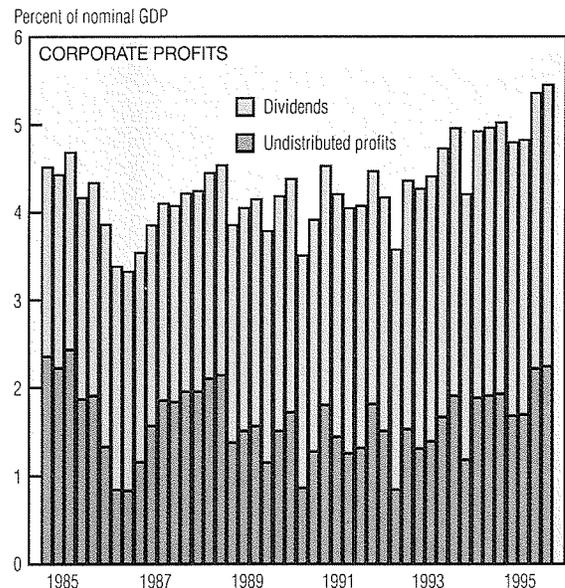
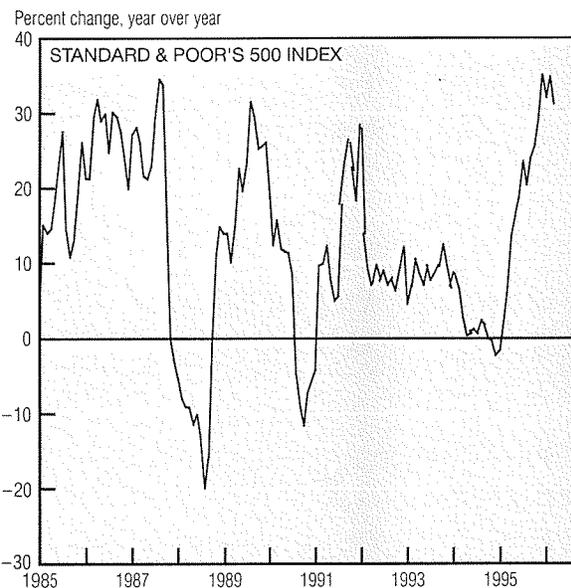
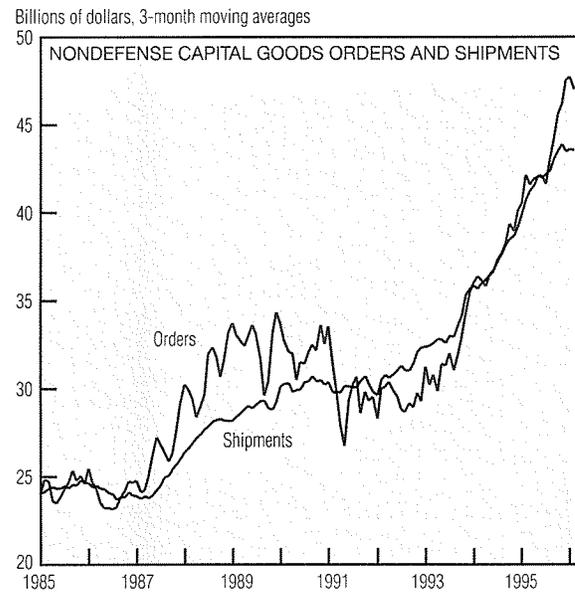
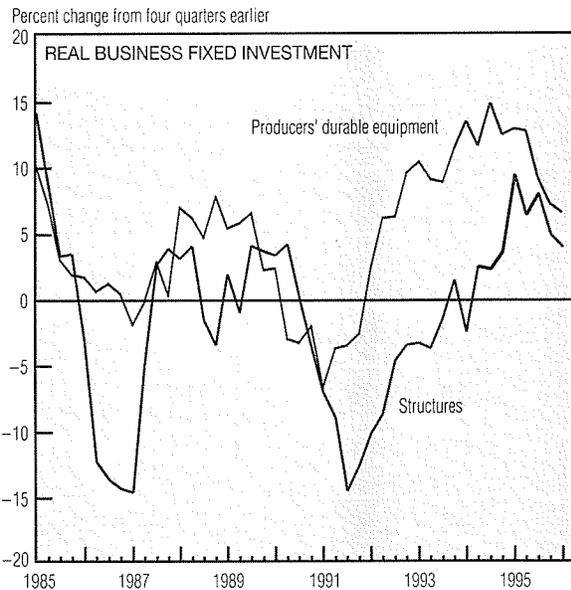


Business Fixed Investment



SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and Standard and Poor's Corporation.

Business fixed investment—necessary to build capital, promote innovation, and boost living standards—rose 7.4% in 1995, capping three years of above-average growth. Investment in producers' durable equipment, especially computers, accounted for much of the increase. Investment in nonresidential structures, which was constrained by overbuilding during the 1980s, also increased at an above-average pace in 1995.

Most forecasters, who substan-

tially underestimated the strength of business spending in 1994 and 1995, expect business fixed investment to continue advancing this year and next, but at a rate nearer to its 25-year average of 3.7%. They base this expectation on a slowing in real economic growth and on last year's slight decline in the rate of capacity utilization. Nevertheless, new orders for capital goods have recently exhibited strong growth and continue to exceed shipments.

Rising interest rates are also a concern in the forecast, but their rela-

tionship with business fixed investment is difficult to discern. Although they increase the opportunity cost of financing investment projects, higher real interest rates tend to reflect greater productivity of capital itself. Indeed, the behavior of stocks over the past year suggests that investors foresee increasing profits from the economy's capital stock, which should encourage investment. The strong performance of corporate profits also bodes well for additional investment.