

INTERNATIONAL CYCLICAL OUTLOOK

Economic Cycle Research Institute

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AMERICAN SOFT LANDING NOT YET IN SIGHT, BUT EUROZONE GROWTH WILL EASE LATER THIS YEAR

General optimism about Eurozone growth prospects continues to increase. This is clear from many of the recent business surveys in that region, especially in Germany. However, cyclical turns in those survey series coincide with, rather than lead, cyclical turns in economic growth, whereas the growth rates of ECRI's long range gauges anticipate the same turns.

It is no surprise, therefore, that a new Eurozone Long Range Gauge clearly points to an easing of growth later this year in that region, in contrast with the continued improvement seen in the survey data. If historical patterns hold, the survey series will start to turn more pessimistic only around the time actual growth starts to ease. In other words, the prevailing optimism about Eurozone growth notwithstanding, it is likely that growth will ease in the second half of the year.

The easing of growth is most likely in the Eurozone's largest economy, Germany. Growth in France, the region's second-largest economy, has been quite robust in recent months but is also likely to turn relatively lackluster. Outside the Eurozone, a hint of future moderation in growth has now appeared in the U.K., but prospects for growth in Sweden and Switzerland are relatively good.

Growth in Australia and New Zealand is also likely to moderate in the wake of increases in inflation and interest rates and declines in consumer expectations. Taiwanese growth is likely to ease somewhat from moderate levels. The torrid growth rates in Korea are likely to give way to more moderate but still robust growth. Meanwhile, the Japanese recovery will continue in the months ahead.

Thus, growth will pick up or ease in different regions, but the synchronous global expansion will go on. In the U.S., underlying inflationary pressures remain in a strong uptrend, and the likelihood of healthy growth against this backdrop of a global upswing suggests that no "soft landing" is yet in sight.

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- *Business survey data tend to lag cyclical swings in ECRI's long range gauges. Thus, despite the prevailing optimism about **Eurozone** growth, some moderation in growth in the Eurozone in general and in Germany in particular is likely later this year.*
- ***U.S.** economic growth remained solid, and is likely to stay healthy despite some moderation later this year.*
- ***Canadian** growth accelerated further, and should remain fairly strong in the coming months.*
- ***German** growth dipped a little in January, and is likely to moderate in the months ahead.*
- *The **French** economy continued to forge ahead, but growth is likely to be lackluster later this year.*
- ***U.K.** economic growth continued to strengthen, but growth is likely to ease in the coming months.*
- *The **Italian** economy continues to show moderate growth, which may ease a little in the months ahead.*
- ***Spanish** growth remained robust, there is a hint of moderation ahead in the Long Range Gauge.*
- ***Swiss** economic growth continued in an uptrend, but is likely to remain fairly moderate for now.*
- ***Swedish** economic growth is now well below earlier highs and further near-term moderation is likely, but may be followed by some improvement.*
- ***Japanese** economic growth continues to be in the process of bottoming out, while a surge in housing starts further bolstered growth prospects for this year.*
- *The **Korean** economy saw explosive growth, which is likely to ease but remain fairly solid this year.*
- ***Australian** growth has moderated somewhat, and is likely to ease further in the months ahead.*
- ***Taiwanese** economic growth eased while remaining above earlier lows, but is likely to moderate further in the coming months.*
- *Growth in **New Zealand's** economy remained in an uptrend, but is likely to ease later this year.*