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AIECE General Report

Part I: Recent Trends

Brussels, 21-22 November 2011

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1. Recent Developments
A Summary

- Global economic prospects have deteriorated markedly over the last six months - much of this is due to the heightened uncertainty surrounding Europe's sovereign debt crisis.

- This section will look at recent developments concerning:
  - GDP Growth
  - Labour markets and productivity
  - Public Deficit and debt
    - Debt and deficit attributable to financial bailouts
  - Inflation
  - Housing markets
  - Topic for discussion – are we being too gloomy?

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1.1 GDP Growth (1)

Figure 1.1 GDP profile, EA-17 (aggregate)
Source: Eurostat

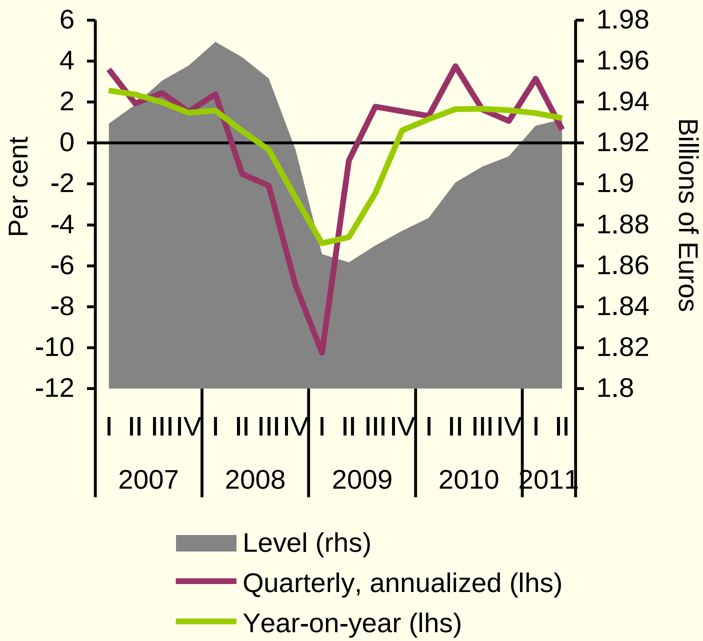
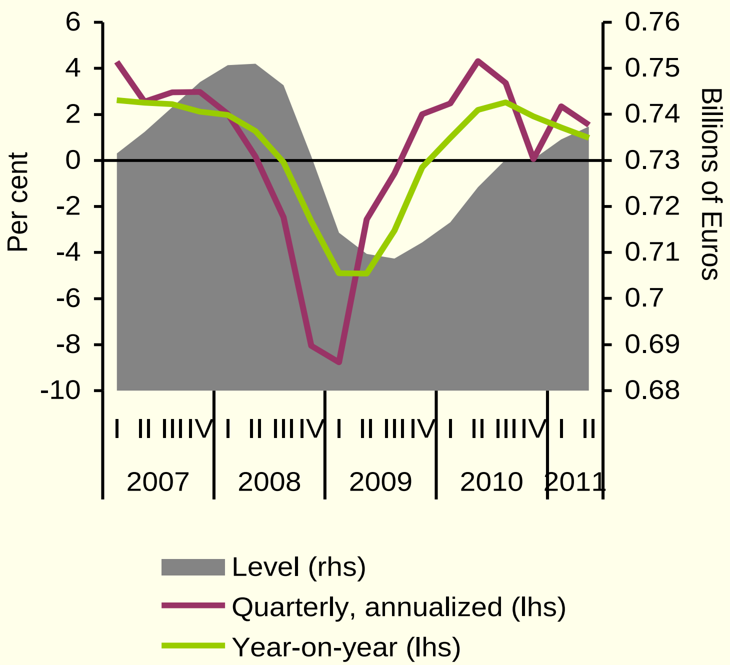


Figure 1.2 GDP profile, Non-EA (aggregate)
Source: Eurostat



At the previous meeting in May it seemed that the worst of the 'Great Recession' was over. Since then, the European economy has been met with new problems surrounding the Euro Area debt crisis. These recent troubles have affected countries both within and outside of the Euro Area.

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1.1 GDP Growth (2)

