

# An investment boom

**P**rivate Nonresidential Fixed Investments are those investments that make an economy's workers more productive. It includes busi-

**Joe McGarrity**



ness and nonprofit spending on new structures like oil wells, factories, and data centers. It includes business and nonprofit spending on new tangible movable equipment, such as computers and motor vehicles. It also includes spending on

intellectual property, such as research and development and software.

The accompanying graph shows this type of investment as a percentage of GDP. This gives the share of economic output devoted toward this type of investment.

Several interesting stories emerge from the graph. Perhaps most obviously, this type of investment's share of GDP has increased over time. It was 10.2 percent of GDP in the first quarter of 1947. It increased to 13.9 percent of GDP in the fourth quarter of 2025. But this increase was not a constant steady increase that could be summarized by a straight line on the graph. Instead, this investment as a share of GDP fluctuated from quarter to quarter. This variation is worth a closer look and reveals several interesting patterns.

First, this investment's share of GDP decreases either right before a recession or soon after one begins. Recessions are easy to spot on the graph: they are depicted by the shaded regions. This first pattern makes sense since when the economy is in a recession, people will purchase less, so firms will not feel that they need to make investments to increase their production capacity.

Second, the graph seems to represent several discrete time periods. Until 1963, investment's share of GDP seemed to hover around 10 percent. Then from 1963 there was a steady increase, peaking at a 15.3



The graph shows this type of investment as a percentage of GDP. This gives the share of economic output devoted toward this type of investment.

Submitted graph

percent share of GDP in the fourth quarter of 1981. This was followed by a general decrease, where the share reached 11.2 percent in the first quarter of 1992. But notice that the low point at the end of the arc was quite a bit higher than the observations in the earlier time period (before 1963).

Next, there were two periods of steady increases that were halted by macroeconomic events. The first of these increases in investment began in the second quarter of 1992. But then in the third quarter of 2000, as the dotcom bubble burst, investment's share of GDP dropped. A second steady increase in investment's share of GDP began in 2004, only to be halted by the financial crisis of 2008. During this time, many investment banks were in danger of failing, causing them to greatly reduce their lending to firms that wanted to make investments.

The final period, the one we are in now, is the most interesting. Since 2015, investment's share of GDP has been remarkably stable at high levels between 13 percent and 14 percent of GDP. During this time, there has been an increase in spending on production facilities. Federal legislation (especially the CHIPS and Inflation Reduction Act) gave firms an incentive to start constructing large mega projects. And in the later portion of this time period, there has been an explosion in AI construction. This in-

cludes data centers and power plants needed to power these centers.

Certainly, the U.S. economy has benefited from this high sustained level of investment. However, the interesting question is: what will happen going forward? There are two obvious scenarios. First, the optimistic case is that all of this investment increases worker productivity and spurs a golden age. Second, the pessimistic case is that many of these investments will turn out to be unprofitable. This scenario seems likely. The federal legislation that led to a construction boom probably will not continue to benefit the economy, since the federal government is notoriously poor at picking good investments to encourage, which is why our economy usually leaves the private sector on its own to decide which investments to make. The pessimistic case also seems likely since it is unclear how our economy will use AI. We are still figuring this out. So some companies will make profitable investments and others will make investments that will seem silly in retrospect.

If the pessimistic case turns out to be the path we follow, firms will invest less, so they can recover from their previous poor investments. Since investments are such a large portion of GDP, this drop in investments could drag us into a recession.

*Joe McGarrity is a Professor of Economics at UCA. He can be reached at joem@uca.edu.*