Corporate Capital Expenditures: An Important Early Growth Signal

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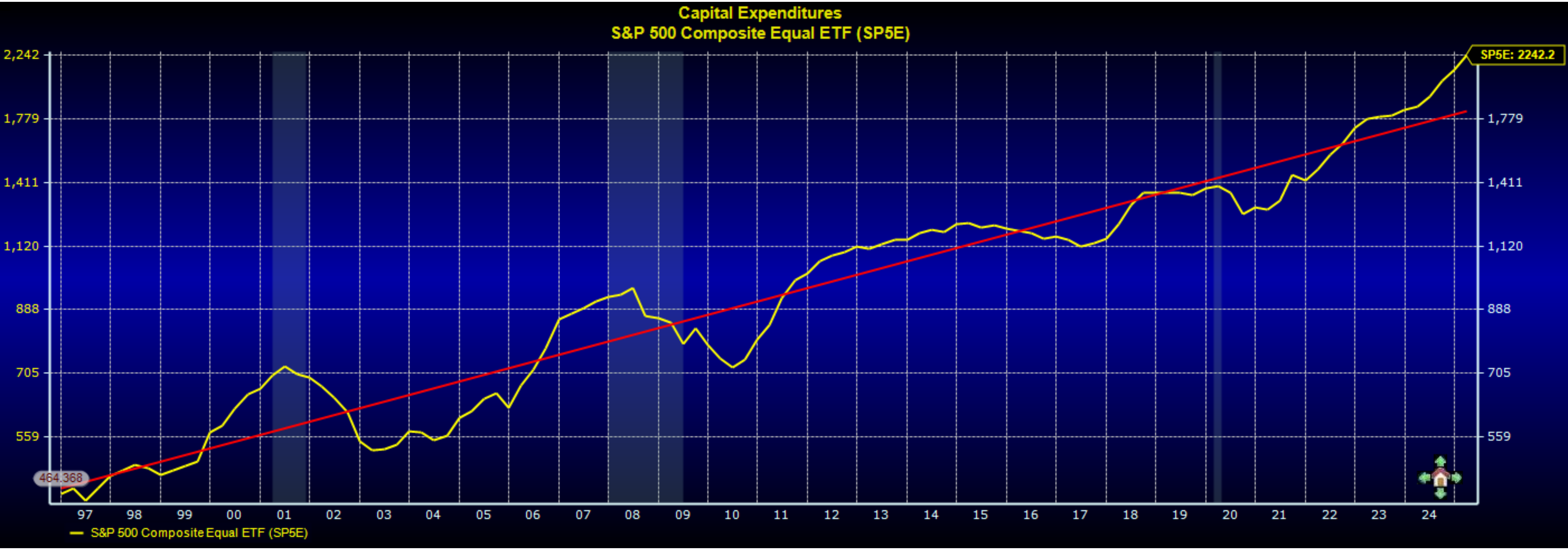
One of the easiest and logical methods for predicting future growth is by looking at business investment decisions.

Capital expenditures are investments in long-term assets such as factories, equipment, machinery, office space, etc. AI datacenters count as equipment.

However, we cannot just look at capital expenditures in nominal terms, because this number simply goes up over time as businesses have to perpetually replace old/damaged/obsolete equipment.

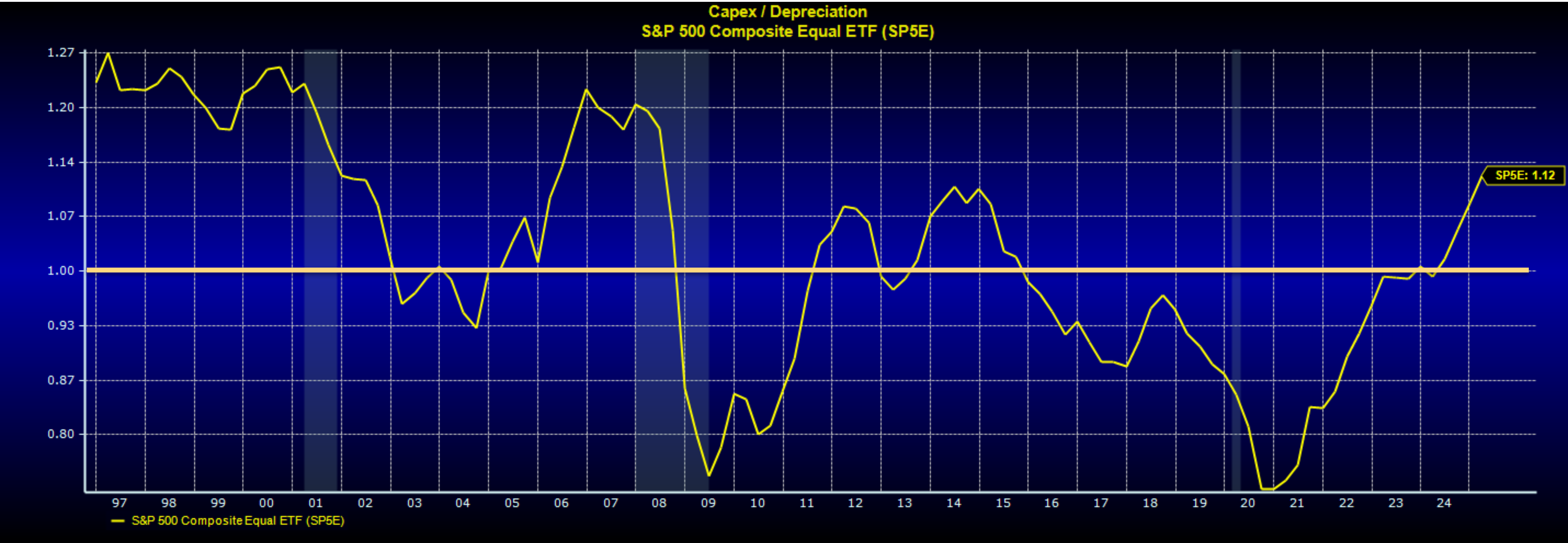


Source: Zacks Research System | zrs.com

We must look at ***net capital expenditures***, which takes the nominal figure minus depreciation.

When capex exceeds depreciation, companies are in growth mode.

When capex falls below depreciation, companies are in conservation mode.



Title	High	Low	Median	Current	Start Date	End Date
S&P 500 Composite Equal ETF (SP5E	1.27	0.73	1.01	1.12	12-31-1996	03-31-2025

The figure currently stands at 1.12 with a general uptrend.

This means companies are currently in growth mode, as the value of the investments exceeds depreciation. This means companies are deploying capital beyond simply replacing old/obsolete or broken equipment. And the trend is accelerating.

This is a lesser known but very important broad economic indicator that can give us a hint of what part of the business cycle we’re in: expansion, stagnation, or contraction.

Thank You for Attending!

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