Figure 1.3 GDP growth, annualized 2011Q2, EA-17 countries
Source: Eurostat

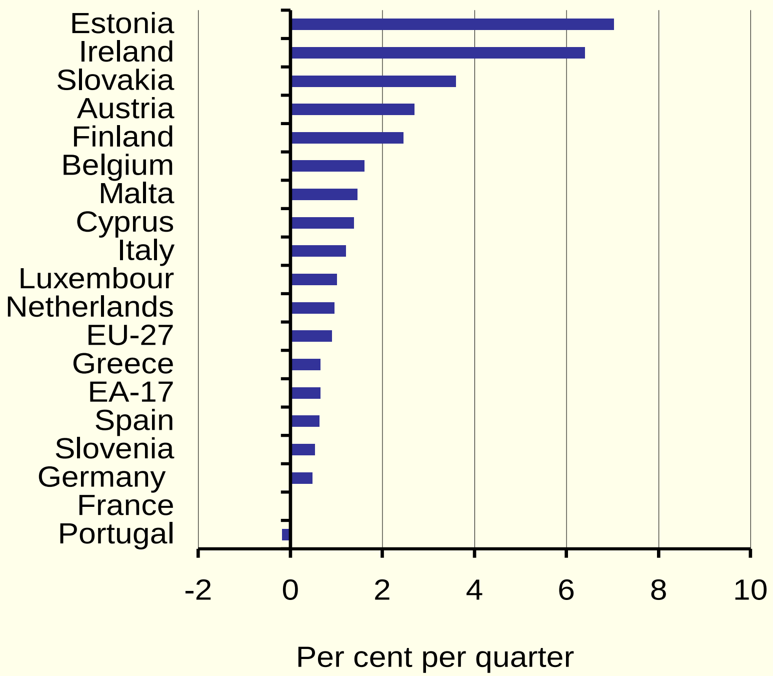
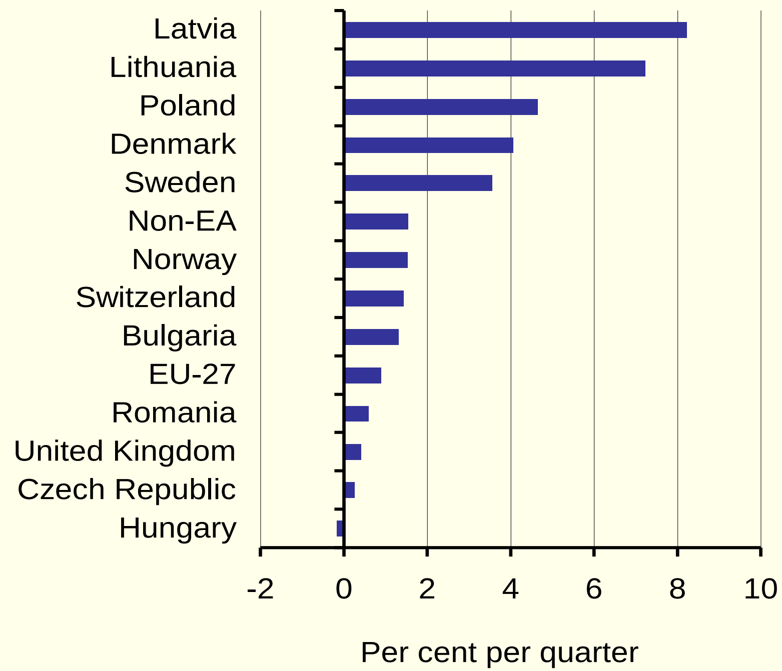


Figure 1.4 GDP growth, annualized 2011Q2, Non-EA countries
Source: Eurostat



The split between 'emerging' and 'advanced' economies remains pronounced, even just within Europe.

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1.1 GDP Growth (3)

Figure 1.5 Contributions to annualized GDP growth, EA-17 (aggregate)
Source: Eurostat, NIESR calculations

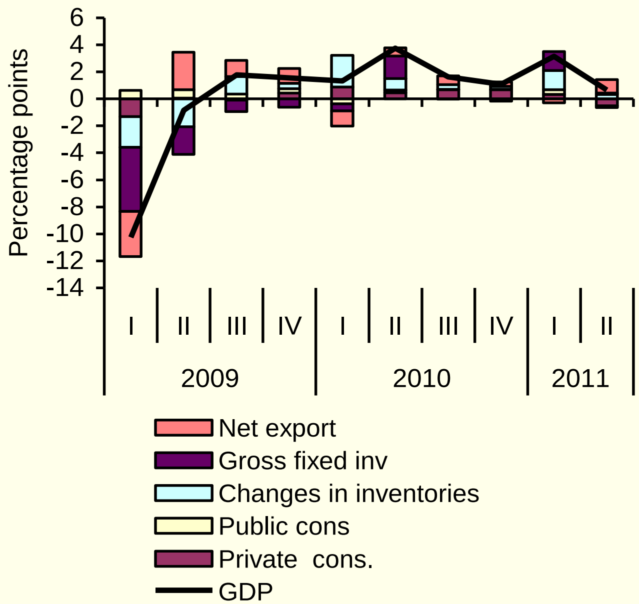
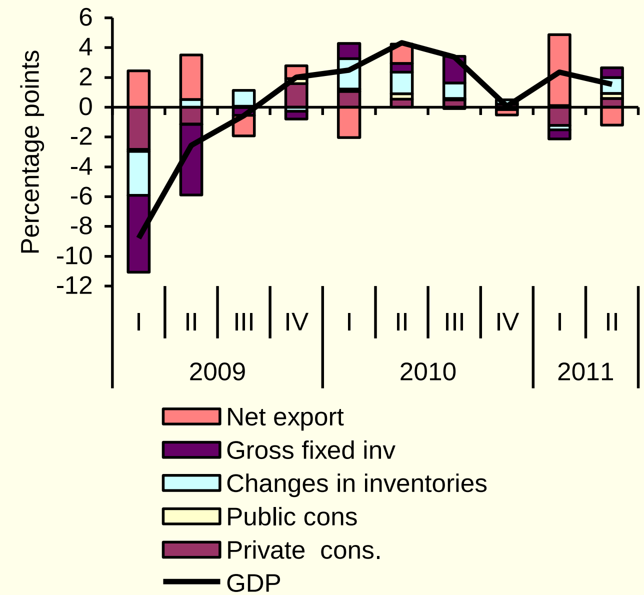


