Association of European Conjuncture Institutes

AIECE

GENERAL REPORT PART 1

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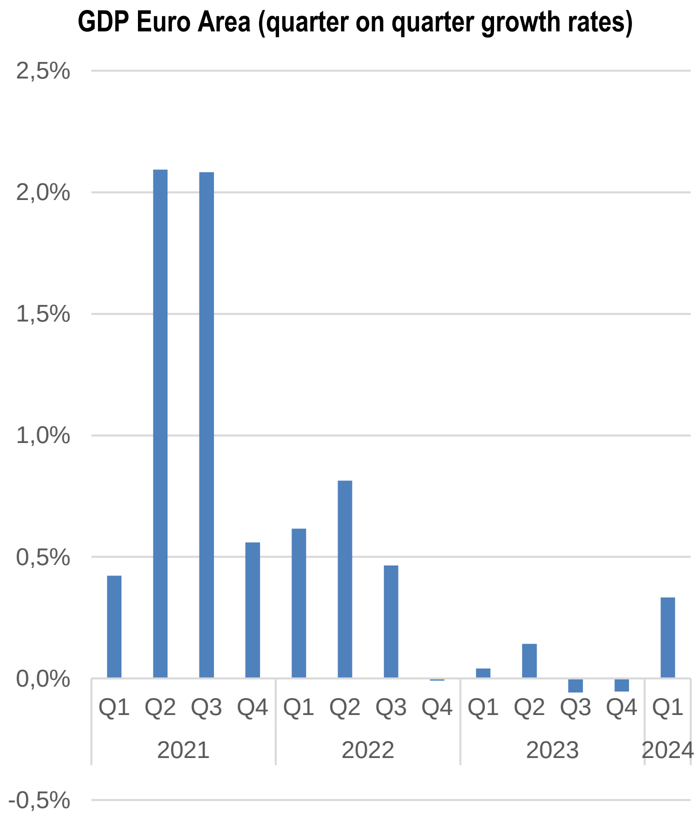
The Outlook for Europe and AIECE members

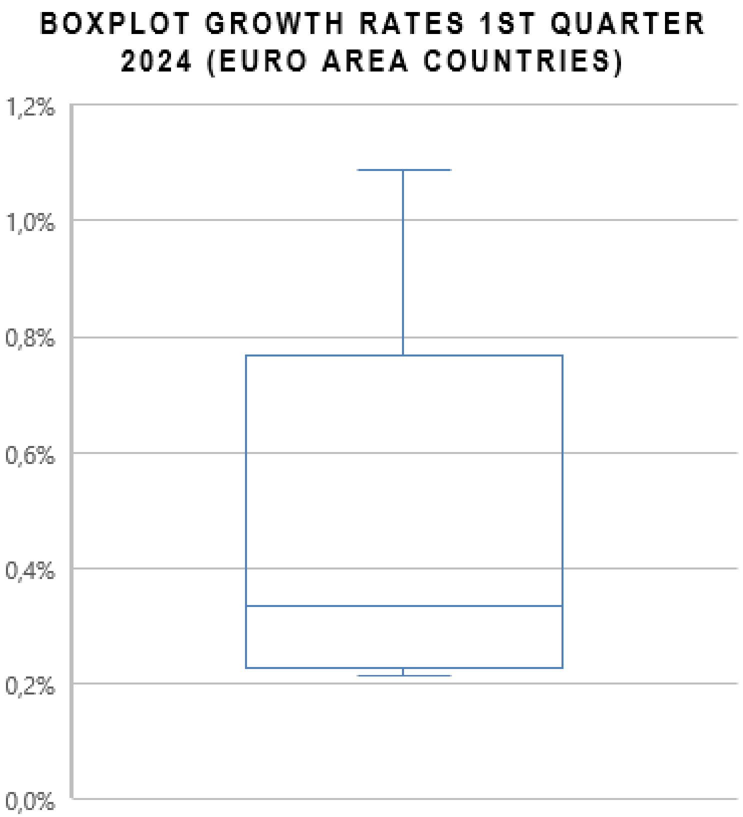
- The euro area
- The labour market
- Inflation development
- Non euro area countries

