



Heading for an upturn in eurozone capex

Monday 30 September 2013

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- ➔ Since the start of the crisis, eurozone business investment (capex) has been very subdued
 - ➔ Overall capex is down 20% from Q1 2008 level
 - ➔ As a % of GDP capex has fallen to alltime lows

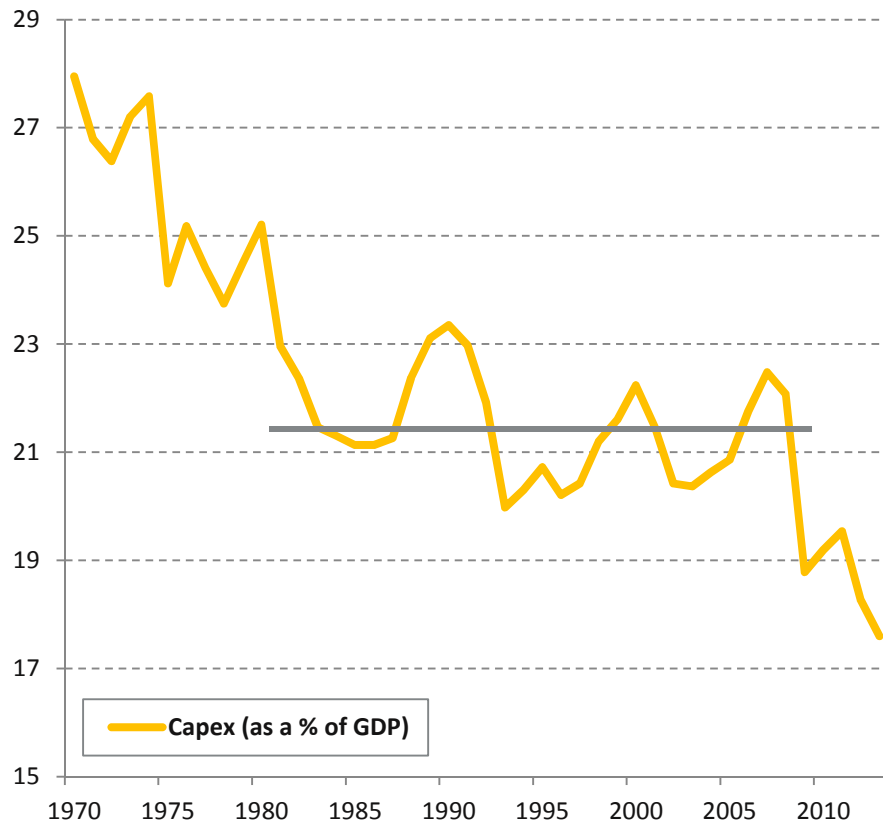
- ➔ Low investment hurts the LT-growth potential, but also opens the possibility of some catchup in capex

- ➔ Currently a wide range of leading indicators is suggesting a pickup in capex
 - ➔ Orders of investment goods
 - ➔ Business confidence
 - ➔ Capacity utilisation
 - ➔ Corporate profits
 - ➔ Credit standards

