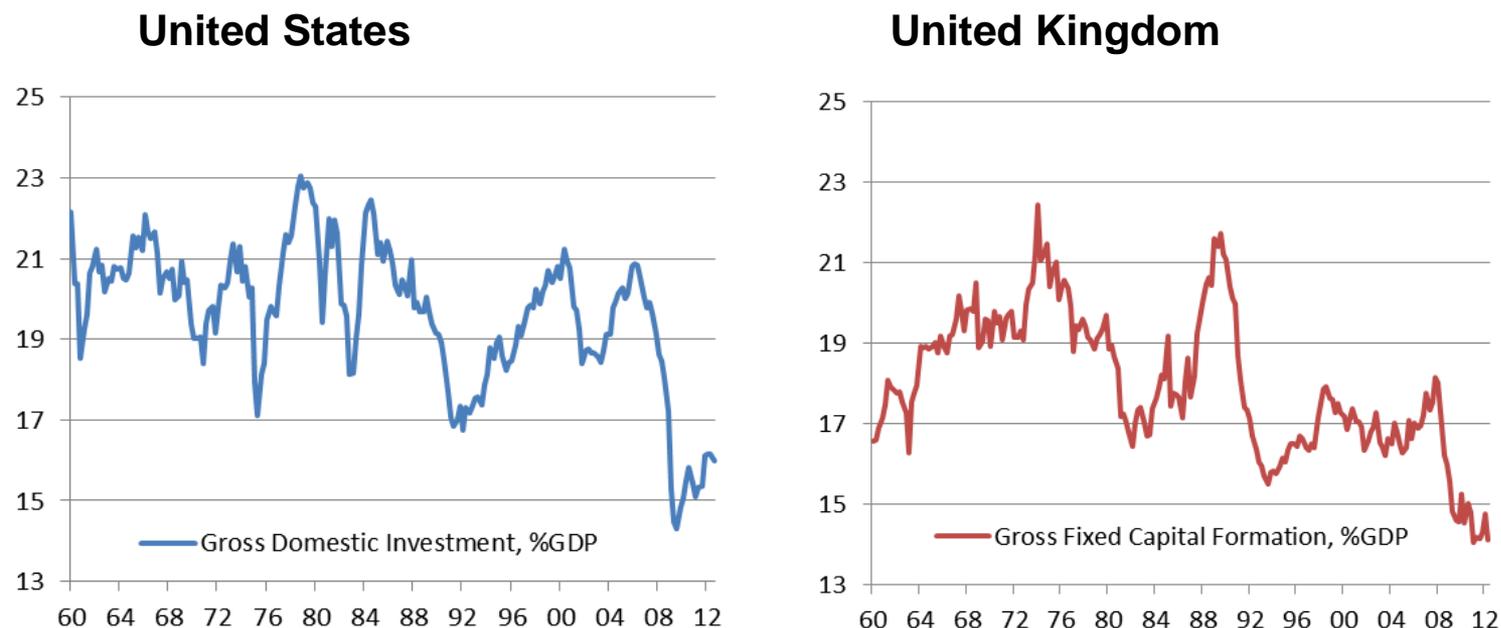


Why is investment so low?

- Investment has slumped mainly because households, businesses and banks are **nervous about future demand**. Forgoing more risky investment in physical capital . Squirreling away private saving into ‘risk-free’ assets such as “solvent” sovereign bonds

