

Global economy continues to improve

- Global MacroScore edged up in March, to its highest level since 2006
- Improvement so far this year driven by better hard data
- Strong cyclical development to offset for *minor* impact from US-China trade frictions

Business cycle strengthening further, driven by hard data

Our MacroScore for the global economy edged up by 0.02 points to 0.69 in March. The rise is less pronounced than in previous months, but that should be expected. The index is at its highest since May 2006, and since we started making the index in 2002 we only have five observations that are higher. With that said, we do not anticipate that the growth pace for the global economy is converging to pre-crisis levels. In 2006-07 global GDP growth averaged at 5.5%, nearly 2 percentage points above our expectation for 2018. The difference, of course, is that potential growth has slowed, in part due to changing demographics and more importantly because of weaker productivity growth. The cyclical development however, which is captured by our MacroScore, is at an 11-year high.

The improvement in 2018 has been driven by a rise in hard data, while soft data seem to have stabilized at a high level. The hard data are still nowhere near the soft data, but the index that is capturing the former is now at its highest since 2010. By country, the euro area and the US have seen the most positive development this year, but we are also encouraged by the recent development in Sweden.

Potential trade frictions to have minor impact on activity growth

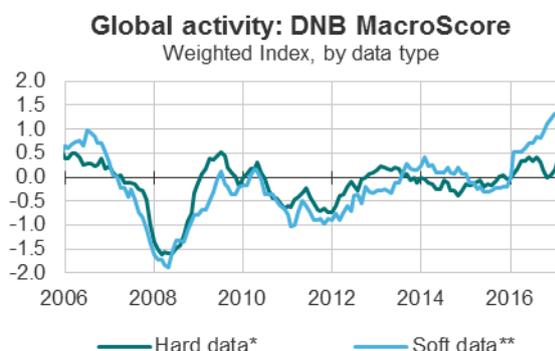
With the cyclical momentum gaining further traction we believe that increased trade frictions between the US and China are manageable. Of course, should the US proceed with its suggested tariffs on Chinese imports and if China retaliates with measures of similar magnitude, both economies will take a hit on economic growth. The impact, however, is expected to be relatively small, as neither economy is very export dependent. Granted, exports account for about one fifth of GDP in China, but nearly 40 of that is processing exports which has less impact on activity growth than ordinary exports.

With the cyclical development strong enough to offset for the negative impact of modest trade-frictions between the US and China, we also believe that the recent sell-off in the equity market is somewhat overdone. To be clear, the recent stock market rout is due to a combination of factors, such as a troubled tech sector and tighter USD liquidity, but fears of a global trade war appear to be the most important trigger for last week's decline.

Positive outlook for global growth

All in all, we maintain a positive view on the global economy, and see above-trend growth rates in all major economies at the moment. We are particularly encouraged by the improvement in hard data so far this year. Looking ahead we see recent trade frictions between the US and China as a clear downside risk to economic growth. Still, with the cyclical development at its strongest since 2006 we believe that the risks are manageable and that the impact on activity growth will be minor. If anything, this also indicate that recent market reactions are somewhat overdone.

Ole A. Kjennerud



*Household consumption, unemployment rate and employment growth, housing prices, starts and sales, industrial output, manufacturing orders, exports

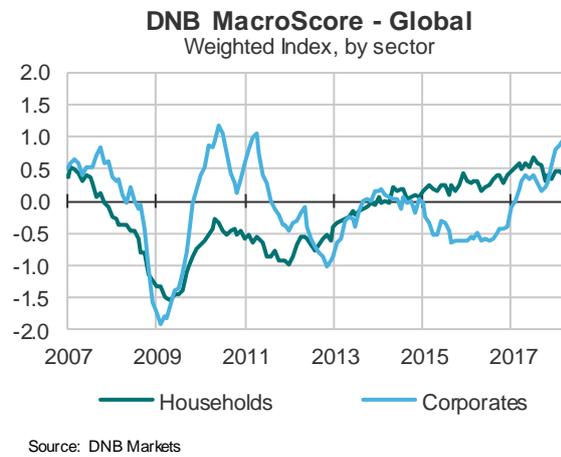
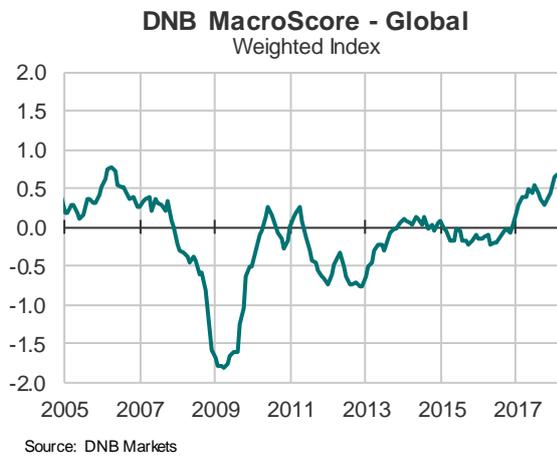
**Sentiment indicators for households and corporates

