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SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

MAY 2016

Summary of macroeconomic developments, May 2016

Economic growth in the euro area in the first quarter exceeded expectations. GDP was up 0.5% on the final quarter of last year, which was most likely a factor in Consensus raising its growth forecast for 2016 back to 1.6%. Euro area growth will be driven by strengthened last year's pattern of increased domestic demand, including investment, while growth in imports and exports will be weaker. The forecasts for global economic growth continue to be lowered. According to Consensus estimates, this year's growth rate is already below last year's level. The price of Brent crude approached USD 50 per barrel in mid-May, while the fall in other commodity prices has at least come to an end this year. In the wake of a further recovery in oil prices, euro area inflation will return to positive territory in the second half of the year.

The monthly indicators of activity for the first quarter of this year suggest a strengthening of growth in numerous sectors of the Slovenian economy. Firms' annual accounts indicate a sharp increase in profits in 2015, while growth in revenues has continued this year. Private consumption strengthened in the first quarter, as sales increased in numerous segments of retail trade, while expenditure on leisure increased again. At the same time the service sector is continuing to increase its revenues on foreign markets. Exports of services in the first quarter were up just over 9% in year-on-year terms. High growth in output was recorded by the manufacturing sector, which also increased exports by means of significant price cuts, which were facilitated by low input costs of energy and commodities. Besides problems in the energy sector, the major brake on growth in value-added in the first quarter was the pronounced decline of more than 30% in construction activity following the decline in public investment at the end of the European financial framework 2007-2013. However, even in the construction sector there is no general crisis, as residential construction is increasing, and was up just over a half in year-on-year terms in the first quarter.

Employment is continuing to grow, while private consumption is gradually being strengthened also by wage growth. The workforce in employment excluding agricultural workers increased by 1.8% in the first quarter. The highest growth in the private sector was again recorded by administrative and support service activities, where growth in employment activities has slowed in recent months. This could be a sign of diminishing uncertainty at firms, as they have to a greater extent begun hiring directly. The indicators of employment expectations are also continuing to improve, with the sole exception of construction. The largest increase in the workforce in employment in mostly public services was recorded by human health and social work activities. Unemployment in April was down 8.2% on the same month last year, as outflows from unemployment into employment have increased, while at the same time the number of people losing employment because of redundancies and bankruptcies is falling. Year-on-year growth in nominal gross wages reached 2.3% in the first quarter, the highest figure of the last five years, as wages increased in the majority of sectors. In the private sector moderate wage growth is being afforded by good corporate performance, while in mostly public services it is primarily attributable to the agreed relaxation of promotions.

The year-on-year fall in energy prices remains the main factor in deflation, which stood at 0.7% in April. This was 0.2 percentage points less than in March, as the negative contribution made by energy prices eased somewhat owing to the recovery in global oil prices and an increase in the year-on-year contribution made by excise duties on refined petroleum products. Cost pressures from the rest of the world are nevertheless insignificant for the moment, as the level of US dollar commodity prices is still low while the effects of their increase on inflation are being mitigated by the rise in the euro. The narrowest core inflation indicator also remains low, and below the euro area average: it stood at 0.6% in April.

The fiscal position is improving, although the required consolidation will curb economic growth, at least over the medium term. The general government deficit amounted to 2.9% of GDP last year, which allows Slovenia to exit the excessive deficit procedure. The figure initially announced for the deficit was even smaller, and the later upward revision was primarily the result of the coordination of the disclosure of BAMC transactions in government accounts with Eurostat. With its exit from the excessive deficit procedure, Slovenia will move to the preventive arm of the Stability and Growth Pact. In conjunction with the fiscal rule, this requires further structural adjustment in public finances. This has been planned in this year's update to the Stability Programme, but in the opinion of the European Commission further measures will be needed to ensure compliance with the Stability and Growth Pact, which could curb growth in domestic demand. The general government deficit is continuing to narrow, as the growth in revenues and decline in expenditure continue. There has also been a notable decline in government investment activity, in line with expectations.

