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EUROSYSTEM

# SUMMARY OF MACROECONOMIC DEVELOPMENTS

DECEMBER 2019

## Summary of macroeconomic developments, December 2019

*Economic growth in the euro area is stagnating at a low level. The year-on-year rate stood at 1.2% in the third quarter, where it has been since the final quarter of last year. Judging by the monthly activity indicators, the growth was driven solely by services, as industrial production declined sharply compared with the second quarter while year-on-year growth in construction activity stopped. According to the confidence indicators, the situation might even have been slightly worse in the final quarter of this year: the economic sentiment indicator was down on the third quarter, as all sectors saw a decline in confidence. The composite PMI was also down on the third quarter, this time largely on account of services. According to the OECD's November forecasts, economic growth is expected to remain low over the medium term, at just over 1%. This is attributable to the continuing weakness of foreign demand, and political tensions, which will weaken exports and private-sector investment. Growth is expected to be driven mainly by domestic demand, as the situation on the labour market allows for the further strengthening of private consumption, while fiscal policy will also help to boost aggregate demand. While trade tensions continue, the main risk is of a sharper decline in activity in industry spreading to services, which would also have an adverse impact on employment and wages.*

*Economic growth in Slovenia is continuing to slow, but remains higher than in the euro area overall. Quarterly growth in the third quarter strengthened to 0.8% according to seasonally and calendar-adjusted figures, but the year-on-year rate slowed again. It nevertheless stood at 2.0%, outpacing the euro area average by 0.8 percentage points. Growth in merchandise exports slowed sharply, and was more in line with the situation in the international environment after the revision of the data.*[1] *Growth in value-added in manufacturing nevertheless remains relatively high compared with industry across Europe. The slowdown in economic growth over the least year is therefore largely attributable to the slower growth in activity in private-sector services, while the contribution made by construction was even negative in the third quarter. The weaker developments in construction are primarily tied to the slowdown in government investment following the completion of projects connected with last year's elections. There were few signs of economic growth picking up at the end of the year. Certain indicators point to the stabilisation of foreign demand and solid growth in turnover in individual service sectors, but the economic sentiment indicator has continued to decline. It is mainly consumers who have become less optimistic, and likewise retail firms in November, although household purchasing power is continuing to increase.*

*Despite slowing employment growth, the situation on the labour market allows further growth in private consumption. The year-on-year rise in the workforce in employment excluding self-employed farmers was still high in September when viewed over the longer time horizon, but at 2.4% was at its lowest level since April 2016. A year earlier, it had stood at 3.0%. The slowdown was largely attributable to manufacturing, where the employment expectations indicator for the final quarter of this year is already pointing to a freeze in hiring. In line with slowing employment growth and the structure of unemployment, where less employable people are prevalent, the fall in the number of registered unemployed is continuing to slow. The same is true of the surveyed unemployment rate, which stood at 4.8% in the third quarter, down just 0.2 percentage points in year-on-year terms. Real year-on-year growth in the average gross wage stood at 3.1% in September, higher than this year's average figure. Wage growth remained higher in public services. Despite the slowdown in employment growth, real*

[1] Under the national accounts revision published on 29 November, the SORS made no change to GDP growth during the first and second quarters of this year, but did revise its structure. Real year-on-year growth in exports in the first half of this year stood at 5.0% according to the new figures, 3.7 percentage points less than under the previous figures, while growth in imports was revised downwards by 5.5 percentage points to 4.4%. This means that the contribution to GDP growth by net trade in the first half of the year is now estimated at 0.8 percentage points, 1.1 percentage points more than under the previous figures. There was also a change in the contribution to GDP growth by changes in inventories: it amounted to -1.6 percentage points in the first half of the year under the revised figures, compared with -0.4 percentage points under the previous figures.