Figure 1.6 Contributions to annualized GDP growth, Non-EA (aggregate)
Source: Eurostat, NIESR calculations



There are clear distinctions between the drivers of growth in the Euro Area and the rest of Europe…

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1.1 GDP Growth (4)

Figure 1.7 Contributions to quarterly GDP growth, average over 2011Q1 and Q2, EA-17 countries
Source: Eurostat, NIESR calculations

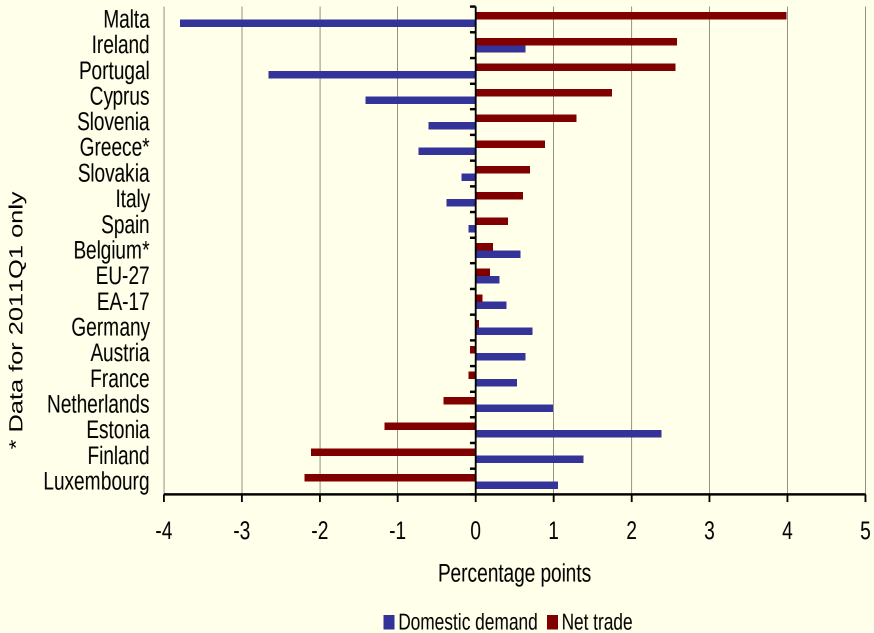
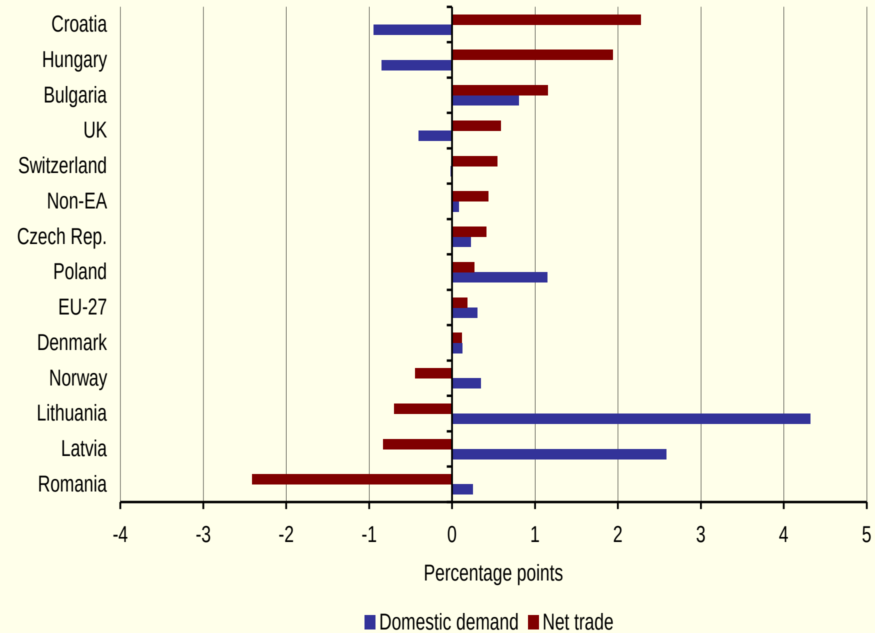


Figure 1.8 Contributions to quarterly GDP growth, average over 2011Q1 and Q2, Non-EA countries
Source: Eurostat, NIESR calculations



…and also between different countries within these areas.

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1.2 Labour markets and productivity (1)

Figure 1.8 EA-17 Unemployment Rates in January 2008 and September 2011, seasonally adjusted
Source: Eurostat

