

Business Investment in the United States: Facts, Explanations, Puzzles, and Policies

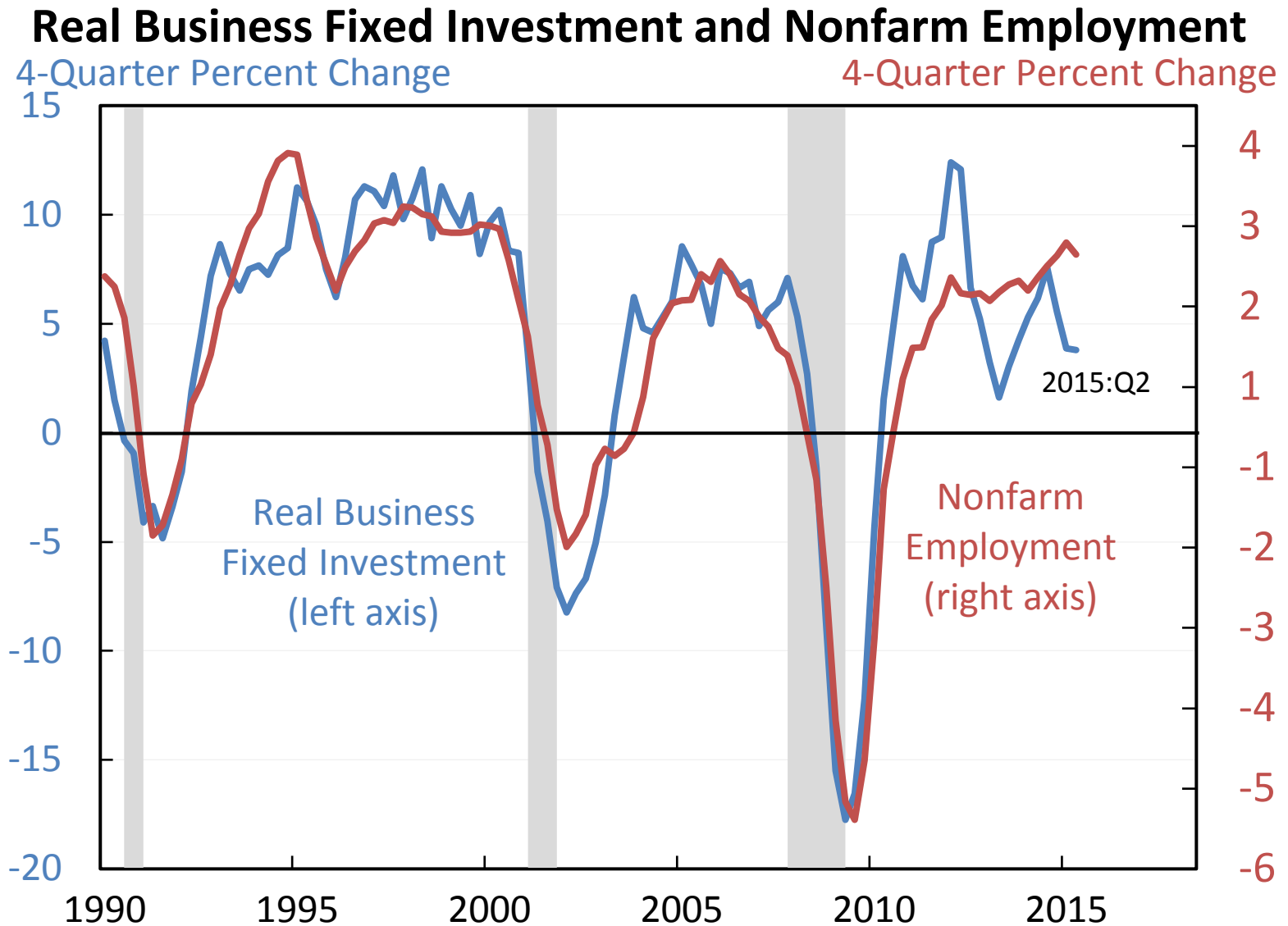
Jason Furman

Chairman, Council of Economic Advisers



**Progressive Policy Institute
September 30, 2015**

Real Business Investment Has Slowed, Despite Strength of the Recovery

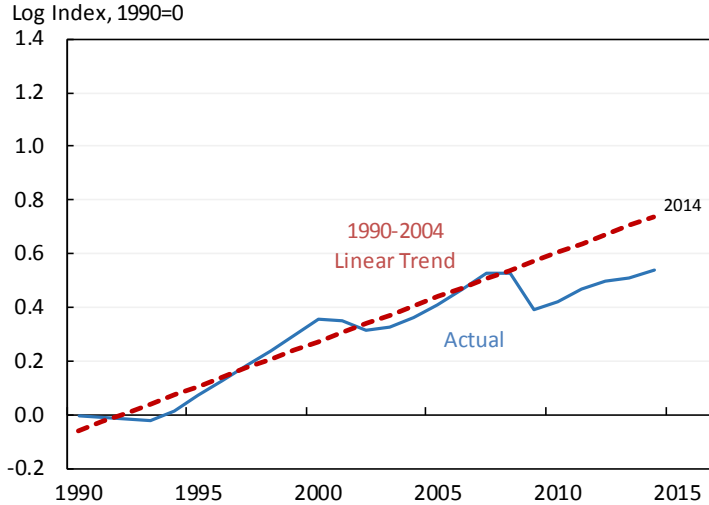


Note: Shading denotes recession.

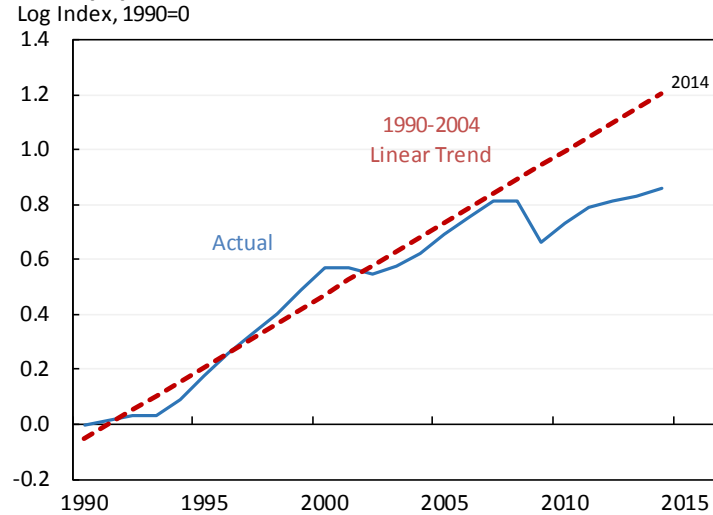
Source: Bureau of Economic Analysis; Bureau of Labor Statistics.

