

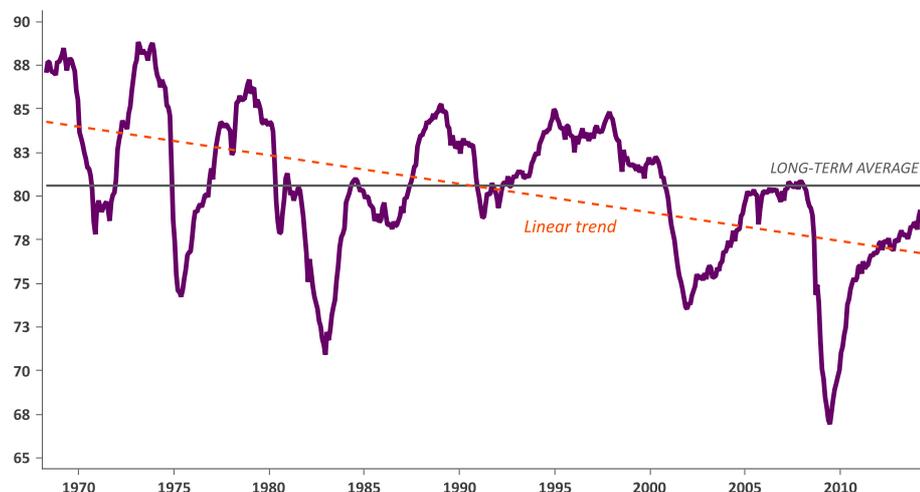
Global investment: lingering disappointment

The improvement in the global economic backdrop since late 2013 has not provided the desired results when it comes to investment. Although the European recovery has shown a few positive signs, an overview of global investment trends continues to paint a disappointing picture:

- In the U.S., where recent corporate earnings and leading indicators have fallen short of expectations;
- In Japan, where the 2013 rally remains highly dependent on companies' export performance, which has become somewhat of a mixed bag;
- In the emerging world, where many Asian countries are confronted with excess capacities, at a time when most big countries are now paying the price for their structural shortcomings;
- In Europe, where - unlike the rest of the world - leading indicators are actually encouraging: could the region rise to the challenge? Of course, such a scenario is unrealistic

The extended absence of an improvement in investment prospects is one the most troubling constraint for future economic development. We discuss this topic in further detail in "[Investment inertia: what is at stake](#)".

United-States: Rate of Capacity Utilization

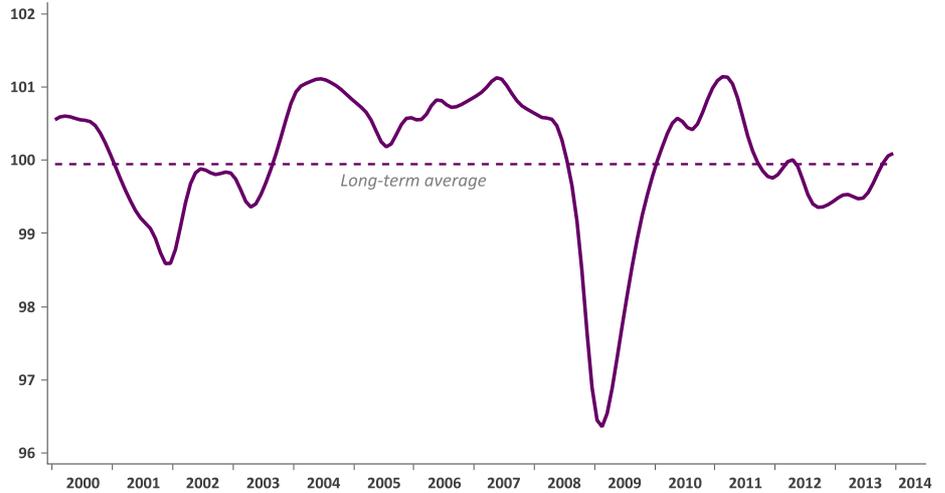


Sources: RichesFlores Research, Macrobond

A Broadly More Encouraging Environment

The improvement in the global business climate, which began towards the end of last year, has translated into an encouraging start to 2014.

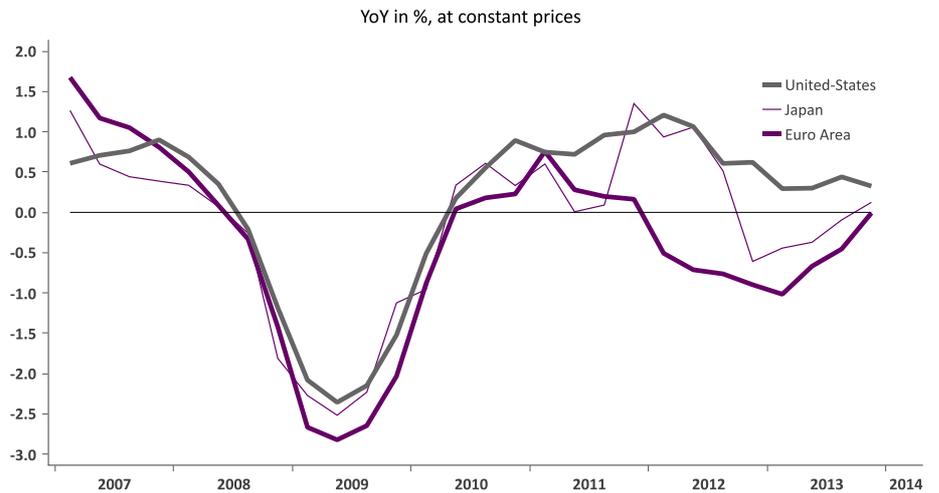
Global Industrial Confidence , Manufacturing Sector