*growth in the wage bill remained relatively high, at 5.5% in September; the wage bill is now up over a quarter during the post-crisis period. Developments on the labour market are thus continuing to strengthen household purchasing power.*

*The 12-month current account surplus remained above 5.5% of GDP, despite a decline in the merchandise trade surplus. Nominal year-on-year growth in merchandise imports stood at 4.9% in the third quarter, broadly unchanged from the first half of the year, but was down 5.4 percentage points on the same period last year. This year's slowdown is in line with the weaker growth in investment and imports of goods for the needs of industry, and also with the decline in inventories in the first half of the year. Nominal year-on-year growth in merchandise exports slowed further in the third quarter, to just 3.0%, primarily because of falling sales of machinery and transport equipment on euro area markets. In addition, growth in exports of services also slowed; increased integration into international markets means that private-sector services are more sensitive to fluctuations in foreign demand than just over a decade ago. Year-on-year growth in exports of construction services began to slow in the second half of the year, and was strongly negative by September. In line with the unfavourable situation in global trade, there was also a sharp decline in growth in exports of transport services, while exports of travel services actually stagnated in year-on-year terms in the third quarter, according to current estimates. This ended the trend of a rising 12-month surplus of trade in services as measured by the ratio to GDP. The deficit in income also increased slightly over the first nine months of the year, albeit mostly as a result of increased payments of EU own resources into the EU budget.*[2]

*Consumer prices as measured by the HICP were up just 1.4% in year-on-year terms in November, inflation having slowed significantly from August, when it stood at 2.4%. The fall is largely attributable to a decline in the contributions made by energy prices. Under the influence of global oil prices, energy prices recorded a year-on-year fall for a third consecutive month in November, in the amount of 2.5%, primarily as a result of a base effect caused by last year's price rises. Inflation thus continues to be driven by services prices, which are recording their highest growth since 2009 based on robust domestic consumption and stronger wage growth. Services prices were up 3.3% in year-on-year terms in November, which contributed 1.2 percentage points to headline inflation. Despite rising unit labour costs and a rise of 2% in industrial producer prices for sales on the domestic market, prices of non-energy industrial goods were up just 0.1% in year-on-year terms in November in the absence of foreign inflationary pressures. Core inflation excluding food and energy prices stood at 1.9% in November; in the euro area overall the rate rose to 1.3%, primarily because of a rise in service price inflation.*

*The consolidated general government surplus narrowed significantly over the first ten months of the year. It amounted to EUR 363 million, EUR 472 million less in year-on-year terms. The narrowing was primarily the result of a base effect caused by last year's inflows of withheld funds from the EU budget for the previous financial framework, and a large dividend payment by NLB. Growth in revenues from taxes and social security contributions remained solid, albeit lower than in the previous two years, which is primarily a reflection of the tax break on annual leave allowance. While revenues from corporate income tax were up by a fifth, growth in taxes on consumption has remained low. Growth in expenditure has outpaced growth in revenues. Relatively high growth was recorded by investment expenditure, although it has slowed consistently since the middle of the year. Labour costs are up approximately 8% this year. The National Assembly approved the state budgets for 2020 and 2021, which plan for a surplus of around 1% of GDP. Budget plans and public finance projections are exposed to significant downside risks, including the potential for a sharper slowdown in economic growth.*

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[2] In the calculation of merchandise trade during the first nine months of this year, a partial reallocation of transactions from ordinary imports/exports to imports/exports for processing was made in the data source (the SORS). Gross flows of imports and exports in the balance of payments during the first eight months of the year were down EUR 984 million and EUR 1,321 million respectively on the previously published figures, which resulted in an increase of EUR 337 million in the merchandise trade surplus. The majority of the change was caused by the aforementioned reallocation of merchandise trade transactions. In the balance of payments goods are captured solely in cases of a change of ownership, and not merely when a border is crossed. In the case of processing only processing service is to be taken into account. Thus processing services from imports of goods for processing added EUR 33 million to the current account surplus compared with the calculation from the previous month.