Figure 1: Gross fixed investment, % of GDP

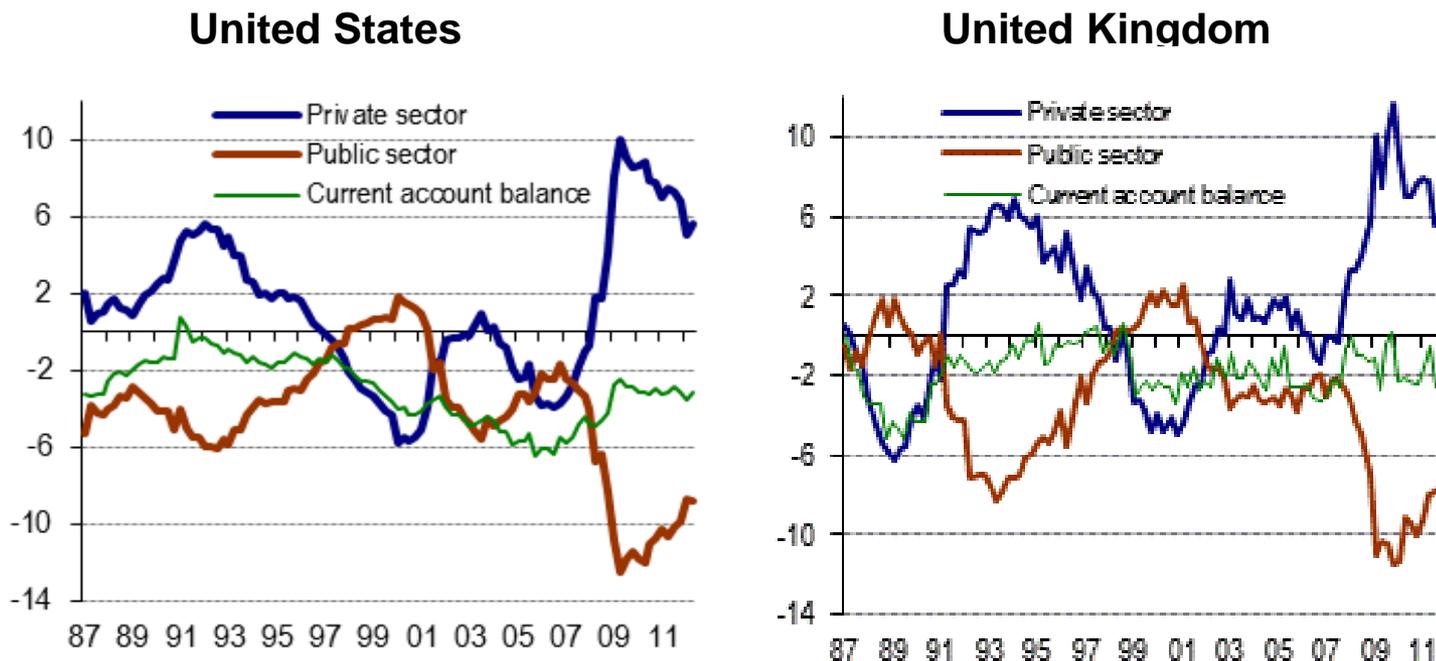


Source: Bureau of Economic Analysis/Office of National Statistics, quarterly data to second quarter of 2012.

Private saving and fiscal dis-saving

- Annual private sector net saving (investment-saving) at record levels, and amounted to £99 billion last year (near \$1trillion in US), equivalent to 6 per cent of UK (US) GDP (Spain - 4 per cent; Germany -10%)

Figure 2: Sector financial balances*, % of GDP



Source: Bureau of Economic Analysis/Office of National Statistics, quarterly data to second quarter of 2012.

*net borrowing, or saving minus investment

Why are real “risk-free” rates so low?

- Despite billions of dollars of public borrowing, **real risk-free short- and long-term interest rates remain close to/below zero**
- **Desired saving exceeds desired investment** to such a degree, global real ‘risk-free’ interest rates for next 20 years pushed below zero
- **Savings are losing value by the day**; pension funds and financial institutions pay real interest *to* governments (perverse given the need for productive investment)
- These low rates do not reflect a collapse in the underlying returns to capital, but instead **reflect desperately depleted confidence**

Table 1. Daily United States Treasury yield curve rates (Source: United States Treasury)

Date	1 month	3 month	6 month	1 year	2 year	3 year	5 year	7 year	10 year	20 year
29 Oct 2012	0.13	0.14	0.16	0.18	0.30	0.40	0.74	1.16	1.74	2.48