Euro Area

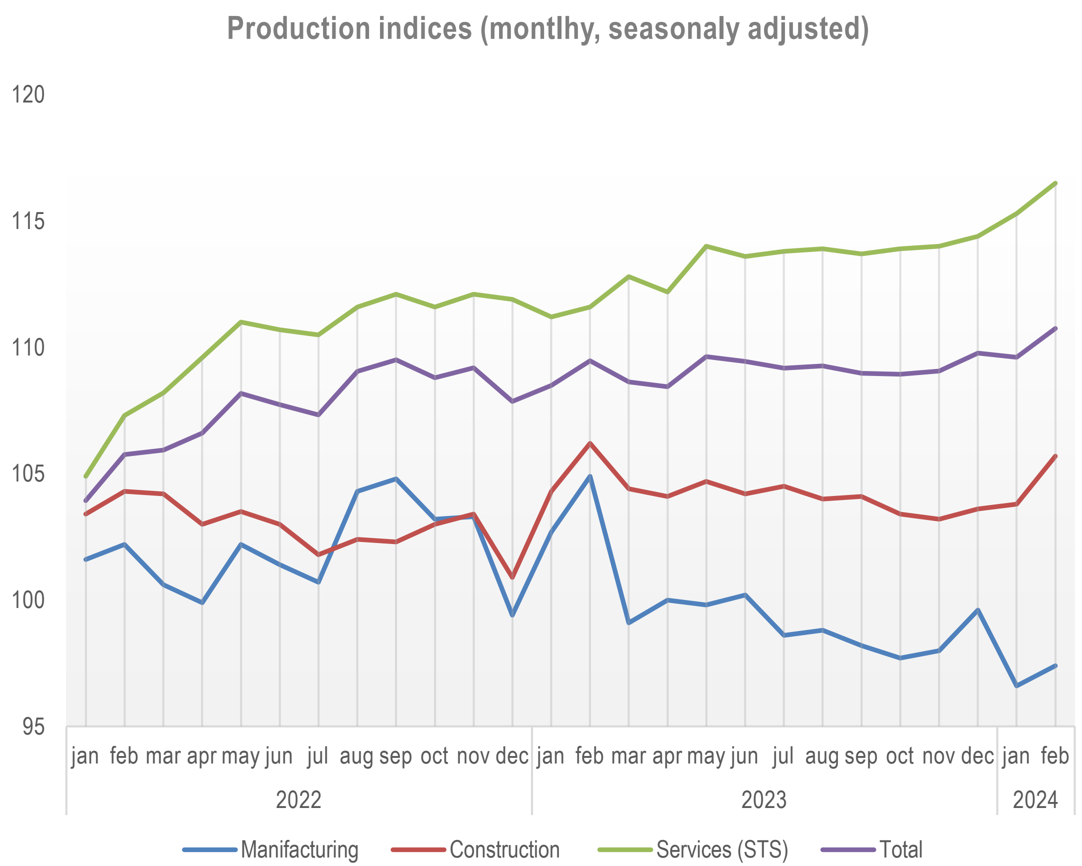
Gross Domestic Product - Contribution to growth

	2020	2021	2022	2023
Consumption General government	0,22%	0,94%	0,34%	0,17%
Consumption Household and NPISH	-4,12%	2,28%	2,14%	0,27%
Gross fixed capital formation	-1,30%	0,76%	0,54%	0,27%
Changes in inventories and acquisitions less disposals of valuables	-0,31%	0,60%	0,41%	-0,50%
Exports	-4,37%	5,21%	3,57%	-0,63%
Imports	3,82%	-3,85%	-3,60%	0,85%
	-6,07%	**5,94%**	**3,40%**	**0,43%**