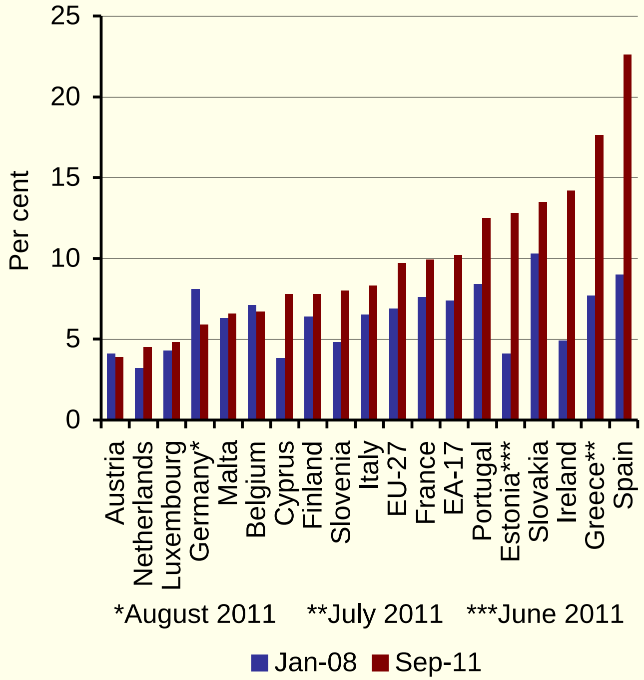
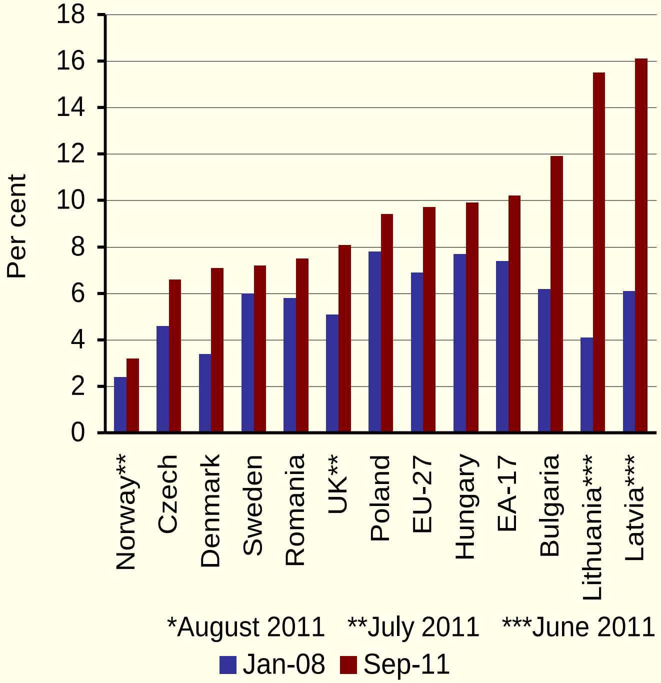


Figure 1.9 Non-EA Unemployment Rates in January 2008 and September 2011, seasonally adjusted
Source: Eurostat



Labour market conditions vary widely across different European countries.

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1.2 Labour markets and productivity (2)

Figure 1.10 Semi-annual growth in output (market prices) per hour worked, EA-17 countries
Source: Eurostat

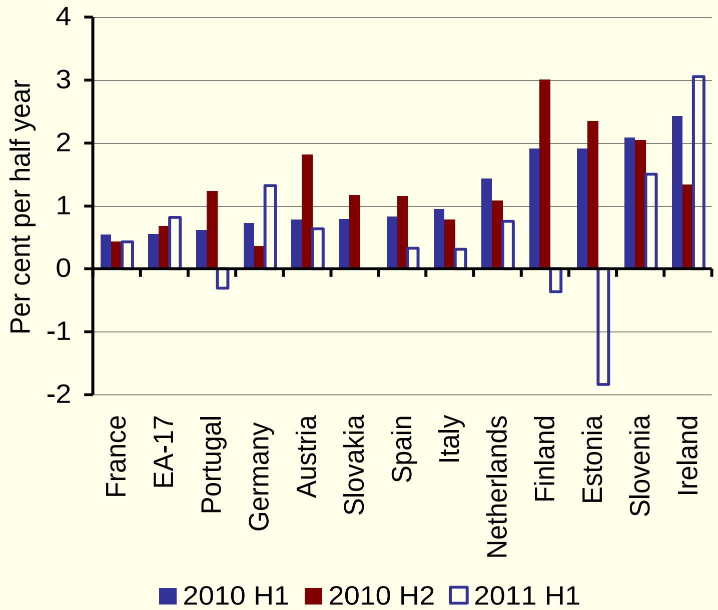
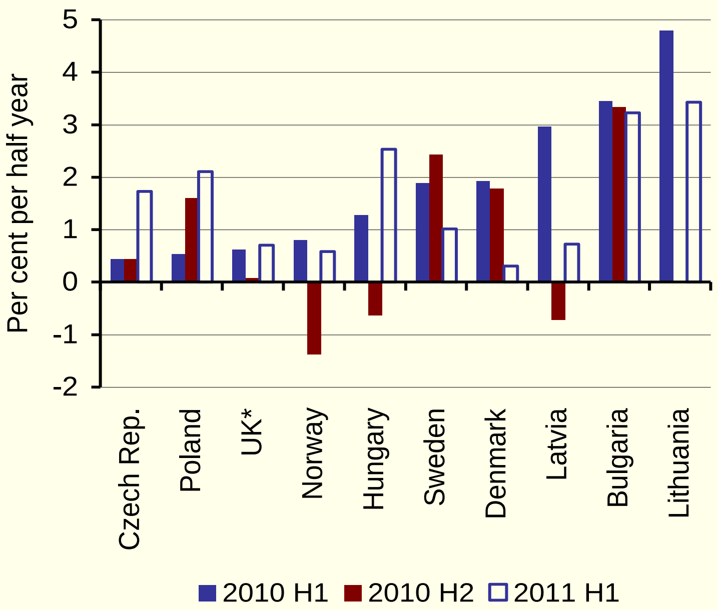


Figure 1.11 Semi-annual growth in output (market prices) per hour worked, Non-EA countries
Source: Eurostat, *NIESR calculations



In some countries labour productivity has suffered as a result of adverse economic conditions.

