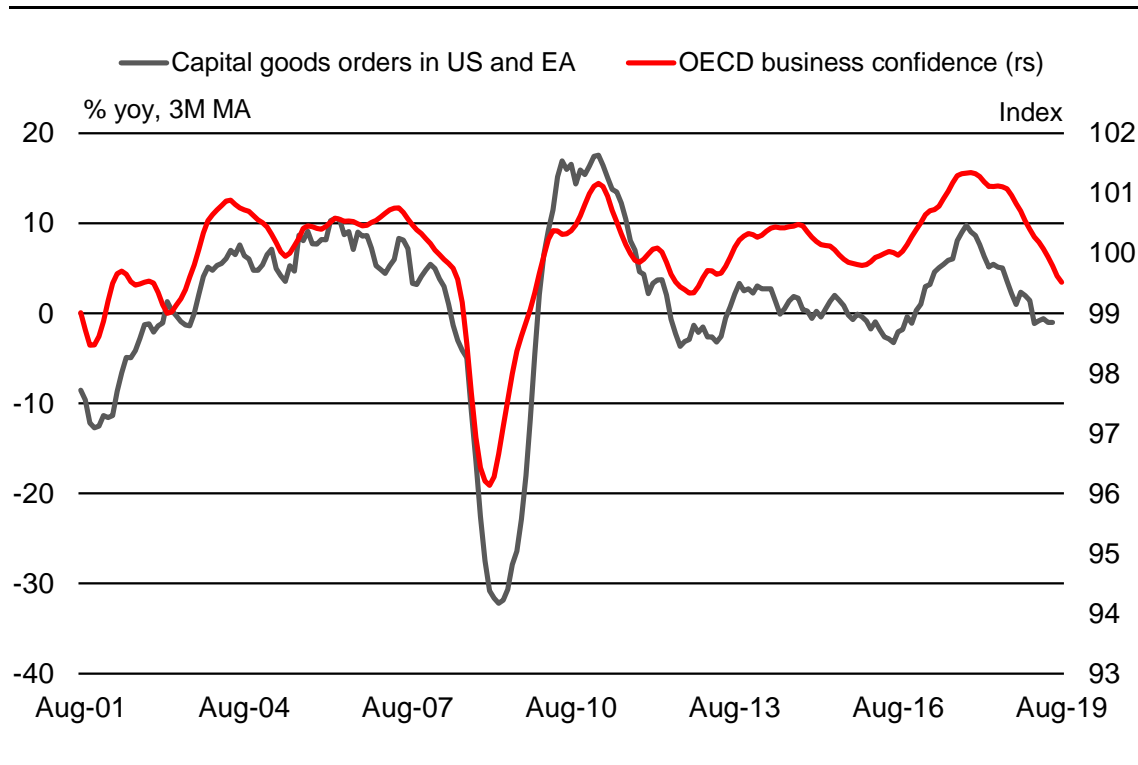


Investment hit by loss of business confidence



Source: BLS, ECB; OECD, US Census Bureau, UniCredit Research

- Our *Chart of the Week* shows that the growth of capital goods orders in the US and euro area – a closely-watched proxy for business investment plans – has eased sharply since its peak in November 2017 and has now turned slightly negative.¹ The fall in capital goods orders growth has coincided with a fall in business confidence, which according to the OECD fell further in August. Heightened uncertainty, related to trade tensions and geopolitical risks, leads firms to defer investment, which is inherently a long-term decision.
- As the business cycle expansion phase ages and spare capacity has reduced – or even closed – in many countries, business investment is increasingly needed to sustain the expansion. The fact that this is not happening will weigh on potential supply and, in time, aggregate demand. It also means the global economy is more susceptible to adverse shocks as increasingly the main – or only – driver of growth is consumption.

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¹ Capital goods orders here is constructed as the weighted average of growth in US new orders for non-defence capital goods excluding aircraft (deflated by the private capital equipment producer price index) and the euro area volume of new orders for capital goods. The weights are 2010 US and euro area manufacturing value-added, as a share of total manufacturing value added in the US and euro area combined.

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