Investment is Below its Pre-Recession Trend Across the Advanced Economies

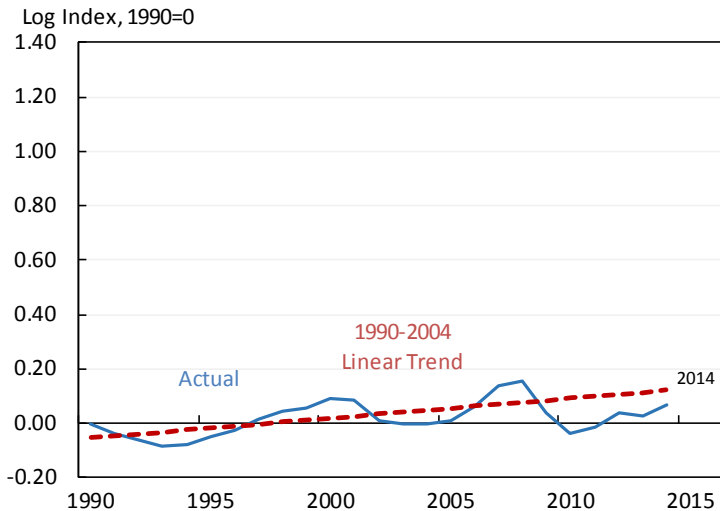
Business Fixed Investment Across Advanced Economies



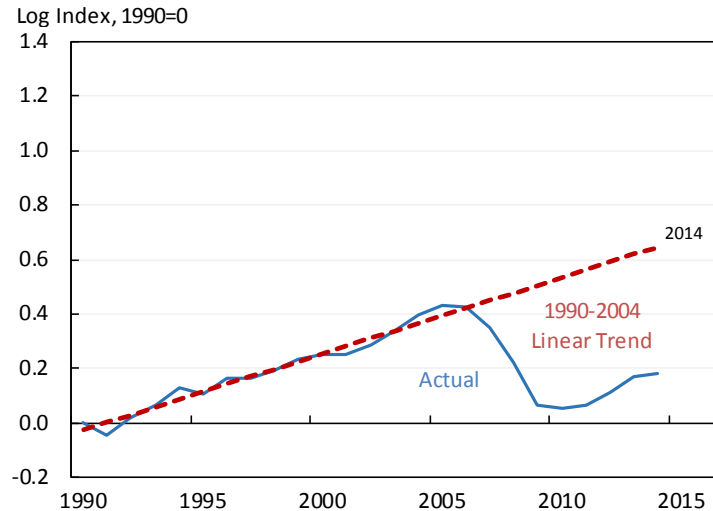
Equipment Investment Across Advanced Economies



Structures Investment Across Advanced Economies



Residential Investment Across Advanced Economies

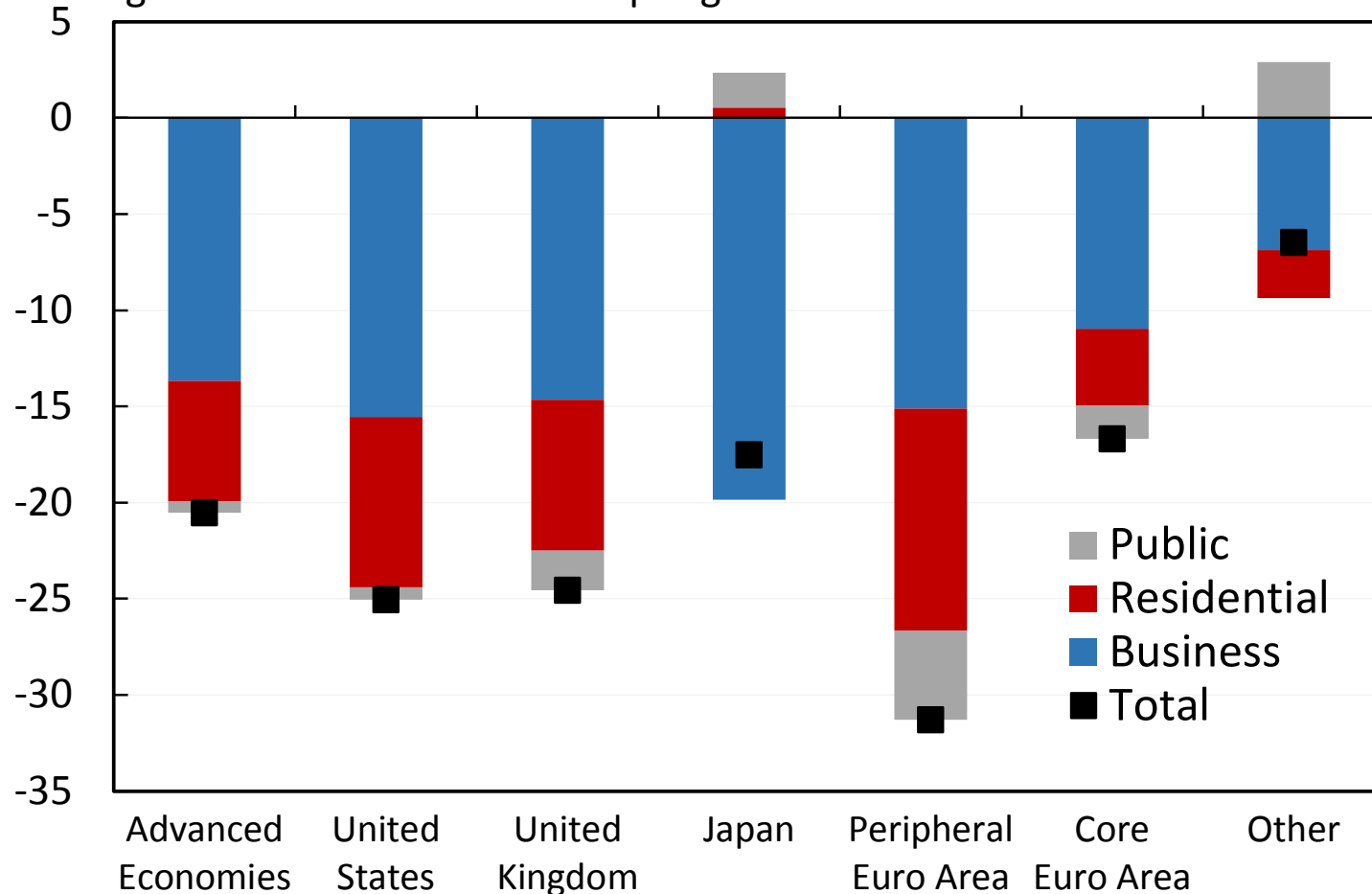


Note: The figure, modeled on IMF (2015), presents data for 28 advanced economies: Australia, Austria, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Singapore, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom, and United States.
 Source: International Monetary Fund; national authorities via Haver analytics.

