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SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

MAY 2015

Summary of macroeconomic developments, May 2015

Economic growth in the euro area in the first quarter continued to strengthen, although unevenly and on average with only moderate dynamics. Quarterly growth rose to 0.4% and the y-o-y rate to 1.0%. German growth was slightly behind expectations, while in most other core euro economies growth rates rose. After four months of negative inflation, y-o-y price growth in April returned to zero and the prevailing expectations are that it will draw slowly further from the zone of deflation in the following months. Sentiment indicators declined slightly in April and May after three months of growth, but remained at the highest levels in the last three years. Most forecasts for major Slovenian export markets remains favourable, except for Russia.

Solid foreign demand and improvement of cost competitiveness have in the first quarter maintained good growth of Slovenian industrial production and exports, as well as exports of services, so that the current account surplus remained at a level of around 6% of GDP. Growth in the manufacturing sector is currently fairly dispersed, but it can't be overlooked that in recent years Slovenian exports have been upheld mainly by just three higher tech industries. The contribution of labour productivity growth is again very small.

In comparison with the data from the export sector signals from the domestic market continue to be mixed. The consumer confidence indicator continued to grow until May, while on the other hand data for retail turnover up to March were showing barely noticeable y-o-y growth and even a slight decline in current trend, an exception being only trade with motor vehicles. Construction was down slightly y-o-y and in stagnated m-o-m. Very strong positive dynamics are present only in the broad group of services (without trade), spread out in almost all branches.

An overall assessment is that good growth was maintained in the first quarter, which is also confirmed by data from the labour market. Employment has been rising steadily at a rate of about 2% p.a. since last spring, without reduction in pace till March. Due to the growing reliance on agency workers reliable information on the sectoral structure of employment has regrettably been lost. The unemployment rate remains high, but in the last year fell by one percentage point and the decline continued until April. This reduction is still too weak to affect the average wage, the y-o-y growth of which fell back to around 1% in the beginning of the year. This and the increasing precarization of employment likely explains why the increased dynamics on the labour market has not yet spilled over to comparable growth of household consumption.

April HICP inflation hit another "record" low of -0.7%. This time this was due mostly to strong decreases in some groups of services prices, which influenced all indicators of core. Given the situation on the retail market low positive rates of core inflation are likely to continue for some time still. This year's deflation is determined by negative growth in the prices of energy, which contributed 1.1 percentage points downwards to overall inflation in April (0.4 points more than in the euro area because of the larger Slovenian weights and the recent reductions in excise duties). In the following months this influence will slowly decline, starting noticeably already in May, but will most likely hold the overall y-o-y inflation below zero until autumn.

The Ministry of Finance is planning this year's general government deficit at 2.9% of GDP, which would finally place it within the limits of the Pact of Stability and Growth. Data from the cash flow methodology for the first two months of the year show a y-o-y decrease in revenues and an even stronger decrease in expenditure. Specific data for the taxes and contributions segment indicate their much better realization in the next two months and an annual increase of 6% for the first four months; growth is shown for all groups of taxes and contributions. Government borrowing has become much cheaper: a 20-year bond was issued at 1.5% in March and 12-month treasury bills at 0.19% in April.