Sources: RichesFlores Research, Macrobond

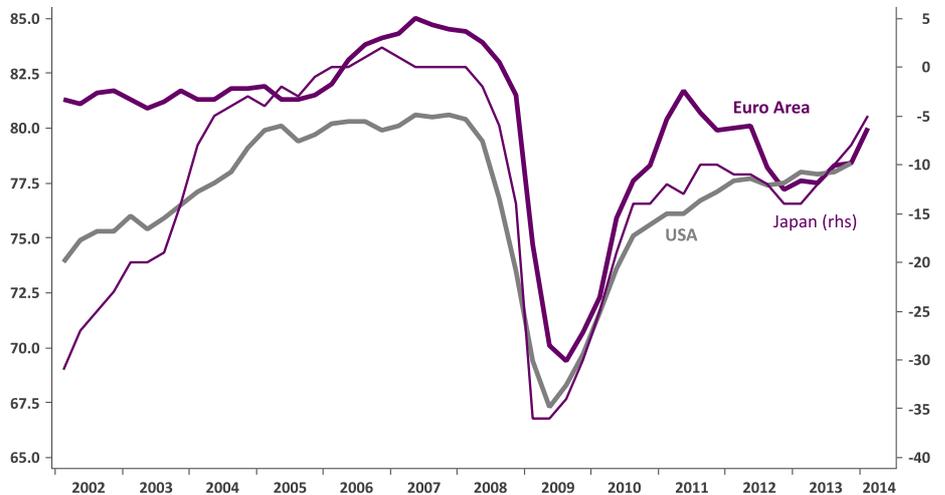
After two years of decline, CAPEX's contribution to GDP growth returned to positive territory across the entire industrialized world at the end of last year. This development is consistent with the increase in capacity utilization rates observed since early 2013, in Europe and Japan in particular.

Corporate Investment Contribution to GDP Growth



Sources: RichesFlores Research, Macrobond

Manufacturing Rate of Capacity Utilization



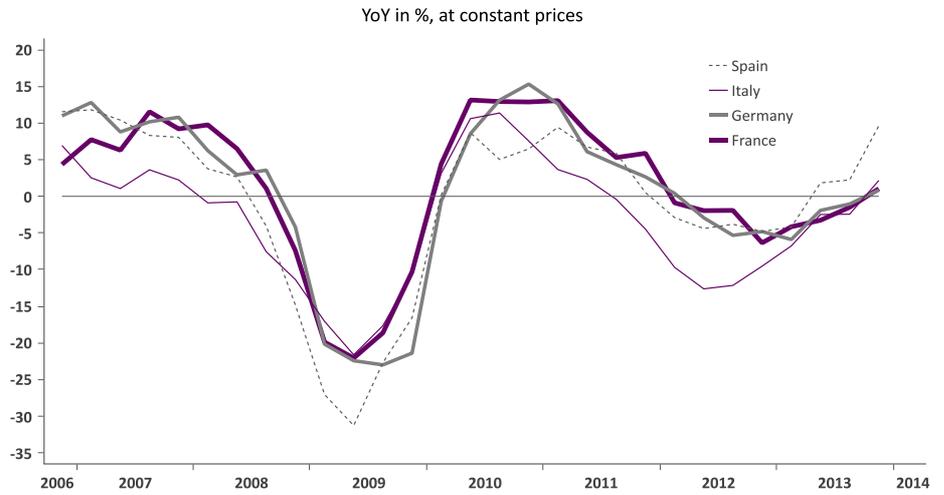
Sources: RichesFlores Research, Macrobond

Europe Emerges From Hibernation

The most encouraging signs of a brightening environment have come from the euro area. After two or even three years (depending on the country) of falling growth, CAPEX has stabilized across the board, even shooting up markedly in Spain in the past couple of months.

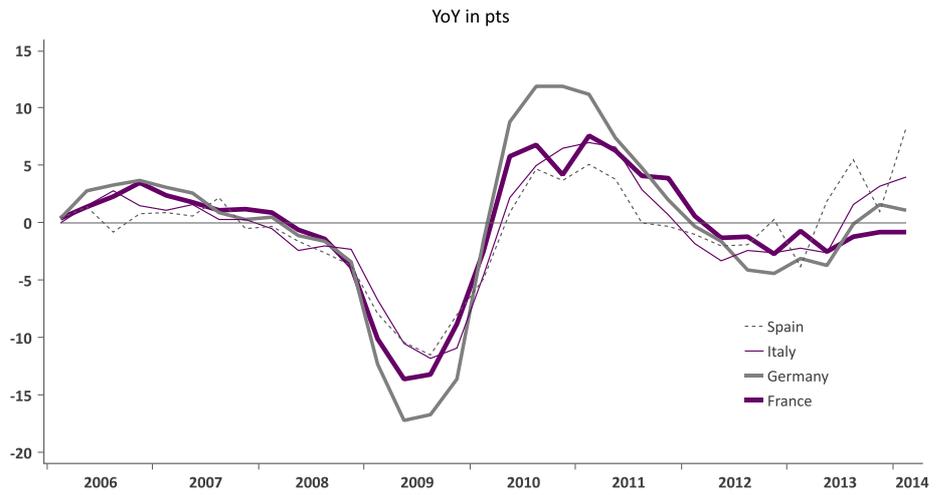
In response to strengthening industrial activity, the increase in capacity utilization rates and the brightening business climate have created an environment that is gradually becoming more favorable for productive investment. Moreover, corporate profits are recovering little by little.