1.2 Labour markets and productivity (3)

Short-run trends in productivity are explained by firms' responses to uncertainty in the economy. Across different European countries firms have had mixed responses, including both labour-shedding and labour-hoarding.

Survey responses to Question 5a: Is there any evidence of labour hoarding [in your country]?	
YES	**NO**
Belgium	Austria
Denmark	Czech Republic
Finland	France
Germany	Greece
Hungary	Ireland
Italy	Norway
Netherlands	Poland
Slovakia	Serbia
Slovenia	
Spain	
Sweden	
Switzerland	
United Kingdom	

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1.3 Public deficit and debt (1)

Figure 1.12 General government debt, EA-17 countries
Source: Eurostat

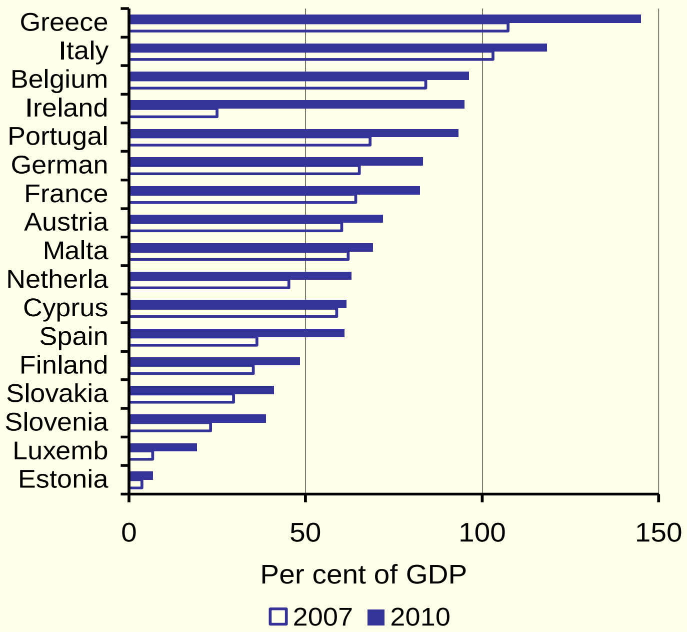
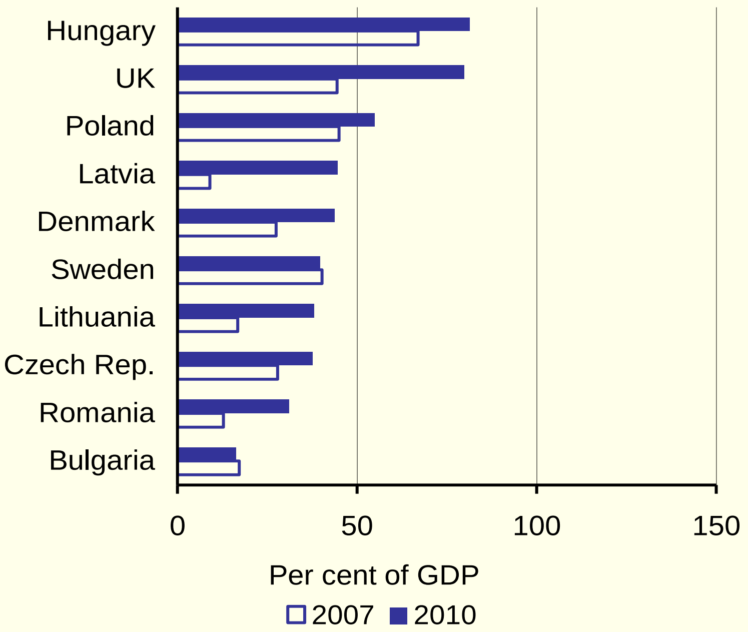


Figure 1.13 General government debt, Non-EA countries
Source: Eurostat



With the exception of Bulgaria, all European countries saw a rise in government debt relative to GDP between 2007 and 2010, although Euro Area countries tend to have larger debt stocks than non-Euro Area countries.

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1.3 Public deficit and debt (2)