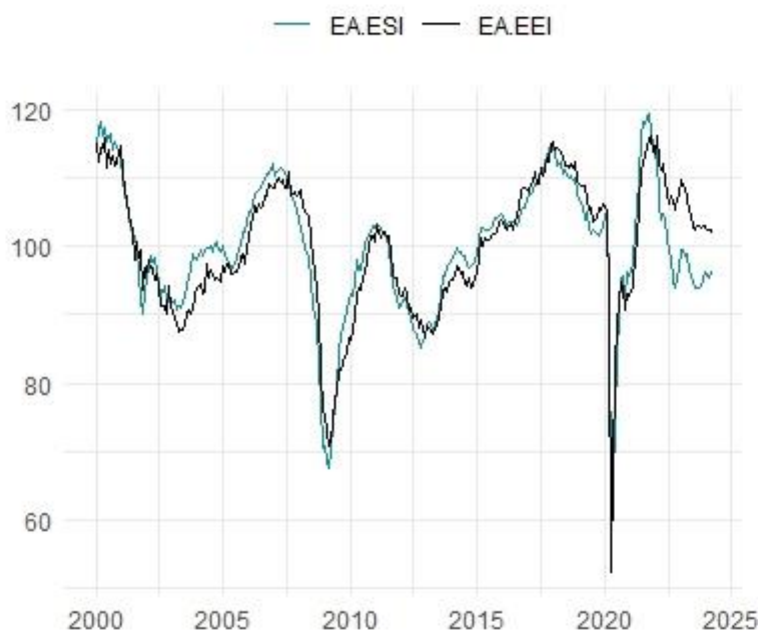


The average result in 2023 was particularly disappointing (0.4%, a sharp slowdown from 3.4% the previous year). In the Euro Area recent macroeconomic data have been above expectations. Euro Area GDP grew by 0.3% on a quarterly basis in the first three months of 2024, a sharp acceleration compared to the previous two quarters (-0.1% in both).



Discussion: In light of the current global trend of surging service industries alongside a declining manufacturing sector, how are different countries strategically positioning themselves to navigate this economic shift and its implications?

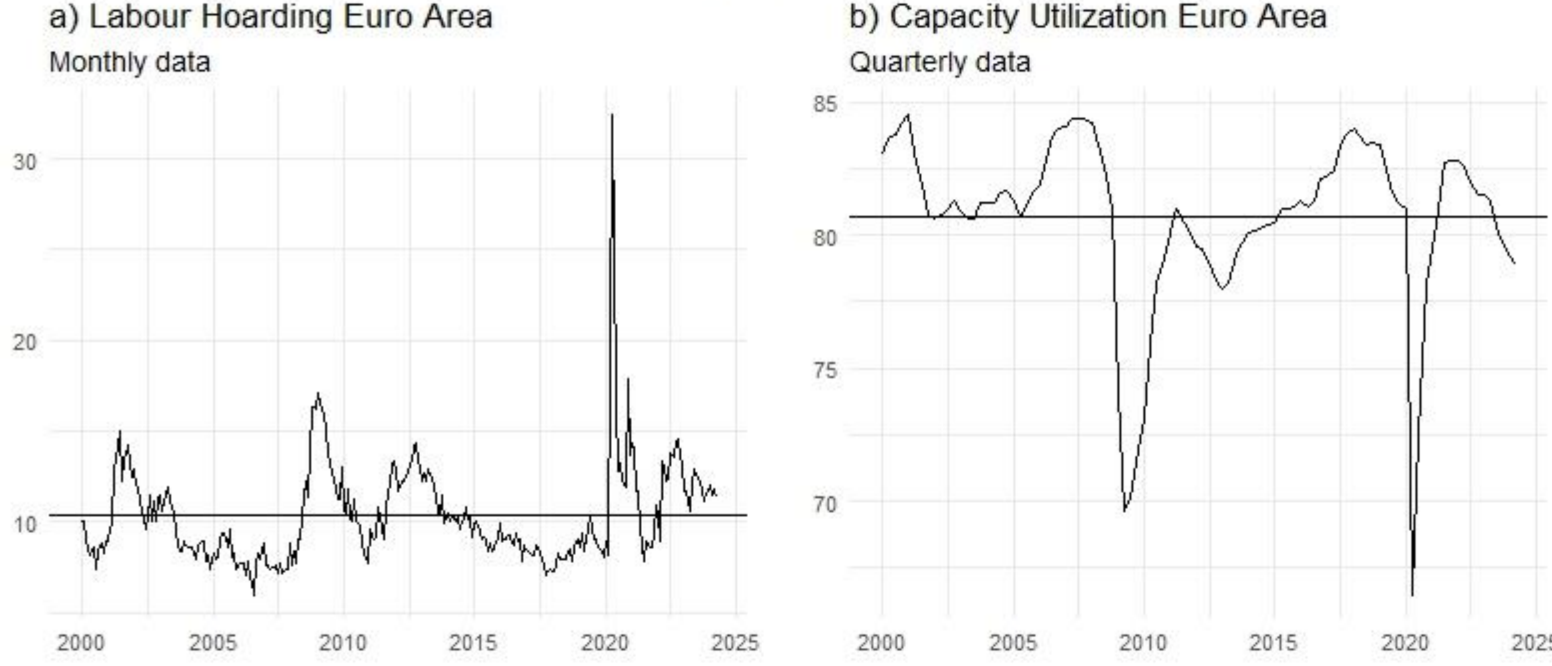
Figure 2.1 ESI and EEI, Euro Area



Sources:European Commission

In April 2024 the Economic Sentiment Indicator (ESI) in Euro Area (-0.6 points) shows a marginal decline; a similar slowdown affected The Employment Expectations Indicator (EEI) in Euro Area (-0.7 points) but, contrary to the ESI, the EEI continued to score above its long-term average. The marginal decline of the ESI reflected a lower confidence in industry and retail trade, a slightly one for service and construction and an increase for the consumer confidence.