Corporate Investment in Machinery and Equipment



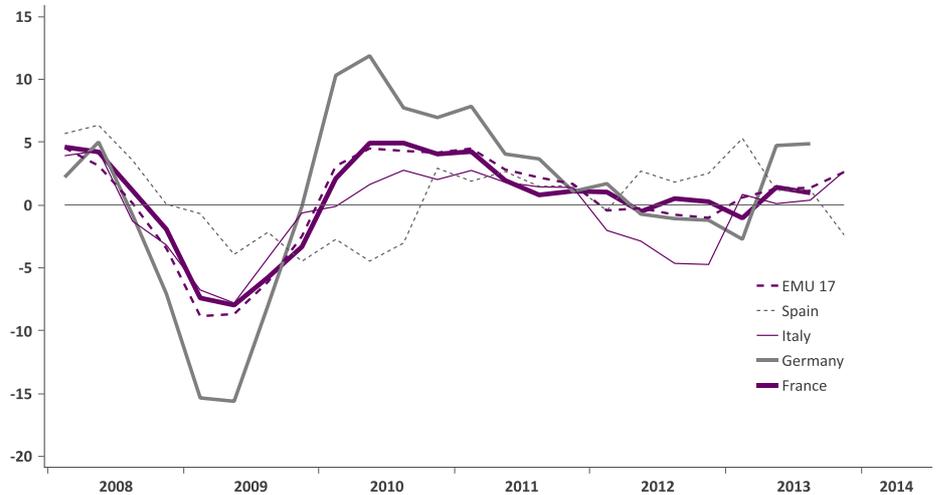
Sources: RichesFlores Research, Macrobond

Manufacturing Rate of Capacity Utilization



Sources : RichesFlores Research, Macrobond

Gross Operating Surplus and Mixed Income of Non-Financial Corporations



Sources: RichesFlores Research, Macrobond

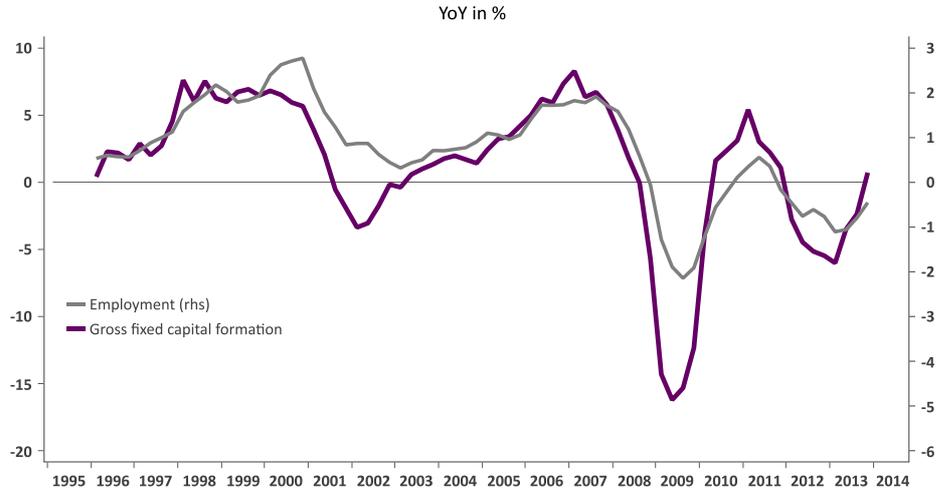
Priority is on Increasing Productivity

The recent shift in the investment trend is steadily lifting concerns about future growth, including in the most lagging economies (read: France).

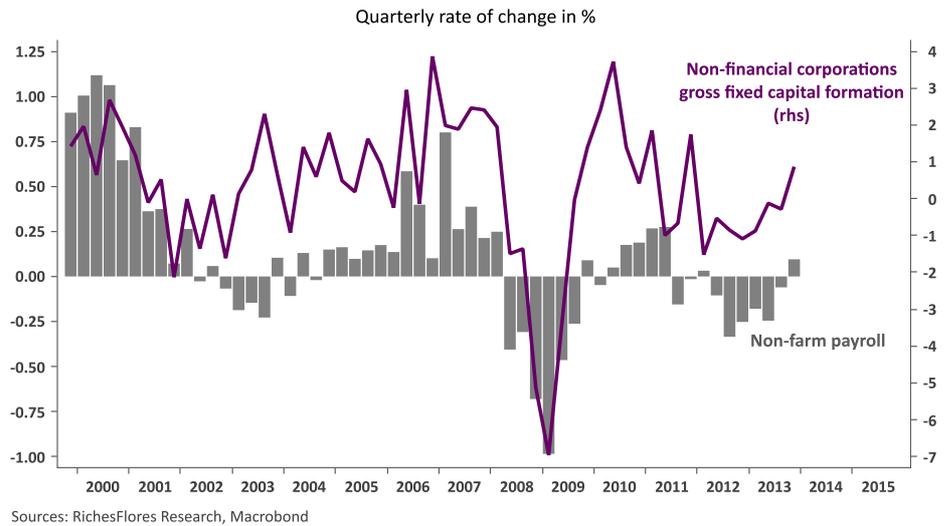
At this point, however, most of the rise - for countries where corporate investment has indeed increased (Germany and Spain) - has been allocated to intangible assets.

