OFF THE NEWS

Infrastructure Wakeup Call

"[We] estimate $57 trillion in [global] infrastructure investment will be required between now and 2030—simply to keep up with projected global GDP growth. This figure includes the infrastructure investment required for transport (road, rail, ports, and airports), power, water, and telecommunications. It is, admittedly, a rough estimate, but its scale is significant—nearly 60 percent more than the $36 trillion spent globally on infrastructure over the past eighteen years. The $57 trillion required investment is more than the estimated value of today's worldwide infrastructure. Even then, this amount would not be sufficient to address major backlogs and deficiencies in infrastructure maintenance and renewal or meet the broader development goals of emerging economies. Moreover, the task of funding the world's infrastructure needs is more difficult because of constraints on public-sector budgets and commercial debt in the wake of the financial crisis, higher and more volatile resource costs, and the additional costs of making infrastructure resilient to climate change and less harmful to the environment.

"The size of the infrastructure 'gap' and the undoubted challenges there are in finding the financing necessary to close it dominate political and public discussion on this topic. Yet this focus diverts attention from what is just as compelling and urgent an issue—how the world can get more, better-quality infrastructure for less. [We need to] rethink how governments, together with the private sector, select, design, deliver, and manage infrastructure projects, and make more out of the infrastructure already in place. There is an emerging opportunity to raise the productivity of infrastructure investment by a substantial margin.

A section of Interstate 5 bridge over the Skagit River in Washington state collapsed after being struck by an over-height truck. While the bridge "was not considered structurally deficient" when it collapsed, it was still one of thousands of bridges carrying more vehicles and being used longer than intended.

"…[I]f infrastructure owners around the world were to adopt proven best practice, they could increase the productivity of infrastructure investment to achieve savings of 40 percent. Put another way, scaling up best practice could save an average of $1 trillion a year in infrastructure costs over the next eighteen years."

—McKinsey Global Institute
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What, Me Worry?

Since 2010, the value of China's shadow banking sector's unregulated investments, loans, and other financial products nearly doubled, to $5.86 trillion, or the equivalent of roughly 70 percent of gross domestic product.

—Haibin Zhu
JPMorgan Chase (Hong Kong)

Energy Revolution

The oil and gas extraction component of U.S. industrial production increased in April by almost 9 percent from a year ago to the highest level since April 1972, more than forty years ago. Crude oil production in April reached the highest level since April 1992, more than twenty years ago, and increased by 16 percent from a year ago, and by 31 percent from two years ago.

—Mark Perry
American.com

What BRIC Takeover?

"Since 2008, the MSCI BRIC index is down by about 13 percent, compared with a fall of less than 5 percent for emerging-markets stocks and a rise of more than 17 percent in U.S. equities."

—Wall Street Journal

Oil Prices and The End of QE

Global oil consumption has stagnated while productive capacity has increased. Yet prices have remained high. OPEC discipline may explain this. However, quantitative easing is more likely the cause. Zero interest rates encourage inventory building. Stocks held by U.S. firms have diverged from their normal trend by as much as 250 million barrels (18 percent) since the beginning of quantitative easing. The accumulation removed downward pressure on prices. Absent quantitative easing, prices would be $50 per barrel, not $100 per barrel.

The oil industry responded to the high interest rates in the early 1980s by liquidating inventories. As the cost of holding $40 per barrel stocks rose from $0.25 per barrel per month to $1 per barrel per month, U.S. firms shed more than 300 million of barrels (20 percent of stocks), as did firms in the rest of the world. Prices fell by 75 percent.

Today, companies are doing the opposite. Awash with cash and offered two or three basis points for their cash, they choose to hold extra inventories. The cost of holding a $100 per barrel is today may be $0.03 per month. Chump change. The decision to hold stocks removes much of the downward pressure on oil prices.

The same is true with copper and aluminum. Low interest rates promote hoarding. Buoyed by low interest rates, strong balance sheets, and expectations of increased demand, producers have chosen to hold rather than sell, sustaining artificially high prices. The end of quantitative easing will encourage sales, probably causing price declines.

Commodity stock liquidation could lessen the economic impact of the end of quantitative easing.

—Phil Verleger