

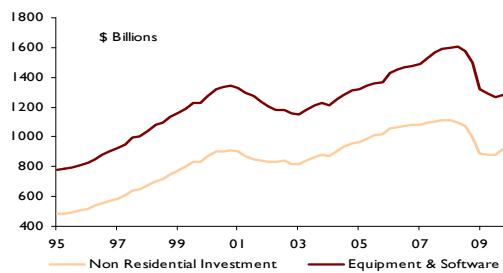
Daily Themes

6 April 2010

Revival of US business investment

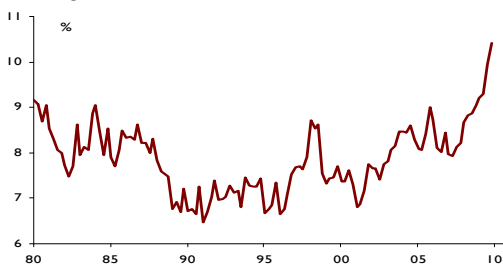
US business investment, which fell by a fifth during the recession, is showing signs of recovery. It made a positive contribution to GDP growth in the fourth quarter (Q4) of 2009, for the first time since Q2 2008. And it looks set to continue contributing to growth – companies are sitting on pile of cash and rising profits mean that CEOs are increasingly confident.

US business investment



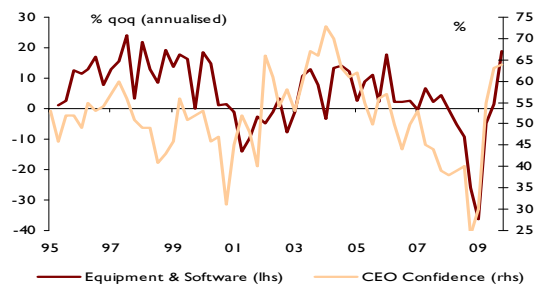
Business investment added 0.5 percentage point (ppt) to Q4 GDP growth, driven by a 1.1 ppt contribution from investment in equipment and software, which grew at an annualised rate of 19%.

US corporate cash to asset ratio



Meanwhile, cash on the balance sheets of US non-financial companies is at a thirty-year high. As the economy continues to recover and company executives grow more confident about future profits this cash is likely to be used for further investment and M&A.

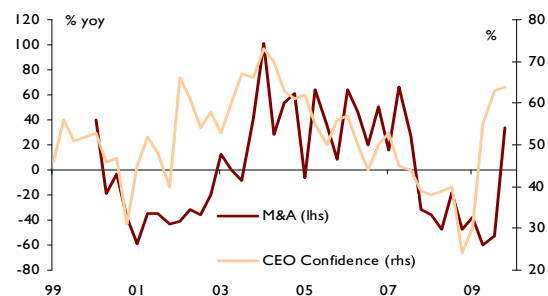
US business investment and CEO confidence



Indeed, the confidence of US CEOs has already recovered sharply from its historic low late in 2008 and is now not that far below previous peaks. As the chart below highlights, if CEO confidence stays at its current elevated level, investment in equipment and software is likely to grow strongly again in the quarters ahead and make further positive contributions to US GDP growth.

M&A is a likely beneficiary from the corporate cash pile, now that CEO confidence has recovered. In the three years from Q2 2007 to Q2 2009, the value of global M&A transactions fell by 80%. Since then it has started to gradually recover and has now risen 60%. However, it remains only a third of its peak level. But if CEO confidence stays where it is, M&A activity is likely to recover further along with business investment.

Global merger & acquisition activity



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