Figure 1.14 General government budget balance, EA-17 countries
Source: Eurostat

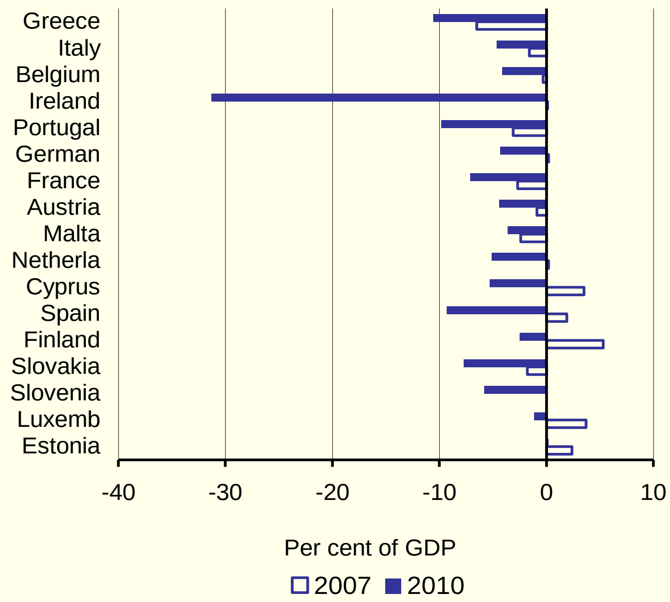
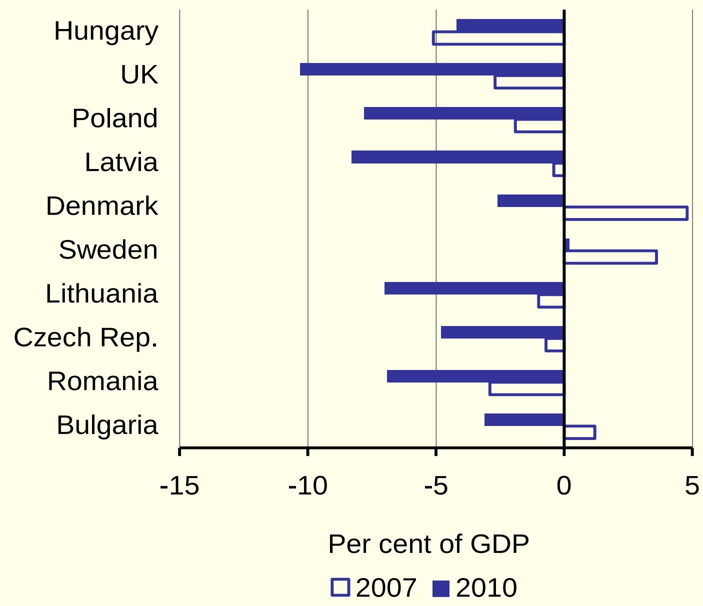


Figure 1.15 General government budget balance, Non-EA countries
Source: Eurostat



Almost uniformly across Europe, government budgets are in deficit, and exceed 3 per cent of GDP.

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1.3 Public deficit and debt (3)

1.3.1 Debt and deficit attributable to financial bailouts

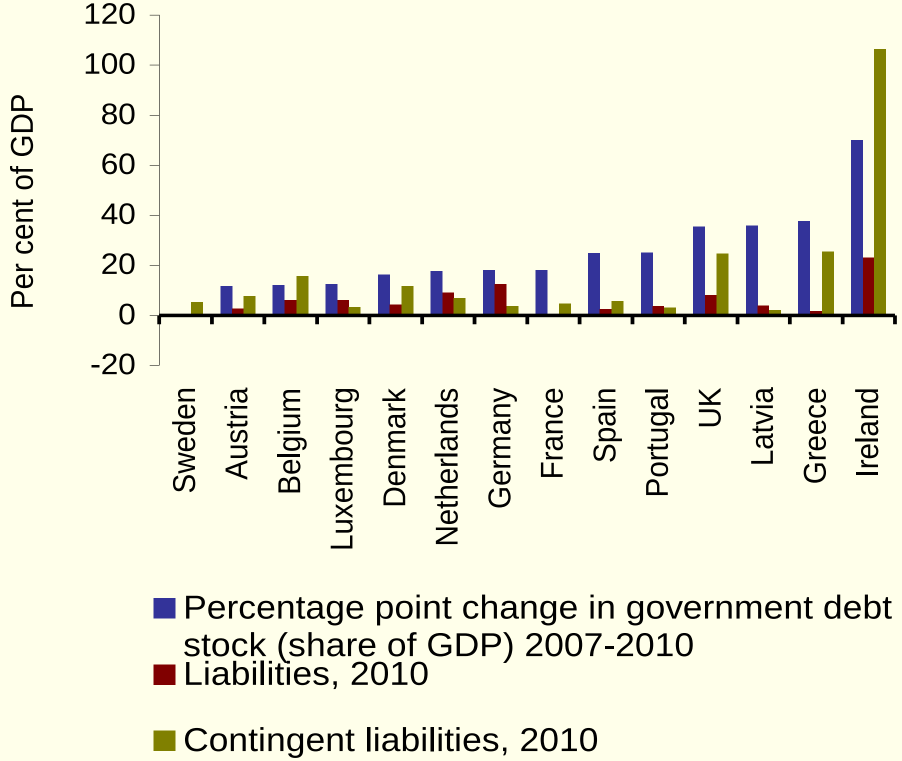

Figure 1.16 Government support to financial institutions, share of debt

Source: Eurostat

Costs of financial bailouts have contributed significantly to the debt stock in many countries.

