

Economic Perspectives

European Alliance Against Coronavirus Session

September 1st, 2020

Introduction

- The aim of this presentation is to provide a view of the current situation of the European economies.
- We will employ the most recent data published in Eurostat.
- Most of them have been collected in July, 2020 (if monthly) or 2nd quarter 2020 (quarterly data)
- We will base the analysis on the Business Surveys of Eurostat and on the Confidence/Sentiment Indicator constructed on the basis of these surveys.
- We should note that none of them are based on real data, just on the opinions of experts... but it is the best we can use today.

Introduction

- The Short-Term Statistic system of Eurostat is based on different Confidence/Sentiment Indicators.
- A confidence indicator is a statistical indicator based on the results from business surveys interrogating enterprises on their current economic situation and their expectations about future developments.
- Eurostat produces five separate confidence indicators for industry, construction, services, retail trade and consumers.
- Each confidence indicator is calculated as the simple arithmetic average of the (seasonally adjusted) balances of positive and negative answers to specific questions, e.g. regarding economic expectations.
- The interpretation is relatively easy: the higher the value of the confidence indicator, the more probable the economy grows (according to the expert's view)

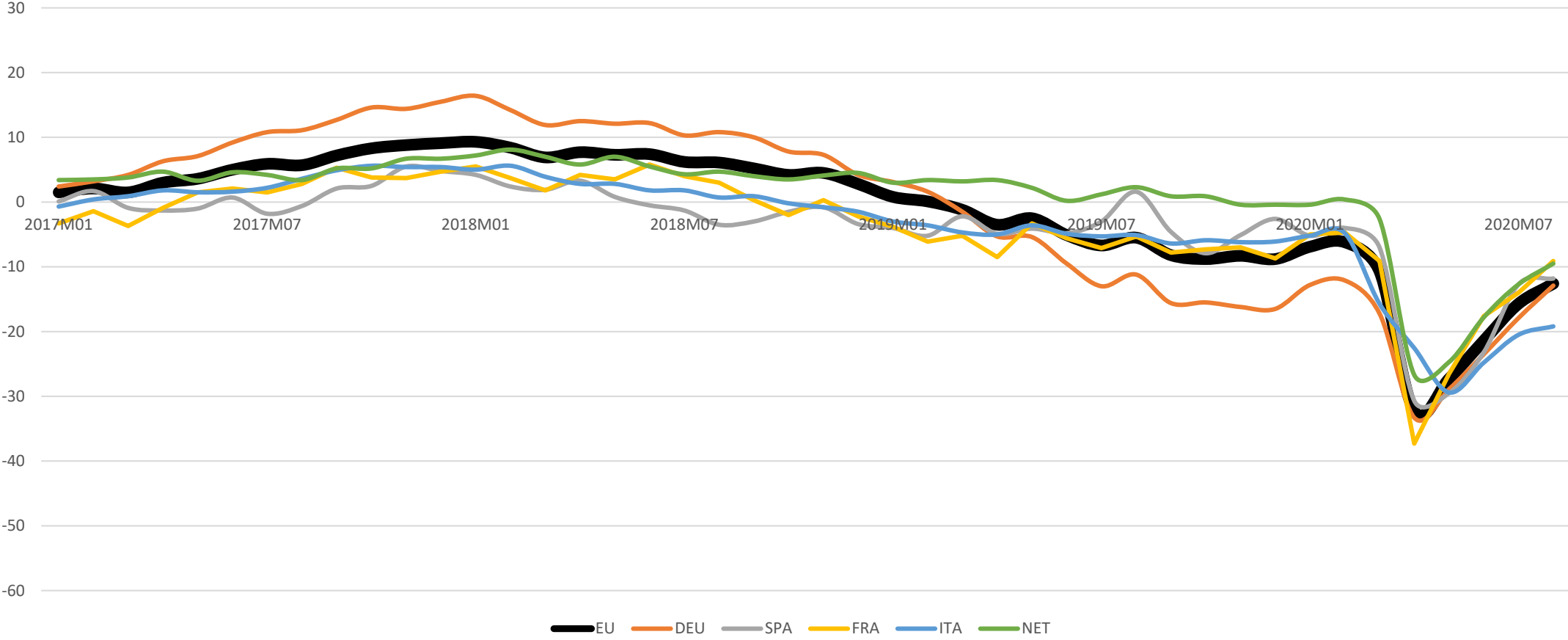
Introduction

- The economic sentiment indicator, abbreviated as ESI, is a composite indicator made up of five sectoral confidence indicators with different weights:
 - ✓ industrial confidence indicator (40 %);
 - ✓ construction confidence indicator (5 %);
 - ✓ services confidence indicator (30 %);
 - ✓ consumer confidence indicator (20 %);
 - ✓ retail trade confidence indicator (5 %).
- The economic sentiment indicator is published monthly by the European Commission.

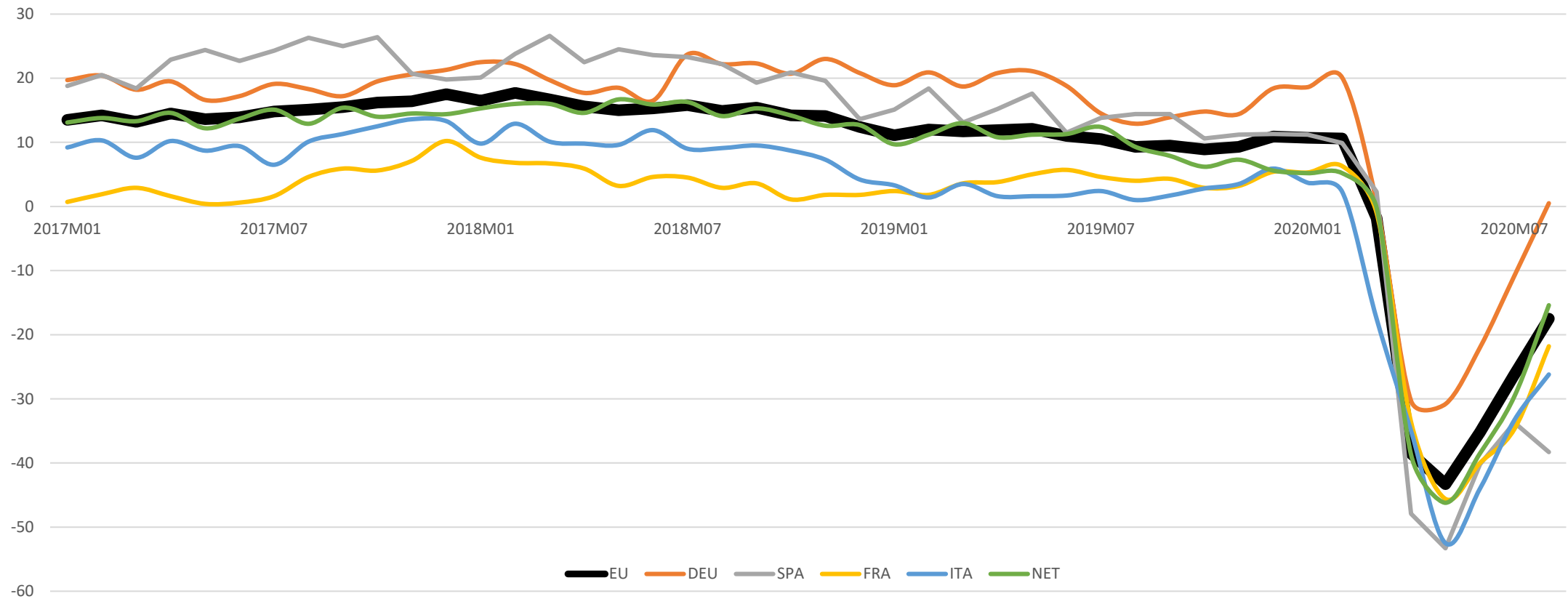
Introduction

- The evolution of these indicators is closely related to the GDP.
- Therefore, we can use them (ESI mainly) to predict the evolution of the GDP.
- However, we should take care in the interpretation of the results because are based on the opinions of the experts and do not represent real data.
- Then, it is advisable the use of better indicators (Industrial Production, Retail Sales...)
- Having said that...