Source: DNB Markets

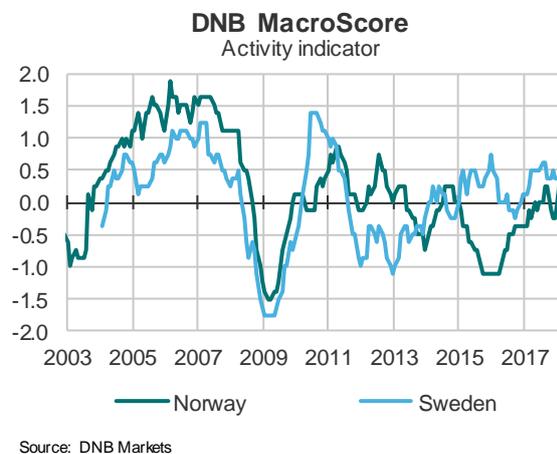
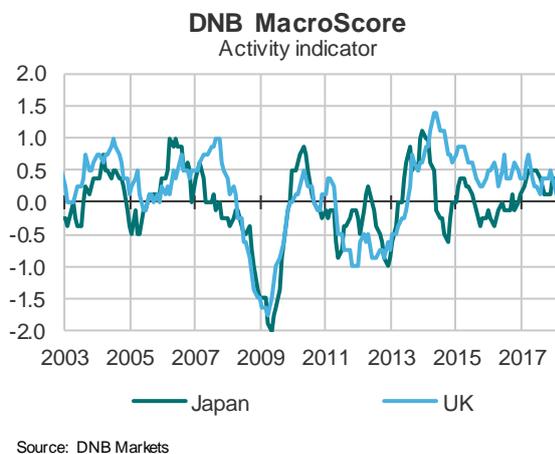
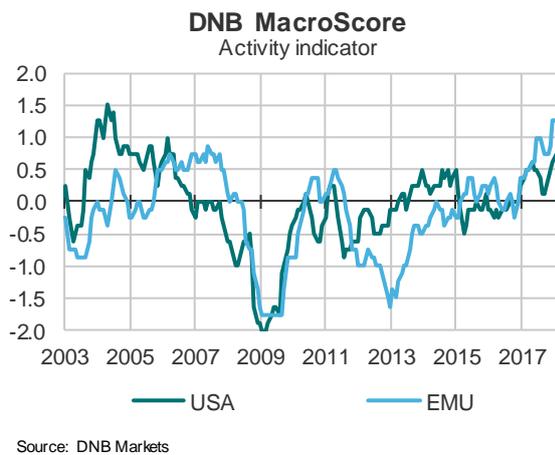


Source: Thomson Datastream/DNB Markets

MacroScore for the global economy:



MacroScore for individual countries:



About the MacroScore:

The MacroScore is a weighted index based on economic data from the eight economies on which we devote the bulk of our analytical resources. These are USA, China, the euro area, Japan, UK, Sweden and Norway. The data represent eight categories, of which four are related to the household sector and four are related to the corporate sector. The household sector categories are consumer confidence, consumer demand, the housing market and the labour market. The corporate sector categories are business confidence, production, orders and exports.

Each category is covered by a broad range of economic data. Both stationary and non-stationary variables are represented. The former are scored based on their growth rate relative to trend, while the latter are scored based on how much they deviate from their long-term averages. The categories are scored from -2 to +2, with 0 being a neutral score. However, the score is not done mechanically. For instance, if we judge that trend growth in a country has slowed over time, a score of 0 is consistent with a slower pace of growth now than before.

Illustration of non-stationary variables:

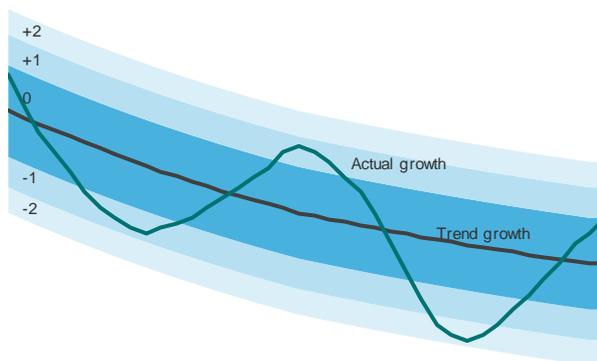
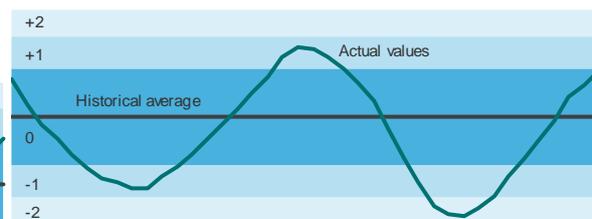


Illustration of stationary variables:



For simplicity, each category is weighted equally in the country-specific MacroScore, while each country is GDP-weighted in the global MacroScore.

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