FOCUS · The US investment situation and outlook

The US economy is at a mature stage in its business cycle, so cyclical factors are providing less and less support. Moreover, this trend is expected to intensify. In such a context, it is important to understand the situation and outlook of the underlying factors that determine US growth capacity, such as productivity gains, investment and labour. Previous issues of the *Monthly Report* analysed the situation of the labour market.[1] We will now look at investment.

The growth rate for gross investment has been slightly above the historical average according to recent figures. This situation could be positive as it should improve the US economy's medium-term growth capacity. However, two aspects detract from this optimistic interpretation. First, after the sharp adjustment in investment during the Great Recession, its rate of recovery has been the slowest of all recoveries post-World War II. Second, the composition of the stock of capital has altered radically over the past few decades. Technological and intangible capital, such as computers and software, have substantially increased their share. This kind of capital tends to have a much shorter useful life, thereby requiring a higher rate of investment.

We therefore need to look at the trend in investment net of depreciation for a more accurate analysis of the investment situation. The resulting picture is not so promising. Although net investment has recovered considerably over the past few years it is still clearly below the historical average (–2.2 pp as a percentage of GDP). This slower rate of increase in investment has a considerable effect on GDP growth. According to Conference Board estimates, physical capital's contribution to GDP growth has gone from almost 2 pp during the second half of the 90s and early 2000s to barely 1 pp at present.

It therefore seems that the tax reforms passed by Congress last December are moving in the right direction. Without doubt, the corporate tax cut (from 35% to 21%) and changes in accounting standards for deductible investment-related expenses[2] could boost investment.

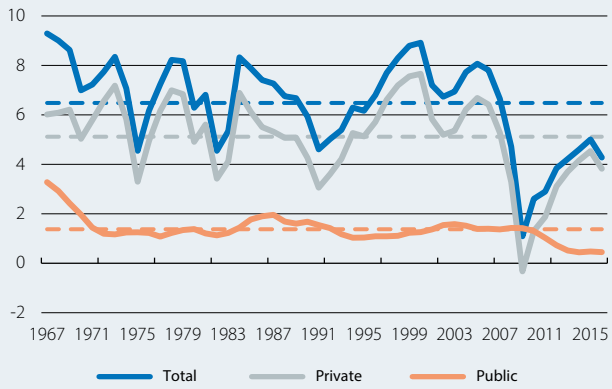
On the other hand, there are other aspects which, when taken into consideration, suggest investment may not have been as weak as implied by the aforementioned data. These therefore reduce the appropriateness of the latest tax reforms, as well as their ultimate effect on investment.

First, the mere fact that investment is recovering more slowly than usual does not necessarily mean a boost is required. This can be illustrated by a simple example. An economy that is increasingly focused on services and knowledge might require less investment.[3] For instance, compare the investment needs (in terms of physical capital) of General Motors and Google. Moreover, in the new knowledge economy, investment is often hard to measure and there are concerns it is underestimated. In fact, a significant proportion of investment in intangible assets, such as organisational capital, is not counted as investment by national accounts.

Finally, regarding the new tax system, although this should encourage more investment its impact is likely to be relatively small. The reason: the brake on investment does not seem to be companies not being able to get credit or a lack of liquidity. In fact, the situation is rather the opposite. Financial conditions have been highly accommodative for the past few years and the liquidity of many firms' balance sheets is at an all-time high.[4] Moreover, a tax boost does not seem very appropriate given the mature stage of the US economy's business cycle. Such a stimulus could generate inflationary pressures and lead to sharper rises in interest rates, which would also limit the impact of the tax reforms on investment.

US: investment net of depreciation

(% of GDP)



Note: *Data in real terms. Dotted lines represent the historical average.*
Source: *CaixaBank Research, based on data from the BEA (NIPA).*

1. See, for example, «US: the baby boomer effect on the cycle and in the long run» in MR11/2017.
2. An increase in the amount that can be deducted annually and a consequent reduction in the depreciation period.
3. Investment in technological and intangible capital requires more maintenance because this kind of capital has a faster depreciation rate. However, total investment may be lower than that required by a traditional industrial economy.
4. See «Liquidity in the business sector: more does not always mean better» in the Dossier of MR02/2017.