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BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

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Summary of macroeconomic developments, November 2016

Despite various geopolitical uncertainties, forecasts for global economic growth remain unchanged for the moment. Economic growth mostly remains moderate in advanced economies: growth increased slightly in the third quarter in the US and the UK, while in the euro area it remained unchanged from the second quarter according to Eurostat's preliminary estimates, at 0.3% in quarterly terms and 1.6% in year-on-year terms. The economic sentiment indicator for the euro area calculated by the European Commission rose in October as a result of increased confidence in industry and services, while there was no significant change in consumer confidence. This was in line with September's figures for the harmonised unemployment rate, which remained high at 10%, and with the figures for retail turnover, which was up merely just over 1% in year-on-year terms in September. In addition to the slowdown in growth in the retail sector, developments in industry have also been weaker this year, while construction is recovering, partly in connection with slightly stronger investment in residential construction.

According to the available monthly indicators of confidence and activity, growth in the Slovenian economy in the third quarter remained at a similar level to the first half of the year. Growth in industrial production again sharply out-performed the average across the euro area, despite the slowdown in nominal growth in exports, which had previously been flagged by confidence indicators. The growth in and structure of imports suggest a further strengthening of domestic demand with increased private consumption, which is being supported by a dynamic labour market, and increased private-sector investment. The government sector is also increasing its final consumption. The conditions on the domestic market thus remain favourable to growth in turnover in private-sector services. Nominal growth in exports of services in the third quarter was also up on the second quarter, primarily as a result of a favourable holiday season and increased exports of construction services. In addition to exports, the construction sector is also gradually increasing its activity on the domestic market, most notably in the residential buildings segment. Economic activity is also expected to increase at the turn of the year: according to the SURS survey, firms in all sectors remain optimistic with regard to future demand.

On the labour market, employment remained dynamic in the third quarter. The year-on-year increase in the workforce in employment reached 2.7% in September, after the elimination of the statistically unreliable category of farmers. The fall in the number of unemployed has accordingly strengthened this year. According to Eurostat's monthly estimate, the seasonally adjusted unemployment rate fell to 7.7% in September, down 1 percentage point on a year earlier, and just 1 percentage point higher than in the most recent stable part of Slovenia's cycle before 2006. Growth in wages has also picked up this year, partly due to agreed increases in the public sector and partly due to relatively strong bonus payments in the private sector. Risks to wage growth are on the upside due to ongoing negotiations in the public sector, while in the private sector wages should increase according to gains in productivity.

The stronger domestic demand has stabilised the 12-month merchandise trade surplus in recent months. It amounted to 4.3% of GDP between July and September. The further widening of the current account surplus was attributable to an increase in the surplus of trade in services and a narrower deficit in income. In September the former was 0.3 GDP percentage points wider than at the beginning of the year, while the latter was 0.6 GDP percentage points narrower. The overall 12-month current account surplus stood at a high 6.8% of GDP in September, which in addition to changes in the income position was also a reflection of the favourable terms of trade, the persistent relatively low level of domestic final consumption and investment, and the competitiveness of the export sector.

The general government deficit is continuing to diminish. General government revenues over the first eight months of the year were up 1.0% in year-on-year terms; the low growth was primarily attributable to a decline in revenue from the EU budget. Expenditure was down 1.4% over the same period as a result of a decline in public investment. The other major categories of expenditure are increasing, most notably wages and transfers to households, which includes pensions, which is contributing to growth in private consumption. In its autumn forecasts the European Commission is forecasting a general government deficit of 2.4% of GDP according to the ESA 2010 methodology, while the Ministry of Finance is forecasting a deficit of 2.2% of GDP. Both institutions are forecasting the deficit to narrow further over the next two years. In the opinion of the European Commission, the main risks to public finances are BAMC transactions and the costs of a potential renewed increase in inflows of migrants. General government expenditure could also increase more strongly than foreseen in the government plans as a result of the outcome of the negotiations between the government and the trade unions on wage adjustments in the public sector, and the meeting of strike demands by physicians.