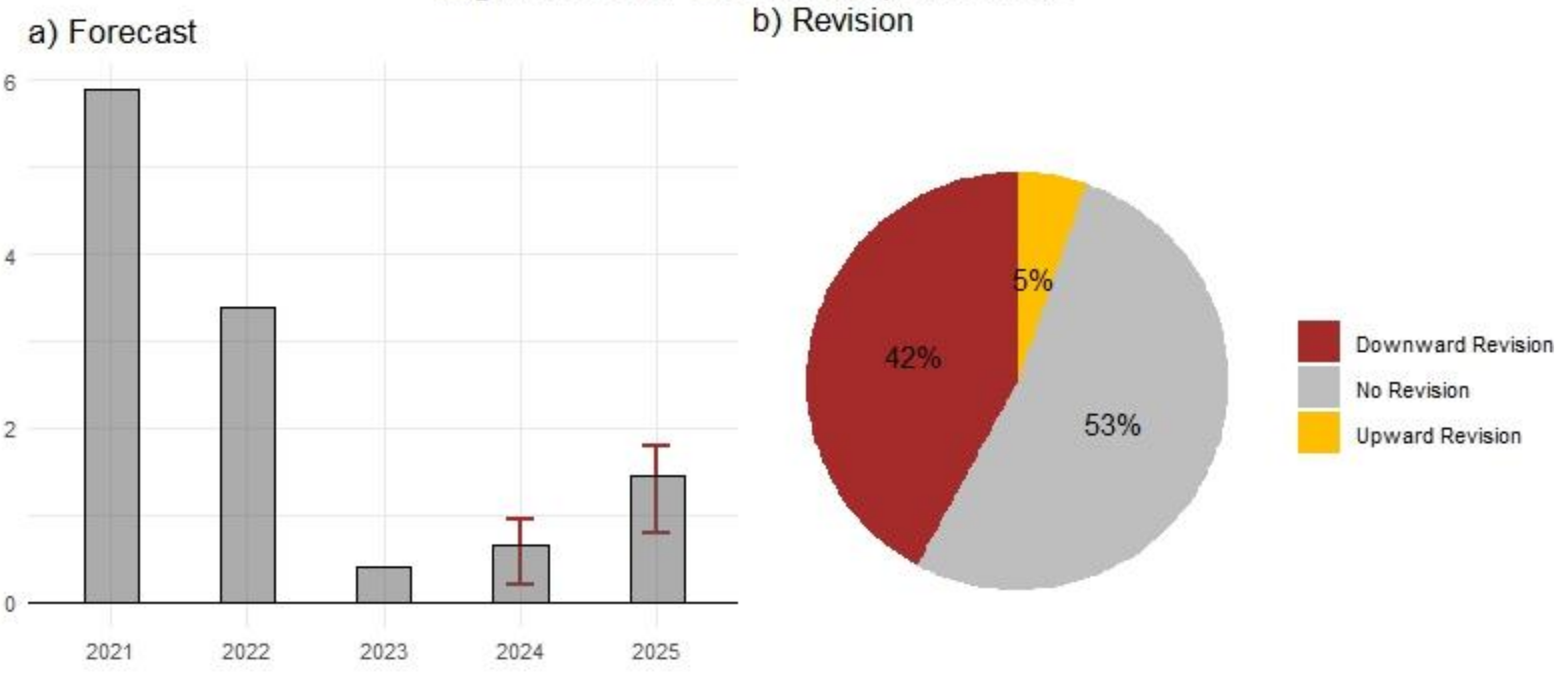
Figure 2.2



Sources:Eurostat

An indicator of the potential impact on the productivity is given by the European Commission's Labour Hoarding Indicator (LHI) (the percentage of managers expecting their firm's output to decrease, but employment to remain stable or increase is a signal of labour underutilization). In April, the EA LHI is 11.4%, showing a decrease with respect to March (-0.4 points), the lowest value in the 2024. In the EU industry sector, the estimated rate of capacity utilization decreased by 0.3 percentage points from January to April, reaching 78.9% and protracting the downward trend that started in 2022

