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EUROSYSTEM



SUMMARY OF MACROECONOMIC DEVELOPMENTS

NOVEMBER 2018

Summary of macroeconomic developments, November 2018

Indicators of global economic activity suggest a continuation of solid growth in the final quarter of this year, but the outlook is continuing to deteriorate. The international trade situation is continuing to worsen. The financing conditions are also deteriorating, particularly for certain developing countries. Economic growth in the euro area slowed significantly in the third quarter, and the slowdown is thought to have continued in October and November, at least according to PMI indicators. In addition to global factors, risks to ongoing growth in the euro area are also being increased by the uncertainty connected with Italy's fiscal plans, and by Brexit. The November weighted forecast for this year's economic growth for Slovenia's trading partners is also lower. The euro exchange rate against the US dollar is continuing to slide. By November 23, the euro fell to USD 1.14, down 4.2% in year-on-year terms. Oil prices are continuing to fall, contrary to the expectations when sanctions were introduced against Iran. The price of a barrel of Brent crude has fallen by over a quarter since the beginning of October, and reached USD 62 by 22 November, the lowest figure since March of this year.

Growth in the Slovenian economy remained relatively high in the third quarter, albeit with a sharp slowdown in the export sector in September. Growth in industrial production and exports was robust over the summer, and was not yet reflecting the decline in the estimated strength of foreign demand indicated by surveys of manufacturing firms. A fall followed in September with year-on-year growth in industrial production declining to just 0.5%, while nominal year-on-year growth in goods exports declined to 0.8% according to balance of payments figures. The structure of both trajectories indicates that there was a decline in numerous segments of manufacturing, most notably in those related to the car industry. The latter is connected with weaker demand for cars in the EU and also in China. The rise in firms' export expectations in October and November suggests that the rest of the year will be more favourable. However, signals of the strength of domestic demand were not unidirectional in the third quarter. After a rather weak August, nominal growth in imports increased in September, but only as a result of the high contribution made by imports of oil and gas, where price rises had a major impact on the absolute value. Growth in construction activity and turnover in services related to construction remained high, in line with expectations. Demand on the domestic market was strengthened by a good holiday season. According to survey indicators, the final quarter will be favourable as confidence increased among firms and consumers alike after September.

Firms are reporting labour shortages, but employment growth remains high, while real growth in the net average wage is declining. Year-on-year growth in the workforce in employment excluding self-employed farmers stood at 3% in the third quarter, comparable to the second quarter. According to SORS survey figures, growth will remain high at least until the end of the year, particularly in retail and construction. Unemployment stood at 76,232 in October, down more than 8% in year-on-year terms. Although unemployment is continuing to fall, year-on-year real growth in the average net wage is also declining. According to monthly figures, the rate stood at 1.6% in the first quarter, but had declined to just 0.4% by the third quarter. Similar trends are also evident in real growth in the net wage bill. These developments are thought to be temporary in nature. Should they persist, the outlook for growth in private consumption would worsen in the context of the increased household saving rate.

Inflation as measured by the HICP rose again in October. The year-on-year rate stood at 2.3%, comparable to the euro area average. The rise was largely attributable to external factors. Rises in energy prices accounted for almost half of inflation. Growth in prices of unprocessed food increased to 4.7%, which is 2.6 percentage points above the euro area average. Growth in prices in these two categories contributed 1.4 percentage points towards October's inflation rate.

Year-on-year growth in services prices slowed slightly relative to the previous month, but remained higher than the euro area average. By contrast, prices of other goods in Slovenia are continuing to fall, while the corresponding prices in the euro area overall have been rising for more than three years now, albeit at low rates of around 0.4%. The differences in the dynamics of services prices and prices of other goods thus remain the main factor in the differing structure of inflation in Slovenia and in the euro area overall.

