

Macro Roundup Article

Headline: **Capital Allocation**

Article

Link: https://www.morganstanley.com/im/publication/insights/articles/article_capitalallocation.pdf

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Tweet: .@mjmauboussin shows capital expenditures net of depreciation as a percentage of sales peaked in 1988 at 6.9%. Over the past decade it has averaged 1.8% and fell to 0.5% in 2020 during the pandemic.

Summary: Exhibit 25 shows capital expenditures minus depreciation for the population we studied. Using this measure, investment as a percentage of sales peaked in 1988 at 6.9% and bottomed in 2020 at 0.5 percent of sales. The average of the past decade was 1.8%. The two substantial limitations to using depreciation as a proxy for maintenance capital expenditures include inflation and the risk of technological obsolescence. In periods of rising prices (such as 2022), the capital expenditures required to replace new equipment will exceed depreciation because new expenditures reflect inflation whereas depreciation is based on historical costs. Technological obsolescence introduces the likelihood that depreciation overestimates an asset's useful life.

Primary Topic: Investment

Topics: Data, Database, Graph, Institutional Capabilities, Investment, Other Source, Productivity

PDF File

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