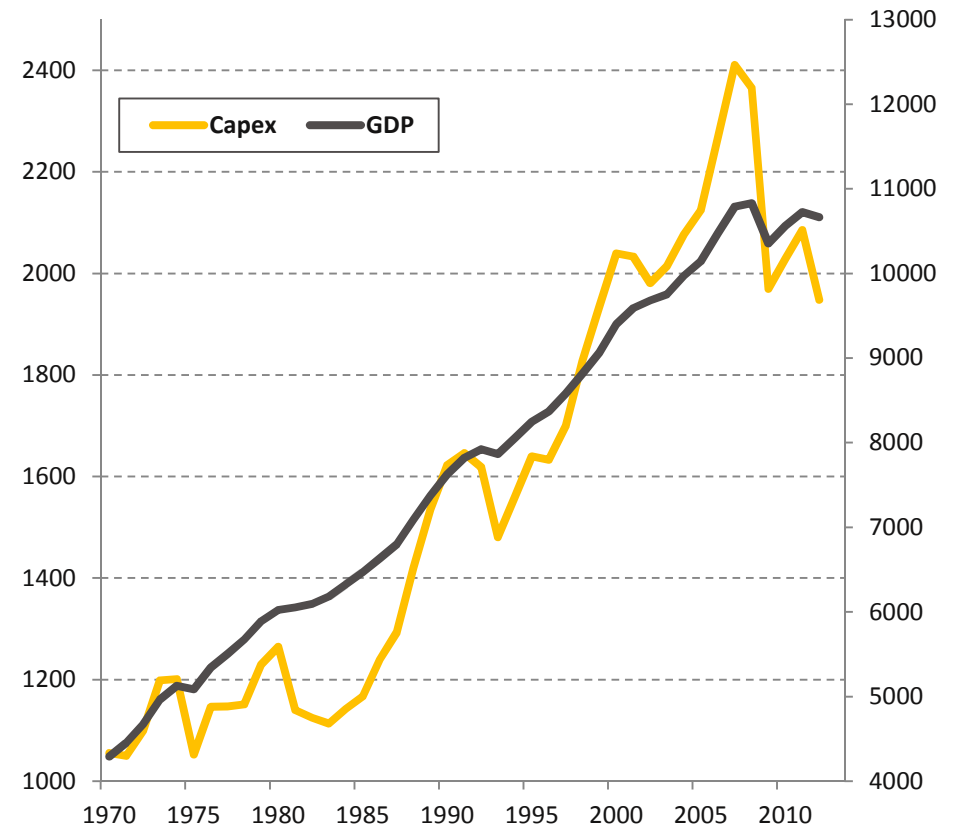
- ➔ Credit growth is still negative, but importantly this a lagging indicator for capex