These changes are more likely to bolster productivity rather than increase the production base.

Employment and Gross Fixed Capital Formation in Euro-Area

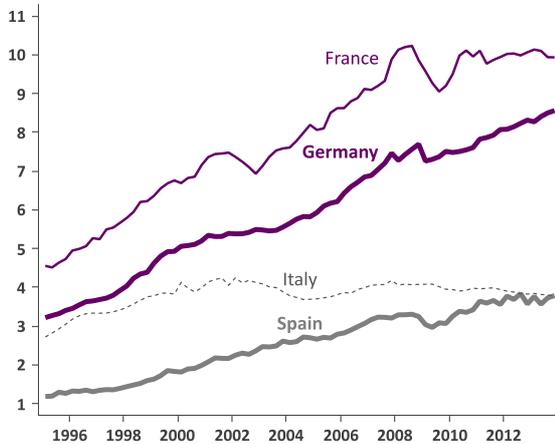


France : Investment and Employment



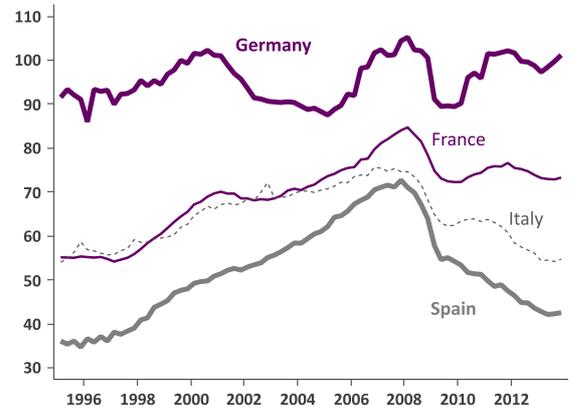
Investment in Intangible Fixed Assets

In billion euros, 2005 prices



Investment in Machinery, Transports and Structures

In billion euros, 2005 prices



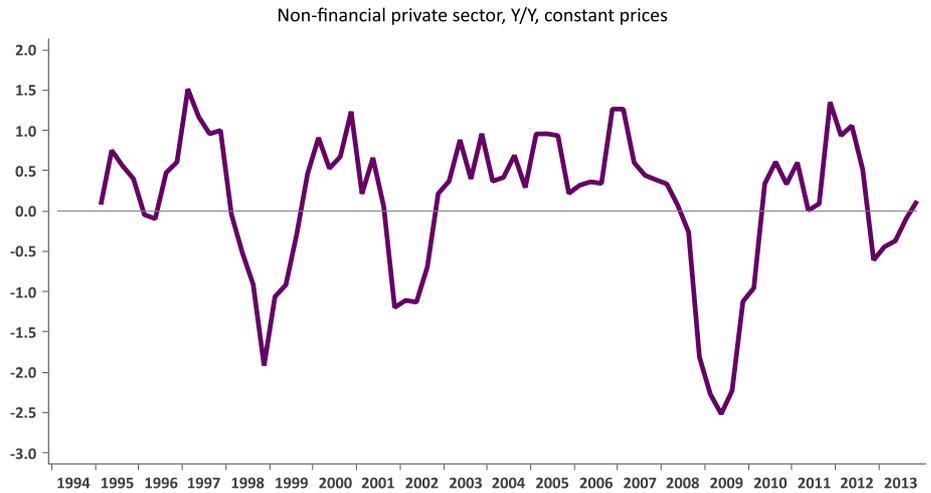
The Results of Abenomics in Japan

In Japan, Abenomics has started to pay off in recent quarters: spending on productive investment in the private sector has continuously risen since spring 2013.

However, the lion's share of this improvement is due to rebounding exports, in line with the stated goal of the Abe government's policy.

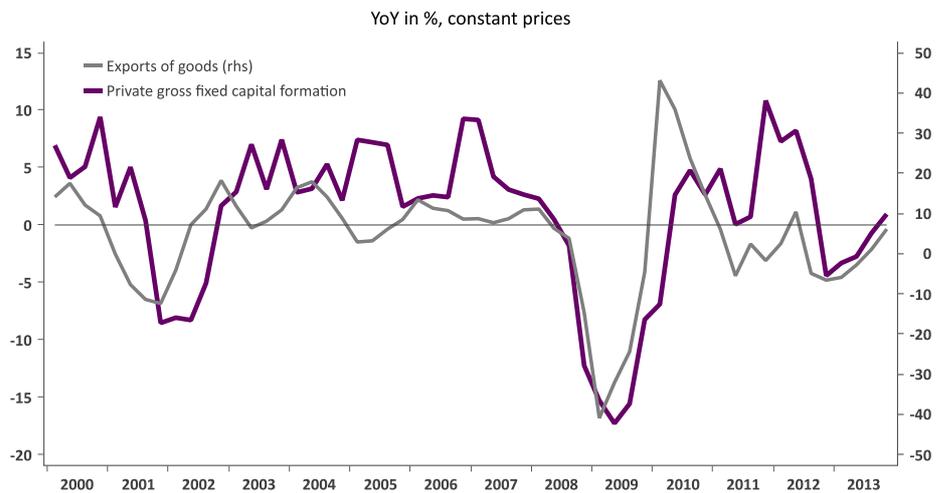
The bulk of the policy's effects are now behind us (particularly in terms of corporate margins) and its future effects may not be as positive.