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	2016	2016	2016
	Feb.14	Feb.15	Feb.16	Feb.15	Feb.16	Dec.	Jan.	Feb.	Mar.
Economic Activity									
	* data for Apr.16								
	<i>balance of answers in percentage points</i>								
Sentiment indicator	-12.2	-0.2	5.1	3.2	4.7	6.6	4.0	3.6	3.8 (6.1*)
- confidence indicator in manufacturing	-3.9	3.0	5.8	5.0	5.3	7.0	4.0	5.0	4.0 (8.0*)
	<i>year-on-year growth rates in %</i>								
Industry: - total ¹	-1.5	2.9	5.2	4.4	5.1	2.4	6.3	6.3	4.4
- manufacturing	-1.6	4.6	5.8	5.9	5.9	1.8	7.3	8.2	5.8
Construction: - total ²	2.5	16.3	-11.2	2.9	-25.5	-22.2	-25.9	-29.7	-36.7
- civil engineering	-15.9	2.7	-4.3	0.5	-6.8	-8.1	-9.4	-2.4	-7.8
Trade (volume turnover)									
Total retail trade	-2.7	0.1	0.7	0.1	0.7	1.1	2.0	-1.2	-0.2
Retail trade and repair of motor vehicles	7.4	6.2	15.3	10.6	19.0	11.4	17.0	29.4	20.1
Private sector services ³	0.2	3.0	4.0	3.2	4.8	5.8	5.0	3.3	...
	<i>year-on-year growth rates in %</i>								
Average gross wage	0.2	0.9	1.2	0.4	2.3	1.6	1.5	3.8	2.8
- private sector	1.0	1.0	0.9	0.3	1.5	0.5	0.4	3.6	2.3
- public sector	-0.8	1.2	1.8	1.1	3.8	3.9	3.2	4.4	3.9
Real net wage ⁴	-0.6	0.6	1.5	0.5	2.7	1.9	1.8	4.0	3.5
Registered unemployment rate (in %)	13.2	13.0	12.2	13.3	12.6	12.3	12.9	12.6	12.0
Registered unemployed persons	8.2	-1.4	-6.2	-4.5	-5.2	-5.3	-4.9	-5.3	-6.7
Persons in employment	-1.7	0.9	0.7	1.5	0.5	0.5	0.5	0.6	0.8
- private sector	-1.8	1.3	0.6	1.9	0.3	0.0	0.3	0.4	0.6
- public sector	-1.4	0.1	0.7	0.6	1.1	1.5	0.9	0.9	1.4
	<i>year-on-year growth rates in %</i>								
Price Developments									
HICP	1.5	0.2	-0.8	-0.4	-0.8	-0.6	-0.8	-0.9	-0.9
- services	2.3	1.8	0.7	1.9	0.7	0.9	0.7	0.6	0.9
- industrial goods excluding energy	-1.0	-0.9	-0.5	-0.7	-0.3	-0.2	-0.4	-0.2	-0.3
- food	4.0	0.5	0.9	0.3	0.4	1.0	0.0	0.3	0.3
- energy	0.6	-2.4	-7.6	-6.8	-7.5	-7.9	-6.4	-8.0	-9.2
Core inflation indicator ⁵	0.8	0.7	0.2	0.8	0.3	0.4	0.2	0.2	0.4
	<i>in % GDP</i>								
Balance of Payments - Current Account									
Current account balance	5.6	6.8	8.1	4.5	5.6	3.3	8.6	5.1	9.2
1. Goods	2.2	3.3	4.8	2.5	4.0	0.4	6.5	5.2	6.4
2. Services	4.7	4.8	5.3	4.2	4.6	5.0	4.8	3.8	6.4
3. Primary income	-0.5	-0.6	-0.9	-1.1	-1.2	-0.7	-2.0	-1.0	-1.5
4. Secondary income	-0.8	-0.7	-1.2	-1.2	-1.7	-1.4	-0.8	-2.9	-2.1
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	2.7	5.6	5.4	6.5	4.8	3.6	2.2	8.5	0.8
Import of goods and services	-0.5	3.9	2.6	2.6	2.3	6.8	-3.2	2.9	-0.1
	<i>Public Finances</i>								
	2014	2015	12 m. 'till	2015		2016			
Consolidated general government (GG) balance ⁶			jan.16	jan.-jan.	jan.-jan.	jan.-jan.			
	<i>EUR milions</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	15,494	15,714	40.7	1.0	1,313	6.5	1,328	1.2	
Tax revenue	13,193	13,746	35.5	3.2	1,222	7.6	1,176	-3.7	
From EU budget	1,040	882	2.4	-10.0	32	16.8	90	181.3	
Other	1,261	1,085	2.8	-13.0	59	-14.2	62	4.9	
Expenditure	16,755	16,957	43.6	0.6	1,423	-1.2	1,300	-8.6	
Current expenditure	7,043	7,168	18.5	1.3	638	2.1	616	-3.5	
- wages and other personnel expenditure	3,610	3,610	9.3	-0.8	316	5.5	304	-3.9	
- purchases of goods, services	2,233	2,311	6.0	4.7	155	-12.4	158	2.2	
- interest	1,097	1,043	2.7	-5.0	143	0.6	144	0.6	
Current transfers	7,592	7,539	19.4	-1.2	676	-3.0	615	-9.1	
- transfers to individuals and households	6,335	6,370	16.5	0.7	516	0.2	529	2.6	
Capital expenditure, transfers	1,717	1,817	4.6	3.4	74	5.4	36	-52.0	
GG surplus/deficit	-1,261	-1,243	-2.9	-5.1	-110	-47.1	29	-126.0	

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.