Figure 2.3 GDP Growth rate, Euro Area

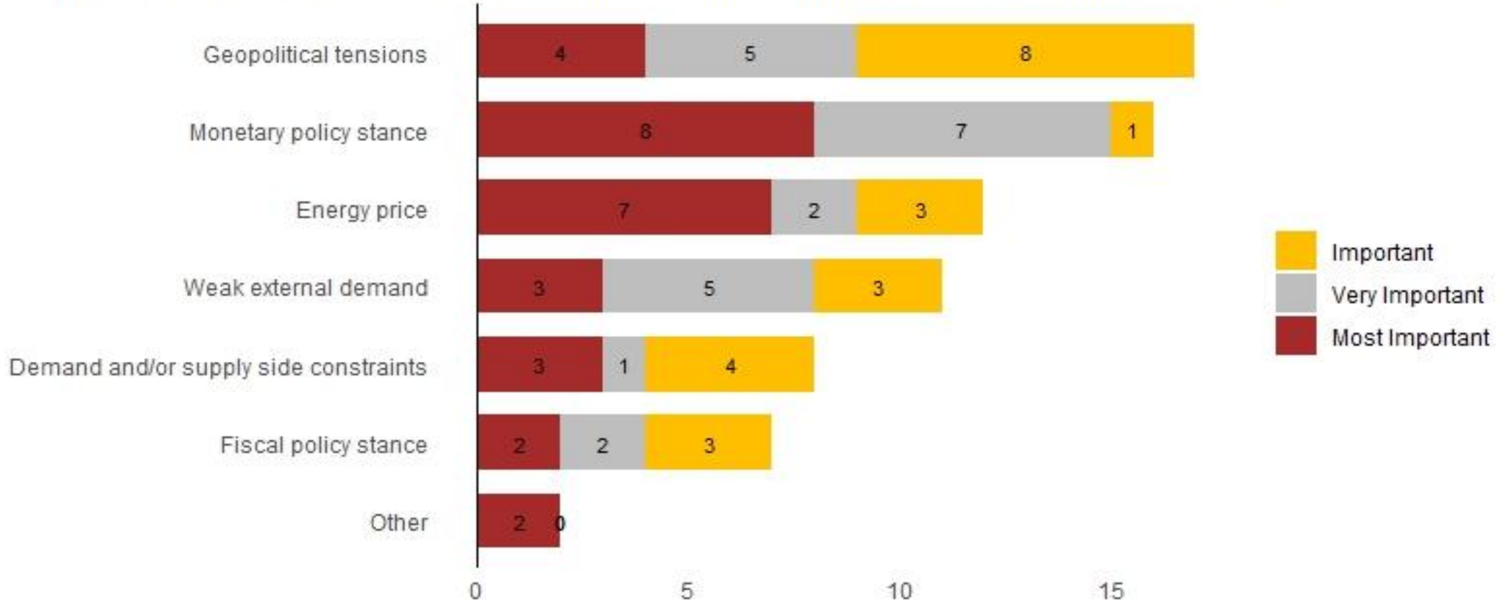


Sources:Eurostat; AIECE Institute forecast

Sources:Answer AIECE Institute

For the Euro Area, AIECE members expect GDP to grow by 0.7% (a more pessimistic view with respect to the 0.8% forecasted by the IMF) and 1.5% (as the IMF estimate), respectively in 2024 and 2025. In the current year forecasts range from 0.2% to 0.9% The range for GDP growth next year is instead from 0.8% to 1.8%. The revisions of the forecasts of AIECE members are in line with the hypothesis of downward revision in GDP growth in 2024, as out of 26 respondents, only 5% have revised upwards their previous forecasts