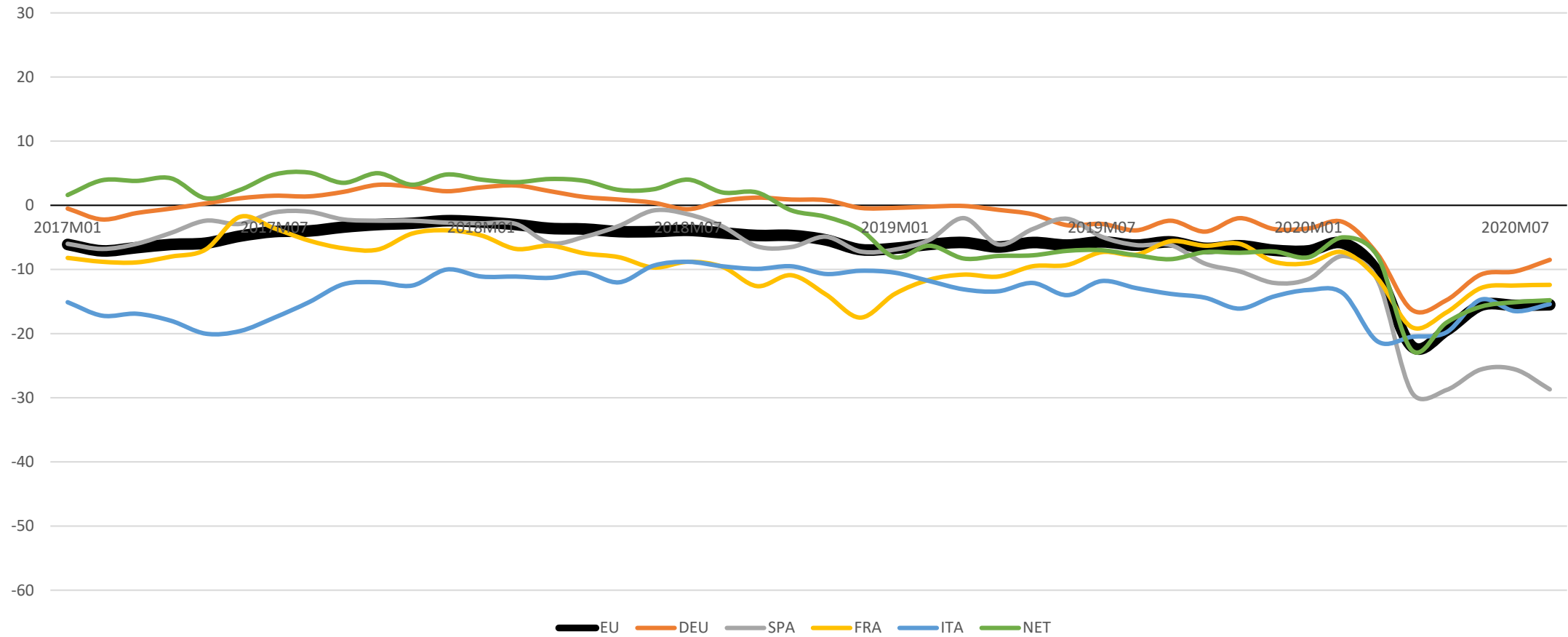
European Industrial Confidence Indicator