The recent crisis has really hit capex

Historically low capex

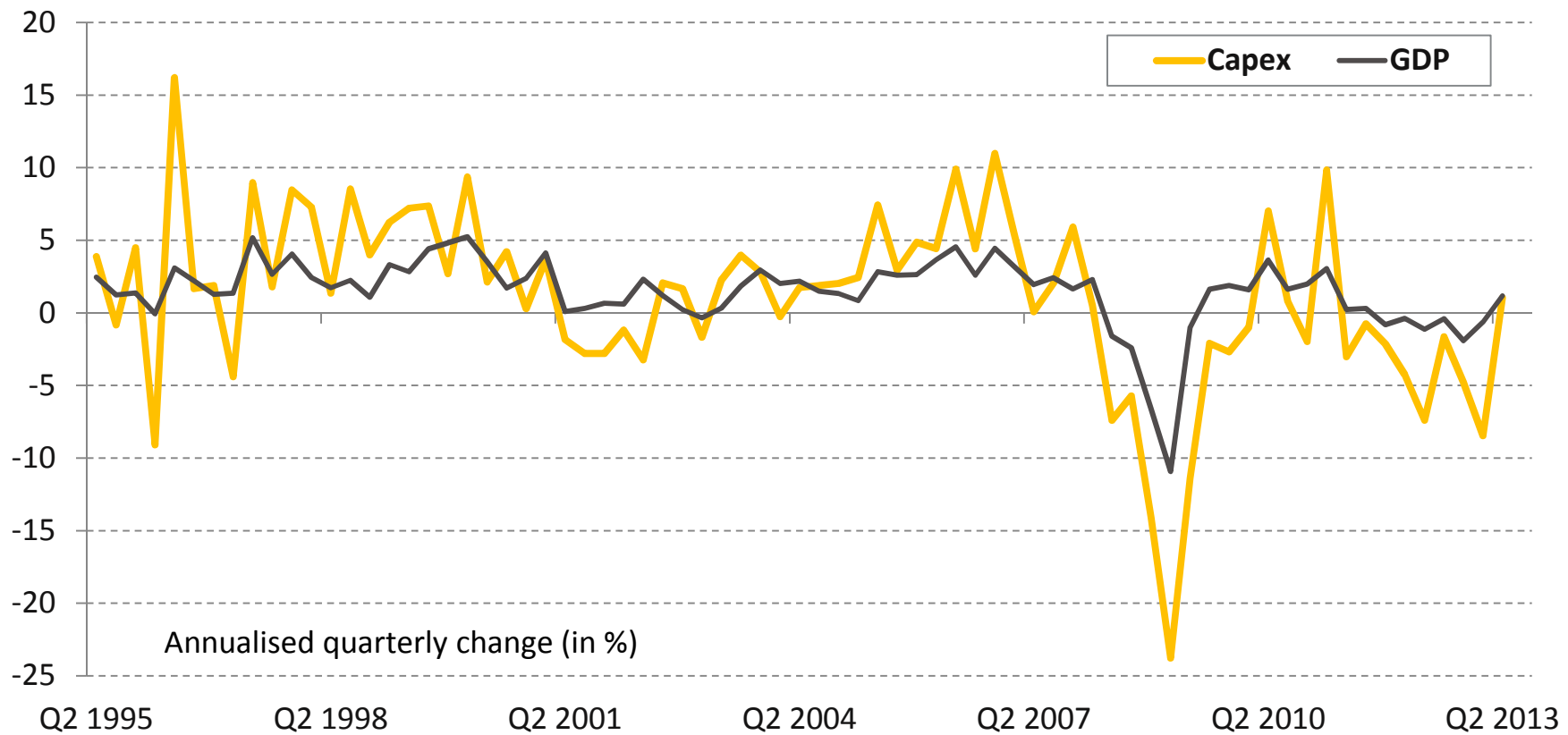


Underinvestment



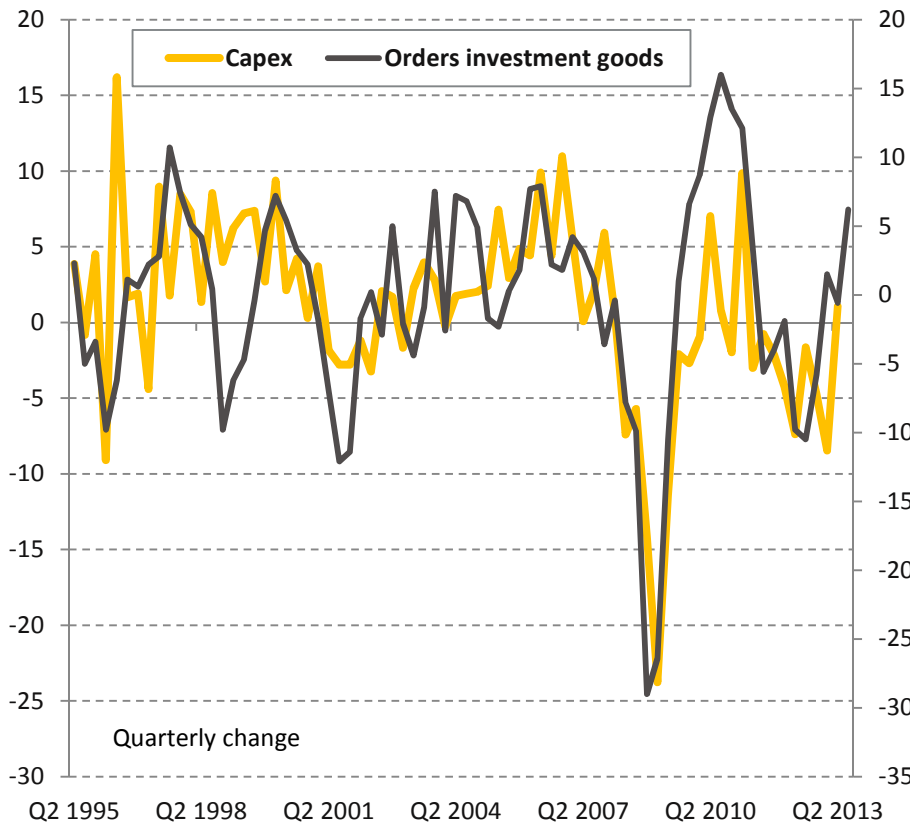
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Underinvestment