## Selection of main macroeconomic indicators on a monthly basis

| | 12 m. 'till Sep.17 | 12 m. 'till Sep.18 | 12 m. 'till Sep.19 | 3 m. 'till Sep.18 | 3 m. 'till Sep.19 | 2019 Jul. | 2019 Aug. | 2019 Sep. | 2019 Oct. |
|---|---|---|---|---|---|---|---|---|---|
| **Economic Activity** | | | | | | | | | * data for nov.19 |
| | | | | *balance of answers in percentage points* | | | | | |
| Sentiment indicator | 10.4 | 13.1 | 8.3 | 9.8 | 5.9 | 6.8 | 6.0 | 4.8 | 4.1 (2.4*) |
| *- confidence indicator in manufacturing* | 8.3 | 9.4 | 2.8 | 4.3 | -0.3 | 0.0 | 0.0 | -1.0 | -1.0 (-3.0*) |
| | | | | *year-on-year growth rates in %* | | | | | |
| Industry: - total | 8.0 | 7.5 | 2.6 | 3.6 | 2.3 | 4.8 | 0.0 | 1.9 | ... |
| *- manufacturing* | 8.5 | 8.1 | 3.0 | 3.8 | 2.9 | 5.4 | 0.7 | 2.4 | ... |
| Construction: - total | 6.8 | 23.1 | 8.6 | 28.8 | -5.5 | -0.3 | -7.8 | -8.1 | ... |
| *- buildings* | 24.3 | 25.3 | 3.3 | 28.5 | -9.2 | -15.1 | 1.5 | -12.9 | ... |
| Trade and service activities - total | 6.2 | 7.6 | 4.9 | 8.4 | 2.8 | 4.6 | 2.2 | 1.6 | ... |
| Wholesale and retail trade and repair of motor vehicles anc | 15.3 | 15.2 | 2.9 | 15.7 | -1.6 | -3.5 | -7.8 | 6.7 | ... |
| Retail trade, except of motor vehicles and motorcycles | 6.1 | 2.2 | 6.0 | 3.2 | 3.3 | 5.2 | 2.5 | 2.3 | ... |
| Other private sector services | 5.2 | 8.1 | 4.0 | 9.0 | 2.1 | 4.5 | 2.4 | -0.3 | ... |
| **Labour market** | | | | *year-on-year growth rates in %* | | | | | |
| Average gross wage | 2.1 | 3.5 | 4.1 | 3.0 | 4.5 | 5.2 | 3.4 | 4.9 | ... |
| *- private sector* | 2.2 | 4.1 | 4.0 | 3.7 | 4.2 | 5.2 | 2.9 | 4.4 | ... |
| *- public sector* | 2.5 | 3.3 | 4.6 | 2.5 | 5.3 | 5.5 | 4.5 | 5.9 | ... |
| Real net wage[1] | 0.9 | 1.5 | 1.7 | 0.4 | 1.7 | 2.3 | 0.5 | 2.3 | ... |
| Registered unemployment rate (in % ) | 9.9 | 8.5 | 7.8 | 7.9 | 7.4 | 7.4 | 7.4 | 7.2 | ... |
| Registered unemployed persons | -13.0 | -13.2 | -6.3 | -9.5 | -5.5 | -5.5 | -5.8 | -5.3 | -5.0 |
| Persons in employment | 3.2 | 3.3 | 2.9 | 2.9 | 2.4 | 2.5 | 2.4 | 2.1 | ... |
| *- private sector* | 4.0 | 4.4 | 3.5 | 3.8 | 2.8 | 3.0 | 2.8 | 2.7 | ... |
| *- public sector* | 1.0 | 0.6 | 1.1 | 0.5 | 1.1 | 1.3 | 1.3 | 0.6 | ... |
| **Price Developments** | | | | *year-on-year growth rates in %* | | | | | |
| HICP | 1.3 | 1.8 | 1.8 | 2.1 | 2.1 | 2.0 | 2.4 | 1.7 | 1,5 (1,4*) |
| *- services* | 1.8 | 2.2 | 3.0 | 2.5 | 3.4 | 3.1 | 3.3 | 3.7 | 3,2 (3,3*) |
| *- industrial goods excluding energy* | -0.6 | -0.8 | 0.1 | -0.8 | 0.9 | 0.8 | 1.6 | 0.4 | 0,4 (0,1*) |
| *- food* | 1.8 | 2.7 | 1.5 | 2.0 | 2.5 | 2.8 | 2.7 | 1.9 | 1,5 (2,2*) |
| *- energy* | 3.4 | 5.4 | 2.7 | 8.1 | 0.0 | 0.5 | 1.0 | -1.4 | -1,5 (-2,5*) |
| Core inflation indicator[2] | 0.8 | 0.9 | 1.7 | 1.1 | 2.3 | 2.1 | 2.6 | 2.3 | 2,0 (1,9*) |
| **Balance of Payments - Current Account** | | | | | *in % GDP* | | | | |
| Current account balance | 5.6 | 6.1 | 5.6 | 6.8 | 5.9 | 7.5 | 5.1 | 5.3 | ... |
| 1. Goods | 3.5 | 3.2 | 2.3 | 3.1 | 2.0 | 3.5 | 0.7 | 1.7 | ... |
| 2. Services | 5.2 | 5.5 | 6.0 | 6.8 | 6.6 | 7.1 | 7.2 | 5.7 | ... |
| 3. Primary income | -2.4 | -1.7 | -1.7 | -2.2 | -1.7 | -1.8 | -1.8 | -1.5 | ... |
| 4. Secondary income | -0.8 | -0.8 | -1.1 | -1.0 | -0.9 | -1.3 | -0.9 | -0.6 | ... |
| | | | | *nominal year-on-year growth rates in %* | | | | | |
| Export of goods and services | 11.2 | 10.7 | 6.1 | 8.0 | 3.5 | 5.9 | 0.0 | 4.2 | ... |
| Import of goods and services | 12.2 | 11.1 | 6.7 | 9.1 | 5.2 | 7.6 | 0.3 | 7.1 | ... |