Japan: Capex Contribution to annual GDP Growth



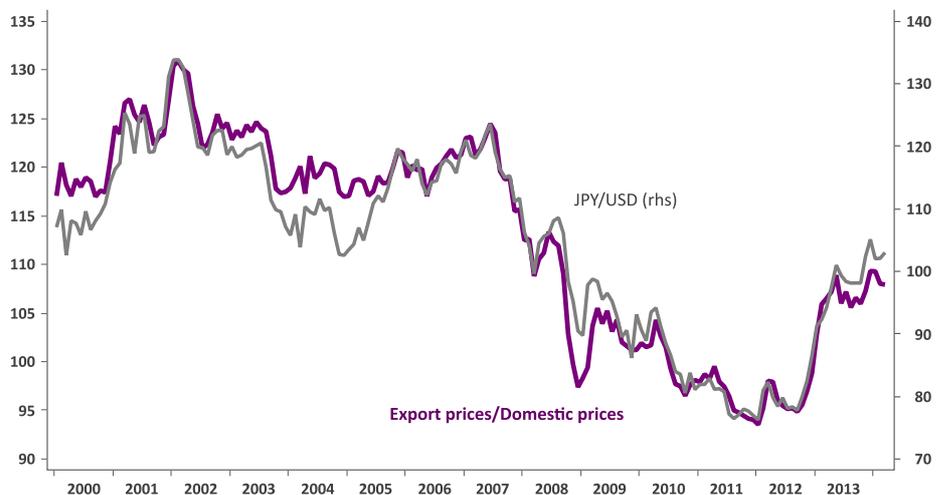
Sources: RichesFlores Research, Macrobond

Japan: Exports Growth and Private Gross Fixed Capital Formation



Sources: RichesFlores Research, Macrobond

JPY/USD Exchange Rate and Export Margin Indicator

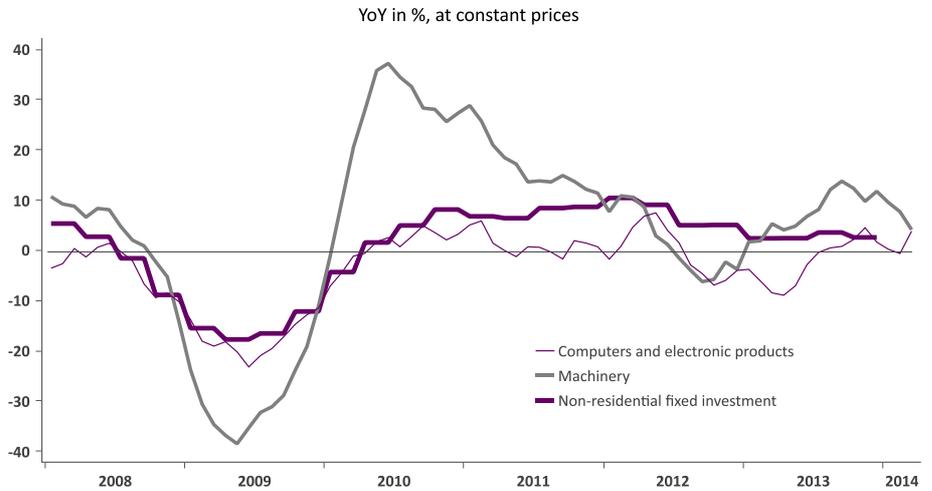


Sources: RichesFlores Research, Macrobond

More Disappointing News from the US

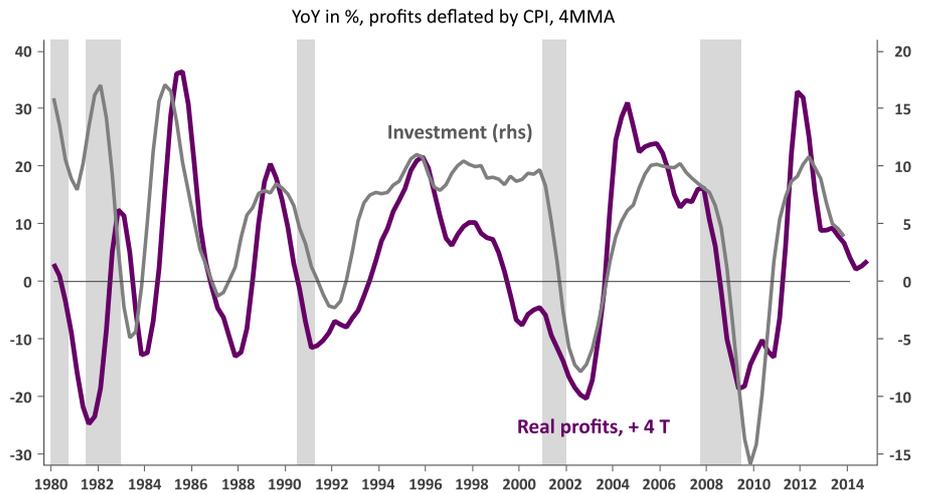
The investment recovery proclaimed by the consensus has, by all accounts, been left off the agenda. The annual growth in durable goods orders has returned to a downtrend since last fall.