Figure 2.4 The three most important factors on Economic Growth in the Euro Area



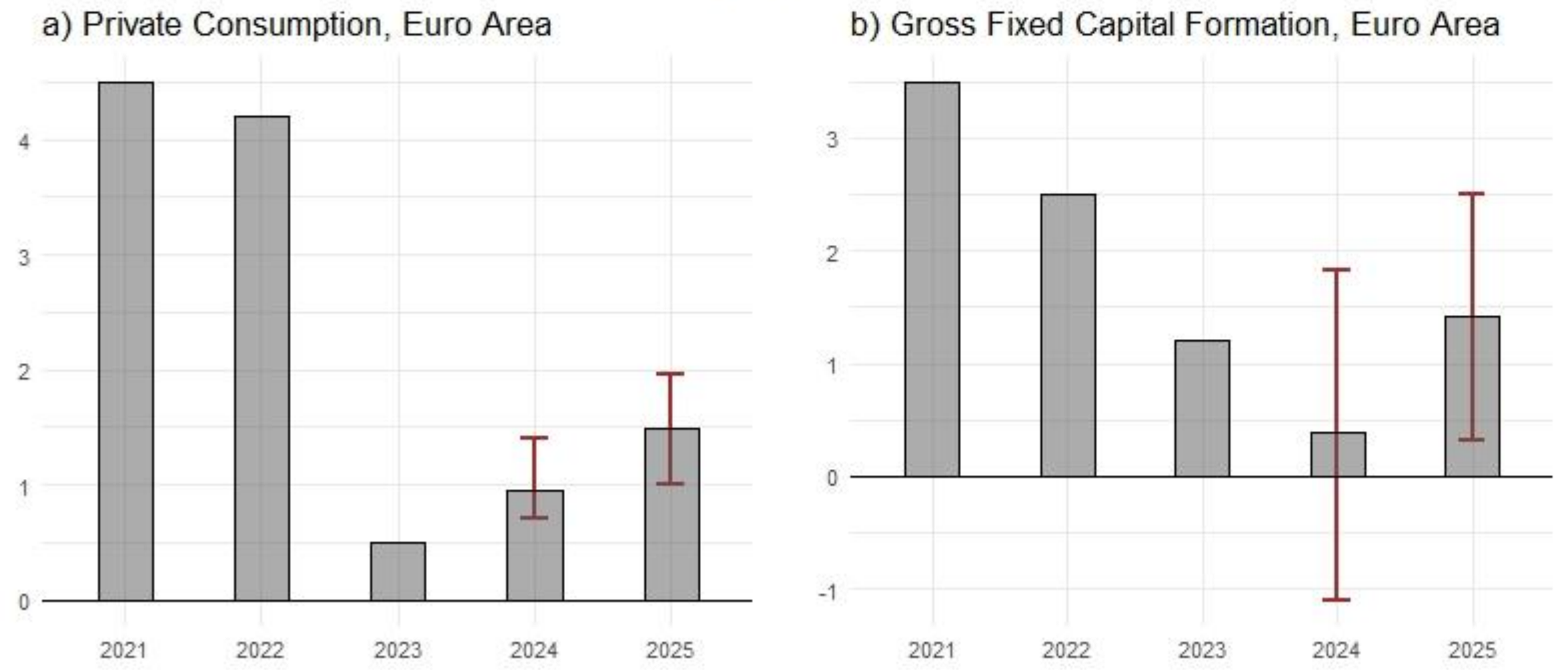
Sources:Answers AIECE Institute

No clear consensus: while geopolitical tensions received the most mentions, it appears that the elements with the greatest impact on growth in 2024 are still related to inflation and the consequent monetary policy decisions. Indeed, the factors "monetary policy stance" and "energy price" received the most mentions as "most important" (rank 1).

Discussion: Risks related to foreign demand, domestic demand and supply, and the influence of fiscal policies seem to be perceived less relevant.

