{ BUSINESS INVESTMENT }

JEREMY WARNER

Why worldwide capital spending continues to fall despite the positive economic outlook

Amid the geopolitical turmoil of the past six months, there are, mercifully, a number of reasons for remaining positive about the outlook for the world economy.

Unfortunately, the prospects for business investment are not among them. According to Standard & Poor's latest *Global Capex Survey*, worldwide capital spending fell by 1% in real terms last year, with further falls indicated for both this year and next. This is despite a world apparently awash with cash – $4.5 trillion of it on the balance sheets of the top 2,000 capex spenders alone, says S&P.

Part of the explanation is the severe cyclical slowdown in capital spending by capital-intensive natural resource companies. Until quite recently, these industries were booming, but, as ever, they ended up over-investing in the good times, and are now paying the price of the resulting overcapacity in the bad. They seriously don't need to keep spending right now. Besides, prospects that provide much of a return are becoming ever harder to find, particularly in oil and gas extraction.

But the phenomenon is by no means confined to the mining and energy industries. Nearly six years after the Great Recession began, risk aversion remains acute almost everywhere. Things ought to be picking up, in anticipation of a better economy and jobs market, and indeed, in countries in the vanguard of the recovery, they are a little. But not to anywhere near pre-crisis levels. There will obviously be many exceptions, but as a general rule, companies still prefer cash accumulation, buybacks and dividend payouts to investing in the future. Technology giant Apple provides the most striking example, with nearly $160bn of cash on its balance sheet at the last count.

Nearly six years after the Great Recession began, risk aversion remains acute

These headline numbers can be deceptive, since many US companies will be holding cash offshore for tax reasons, but borrowing quite heavily against it to finance business operations and buybacks at home. Some estimates put net corporate indebtedness at again worryingly high levels.

All the same, there is no doubting the prevailing psychology of corporate risk aversion. Warren Buffett's Berkshire Hathaway, with no reserves held offshore for tax reasons, has a record $50bn lying idle on its balance sheet, with no good place, according to the Sage of Omaha, to invest it.

In a slightly different version of the same thing, Rupert Murdoch's Fox Corporation has given up on attempts to buy media rival Time Warner and opted instead for a further $6bn of buybacks. And regrettably, these high-profile cases are just the tip of the iceberg. Throughout the vast hinterland of business activity, risk aversion remains the order of the day.

There is a certain amount of chicken and egg involved here. In part, the reluctance to invest is simply about banks not lending, which in turn is caused by the balance sheet problems associated with an economy becalmed by the absence of business investment. As the economy picks up, so, too, should credit creation and business investment. Another quite plausible explanation is that the hiatus is a generational problem. The hunkering-down mentality of the Great Recession may be difficult to throw off as long as those with memories of its near-death experience remain in the driving seat.

Once a younger generation of chief executives, less scarred by the crisis, begins to take over, things may change. Besides, a growing backlog of capital stock renewal will have to be addressed sometime, won't it?

The more worrying explanation, however, is simply that we live in a less capital-intensive, more risk-averse world. In any case, forecasts of growth that rely heavily on a renewed upsurge in business investment may be misplaced.

Jeremy Warner is assistant editor of *The Daily Telegraph* and one of Britain's leading business and economics commentators