Business Fixed Investment has Driven the Reduction in Investment Growth Across Advanced Economies

Decomposition of the Investment Slump, 2008-2014

Average Percent Deviation from Spring 2007 Forecasts



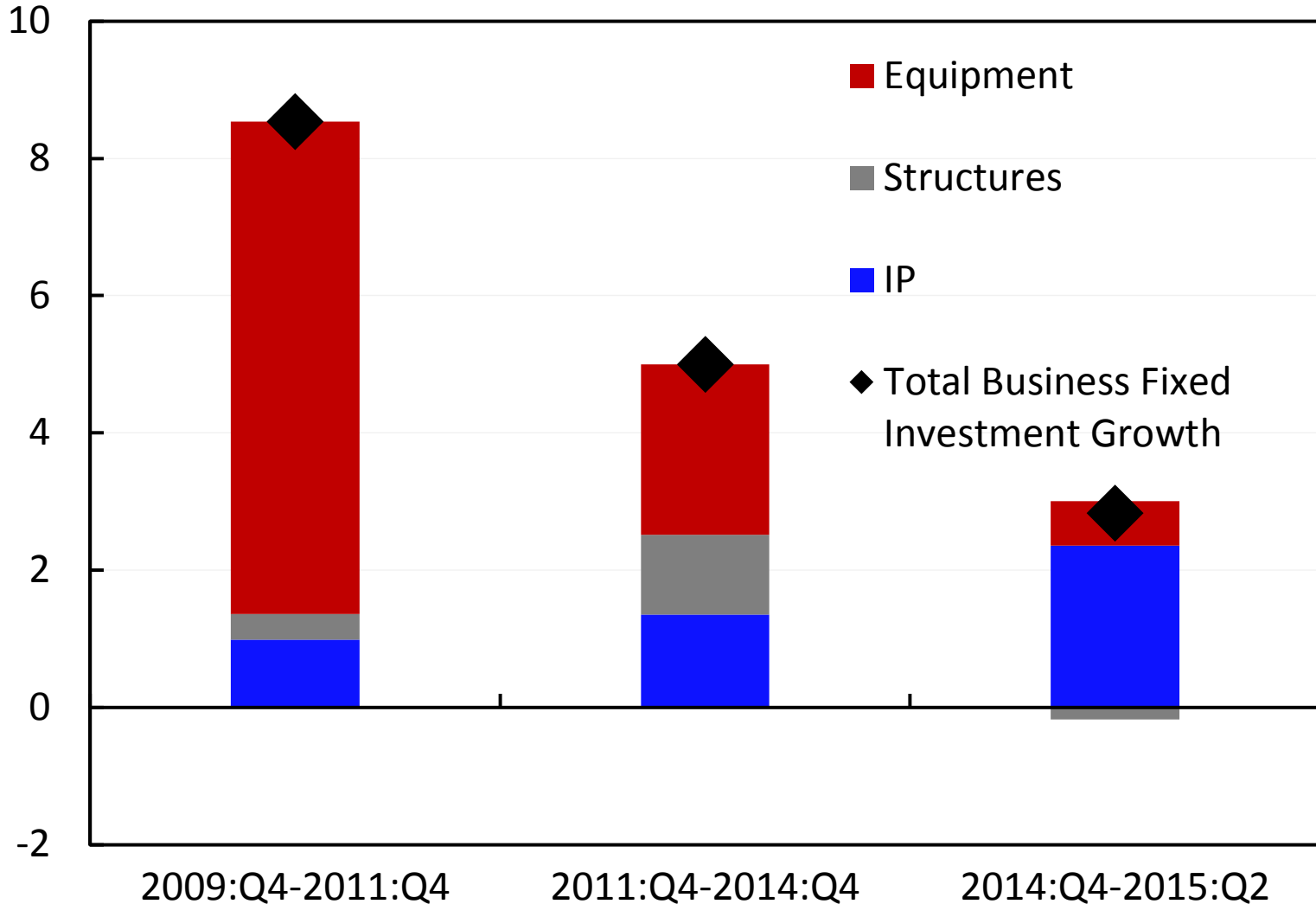
Note: The figure shows the deviation of investment between 2008 and 2014 from forecasts made in the spring of 2007. The black squares indicate the average percent deviation of total investment. The divided into different colored segments show the contribution of the components of investment—business, residential, and public—to the deviation. Public sector contributions to residential and nonresidential investment are excluded from these categories when data for these contributions are available. The Peripheral Euro Area category includes Greece, Ireland, Italy, Portugal, and Spain. The Core Euro Area category includes the rest of the Euro Area economies in the list of 28 advanced economies included in the note to the previous figure.

Source: International Monetary Fund (Fiscal Monitor database); Consensus Economics; national authorities via Haver Analytics.

Equipment and Structures Investment Slowed While Intellectual Property Products Investment Accelerated