Forecast: Euro Area GDP components

Figure 2.5



Sources:Eurostat; AIECE Institute forecast

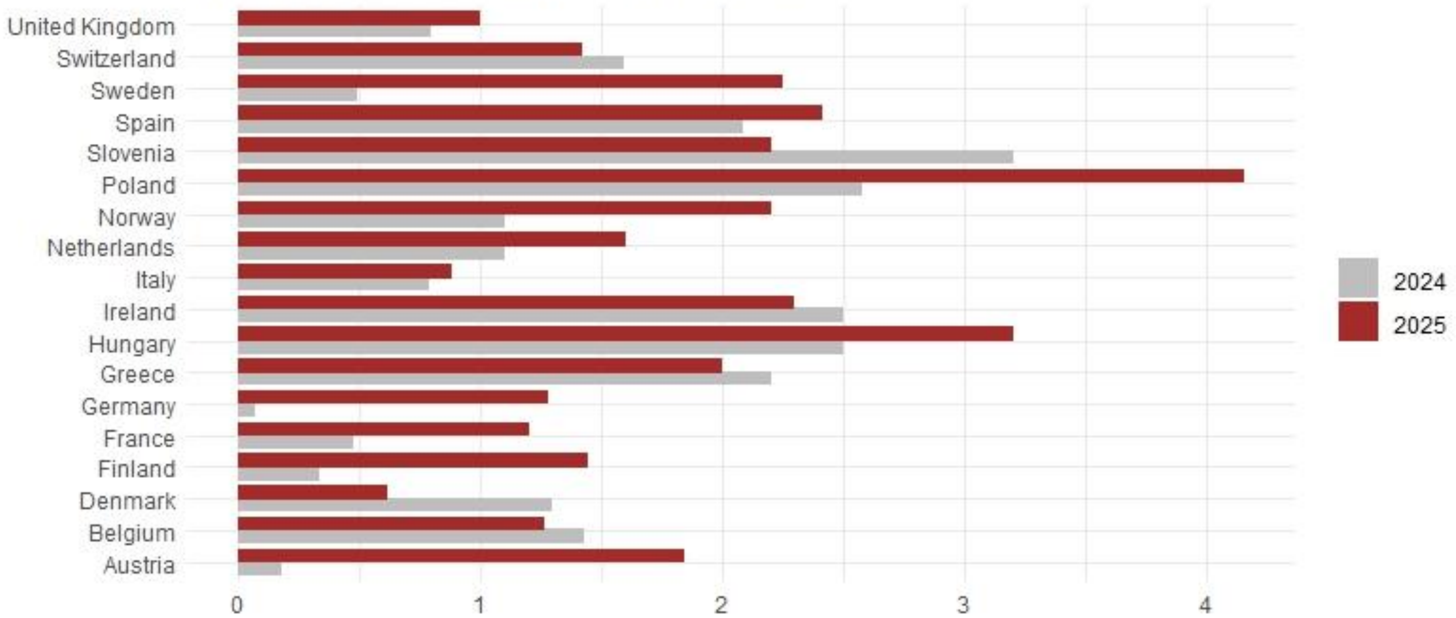
Regarding the domestic demand components, the average forecast of AIECE institutes predicts a recovery in consumption (respectively +0.9% in 2024 and +1.5% in 2025), and a slowdown in growth for investment in 2024 (+0.4%) followed by a recovery in 2025 (+1.4%) with a range of forecasts for the capital accumulation process that is wider than for private consumption.