Deflationary pressures are easing, but inflation remains low. Year-on-year growth in prices as measured by the HICP rose to 0.7% in October, thus outpacing the average across the euro area, which stood at 0.5%, after a lengthy period of trailing. The negative contribution made by energy prices is continuing to diminish, but the ongoing decline could be slowed by the partial liberalisation of prices of refined petroleum products. As a result of an untypical seasonal dynamic and base effects, there was a year-on-year rise in prices of unprocessed food, while in addition the negative contribution made by prices of non-energy industrial goods declined as a result of stronger rises in prices of clothing and footwear. Growth in services prices remained at the level of the two previous months, and significantly above the average across the euro area.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Sep. 14	12 m. 'till Sep. 15	12 m. 'till Sep. 16	3 m. 'till Sep. 15	3 m. 'till Sep. 16	2016 Jul.	2016 Aug.	2016 Sep.	2016 Oct.
Economic Activity									
	<i>balance of answers in percentage points</i>								
Sentiment indicator	-5.4	4.0	5.0	5.4	5.9	5.2	6.5	6.0	7.0
- confidence indicator in manufacturing	0.9	5.0	5.4	5.7	4.7	4.0	7.0	3.0	6.0
	<i>year-on-year growth rates in %</i>								
Industry: - total ¹	1.5	4.8	5.5	5.3	7.0	7.0	6.3	7.4	...
- manufacturing	2.7	5.9	6.7	6.1	8.4	8.9	8.1	8.2	...
Construction: - total ²	28.4	-6.8	-17.4	-12.5	-13.3	-15.8	-14.9	-9.2	...
- civil engineering	6.6	-4.1	-4.2	-5.6	4.1	6.6	1.3	4.6	...
Trade (volume turnover)									
Total retail trade	-0.2	0.2	1.2	0.2	2.3	3.3	3.5	-0.1	...
Retail trade and repair of motor vehicles	6.4	12.4	19.1	13.1	20.5	19.8	23.4	18.9	...
Private sector services ³	3.3	3.5	...	4.2	...	2.7	4.2
	<i>year-on-year growth rates in %</i>								
Average gross wage	1.0	0.7	2.0	0.4	2.0	0.5	3.1	2.4	...
- private sector	1.5	0.5	1.5	0.3	1.5	-0.5	3.2	1.7	...
- public sector	0.4	1.2	3.0	0.6	3.2	2.5	3.3	3.8	...
Real net wage ⁴	0.4	0.8	2.3	0.7	1.8	0.4	2.8	1.8	...
Registered unemployment rate (in %)	13.2	12.5	11.5	11.7	10.6	10.8	10.7	10.3	...
Registered unemployed persons	2.6	-5.3	-7.5	-6.2	-9.3	-9.5	-9.3	-9.2	-9.5
Persons in employment	0.1	1.0	1.1	0.5	1.6	1.5	1.6	1.8	...
- private sector	0.2	1.2	1.0	0.6	1.6	1.6	1.6	1.7	...
- public sector	-0.3	0.4	1.4	0.3	1.7	1.4	1.7	1.9	...
	<i>year-on-year growth rates in %</i>								
Price Developments									
HICP	0.6	-0.5	-0.5	-0.8	0.0	-0.1	-0.2	0.2	0.7
- services	1.9	1.0	1.4	0.5	2.1	2.3	2.0	2.0	2.0
- industrial goods excluding energy	-0.7	-0.8	-0.5	0.0	-0.9	-1.0	-0.7	-1.2	-0.3
- food	1.2	0.9	0.4	1.2	0.7	0.7	0.7	0.6	1.2
- energy	-0.9	-6.0	-7.3	-7.9	-4.9	-5.8	-6.5	-2.3	-1.8
Core inflation indicator ⁵	0.8	0.2	0.6	0.3	0.8	0.9	0.8	0.6	1.0
	<i>in % GDP</i>								
Balance of Payments - Current Account									
Current account balance	5.6	5.6	6.8	6.5	7.3	6.2	4.6	11.1	...
1. Goods	2.4	3.8	4.3	4.3	4.0	4.5	0.4	7.2	...
2. Services	4.4	5.0	5.6	6.1	6.8	5.6	7.7	7.1	...
3. Primary income	-0.2	-2.0	-1.8	-2.9	-2.0	-2.2	-2.3	-1.7	...
4. Secondary income	-1.0	-1.3	-1.3	-1.1	-1.5	-1.7	-1.3	-1.6	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	4.2	6.5	4.4	4.8	4.2	-1.7	9.4	6.1	...
Import of goods and services	4.3	3.9	2.9	2.9	3.8	-0.2	8.1	4.3	...
	Public Finances								
Consolidated general government (GG) balance ⁶	2014	2015	12 m. 'till Aug/16		2015 jan.-Aug.		2016 jan.-Aug.		
	<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	40.1	-0.3	10,245	3.7	10,345	1.0	
Tax revenue	13,193	13,746	35.6	3.0	9,018	5.4	9,333	3.5	
From EU budget	1,040	882	1.6	-43.4	543	19.8	301	-44.6	
Other	1,261	1,085	2.8	4.1	683	-22.0	711	4.0	
Expenditure	16,755	16,956	42.6	0.3	10,942	0.0	10,794	-1.4	
Current expenditure	7,043	7,168	18.7	3.9	4,703	1.0	4,898	4.1	
- wages and other personnel expenditure	3,610	3,610	9.4	3.3	2,410	-0.4	2,517	4.4	
- purchases of goods, services	2,233	2,311	6.0	6.2	1,434	-1.0	1,479	3.1	
- interest	1,097	1,043	2.7	-3.6	751	2.8	786	4.6	
Current transfers	7,592	7,540	19.3	0.6	5,113	-0.3	5,190	1.5	
- transfers to individuals and households	6,335	6,371	16.4	1.4	4,304	0.6	4,387	1.9	
Capital expenditure, transfers	1,717	1,815	3.6	-15.2	817	-3.5	434	-46.9	
GG surplus/deficit	-1,261	-1,242	-2.5	10.2	-697	-34.0	-448	-35.7	

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.