The consolidated general government surplus increased over the first nine months of the year as a result of high economic growth, the net disbursement of EU funds, and the diminishing burden of interest payments. The government and the European Commission are forecasting a general government surplus of 0.5% of GDP for this year. The government is drafting a budget rebalancing for next year, where the largest risks relate to controlling growth in expenditure. Given the currently favourable economic conditions, sufficient fiscal surpluses should be created to reduce relatively high levels of debt and timely structural reforms adopted to ensure long-term fiscal stability. This would create space for the fiscal policy to possibly act countercyclically and mitigate future demographic pressures.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Sep. 16	12 m. 'till Sep. 17	12 m. 'till Sep. 18	3 m. 'till Sep. 17	3 m. 'till Sep. 18	2018 Jul.	2018 Aug.	2018 Sep.	2018 Oct.
Economic Activity									* data for nov. 18
	balance of answers in percentage points								
Sentiment indicator	5.0	10.4	13.1	12.0	9.7	10.5	10.5	8.1	11.6 (10.1*)
- confidence indicator in manufacturing	5.5	8.4	9.3	9.0	4.3	5.0	6.0	2.0	10.0 (7.0*)
	year-on-year growth rates in %								
Industry: - total	6.4	7.9	7.4	8.5	3.7	5.3	6.0	0.5	...
- manufacturing	7.3	8.5	8.0	9.2	4.0	5.9	6.2	0.5	...
Construction: - total	-17.2	6.8	22.9	8.3	28.3	25.8	34.0	25.7	...
- buildings	-3.7	24.3	25.1	9.4	28.0	27.7	29.6	26.9	...
Trade and service activities - total	6.0	6.1	...	6.1	...	7.5	7.1
Wholesale and retail trade and repair of motor vehicles and motorcycles	16.6	15.6	...	13.7	...	23.8	18.1
Retail trade, except of motor vehicles and motorcycles	2.1	6.0	...	5.5	...	2.5	3.8
Other private sector services	6.8	5.1	...	4.9	...	6.4	6.7
Labour market	year-on-year growth rates in %								
Average gross wage	1.7	2.1	3.5	2.8	3.0	3.6	3.5	1.8	...
- private sector	1.5	2.2	4.1	2.8	3.7	4.0	4.1	2.9	...
- public sector	2.2	2.5	3.3	3.3	2.5	3.7	3.0	0.7	...
Real net wage ¹	2.0	0.9	1.5	1.6	0.4	1.0	0.9	-0.8	...
Registered unemployment rate (in %)	11.5	9.9	8.5	8.9	7.9	8.0	8.0	7.8	...
Registered unemployed persons	-7.5	-13.0	-13.2	-14.6	-9.5	-10.2	-9.4	-8.9	-8.1
Persons in employment	1.1	3.2	3.3	3.5	2.9	2.9	2.9	2.9	...
- private sector	1.0	4.0	4.4	4.5	3.8	3.8	3.8	3.8	...
- public sector	1.4	1.0	0.6	1.1	0.5	0.6	0.6	0.5	...
Price Developments	year-on-year growth rates in %								
HICP	-0.5	1.3	1.8	1.3	2.1	2.1	2.0	2.2	2.3
- services	1.4	1.8	2.1	1.8	2.5	2.6	2.4	2.5	2.4
- industrial goods excluding energy	-0.5	-0.6	-0.8	-0.5	-0.7	-0.7	-0.9	-0.5	-0.6
- food	0.5	1.8	2.7	2.1	2.0	1.8	2.1	2.1	2.2
- energy	-7.3	3.4	5.4	2.6	8.1	8.4	7.6	8.4	8.9
Core inflation indicator ²	0.6	0.8	0.9	0.8	1.1	1.1	1.0	1.1	1.1
Balance of Payments - Current Account	in % GDP								
Current account balance	5.7	6.6	7.6	9.1	9.6	10.7	8.3	9.9	...
1. Goods	4.1	3.5	3.3	4.4	3.7	5.2	2.5	3.4	...
2. Services	5.5	6.2	6.7	7.3	8.7	8.7	8.7	8.8	...
3. Primary income	-3.0	-2.5	-1.7	-2.0	-2.0	-2.1	-2.0	-1.8	...
4. Secondary income	-0.9	-0.7	-0.7	-0.6	-0.8	-1.1	-0.9	-0.5	...
	nominal year-on-year growth rates in %								
Export of goods and services	4.6	11.3	11.0	14.5	9.2	16.4	8.8	2.9	...
Import of goods and services	3.0	11.9	11.2	13.3	8.6	14.3	5.8	5.6	...
Public Finances									
Consolidated general government (GG) balance ³	2016	2017	12 m. 'till		2017		2018		
			Sep.	Jan.-Sep.	Jan.-Sep.	Jan.-Sep.			
	EUR milions	% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %		
Revenue	15,842	16,803	39.6	7.7	10,986	6.1	12,026	9.5	
Tax revenue	14,240	15,162	35.3	6.9	9,840	5.3	10,552	7.2	
From EU budget	471	391	1.5	52.0	259	23.1	520	100.9	
Other	1,131	1,250	2.8	1.1	886	11.4	954	7.6	
Expenditure	16,497	17,102	39.3	5.6	10,929	1.3	11,596	6.1	
Current expenditure	7,407	7,733	17.6	5.0	4,981	2.3	5,172	3.8	
- wages and other personnel expenditure	3,785	3,938	9.1	5.1	2,614	3.8	2,759	5.6	
- purchases of goods, services	2,371	2,627	6.1	11.2	1,562	4.2	1,667	6.7	
- interest	1,074	985	2.0	-14.2	720	-1.9	651	-9.5	
Current transfers	7,700	7,913	18.0	3.7	5,199	0.5	5,450	4.8	
- transfers to individuals and households	6,496	6,665	15.2	3.7	4,474	2.3	4,654	4.0	
Capital expenditure, transfers	962	1,078	2.8	26.5	500	5.1	689	38.0	
GG surplus/deficit	-654	-299	0.3	-169.8	56	-112.9	430	662.8	

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.