New Orders of Capital Goods and Investment in the US



The view that ballooning profits would trickle down, leading to higher CAPEX has been a figment of the imagination. The reason? Weak productivity gains (and the resulting low profit growth) seem to be the greater point of interest for CEOs...

Non-Financial Corporation Real Profits and Investment



...at a time when capacity utilization rates may have already reached a cyclical peak.

US Rate of Capacity Utilization



A Number of Impediments

The precarious health of SMEs, soft growth in the service sector and the increase in real interest rates are all factors exacerbating the situation.

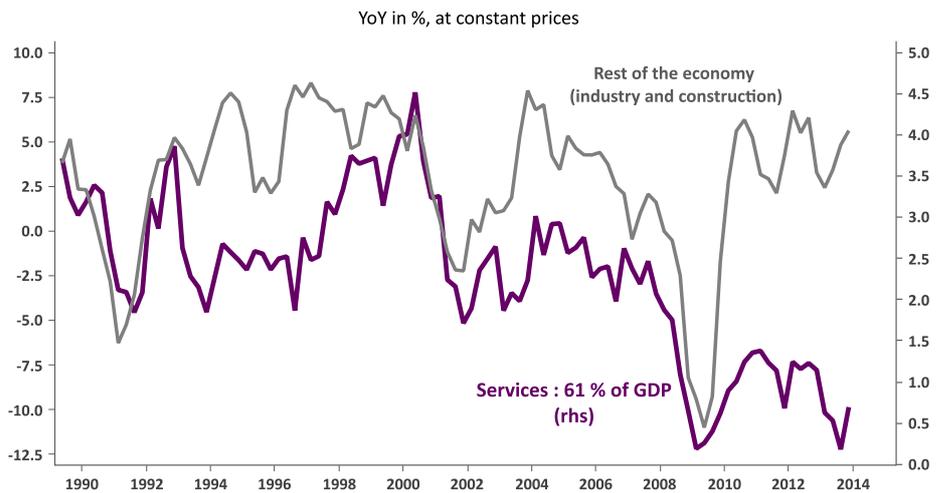
NFIB Index: Small Business Economic Trend



Sources: RichesFlores Research, Macrobond

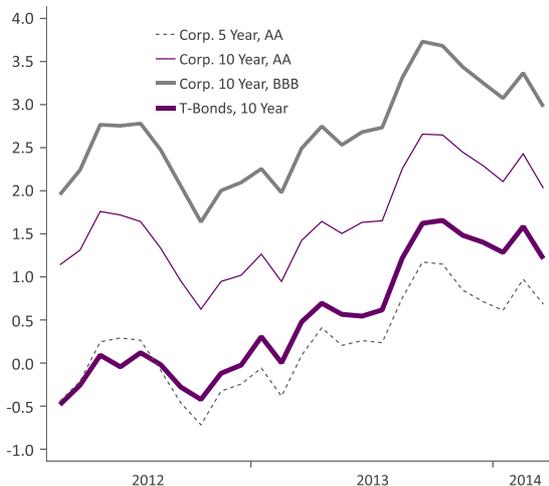
The overall picture is not very bright for the job market, which was lifted by a substitution effect that is likely to be fleeting.

US GDP Growth by Sector



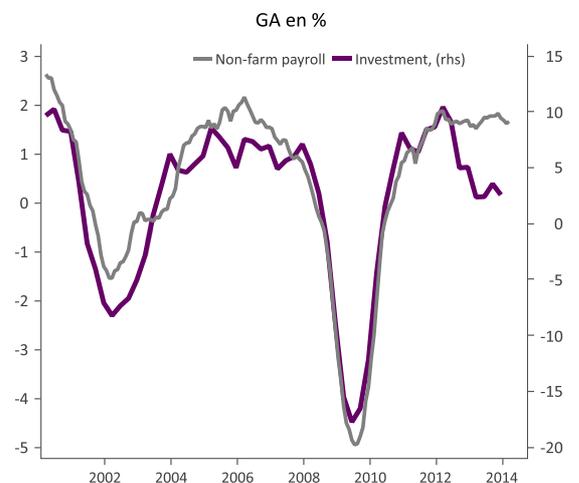
Sources: RichesFlores Research, Macrobond