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1.4 Inflation

Figure 1.17 Consumer price inflation (measured by HICP), Core and Headline rates, September 2011, EA-17 countries
Source: Eurostat

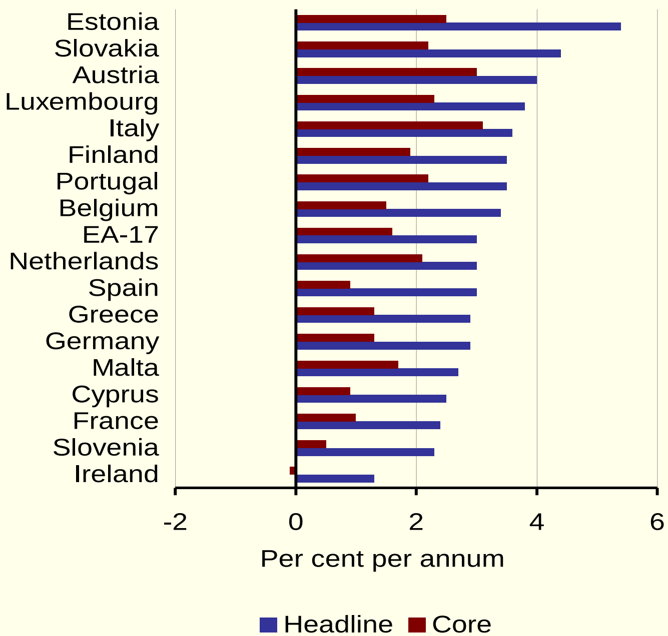
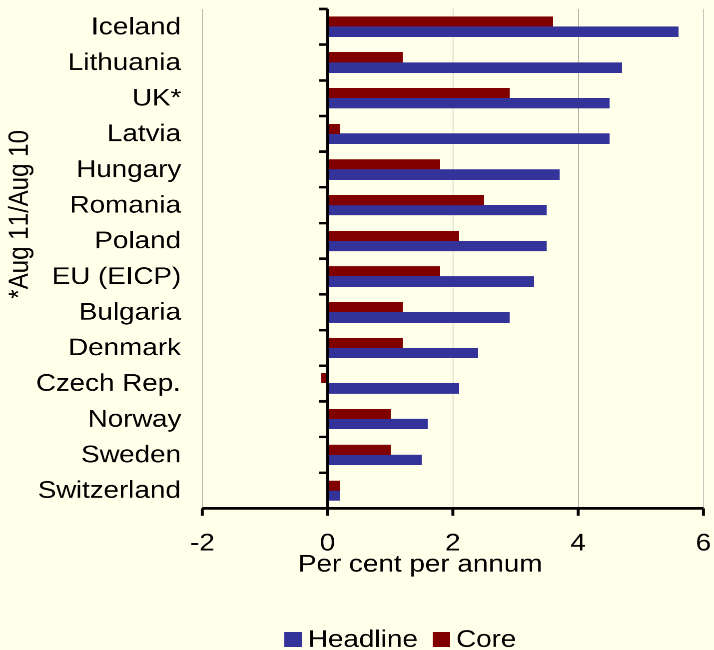


Figure 1.18 Consumer price inflation (measured by HICP), Core and Headline rates, September 2011, Non-EA countries
Source: Eurostat



Headline inflation has been high in most European countries, but this is chiefly attributable to high oil prices.

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1.5 Housing markets (1)

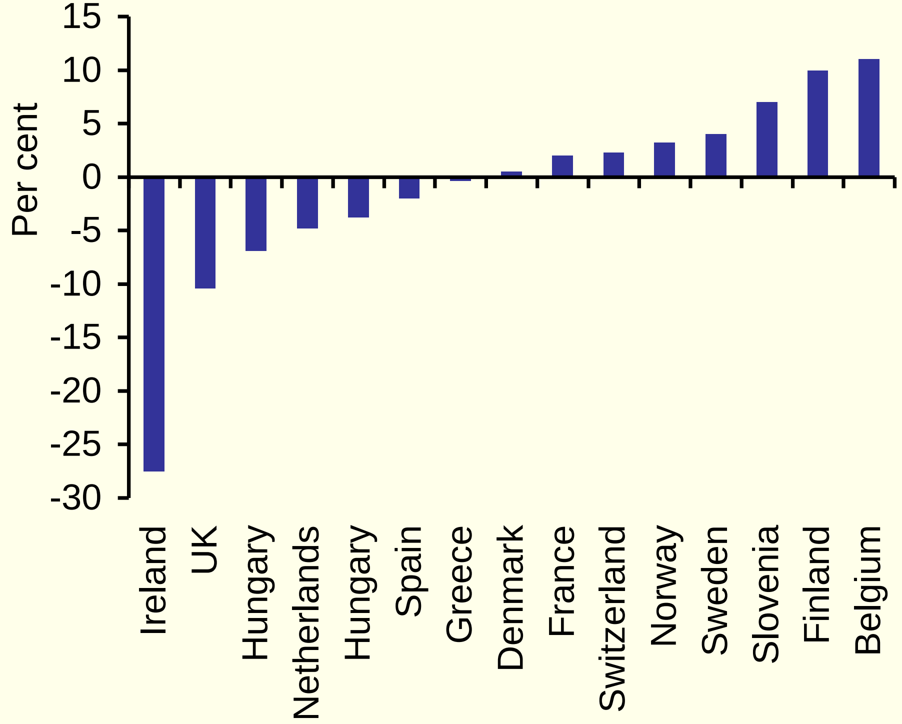

Figure 1.19 Change in real house prices between 2006 and 2010

Source: AIECE Survey responses

Most European housing markets were significantly hit by the crisis, but began to recover in 2010. The current economic downturn is challenging this recovery in many economies.