Contributions to Real Business Fixed Investment Growth

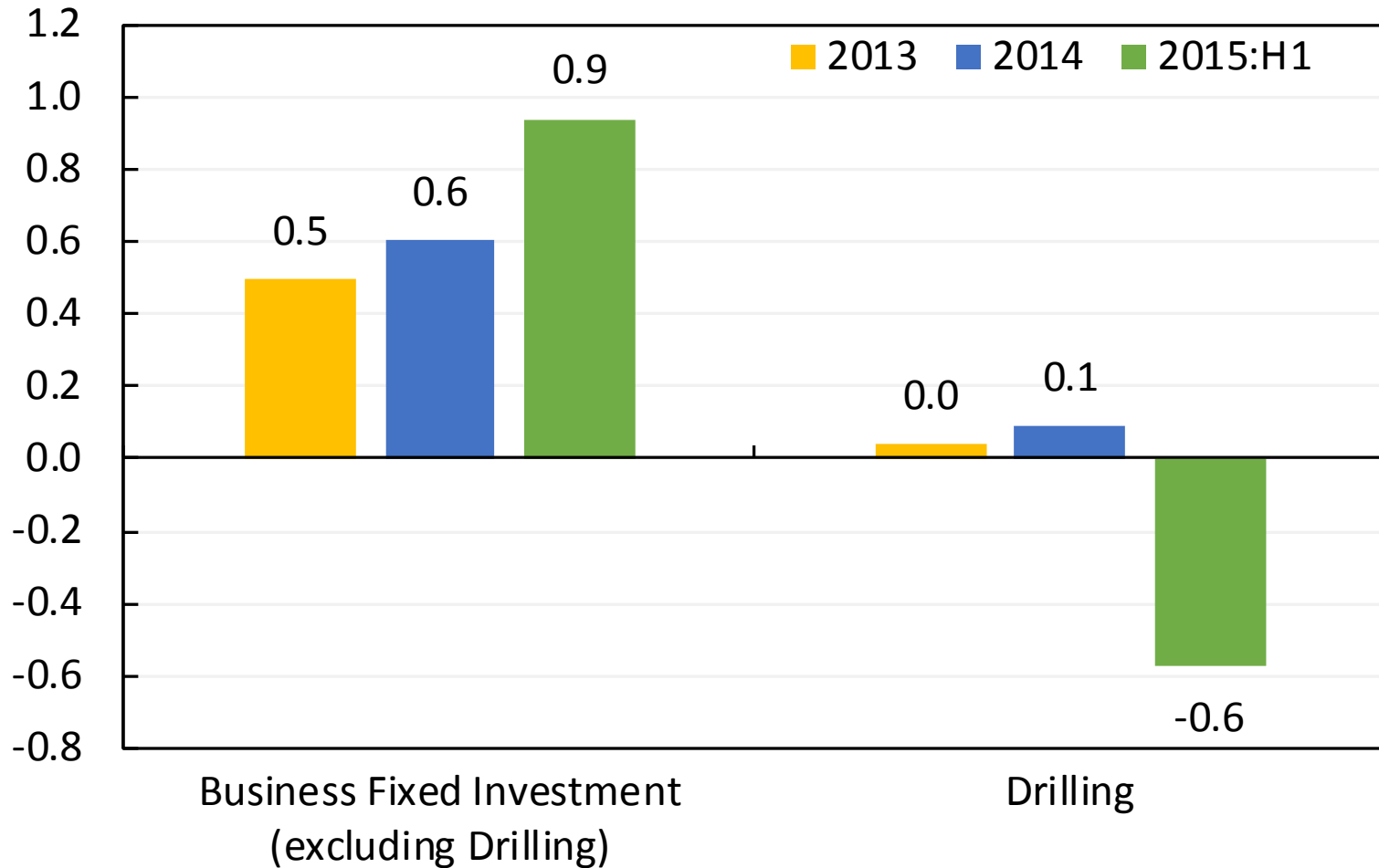
Percentage Points, Annual Rate



Slower Investment Growth in 2015 is Entirely Attributable to the Collapse in Drilling Investment

Contribution to Real GDP Growth from Select Components of Business Investment, 2013-2015

Percentage Points, Annual Rate

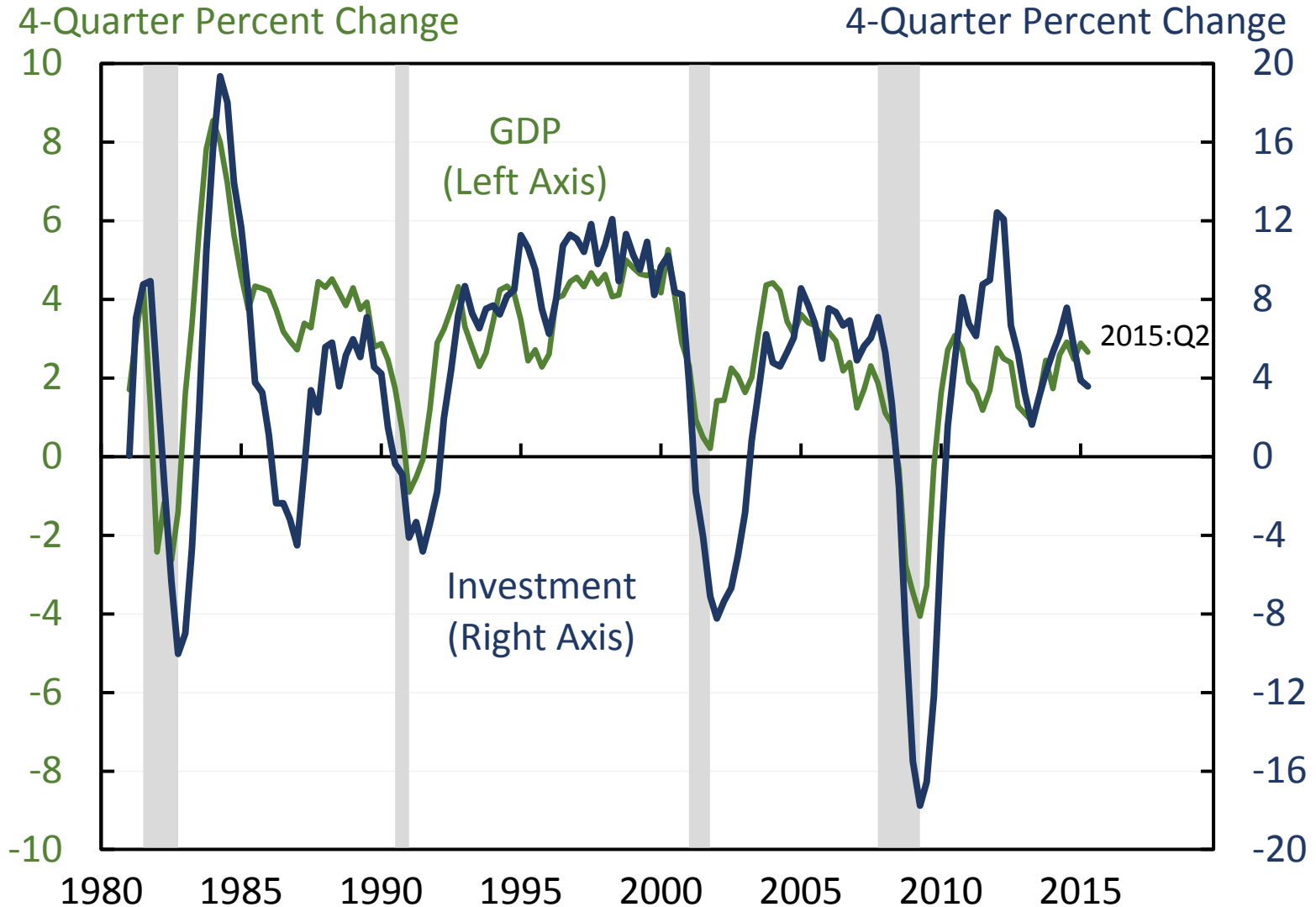


Note: "Drilling" refers to the mining exploration, shafts, and wells category of investment in the National Income and Product Accounts. All growth rates and contributions are Q4/Q4, except 2015:H1, which is 2015:Q2/2014:Q4.