US Real Interest Rates, Main References



Sources: RichesFlores Research, Macrobond

Employment and Non-Residential Investment



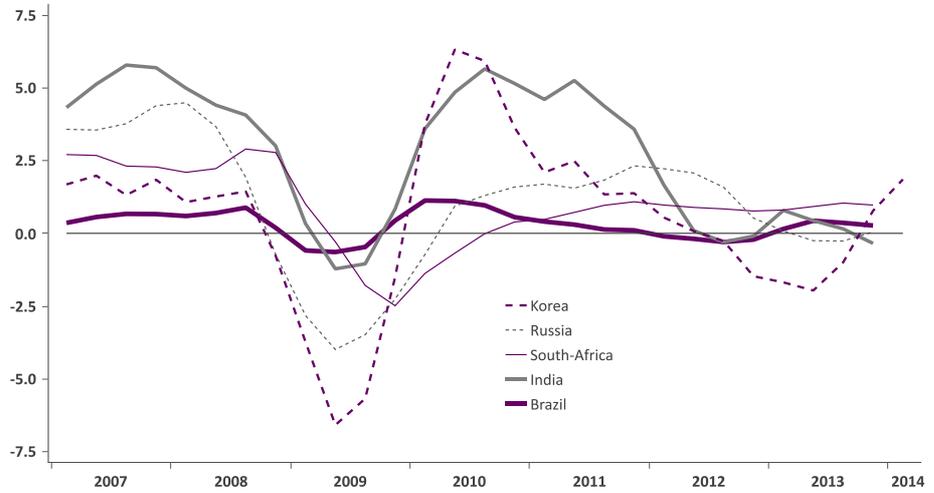
Sources: RichesFlores Research, Macrobond

Flat-lining (at best) in Emerging Markets

Progress in the area of investment has come to a halt in most emerging markets, particularly the biggest ones.

In Asia, the correction, after years of over-investment, has just gotten underway. In many countries, spending growth dropped off significantly in 2013. China is the most glaring example of this correction, with industry's traditional sectors the worst off.

Investment Contribution to Growth of Real GDP in Emerging Countries

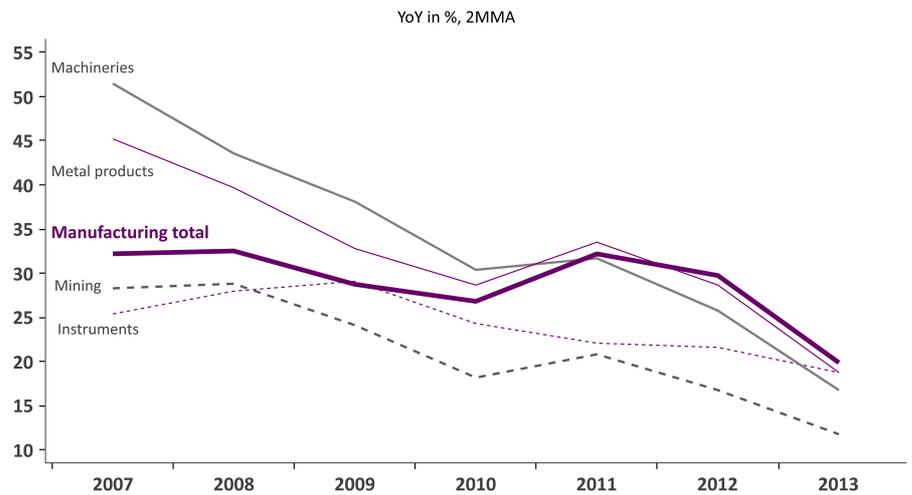


Sources: RichesFlores Research, Macrobond

The other emerging markets, most of which could use a shot in the arm from investment, are hampered by the resurgence of structural imbalances that have resulted from falling demand from their export markets (especially China)...

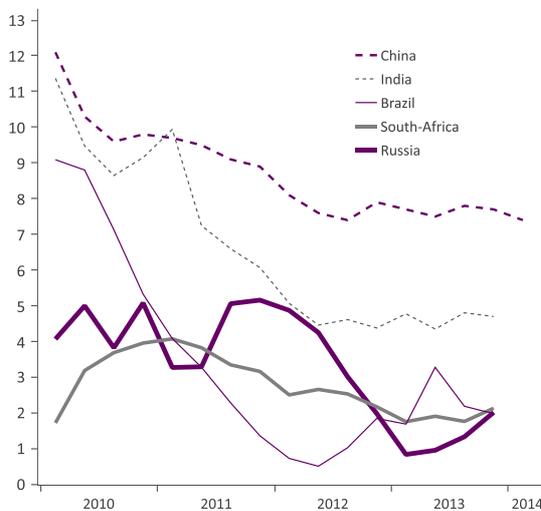
The shift in the trend has been severe and could potentially last, depending on what happens in China, in particular.

China: Growth of Investment in Fixed Assets



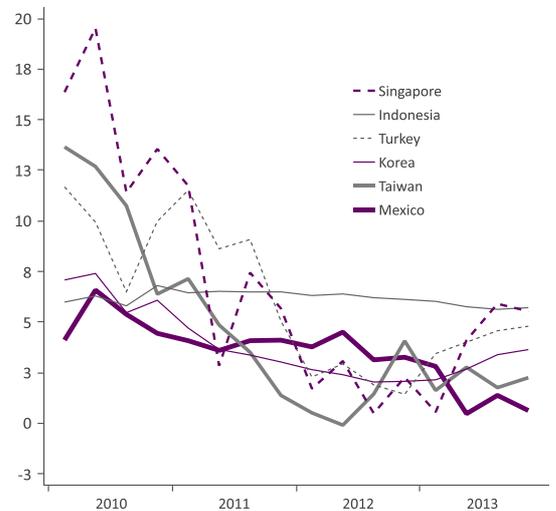
Sources: RichesFlores Research, Macrobond

