of uproar over corporate misbehavior bore down upon them, executives are still playing a conservative game. Despite brimming coffers and a generous financing environment, both spending on new equipment and hiring have lagged behind expectations.

Capital Concern

Year-over-year change in nondefense capital-goods orders

Source: Commerce Department

Today's Commerce Department report on durable-goods orders in May should give some indication of the pace of business spending. The aspect of the report economists will focus on will be nondefense capital-goods orders excluding aircraft, which provides a good reading on what companies are spending on things like computers and backhoes.

Economists at Lehman Brothers expect this measure to grow by 2% from the April level, which would put it at about $66.9 billion. Back in June 2000, it stood at a record $68.6 billion. Although companies were being silly with their money back then, the economy is a lot bigger now.

A survey released by Duke University finance professors Campbell Harvey and John Graham with CFO Magazine earlier this month found that corporate finance chiefs expect capital spending to grow by just 4.5% over the next year—barely enough, says Dr. Harvey, to keep up with normal wear and tear.

One reason CFOs' spending plans are so conservative is that they expect very little from the stock market. Drs. Harvey and Graham found that, on average, CFOs expect the Standard and Poor's 500-stock index to return just two percentage points above a 12-month Treasury bill over the next year. That is down from about a five-point difference a year earlier and 7.7 points two years earlier - and the lowest expected return since September 2001.

In the face of such low expectations, many companies use their cash for buying back stock rather than for taking on new projects.

That same dilemma may extend beyond the corporate suite, with money—and talent—invested in real estate and hedge funds, not entrepreneurial pursuits.

"The reason the U.S. has been a winner for so long is our willingness to be entrepreneurial and take risk," says Mr. Harvey. "If that entrepreneurial spirit is somehow diminished, it's going to presage slower economic growth in the future."

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