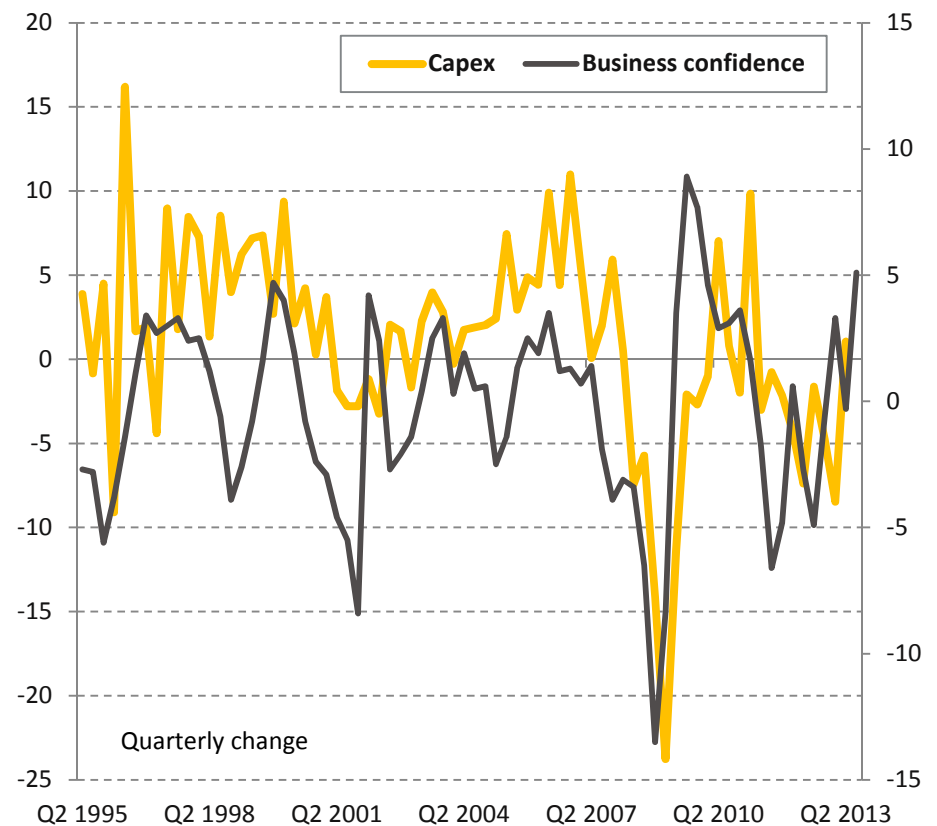


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Increasing orders of investment goods

