"Why Aren't Businesses Investing?"

By Tommy Williams, CFP®

This year, the Federal Reserved has evaluated issues related to consumer spending, employment, and trade. Each has had its ups and downs. One issue, however, has been persistently weak: American business investment.

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An article published by *Wall Street Journal* reported,

"Business investment is not only a direct building block of the nation's economic activity, but it also signals whether businesses are optimistic about the future and whether they will likely need to hire more workers in the future. 'If businesses were more willing to be expansive they'd likely be giving more to the job market, too,' said UBS economist Samuel Coffin."

So, why aren't businesses investing?

For quite some time, American consumers have made the largest contribution to U.S. GDP growth. (Reminder: GDP is Gross Domestic Product, meaning the total value of goods and services in our economy). During the second quarter of 2016, personal spending and exports made positive contributions to GDP. These were largely offset by negative contributions from "private inventory investment, residential fixed investment, state and local government spending and nonresidential fixed investment."

Last week, *The Economist* pondered why businesses are not investing:

"Firms are on a six-year hiring spree that shows little sign of abating; payrolls swelled by an average of 190,000 a month between May and July. Competition for workers is pushing up wages. The median pay rise in the year to July was 3.4%, according to the Federal Reserve Bank of Atlanta. Americans are spending that cash; in the second quarter, consumption per person grew at an annual pace of 5.5%, equaling its fastest growth in a decade. Yet real GDP is expanding by only 1.2% a year. The culprit seems to be business investment, which has fallen for three consecutive quarters."

The Economist reflected on the effects of low oil prices, questioning whether weak demand for goods or tighter credit was the culprit behind low business spending. It concluded that slow trend growth (the rate at which the U.S. economy is expected to grow over a period of time) is producing fewer opportunities for profitable long-term

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investment, and offered the opinion that a solution could be found in fiscal policy:

"Businesses anticipating slower long-term growth cannot be expected to invest much. And politicians cannot easily conjure up technological progress. But they can boost competition, simplify taxes and regulation, and invest in infrastructure and education, all of which would help to raise American productivity."

Of course, getting politicians to agree on a course of action and implement a coherent fiscal policy is a tall order.

Regardless, *The Economist* explained two opposing views on the state of this economic issue,

"Optimists argue that this is part of a lengthy hangover from the recession, which should soon end. One contributor to productivity is the amount of capital…that each worker has at their disposal. The recession sent this ratio soaring as firms laid off workers and left machines sitting idle. Why would firms invest again before they had replenished their payrolls? But this explanation is becoming less convincing. Pessimists think the productivity problem is chronic. Technological advances, they say, are ever-less revolutionary: Uber is less of an advance than the car itself, the smartphone has not changed office work the way the PC did. For now, the data support the pessimists."

However, according to The Business Roundtable – a group of chief executives at the largest U.S. firms – we may soon see a change. The *Wall Street Journal* reported in June,

"The Business Roundtable…[said that] CEOs slightly lowered their outlook for 2016 economic growth. The CEOs expect growth of 2.1% this year. The CEOs of [the] Roundtable said they gradually expect their reticence to lift: 37% plan to increase their capital spending over the rest of the year, compared with only 18% planning to cut back."

That 37% would make a very positive difference for the remainder of 2016.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. This material was prepared in part by Peak Advisor Alliance.

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