

# ECOWEEK

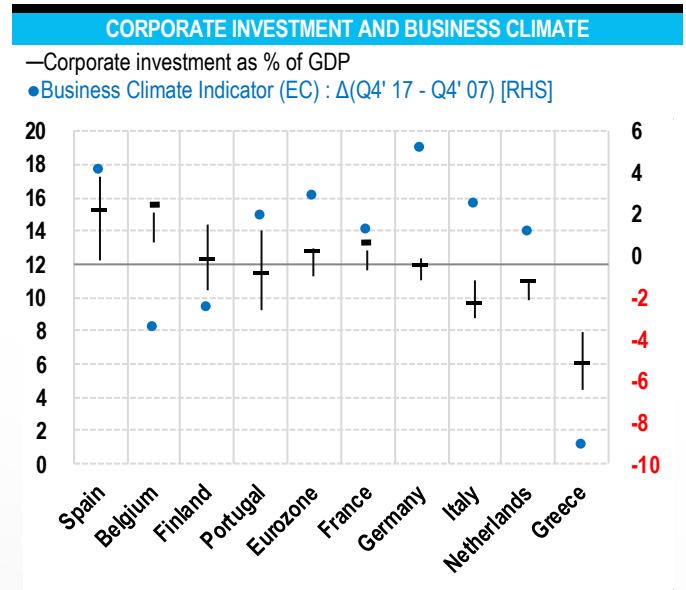
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## Eurozone: pent-up corporate investment demand?

■ Eurozone business investment in relation to GDP is still below the previous cyclical peak but the difference is small, implying that the argument of pent-up demand isn't that strong ■ However, the picture varies a lot depending on the country ■ In most countries, including the big four, the business climate is above the level registered at the end of 2007 ■ This means that the investment/GDP ratio still has upside potential provided that confidence is translated into spending

Rushing to the refrigerator when getting home in the evening after a day in the office without time for lunch is a manifestation of pent-up demand for food. Are we experiencing a similar situation in the eurozone with respect to final demand? That's at least the view of Mario Draghi who in a speech on 14 March stated "there are signs of pent-up demand for both consumption and investment that still needs to be satisfied". The question is important when assessing how long the upswing may last, a question which in turn is key for the ECB, companies, households, investors. Upon closer inspection, the ECB president was focussing on consumption and housing investment, considering that business investment already "stands 7% above pre-crisis levels".

It seems however more relevant to compare corporate investment to GDP: after all the latter dictates how big a capital stock is needed, which in turn drives business investment. The horizontal markers on the chart show corporate investment as a percentage of GDP in Q3 2017 (a four-quarter moving average is used considering that the data are not seasonally adjusted). The vertical lines show the previous peak and trough of investment as a percentage of GDP. For the eurozone the investment/GDP ratio is still below the previous peak but only to a very small degree. In France and Belgium it is even above the previous peak. In the Netherlands it is in line whereas Germany sees a negative gap and even more so in Finland, Spain, Portugal, Italy and Greece. All in all, the argument of pent-up business investment is solid in some countries, though not all and neither at the eurozone level as a whole. However, the European Commission business climate indicator is above the pre-crisis level in many countries including the eurozone which means that the investment rate still has upside potential provided that companies decide to translate their confidence into spending.



Sources: Eurostat, BNP Paribas, European Commission

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