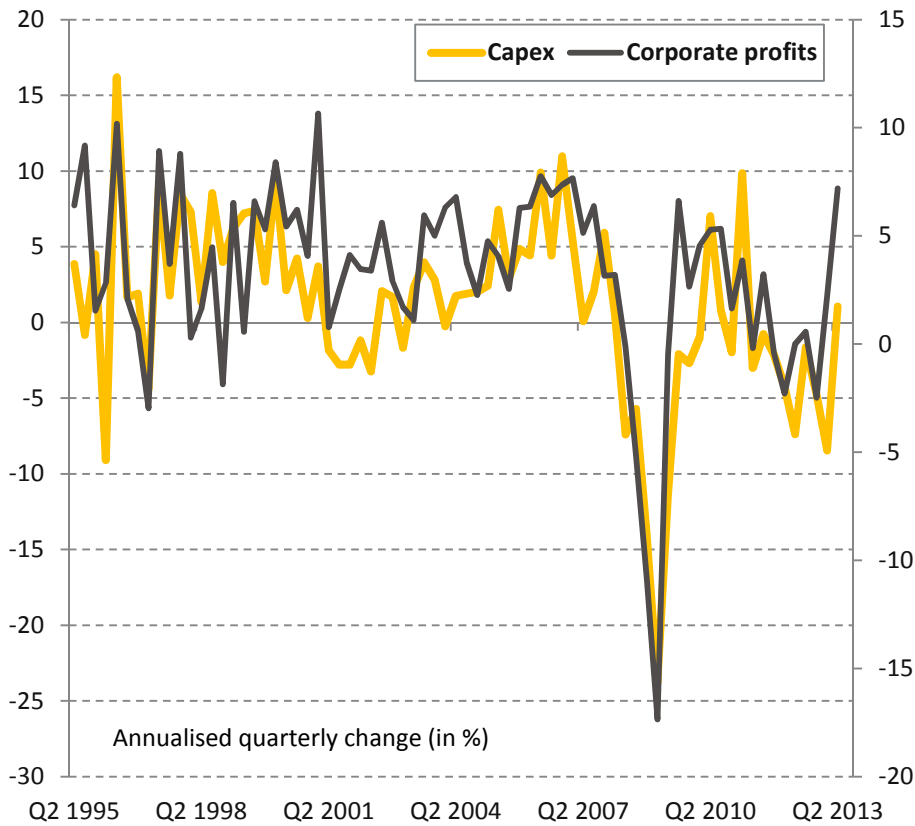


Improving confidence

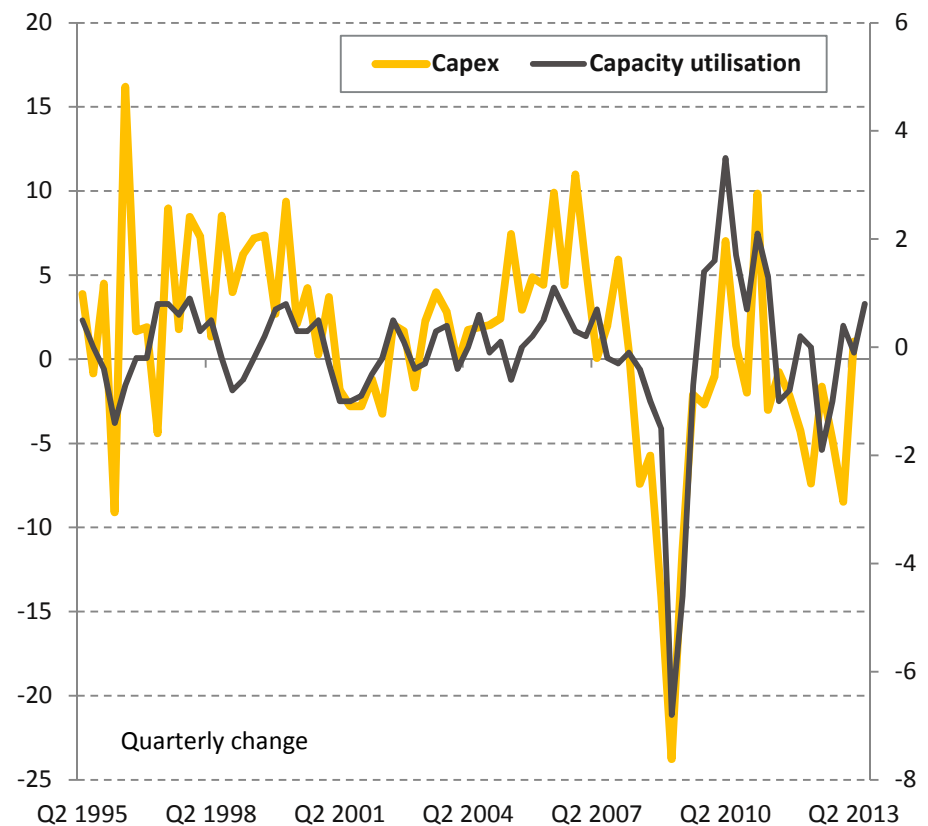


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Increasing corporate profits