Source: Bureau of Economic Analysis; CEA calculations.

Current Rates of Investment Growth are in Line with the Path of Overall Output Growth

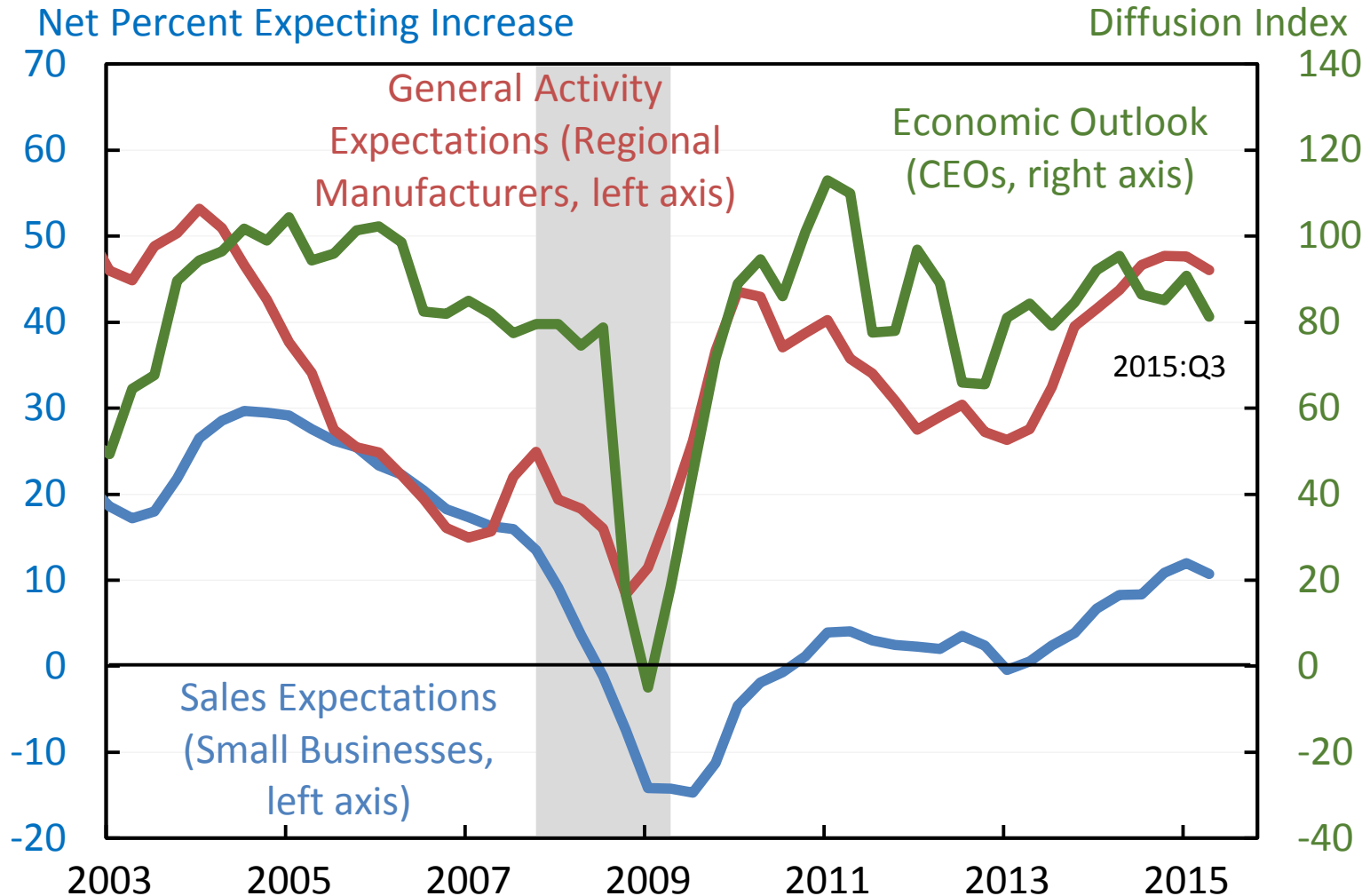
Real GDP and Business Fixed Investment



Note: Shading denotes recession.
Source: Bureau of Economic Analysis.

Business Outlook has Improved in Recent Years, Despite Claims of Uncertainty

Business Outlook, Next Six Months



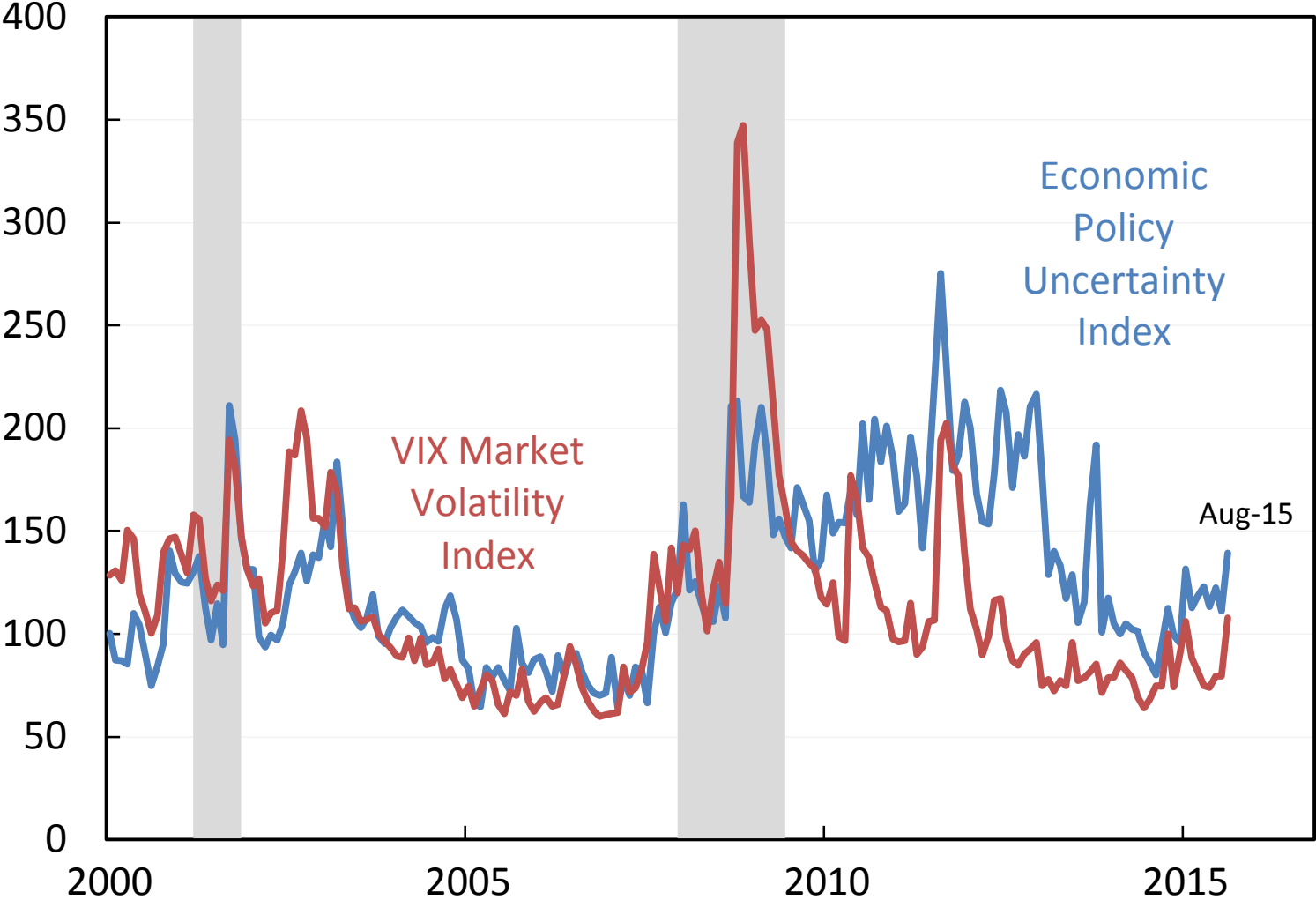
Note: The general activity expectations of regional manufacturers is the Federal Reserve Bank of Philadelphia's Future General Activity Index. The small business sales expectations index is the National Federation of Independent Business's Small Business Optimism Index. The CEO sentiment index is the CEO Economic Outlook Survey Diffusion Index, for which readings above 50 indicate expansion.

