According to a new report from the McKinsey Global Institute the world needs to dramatically ramp up spending on infrastructure to keep up with economic growth. Yet, many major economies are going in the other direction.

Researchers estimate the world needs to increase investment by about 0.4% of global output between now and 2030 to meet the increasing demand to move people and goods. That translates into an extra $350 billion of annual spending. The report includes spending on transportation, power, water and telecommunications infrastructure.

That is a difficult gap to fill, particularly at a time when the world's largest economies seem to be in retreat. Many developed country members of the group of 20 major economies are cutting back infrastructure spending after boosting it in the aftermath of the recession. All this comes despite frequent and urgent calls from international gatherings of finance officials for more infrastructures spending to jolt economic growth and invigorate productivity.

The U.S., for instance, spent 3.2% of gross domestic product on public infrastructure in 2014, down from 4.2% in 2009. The Eurozone spent 2.7% in 2014, down from 3.6% and the U.K.'s investment fell from 3.4% to 2.7% during that period.

Worldwide, countries spend an average 3.5% of GDP on infrastructure, the report found.

There's a pretty wide variation among countries. In fact, some places are apparently over-investing in infrastructure, the report found.

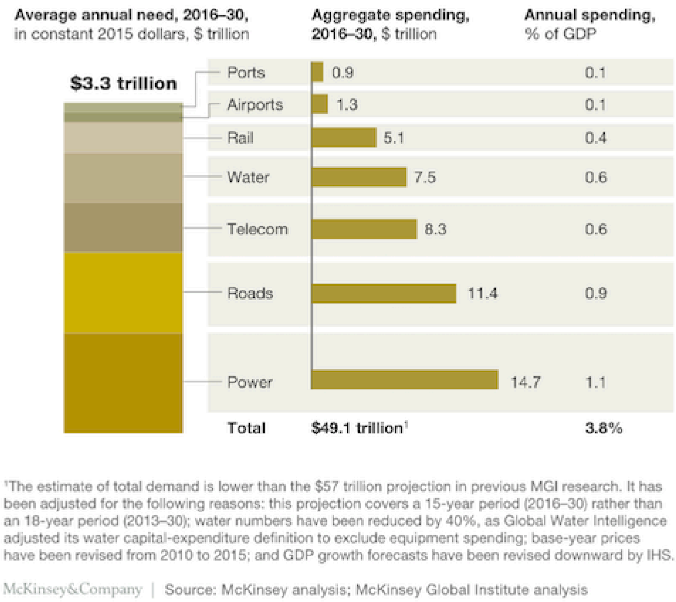
China, which in recent years has binged on infrastructure, combined public and private investment averaged 8.8% of output between 2008 and 2013. Researchers estimate the country could cut back its investment by about 3.3 percentage points of GDP and still meet demand between now and 2030.

However, some countries have been increasing spending but are still falling behind. India, for example, spends 5.2% of GDP on infrastructure but needs to boost that by another 0.5 percentage point. South Africa, which spends 4.7% of GDP still faces a 1.2 percentage-point gap.

The report rests on the assumption that global growth will average 3.3% between now and 2030. That would imply a pickup of growth in the years ahead. The World Bank's latest estimates that global growth will be a dismal 2.4% this year, 2.8% in 2017 and 2.9% in 2018.

If global growth does not rebound, the research group's estimates of the global infrastructure gaps would have to be revised downwards.

According to Jan Mischke, a senior fellow at the McKinsey Global Institute and one of the report's authors, with slower growth *"you have less economic activity, less personal transport, less goods transport and less need for infrastructure."*



Source:
http://blogs.wsj.com/economics/2016/06/15/the-world-needs-to-boost-infrastructure-spending-but-many-countries-are-cutting-back/?mg=id-wsj

http://www.mckinsey.com/industries/infrastructure/our-insights/bridging-global-infrastructure-gaps