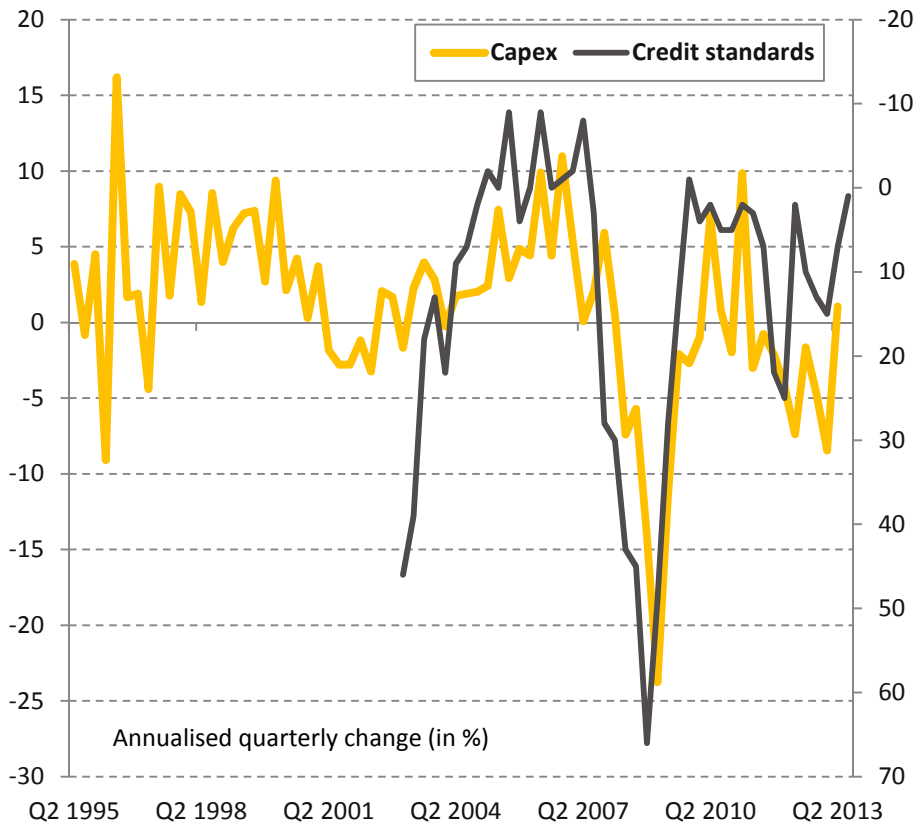


Rising capacity utilisation

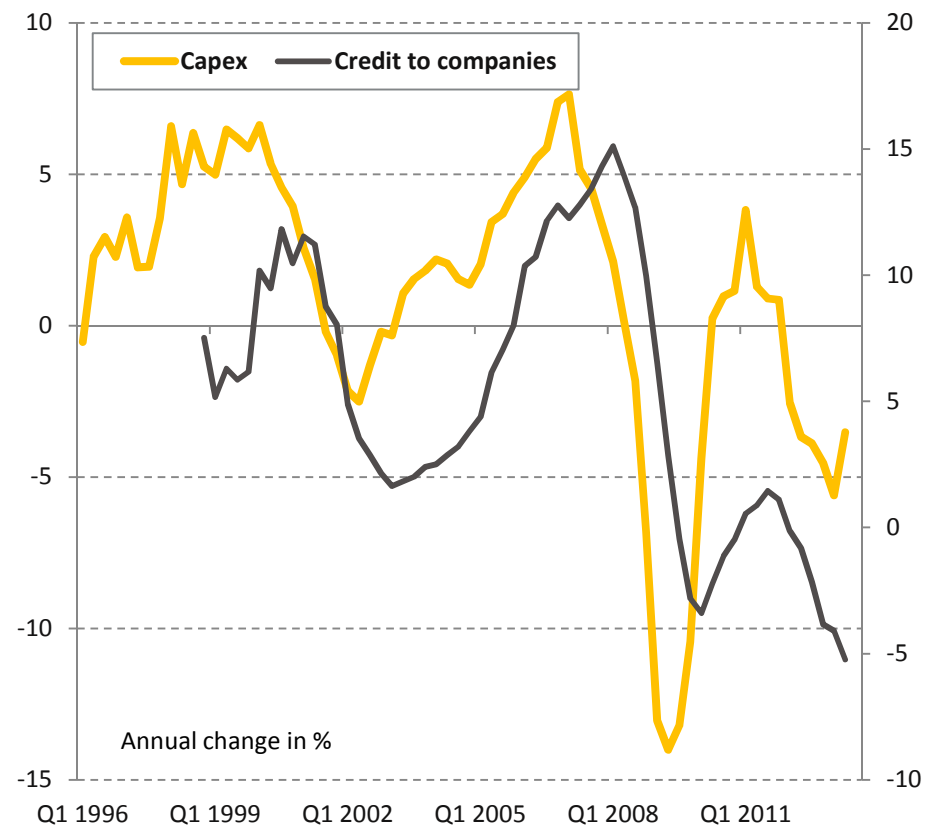


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Credit standards becoming more supportive



Credit lags actual investment



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- Following 5 years of cuts in investment spending, there are signs that capex is set to pickup as both the economic outlook and access to capital have improved

- There are still risks that could undermine any capex recovery
 - Political uncertainty
 - Euro strength
 - Access to credit remains more difficult in the periphery

- In spite of these risks, capex looks set to be a driver of the eurozone economy in the next couple of quarters

- In all, economic growth in the eurozone will probably still be modest in 2014 in a 1-1.5% range. This would be a clear improvement on the past few years, albeit not sufficient to erase the debt and unemployment issues in much of the region