Source: Federal Reserve Bank of Philadelphia; National Federation of Independent Business; and Business Roundtable.

Corporate Bond Spreads and Policy Uncertainty Have Largely Recovered from the Crisis

Measures of Economic Uncertainty

Index (2001-2007 Average = 100)



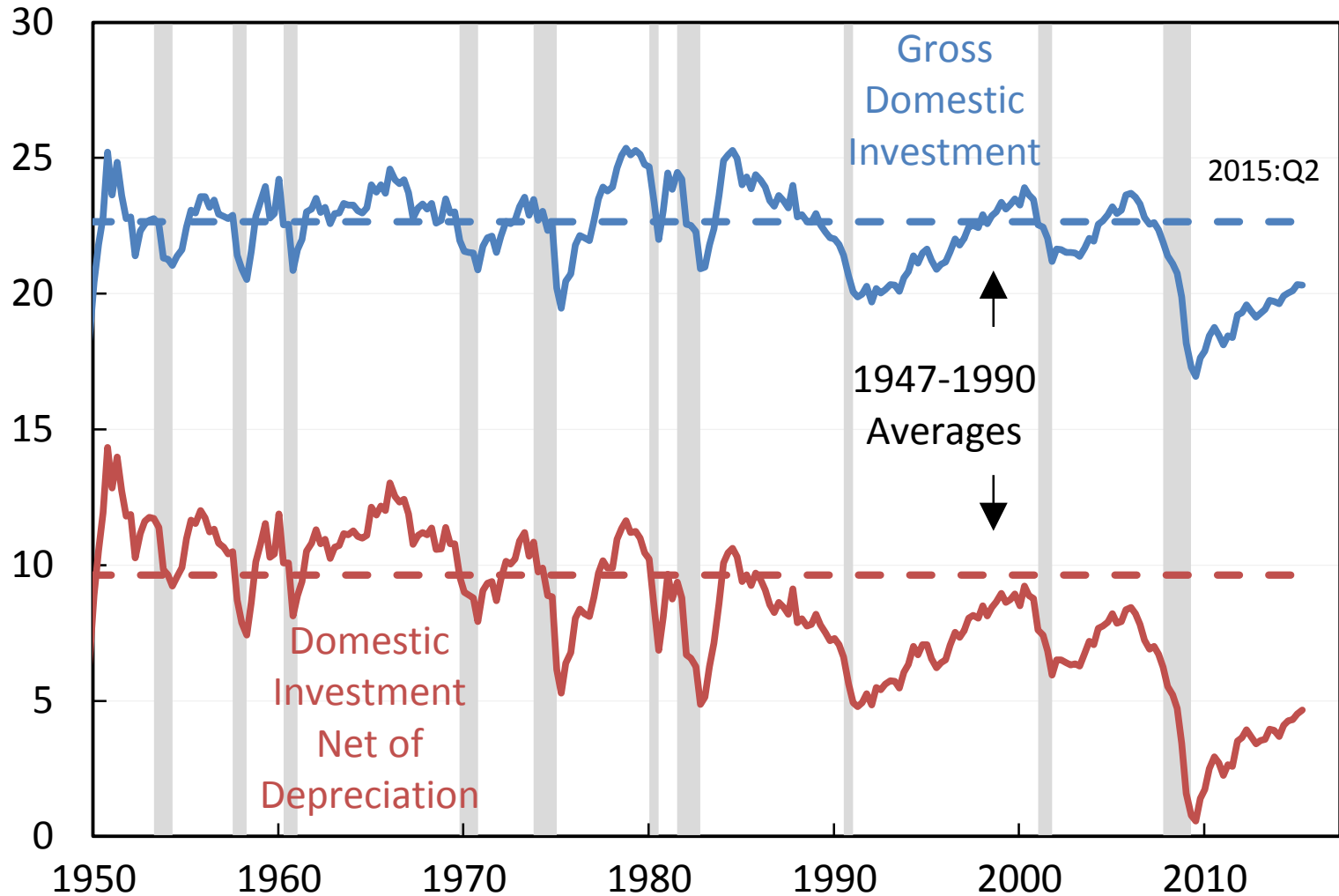
Note: Shading denotes recession.

Source: Chicago Board Options Exchange; "Measuring Economic Policy Uncertainty". (2012). Scott R. Baker, Nicholas Bloom and Steve Davis. Stanford mimeo.

