Consumption is recovering rapidly, but the crisis is not yet over

hpo economic commentary, 3rd quarter 2020

hpo forecasting

we predict your business

Weak demand for durable consumer goods with devastating consequences for the capital goods industry.

In April, 1.43 million new passenger cars and light trucks were registered in the industrialized countries of the OECD. This is the lowest monthly figure in over 60 years. Compared to the same month of the previous year, this represents a decline of 57%. Since then, the figure has nearly doubled again to 2.82 million in June. Still, this figure is 22% below the previous year's figure in a year-on-year comparison.

The figures are of central importance because entire industrial sectors are directly and indirectly linked to automobile sales.

This example of the demand for durable consumer goods (automobiles) clearly illustrates the current situation:

- **Consumption fell dramatically** during the lockdown.
- Consumption **has recovered strongly** after the lockdown but is still well below pre-crisis levels.

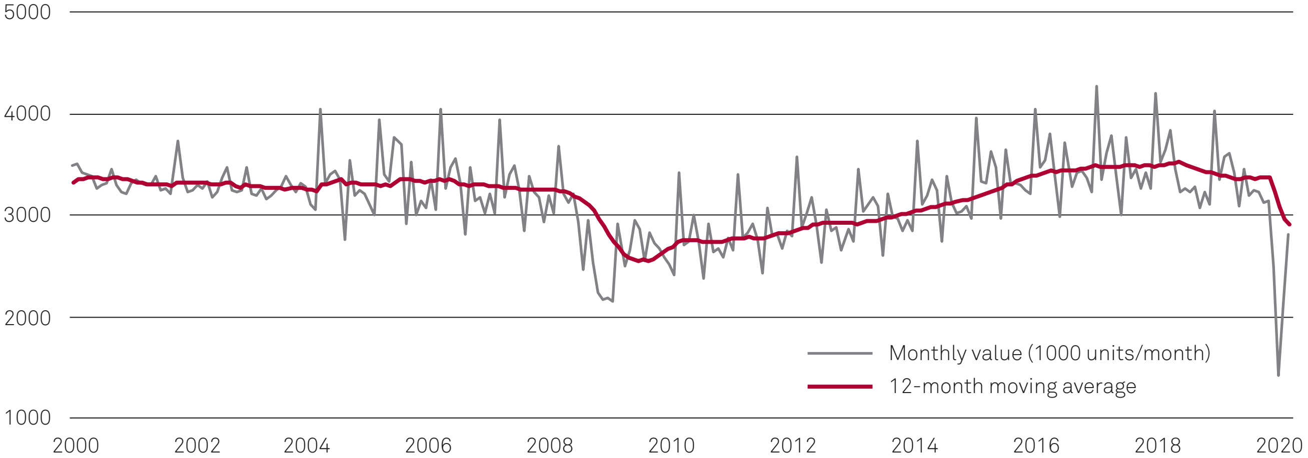

Figure 1: New passenger car and light truck registrations OECD
Sources: ACEA, BEA, OECD

What happens next? Consider the following:

- In recent months, many companies have been able to keep their heads above water and avoid layoffs by introducing short-time work. However, since the economic recovery is still a long time coming, there will now be an **increasing number of layoffs.** This will have a negative impact on consumption and, for example, the number of new monthly registrations of cars will fall again.
- The lower demand for vehicles and other durable consumer goods **will continue to have a negative impact on the already troubled capital goods industry** because consumer goods manufacturers not only hold back new investments but also replacement investments to a large extent due to excess capacity.

We are standing by our assessment, as we stated three months ago in our last economic commentary: **We expect a partial recovery in retail sales in the short term. However, consumption will slowly decline again after that.** This is of central importance, as consumption is the long-term driver of the global real economy.

hpo forecasting ag, Gewerbestrasse 5, CH-6330 Cham, T +41 41 461 00 22, forecasting@hpo.ch, www.hpoforecasting.com

The industry is emerging from the acute crisis much more slowly than the retail trade

Industrial production is still at a very low level, especially in the United States and in Japan.

A closer look at the individual economic indicators in a global comparison reveals the following situation:

In the last quarter, **retail sales** increased rapidly in Asia, Europe, and the USA. Currently, we can observe a pronounced V-shape. Europe is already back above the long-term trend growth level but well below the pre-crisis level. Asia is below long-term trend growth, as it has been throughout 2019, as Asia is more advanced in the long-term cycle.

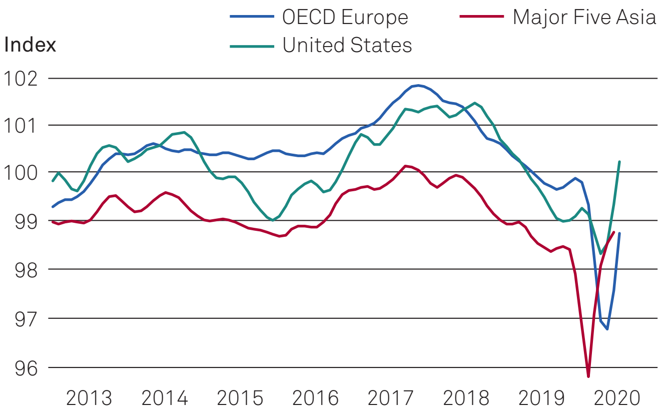

Figure 2: Business Confidence Index (BCI)
Source: OECD

The recovery of **industrial production** is much more hesitant: China is the exception with its speedy and extensive recovery of industrial production after the lockdown. Japan is the other extreme, as its level of industrial production is still extremely low. In Europe, production is again quite a good distance from the low point in April, whereas the recovery in the USA is much more hesitant.

All in all, it can be observed that the industry is finding its way out of the acute crisis more slowly than the retail trade. Especially in many sub-sectors of the capital goods industry, no recovery is yet visible in terms of incoming orders. We expect a further weakening of demand among machine manufacturers in the coming months.

We take the OECD's **Business Confidence Index (BCI),** which has proved to be a good leading indicator for industry in the past, as a proxy for various sentiment indicators. Sentiment has recovered rapidly in the three major economic regions after the lockdown measures were lifted. The US figure even rose slightly above 100, indicating an expansionary phase. Values in Asia and Europe remain below 100, indicating a negative trend for the near future.

Great caution is currently called for when interpreting the BCI because due to the low initial values during the lockdown, the BCI is now very likely to show an excessively positive picture (cf. our comments in the Economic Commentary May 2020).

Your contact at hpo forecasting

Josua Burkart
M. A. HSG
Managing Director
josua.burkart@hpo.ch
+41 44 787 60 15

Benjamin Boksberger
M. A. HSG
Senior Consultant
benjamin.boksberger@hpo.ch
+41 41 461 00 22