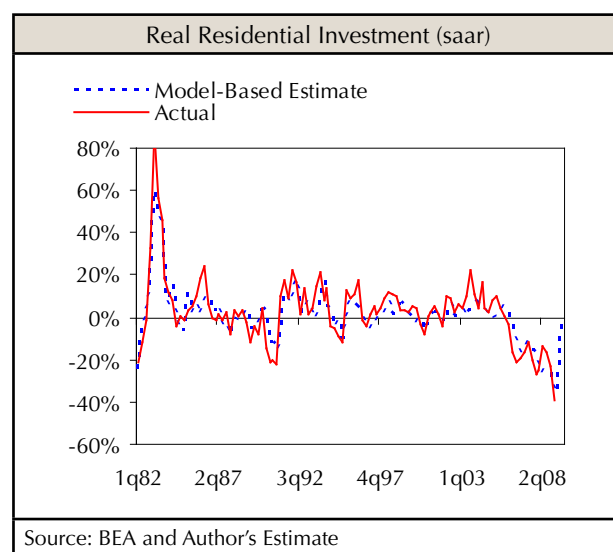
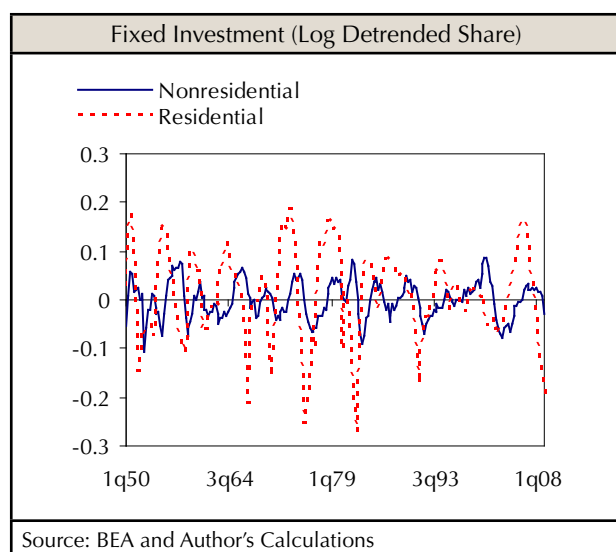


US: The Inherent Relationships of Fixed Investment Categories

- In light of the ongoing concerns surrounding investment spending generally and the inherent volatility of the series, it is useful to focus on the lead-lag relationships of the different categories of fixed investment to provide a meaningful conjecture of its trajectory in the coming quarters. Overall, the results *infra* suggest that within fixed investment, residential spending typically leads nonresidential. And in the latter category, business capital spending usually leads spending on structures.
- A straightforward correlation exercise of detrended investment data from 1950-2008 shows that both residential and nonresidential spending tend to move together, with residential investment typically leading nonresidential by at least four quarters on average. But the duration of the lead-time appears to have shortened in recent years to around two quarters. And within the nonresidential category, business capital spending (i.e., spending on equipment and software) typically leads spending on business structures by about two to three quarters on average.
- The positive tone in the price-adjusted housing permits data recently, according to my calculations, suggests that residential investment is likely to contribute positively to economic growth perhaps as early as the second-half of 2009 on average. Moreover, the improving supply-and-demand balance in housing should also promote the recovery in residential construction.
- Naturally, the aforementioned relationships suggest that the revival in residential spending would be followed by the recovery in nonresidential investment, either as early as the first-half of 2010 or perhaps some time in the latter part of 2010. And with business capital spending turning around prior to spending on structures, one should not look towards the commercial sector as the harbinger of recovery within nonresidential investment.



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