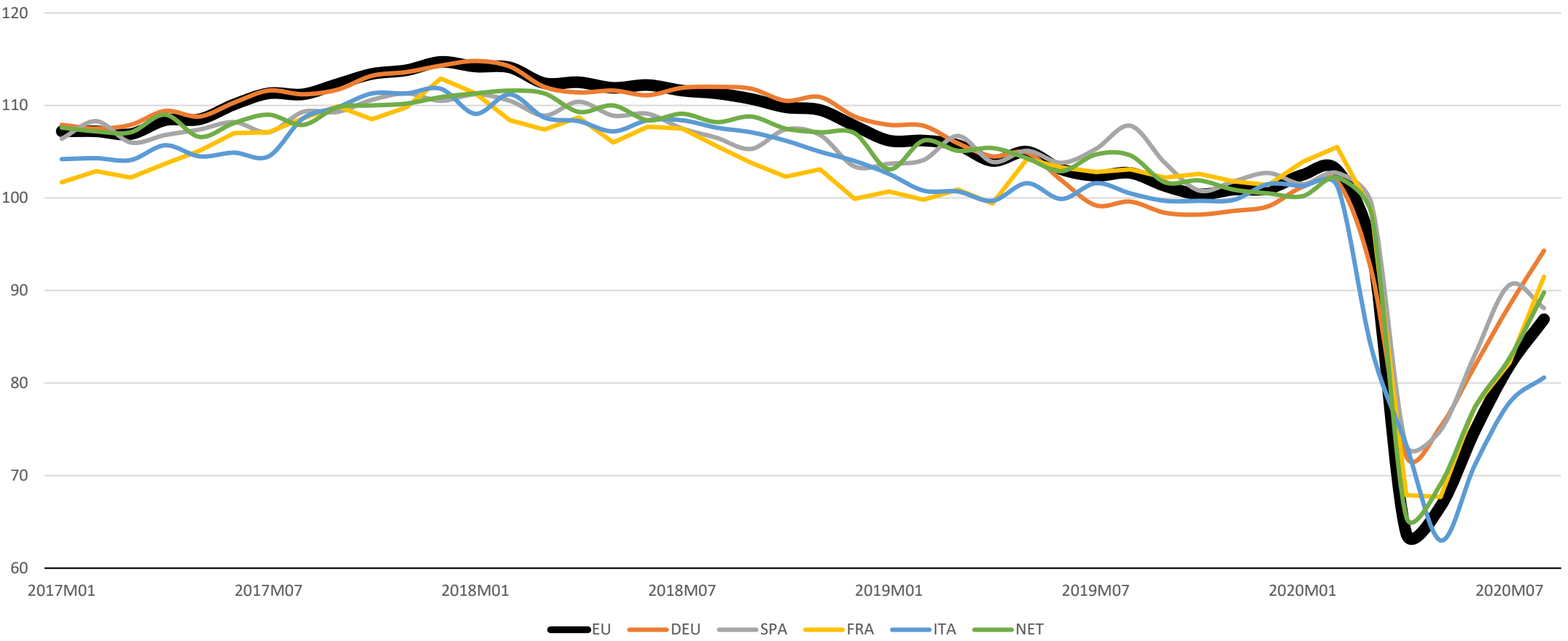
European Service Confidence Indicator



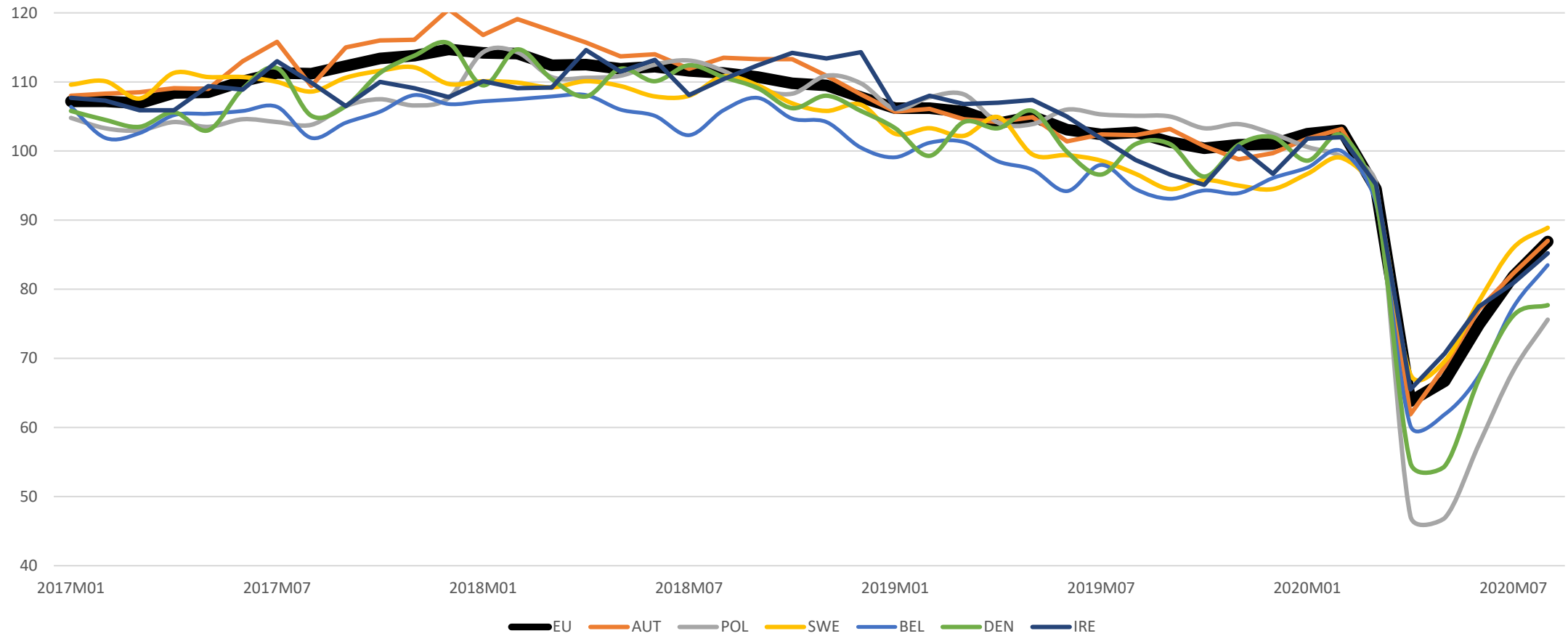
European Consumer Confidence Indicator



European Sentiment Indicator



European Sentiment Indicator



Predictions

- We can use these sentiment indicators in order to predict the behavior of the European economies for the third quarter of 2020
- We should insist on the fact that these indicators are based on surveys and do not reflect the real behavior of the economies, just the opinions.
- Then, we should take these predictions as mere approximations. Once we can get the true data of some useful economic indicators (Industrial production, Retail Sales...) we can refine these predictions.

Quarter GDP growth (real terms)

	EU	DEU	SPA	FRA	ITA	NET
2019Q1	-4.4	-1.1	-4.6	-2.0	-4.4	-2.9
2019Q2	2.8	-0.9	5.1	1.0	3.4	4.7
2019Q3	0.2	2.3	-1.8	-1.7	-0.1	-3.9
2019Q4	2.6	0.0	3.3	3.5	1.3	4.0
2020Q1	-7.8	-3.1	-9.7	-7.8	-9.8	-4.6
2020Q2	-9.8	-10.5	-15.0	-13.8	-9.2	-4.9
2020q3	3.4	6.0	4.9	1.5	3.5	2.1

GDP annual growth (real terms)

	EU	DEU	SPA	FRA	ITA	NET
2019Q1	1.59	1.05	2.50	1.44	0.13	1.61
2019Q2	1.38	-0.29	1.83	1.94	0.24	1.69
2019Q3	1.93	1.24	1.95	1.97	0.78	1.78
2019Q4	1.15	0.23	1.67	0.71	0.05	1.63
2020Q1	-2.42	-1.81	-3.75	-5.29	-5.63	-0.16
2020Q2	-14.40	-11.29	-22.09	-19.15	-17.10	-9.31
2020q3	-11.70	-8.04	-16.77	-16.49	-14.13	-3.62

Final Assessments

- According to the European Commission “The EU economy is forecast to contract by 8.3% in 2020”.
- Taking our predictions for 2020Q3, this goal could be achieved whenever the EU economies would grow a 10% in 2020Q4.
- Assuming that the EU economies grow at the same rate that they did in 2020Q3 (3.41), a much probable value, then we would get a contraction of 9.9% in 2020.
- The contraction would not affect the European countries in a similar manner. Germany and the Netherlands would exhibit relatively moderate growth rates (around -5.0% in 2020), whilst Spain may even triplicate this figure.
- Then, it seems necessary to revisit the predictions and get ready for a crisis worse than expected.