Table: Selection of main macroeconomic indicators on a monthly basis

Economic Activity	12 m. 'till	12 m. 'till	12 m. 'till	3 m. 'till	3 m. 'till	2015	2015	2015	2015
	Mar.13	Mar.14	Mar.15	Mar.14	Mar.15	Jan.	Feb.	Mar.	Apr.
	<i>* data for May 15</i>								
	<i>balance of answers in percentage points</i>								
Sentiment indicator	-17.6	-11.5	0.9	-8.3	4.1	2.9	4.0	5.5	5.1 (5.2*)
- Confidence indicator in manufacturing	-12.0	-3.3	3.8	-1.0	5.7	4.0	5.0	8.0	4.0 (6.0*)
	<i>year-on-year growth rates in %</i>								
Industry: - total¹	-0.9	-1.0	2.6	-0.6	5.2	5.4	5.6	4.6	...
- Manufacturing	-2.5	-0.8	4.3	1.7	6.2	6.6	6.9	5.4	...
Construction: - total²	-18.4	8.3	12.7	36.8	-1.6	-3.0	3.3	-4.0	...
- Civil engineering	-23.6	-9.9	1.4	6.7	-5.5	-0.7	-6.2	-8.7	...
Trade (volume turnover)									
Total retail trade	-3.6	-2.3	0.0	-0.9	0.2	-0.1	2.7	-1.8	...
Retail trade and repair of motor vehicles	-6.4	8.6	6.0	8.0	9.4	9.4	11.2	7.8	...
Private sector services³	-2.5	1.0	...	2.9	...	3.0	6.6
	<i>year-on-year growth rates in %</i>								
Average gross wage	-0.6	0.3	1.0	0.9	0.5	0.2	-0.3	1.6	...
- Private sector	0.1	1.1	1.0	1.8	0.1	-0.8	-0.4	1.5	...
- Public sector	-1.9	-0.7	1.4	-0.3	1.3	2.0	0.0	1.9	...
Real net wage⁴	-2.5	-0.5	0.7	0.3	0.6	0.2	0.0	1.4	...
Registered unemployment rate (in %)	12.3	13.3	12.9	14.1	13.2	13.5	13.3	12.8	...
Registered unemployed persons	1.9	7.5	-2.3	4.1	-5.5	-4.3	-5.6	-6.8	-7.0
Persons in employment	-2.1	-1.5	1.1	-0.6	1.8	1.6	1.8	1.9	...
- Private sector	-2.8	-1.5	1.6	-0.8	2.6	2.4	2.7	2.7	...
- Public sector	-0.4	-1.3	0.0	-0.4	-0.2	-0.3	-0.3	-0.2	...
	<i>year-on-year growth rates in %</i>								
HICP	2.8	1.4	0.1	0.6	-0.5	-0.7	-0.5	-0.4	-0.7
- Services	1.5	2.3	1.7	1.9	1.7	1.7	2.0	1.6	0.9
- Industrial goods excluding energy	-0.2	-0.9	-1.0	-0.5	-0.8	-0.3	-0.8	-1.2	-1.4
- Food	5.4	3.6	0.6	1.5	0.7	0.1	0.7	1.4	1.6
- Energy	8.0	0.1	-2.7	-2.3	-7.5	-8.3	-7.8	-6.5	-7.2
Core inflation indicator⁵	0.7	0.9	0.6	0.9	0.7	0.8	0.8	0.4	-0.1
	<i>in % GDP</i>								
Current account balance	4.0	5.2	5.9	3.9	4.7	4.2	-1.0	10.6	...
1. Goods	1.0	2.3	3.7	3.5	4.2	3.3	1.6	7.4	...
2. Services	4.4	4.6	4.8	3.7	4.7	5.0	3.5	5.5	...
3. Primary income	-0.6	-1.1	-1.8	-1.3	-2.2	-2.7	-2.9	-1.0	...
4. Secondary income	-0.7	-0.7	-0.7	-1.9	-2.0	-1.5	-3.2	-1.3	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	1.1	3.2	6.3	4.6	5.3	0.7	6.4	8.6	...
Import of goods and services	-4.1	0.9	4.3	4.8	3.3	-2.7	6.3	6.2	...
	<i>in % GDP</i>								
Public Finances									
Consolidated general government (GG) balance⁶	2013	2014	12 m. 'till	2014	2015				
			Feb.15	Jan.-Feb.	Jan.-Feb.				
	<i>EUR millions</i>		<i>% GDP</i>	<i>y-o-y, %</i>	<i>EUR mio</i>	<i>y-o-y, %</i>	<i>EUR mio</i>	<i>y-o-y, %</i>	
Revenue	14,728	15,492	41.4	4.2	2,429	4.4	2,386	-1.8	
Tax revenue	12,648	13,192	35.4	3.8	2,130	4.9	2,168	1.7	
From EU budget	938	1,040	2.9	16.4	79	-22.9	104	30.5	
Other	1,141	1,260	3.1	-1.0	219	14.0	115	-47.6	
Expenditure	16,286	16,751	44.6	1.6	2,915	3.7	2,816	-3.4	
Current expenditure	6,838	7,042	18.7	1.3	1,297	5.2	1,248	-3.8	
- Wages and other personnel expenditure	3,617	3,610	9.6	-2.2	645	8.1	620	-3.9	
- Purchases of goods, services	2,239	2,232	5.8	-3.3	361	2.3	301	-16.5	
- Interest	840	1,097	3.0	27.1	278	18.1	302	8.7	
Current transfers	7,671	7,592	20.2	-2.1	1,349	2.0	1,296	-3.9	
- Transfers to individuals and households	6,343	6,335	16.9	-0.1	1,039	-0.8	1,033	-0.6	
Capital expenditure, transfers	1,351	1,714	4.6	25.3	139	11.2	135	-3.1	
GG surplus/deficit	-1,558	-1,259	-3.2	-23.0	-486	0.7	-430	-11.6	

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.