U.S. business leaders are more tightfisted than earlier this year, worrying some folks that a major growth driver of the shaky U.S. economy will screech to a halt if companies hoard cash instead of spending it on new plants, equipment and technology.

But don’t push the “double-dip recession” panic button yet.

Duke University finance professor Campbell Harvey says companies still plan to spend more this year – just not as much as they expected earlier this year. And companies projecting the biggest increases in capital spending are small-to medium-sized businesses – the kinds of companies that are more likely to create jobs, according to Harvey and others.

“This is not consistent with a recession mentality,” Harvey says. “A recession mentality is to slash [capital spending].”

Duke and CFO Magazine’s quarterly survey of 996 chief financial officers from global public and private companies found that firms plan to increase capital spending by an average 4.5 percent over the next 12 months. That’s half the 9 percent increase CFOs projected last quarter and even lower than the 12 percent increase estimated six months ago.

In addition, 57 percent of firms said they won’t deploy their cash holdings this year, up from 50 percent nine months ago, as a result of concerns about credit markets potentially tightening again, extreme economic uncertainty and a lack of attractive investment opportunities, the surveyors said.
Other recent surveys of executives also find evidence that the capital spending spigot won’t be shut off completely.

Executive services firm Tatum’s September survey of business conditions found that 27% of respondents plan to commit more on capital equipment in the next 60 days, up from 24% in August. Similarly, the percentage of respondents who plan to commit less to capital fell to 13 percent from 16 percent, even though a majority reported flat or worsening business conditions, and many said they had cut commitments in the previous month. Middle-market companies were among the most represented company type in the survey.

Senior partner Sam Norwood says many new capital commitments were put on hold in late summer as the Federal debt limit debate amplified uncertainties. With that issue settled for the near term and with interest rates declining further, the firm actually sees a modestly brighter outlook for capital spending.

“Our respondents seem determined to invest in capital improvements and employees, perhaps in some respect due to improving order backlogs as well as the upcoming holiday season,” Norwood says.

Duke professor Harvey says capital spending late last year and this year has been catch-up spending. “At the height of the financial crisis, they were slashing CapEx by double-digits,” he says. In three Duke surveys between December 2008 and May 2009, CFOs were saying they’d cut capital spending by between 10 percent and 13 percent. So even though CFOs are pulling back on CapEx growth, it’s not like a few years ago.

He credits companies’ stronger balance sheets for their more confident approach to spending this time around. “Non-financial companies have lots of cash, so if there is a double-dip, the amount of pain is not going to be the same,” he said.

Indeed, data from Sageworks, a financial information company that develops financial analysis software, shows that cash on privately owned
manufacturers’ balance sheets trended higher between 2004 and 2010. While manufacturers’ cash has dipped so far in 2011, it may reflect spending on capital projects that had been put off during the crisis.

Meanwhile, the ratio of debt to equity among manufacturers has declined since 2008 as companies cut capital spending and hiring to strengthen their balance sheets, according to the companies’ financial reporting.

Duke’s Harvey notes that small- and medium-sized businesses are reacting differently than large companies in the current environment, too. CFOs with firms generating between $25 million and $4.9 billion of revenue annually project mid-single-digit increases in capital spending over the next 12 months, while firms with $5 billion to $10 billion in revenue are now seeing flat spending. Firms topping $10 billion plan to cut capital spending slightly, according to Duke’s survey.

“The firms that are spending on CapEx growth are the relatively medium-sized firms,” Harvey says. Meanwhile, CFOs project 9.4% average earnings growth and double-digit growth in dividends, he notes. “All that put together does not indicate a panic mode. If you want to retrench for a recession, you slash all of your spending and hold off on dividends.”