Gross Investment as a Share of GDP has Fallen Since the Great Recession

Gross and Net Investment

Percent of Gross Domestic Product

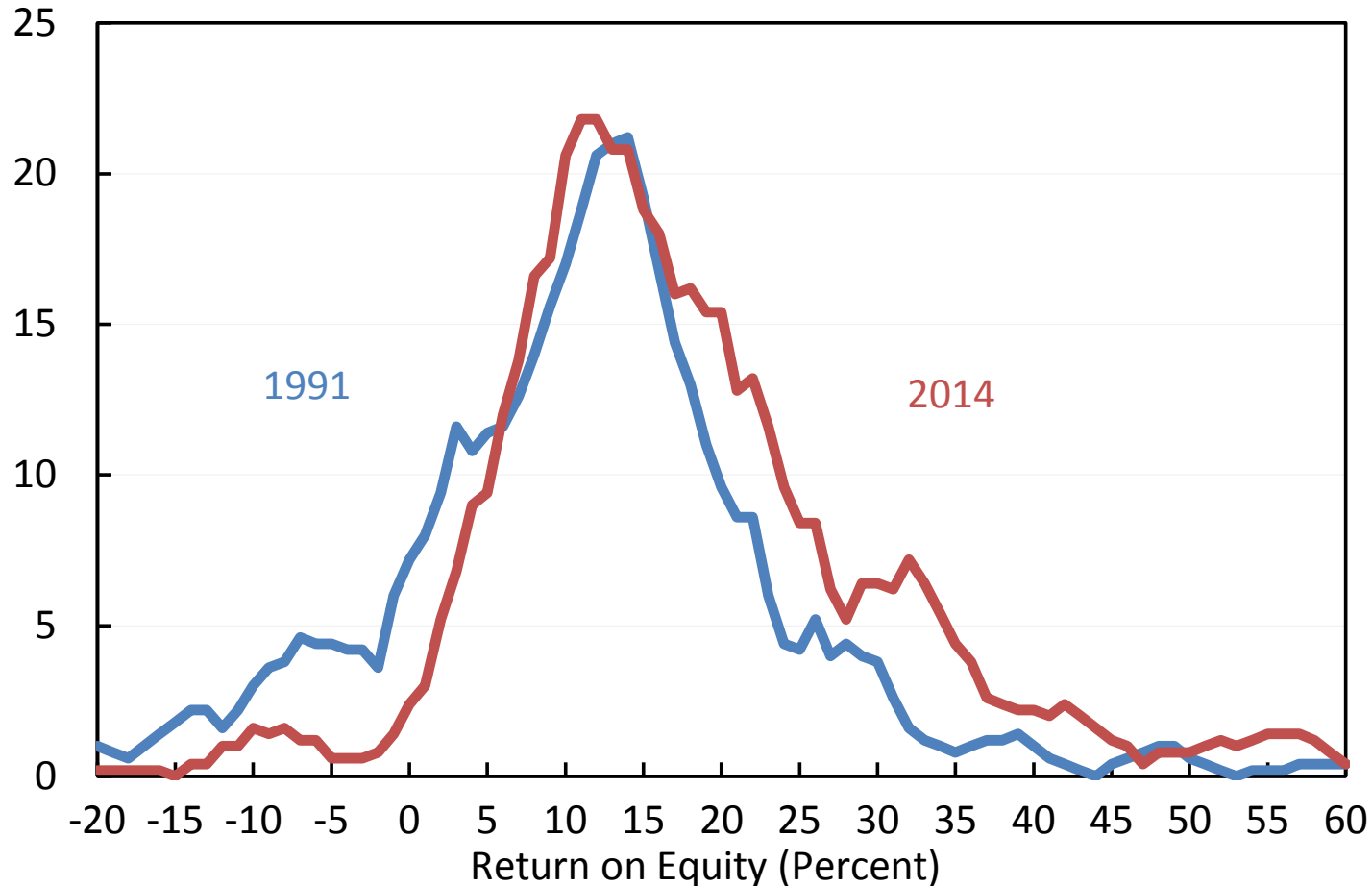


Note: Shading denotes recession.
Source: Bureau of Economic Analysis.