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1.5 Housing markets (2)

Country	Institution	Are house prices overvalued?
Austria	WIFO	No
Belgium	FPB	No
Czech Republic	CCSF	No
Denmark	DEC	Yes (5-10%)
Finland	ETLA	No
Germany	DIW	No (with exceptions)
Hungary	GKI	No
Ireland	ESRI	No
Netherlands	CPB	No
Serbia	FTRI	Yes
Slovakia	SAVBA	Yes
Slovenia	SKEP	Yes
Spain	CEPREDE	Yes
Sweden	CSE	Yes
Switzerland	KOF	Yes
United Kingdom	NIESR	Yes

The crisis revealed the important role of housing markets in influencing financial stability. Many institutes consider house prices to be overvalued, despite downwards corrections in many countries.

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1.6 Topic for discussion – Are we being too gloomy? (1)

EA-17 growth; AIECE May forecasts compared with actual outturns Source: Actual outturn estimate from Eurostat			
Date	May 2011 forecast (annualized)	May 2011 forecast (implied quarterly)	Actual outturn
2011 Q1	1.7	0.4	0.8
2011 Q2	1.5	0.4	0.2
2011 Q3	1.3	0.3	0.2

While forecasts for GDP growth in the Euro Area were more or less accurate for 2011Q2 and Q3, the Q1 forecast was overly pessimistic. Similarly, the outturns for many individual countries may appear more positive than expected, given the air of pessimism hanging over the European economy.

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1.6 Topic for discussion – Are we being too gloomy? (2)

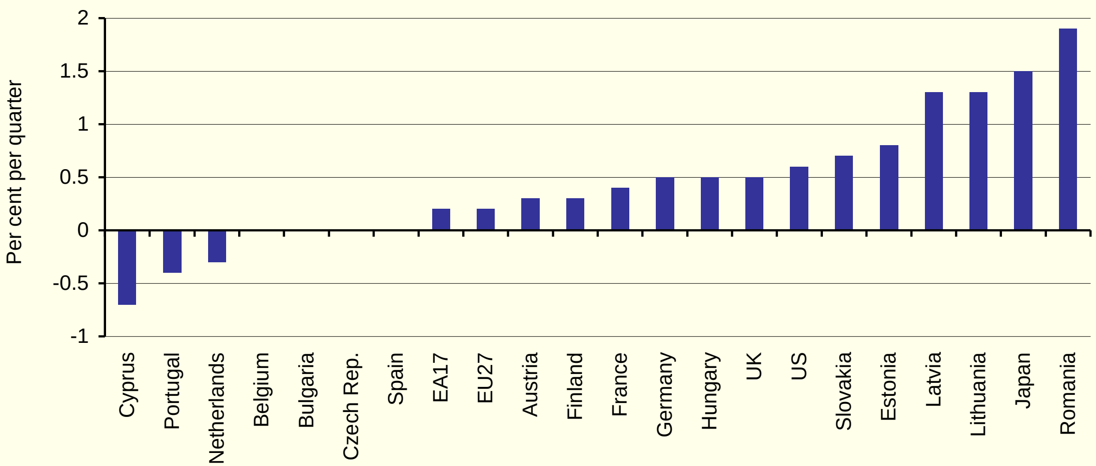
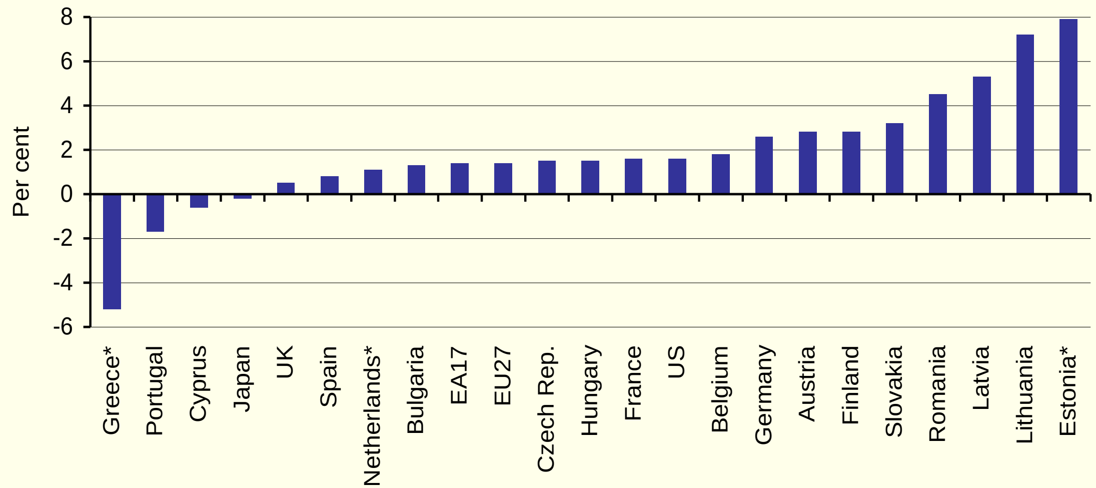


Figure 1.20 Real GDP growth, 2011Q3

Source: Eurostat



*Calculated from non seasonally-adjusted data

Figure 1.21 Real GDP growth in 2011Q3 (year-on-year)

Source: Eurostat

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