

BANKA

SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

AUGUST 2015

Summary of macroeconomic developments, August 2015

In the second quarter, aggregate economic trends in Slovenia's main trading partners remained stable, so did growth forecasts for this and next year. In the euro area, moderate economic growth continued, with household consumption as a major driver. This is reflected in retail trade turnover, increased sales of motor vehicles, and higher confidence in the services sector. At the same time, construction activity remained weak in line with the low level of investments. As Slovenian companies are highly involved in the international supply chains, quarterly decrease in the euro area industrial production was unfavourable. Nevertheless, industrial confidence indicator does not imply a further drop. That economic growth is still too weak to improve the situation on the labour market is visible from the unemployment rate, which remains above 11%. Growth in EU Member States outside the euro area was again solid, but the situation in Russia worsened further as GDP in the second quarter declined by 4.6% in year-on-year terms. Economic growth in Croatia and Serbia also remained relatively weak.

Available monthly data show a minor slowdown in domestic economic growth in the second quarter. Nevertheless, it should have again exceeded the euro area average. Growth continued to be supported by increasing export competitiveness, while the recovery in domestic demand – with the exception of purchases of durable goods – remained very moderate. This is reflected in the one-year surplus in the current account which, in June, exceeded 7% of GDP for the first time. In comparison to the beginning of the year, quarterly growth of industrial production slowed to less than 1%, mainly due to slower growth in the automotive industry. At the same time, growth in export-oriented services remained solid. On the other hand, household consumption was again relatively weak, at least in relation to the decrease in sales in retail trade. Growth continued to stand out in the sales of vehicles, but this is not entirely related to domestic buyers. Despite recent intensification of public investment, this has not resulted in the construction activity as it declined considerably in the second quarter.

The recovery in the labour market continues, but obscures a number of imbalances. In July, the number of registered unemployed fell below 110,000 for the first time since 2012, but with a rising share of long-term unemployed, which is currently at more than 54%. Among the unemployed, the share of those with tertiary education also continues to grow. In July it has exceeded 17%, which is approximately 7 percentage points more than before 2008. In the second quarter, the number of persons in employment excluding farmers was up approximately 1.5 % in year-on-year terms, but employment was again dominated by employment agencies. At the same time, growth in wages was notably reduced in an environment of moderate deflation. In the first half of the year it stood at only 0.5%. The growth of the real wage bill and thereby the purchasing power is thus ever more reliant on employment growth and falling prices.

In July, deflation has decreased by 0.2 percentage points to -0.7%. Due to falling oil prices, energy prices fell even further, but inflation in other product groups at least temporarily increased. In particular, the reduction of drop in prices of industrial goods excluding energy could be the result of the pass-through of euro depreciation – due to the quantitative easing of the ECB – to the final prices for consumers. Nevertheless, it is too early for reliable estimates at this moment. In the euro area inflation remained unchanged at 0.2%.