Equity Returns Have Grown More Highly Skewed

Distribution of Annual Returns on Equity Across S&P 500

Count of Firms with Given Return on Equity

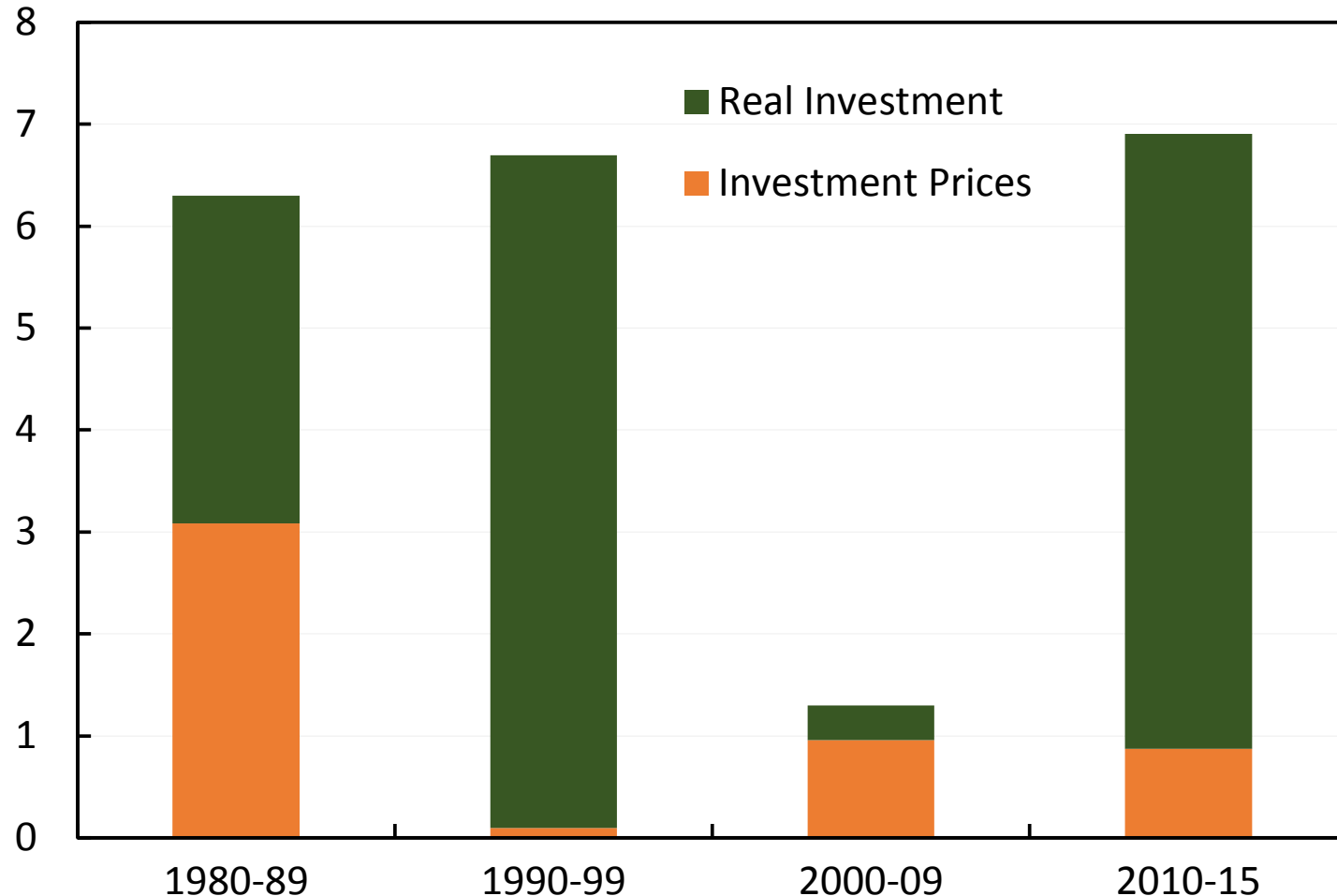


Note: The annual return to common equity is displayed for the stated year (i.e. 1991 or 2014) for all members of the S&P 500 as of the last week of May the following year (i.e. 1992 or 2015). The distribution of returns covers all members of the S&P 500 in the year indicated and buckets firms by single percentage-point intervals, smoothed by averaging over five percentage-point intervals. The tail ends of the distribution (above or below a 60 percent or 20 percent return on equity, respectively) were trimmed for optical clarity.
Source: Bloomberg Professional Service; CEA calculations.

Deciphering Quality Improvements for Calculating Price Changes is Challenging

Change in Nominal Business Investment

Percent Change, Annual Rate



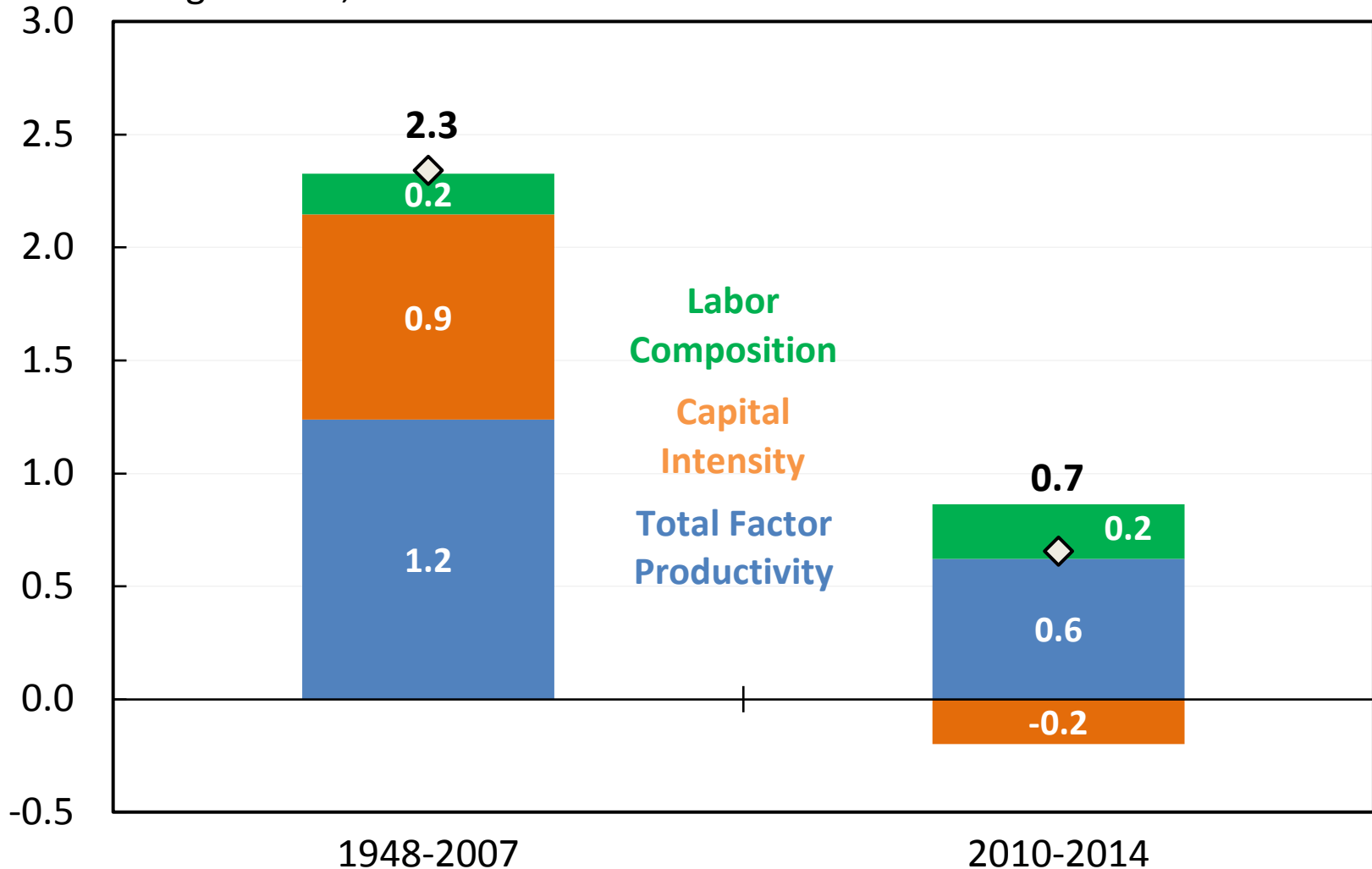
Note: Investment prices reflect the implicit deflator for private nonresidential fixed investment. The deflator was calculated by dividing real private nonresidential fixed investment in chained 2009 dollars by nominal private nonresidential fixed investment.

Source: Bureau of Economic Analysis; CEA calculations.

Reduced Capital Deepening Accounts for Two-Thirds of Reduction in Productivity Growth Since Crisis

Sources of Productivity Growth, 1948-2007 vs. 2010-2014

Percentage Points, Annual Rate



Note: Displayed series are the contributions to labor productivity growth in the private nonfarm business sector.

Source: Bureau of Labor Statistics; CEA calculations.

The President's Agenda to Increase the Quantity and Quality of Investment

- **Relieve the Sequester**
- **Public R&D Investment**
- **Public Infrastructure Investment**
- **Business Tax Reform**
- **Supporting Innovation**
- **Supporting Manufacturing**
- **Supporting Small Businesses**
- **High-Standards Free Trade Agreements**

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