Real GDP Growth, YoY in %



Sources: RichesFlores Research, Macrobond

Real GDP Growth, YoY in %

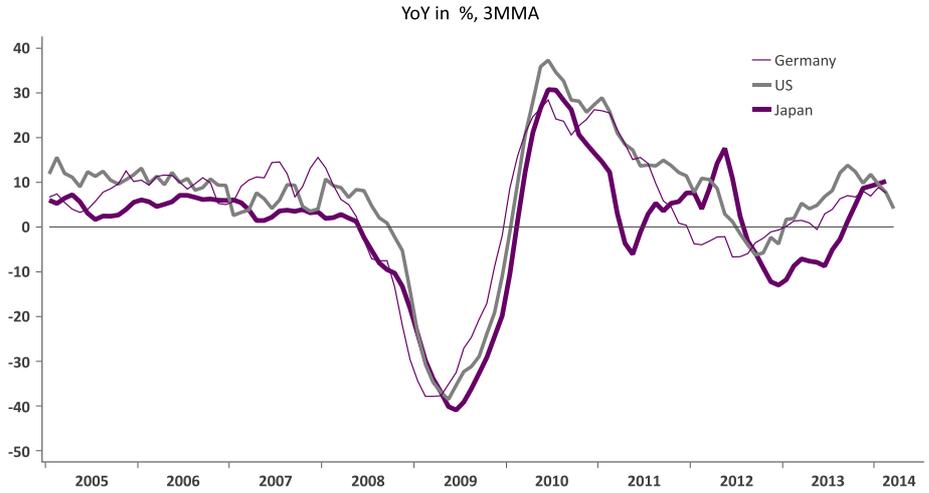


Sources: RichesFlores Research, Macrobond

Growing Impact on Industrial Activity

Slack investment on a global scale is having an increasing impact on the industrial activity of major manufacturers in both the industrialized world (Germany, Japan and especially the U.S.) and the emerging world (South Korea, Taiwan and India, whose industrial development strategy has relied heavily on investment.

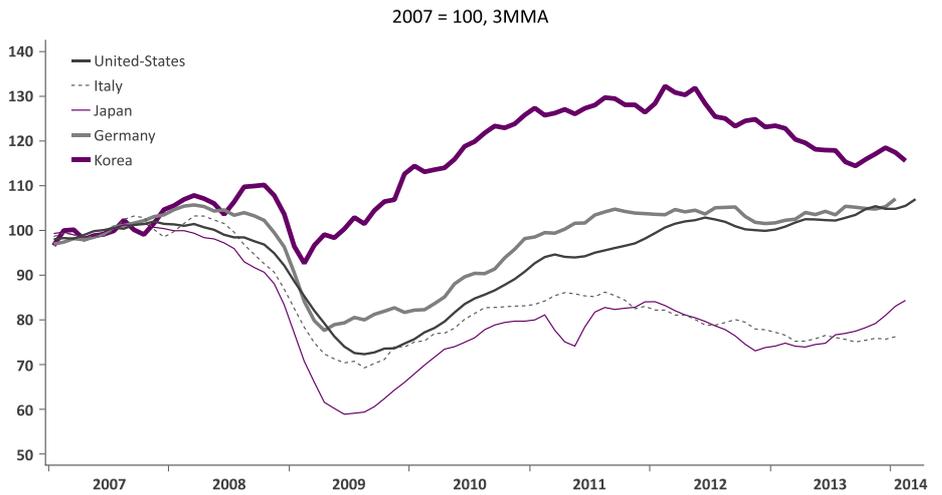
New Orders of Investment Goods



Sources: RichesFlores Research, Macrobond

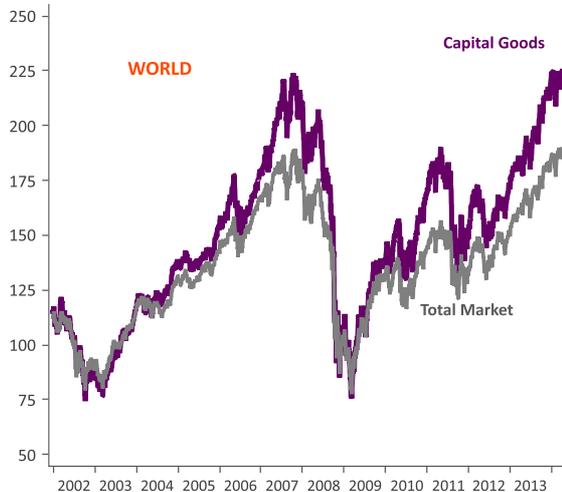
After years during which investment in production was one of the biggest drivers of structural growth in the world, the persistent weakness of investment has raised red flags. In fact, it could jeopardize recent performances on the global capital markets and European markets, in particular.

Production of Investment Goods



Sources: RichesFlores Research, Macrobond

MSCI Total and Capital Goods, 2002=100, USD



Sources: RichesFlores Research, Macrobond

MSCI Total and Capital goods, 2002=100, USD



Sources: RichesFlores Research, Macrobond

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