

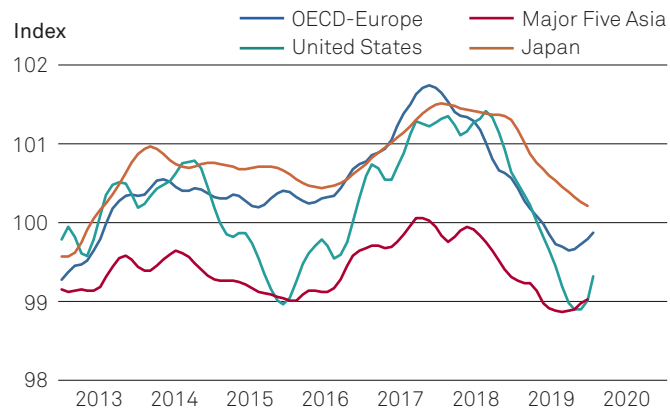
# Leading Indicators Give Rise to Hope, But the Subdued Outlook Has Not Changed Significantly

hpo economic commentary, 1<sup>st</sup> quarter 2020

## Slowing dynamics in the real economy despite a short breather.

The outbreak of the novel **Coronavirus** (COVID-19) is hitting China's economy at a delicate stage because, for example, consumer spending there has been far below the long-term trend for around 18 months. Important leading indicators also tend to suggest a slowdown in economic growth in China irrespective of the Coronavirus.

**Industrial production** has lost dynamic everywhere in Asia, Europe and America, with America still lagging behind the other two regions in terms of time. Several industries had already suffered significant setbacks



**Business Confidence Index (BCI)**

based on OECD data

in 2019. This applies in particular to the order intake of very early cyclical (e.g. textile machinery and semiconductor industry) and volatile sectors (e.g. machine tool and again semiconductor industry). The semiconductor industry is already showing initial upward tendencies due to the very strong sector-specific trend growth. However, this is the exception, and other industries are only just at the beginning of their development. According to our model calculations, the decline in order intake will continue in most cases following a 9% decline in general mechanical engineering in Germany in 2019, for example.

While **retail sales** in Asia are well below the long-term trend growth, European and US consumption continues to provide strong support, but here too the dynamic has levelled off at a high level. We take this as an indication that the expected peak in the consumption dynamic has been reached as well.

The **sentiment indicators** provide some confidence as of the end of 2019 (see chart). The Business Confidence Index (BCI) published by the OECD generally correlates quite closely with the demand for capital goods. Following a prolonged downward trend, it is now showing a slight upward trend for the first time in many countries; however, in most cases it is still below 100, which indicates a pessimistic outlook. However, our forecasts

have not changed significantly due to the new indicators. Some sectors are showing a short breather, but the overriding trend continues to point to a slowdown in the real economy.

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### Who is hpo forecasting?

The forecasting specialists at hpo forecasting create company-specific forecasts for the incoming orders of industrial companies (capital goods and consumer durables). The forecasts are based on the scientifically founded and empirically proven Peter Meier Forecasting Model.

hpo forecasting – we predict your business