| **Public Finances** | 2017 | 2018 | 12 m. 'till Oct.19 | | 2018 Jan.-Oct. | | 2019 Jan.-Oct. | |
|---|---|---|---|---|---|---|---|---|
| Consolidated general government (GG) balance[3] | EUR milions | | % GDP | y-o-y, % | EUR mio | y-o-y, % | EUR mio | y-o-y, % |
| Revenue | 16,803 | 18,594 | 40.0 | 5.0 | 15,282 | 10.2 | 15,803 | 3.4 |
| Tax revenue | 15,162 | 16,225 | 35.7 | 6.6 | 13,346 | 6.6 | 14,159 | 6.1 |
| From EU budget | 391 | 796 | 1.6 | 12.9 | 556 | 102.0 | 518 | -6.7 |
| Other | 1,250 | 1,572 | 2.8 | -15.2 | 1,380 | 28.2 | 1,126 | -18.4 |
| Expenditure | 17,102 | 18,068 | 39.9 | 7.0 | 14,447 | 5.1 | 15,440 | 6.9 |
| Current expenditure | 7,733 | 7,966 | 17.4 | 5.2 | 6,407 | 3.1 | 6,776 | 5.8 |
| *- wages and other personnel expenditure* | 3,938 | 4,168 | 9.3 | 8.1 | 3,438 | 5.4 | 3,719 | 8.2 |
| *- purchases of goods, services* | 2,627 | 2,634 | 5.8 | 1.8 | 2,050 | 5.2 | 2,194 | 7.0 |
| *- interest* | 985 | 868 | 1.6 | -13.1 | 806 | -10.7 | 711 | -11.8 |
| Current transfers | 7,913 | 8,237 | 18.1 | 6.1 | 6,791 | 3.7 | 7,208 | 6.1 |
| *- transfers to individuals and households* | 6,665 | 6,926 | 15.2 | 5.6 | 5,773 | 4.0 | 6,119 | 6.0 |
| Capital expenditure, transfers | 1,078 | 1,432 | 3.2 | 17.4 | 889 | 34.1 | 989 | 11.2 |
| GG surplus/deficit | -299 | 526 | 0.1 | | 835 | | 363 | |

*Sources: SORS, Bank of Slovenia, Ministry of finance, Bank of Slovenia calculations.*
*Notes: Economic activity data are working day adjusted (with exception of sentiment and confidence indicators data, which are seasonally adjusted). Other data in the table are original. Monthly activity indicators for industry, construction and services are shown in real terms.*
*[1] HICP deflator. [2] Inflation excluding energy, food, alcohol, tobacco. [3] Consolidated central government budget, local government budgets and social security funds (pension and disability insurance fund and health insurance fund) in cash accounting principle.*