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2018...the year of investment

Global Macro: Investment to take the baton of global growth - Economic growth is currently growing above-trend in virtually all big economies and regions. In our recent note (see here), we made the case that this is likely to continue in 2018. A big part of that story is business investment, which we judge will step up significantly over the coming quarters. Our confidence in that view is partly based on fundamentals. Financial conditions are easy across the world, even though global monetary policy is on balance becoming somewhat less accommodative. Profit growth is solid and businesses are optimistic about the outlook over the coming time. Indeed, business confidence indicators – wherever one looks – seem to be at levels consistent with high points in past cycles. A number of specific indicators we track suggest investment is set to gain momentum. For instance, in the US, both the ISM manufacturing new orders indicator and the Philadelphia Fed's capex plans measure are consistent with equipment spending growing by an annualised 15-20%. Indeed, core capital goods orders are already moving in that direction. In the 3-months to October, they grew by 16.4% annualised. In the eurozone, we also see upbeat signs. According to the ECB's bank lending survey, demand for loans from non-financial companies is growing strongly. In addition, the new orders component of the manufacturing PMI is at boom levels. These indicators are consistent with overall fixed investment spending in the eurozone growing by 5-7.5% yoy.

Overall, our sense is that 2018 will be the year of investment. A step up in the global capex cycle is good news for growth prospects over the coming quarters. However, perhaps even better, it points to an improvement in the supply-side of the economy in the years ahead. Stronger investment growth should sow the seeds for a structural improvement in productivity growth, which will lift the trend growth rate. This process already looks to be advanced in the US, with productivity growth bouncing back in recent quarters. In the eurozone, this will take longer, given that the recovery in investment has come later. (Nick Kounis)

Link: <https://insights.abnamro.nl/en/2017/11/global-macro-view-will-goldilocks-stay-in-2018/>

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