This year's reduction in the general government deficit to below 3% of GDP remains feasible, while for the permanent correction of the excessive deficit measures adopted in the preparation of government budgets for 2016 and 2017 will be of a key importance. For fiscal stability it is desired that the provisional measures are replaced with permanent ones as far as possible. In the first half of the year, absorption of EU funds was slightly higher than last year, and is expected to intensify further towards the end of the year. In the next year, these funds will drop significantly with the beginning of the new financial perspective, which will influence economic activity through lower government investments.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till	12 m. 'till	12 m. 'till	3 m. 'till	3 m. 'till	2015	2015	2015	2015
	Jun. 13	Jun. 14	Jun. 15	Jun. 14	Jun. 15	Apr.	May.	Jun.	Jul.
Economic Activity									
<i>* data for Aug. 15</i>									
<i>balance of answers in percentage points</i>									
Sentiment indicator	-17.0	-8.4	2.7	-1.9	5.1	5.0	5.2	5.1	3.5 (6.9*)
- confidence indicator in manufacturing	-10.4	-1.0	4.4	3.3	5.3	4.0	6.0	6.0	6.0 (8.0*)
<i>year-on-year growth rates in %</i>									
Industry: - total ¹	-1.6	0.2	3.5	1.6	4.3	4.3	5.5	3.1	...
- manufacturing	-3.0	0.8	5.2	2.5	5.6	5.9	6.8	4.1	...
Construction: - total ²	-17.1	21.1	1.2	40.0	-9.8	-6.9	-9.8	-12.2	...
- civil engineering	-28.0	-1.2	-0.8	6.5	-2.7	-5.2	-0.5	-2.7	...
Trade (volume turnover)									
Total retail trade	-3.7	-1.9	0.6	-1.1	0.9	-0.6	2.9	0.6	...
Retail trade and repair of motor vehicles	-2.1	4.5	11.9	-2.9	16.6	11.9	18.8	19.0	...
Private sector services ³	-2.4	1.6	...	2.0	...	2.3	3.0
<i>year-on-year growth rates in %</i>									
Labour market									
Average gross wage	-0.8	0.7	0.9	1.1	0.6	0.8	-0.2	1.2	...
- private sector	0.1	1.4	0.8	1.4	0.5	0.7	-0.9	1.5	...
- public sector	-2.2	-0.1	1.4	0.8	1.0	1.1	1.0	1.0	...
Real net wage ⁴	-2.4	-0.1	0.9	0.2	1.0	1.2	0.2	1.5	...
Registered unemployment rate (in %)	12.6	13.3	12.7	13.1	12.3	12.5	12.3	12.0	...
Registered unemployed persons	5.0	5.1	-4.2	1.2	-6.4	-7.0	-6.1	-6.1	-5.7
Persons in employment	-2.4	-0.7	1.1	0.6	0.7	0.8	0.6	0.6	...
- private sector	-3.0	-0.6	1.7	0.8	1.1	1.3	1.1	1.1	...
- public sector	-1.1	-0.7	-0.2	0.0	-0.5	-0.4	-0.6	-0.5	...
<i>year-on-year growth rates in %</i>									
Price Developments									
HICP	2.7	1.2	-0.3	0.8	-0.8	-0.7	-0.8	-0.9	-0.7
- services	1.8	2.3	1.3	2.3	0.4	0.9	0.4	0.0	0.4
- industrial goods excluding energy	-0.7	-0.6	-1.1	-0.6	-1.1	-1.4	-1.1	-0.7	0.1
- food	5.8	2.4	0.7	0.7	1.1	1.6	1.0	0.8	1.2
- energy	6.2	-0.3	-4.4	0.2	-6.4	-7.2	-5.8	-6.3	-7.4
Core inflation indicator ⁵	0.7	1.0	0.3	1.0	-0.2	-0.1	-0.2	-0.3	0.3
<i>in % GDP</i>									
Balance of Payments - Current Account									
Current account balance	5.0	5.8	7.1	7.0	8.2	7.0	5.8	11.8	...
1. Goods	1.6	2.3	3.7	3.1	4.4	1.1	4.1	7.9	...
2. Services	4.7	4.5	4.9	4.6	5.0	6.0	4.2	4.8	...
3. Primary income	-0.5	-0.3	-0.8	-0.1	-0.1	1.0	-1.1	-0.2	...
4. Secondary income	-0.8	-0.7	-0.8	-0.7	-1.1	-1.2	-1.4	-0.6	...
<i>nominal year-on-year growth rates in %</i>									
Export of goods and services	1.6	3.5	6.6	3.8	5.9	1.2	5.3	11.2	...
Import of goods and services	-4.5	2.8	4.2	4.2	3.7	4.5	0.1	6.4	...
Public Finances									
Consolidated general government (GG) balance ⁶	2013	2014	12 m. 'till		2014		2015		
			apr. 15	y-o-y, %	jan.-apr.	y-o-y, %	jan.-apr.	y-o-y, %	
	<i>EUR milions</i>		% GDP		EUR mio		EUR mio		
Revenue	14,728	15,494	41.6	4.0	4,920	6.8	5,075	3.2	
Tax revenue	12,648	13,193	35.8	4.1	4,263	6.8	4,525	6.1	
From EU budget	938	1,040	2.8	9.3	307	7.4	315	2.7	
Other	1,141	1,261	3.0	-1.5	350	6.8	236	-32.7	
Expenditure	16,286	16,755	44.5	2.7	5,625	0.6	5,626	0.0	
Current expenditure	6,838	7,043	18.7	3.3	2,546	-0.9	2,543	-0.1	
- wages and other personnel expenditure	3,617	3,610	9.6	-0.1	1,207	0.3	1,213	0.5	
- purchases of goods, services	2,239	2,233	5.8	0.0	715	-5.5	680	-4.9	
- interest	840	1,097	2.9	23.6	595	8.7	595	0.1	
Current transfers	7,671	7,592	20.1	-1.2	2,574	-0.4	2,551	-0.9	
- transfers to individuals and households	6,343	6,335	16.9	0.4	2,093	-0.9	2,107	0.7	
Capital expenditure, transfers	1,351	1,717	4.6	21.9	309	29.8	327	5.5	
GG surplus/deficit	-1,558	-1,261	-2.9	-13.6	-705	-28.2	-551	-21.9	

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.

¹ Volume of industrial production. ² Real value of construction put in place. ³ Nominal turnover in private sector services, excluding trade and financial services. ⁴ CPI deflator. ⁵ Inflation excluding energy, food, alcohol, tobacco. ⁶ Consolidated central government budget, local government budgets and social security funds (pension and disability insurance fund and health insurance fund) in cash accounting principle.