Discussion: More uncertainty regarding forecast for GFCF

AIECE members

Forecast: GDP AIECE members

Figure 2.6 GDP forecast AIECE Countries



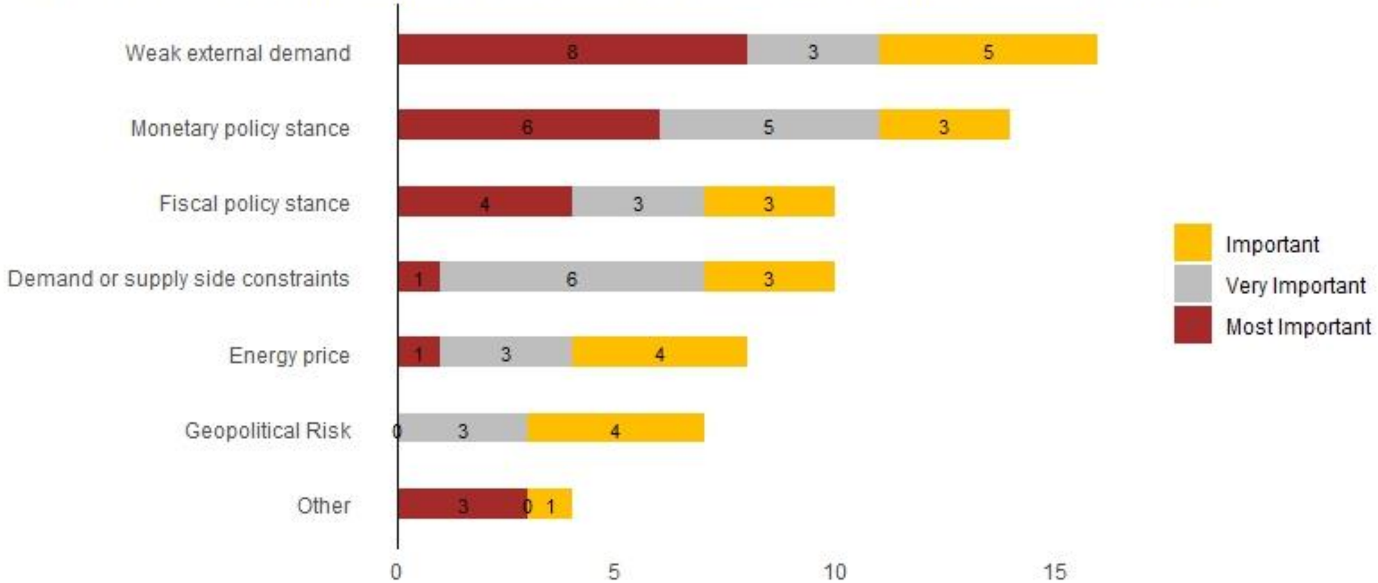
Sources: AIECE Institute forecast

- ✓ Looking at the forecasts for the 18 countries to which AIECE members belong, a slowdown scenario emerges in the forecast period (2024-2025). In all countries, except for Denmark, Greece, Belgium, Ireland, Slovenia and Switzerland, growth in 2024 is expected to be lower than in the 2025. For France, Germany and Austria, their own growth rate is expected to be lower than the AIECE average for the Euro Area.

- ✓ The revisions were 35% downward and 25% upward.

Factors on Economic growth AIECE members

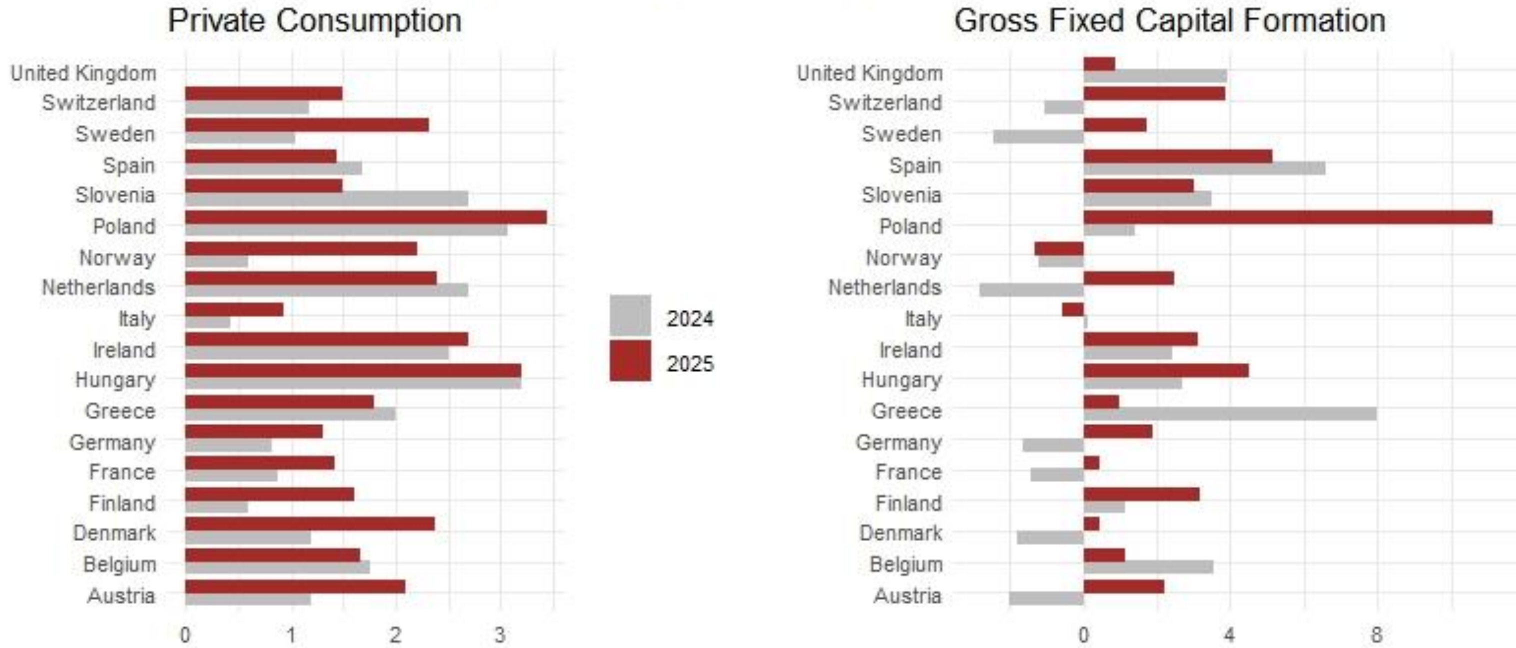
Figure 2.7 The three most important factors on Economic Growth in AIECE Countries



Sources:Answers AIECE Institute

Regarding the factors that can have an effect on economic growth weak external demand remains among the "most important". However, monetary and the fiscal policy stance are the other factors with greater responses and more weight.

Figure 2.8 Forecast AIECE Countries

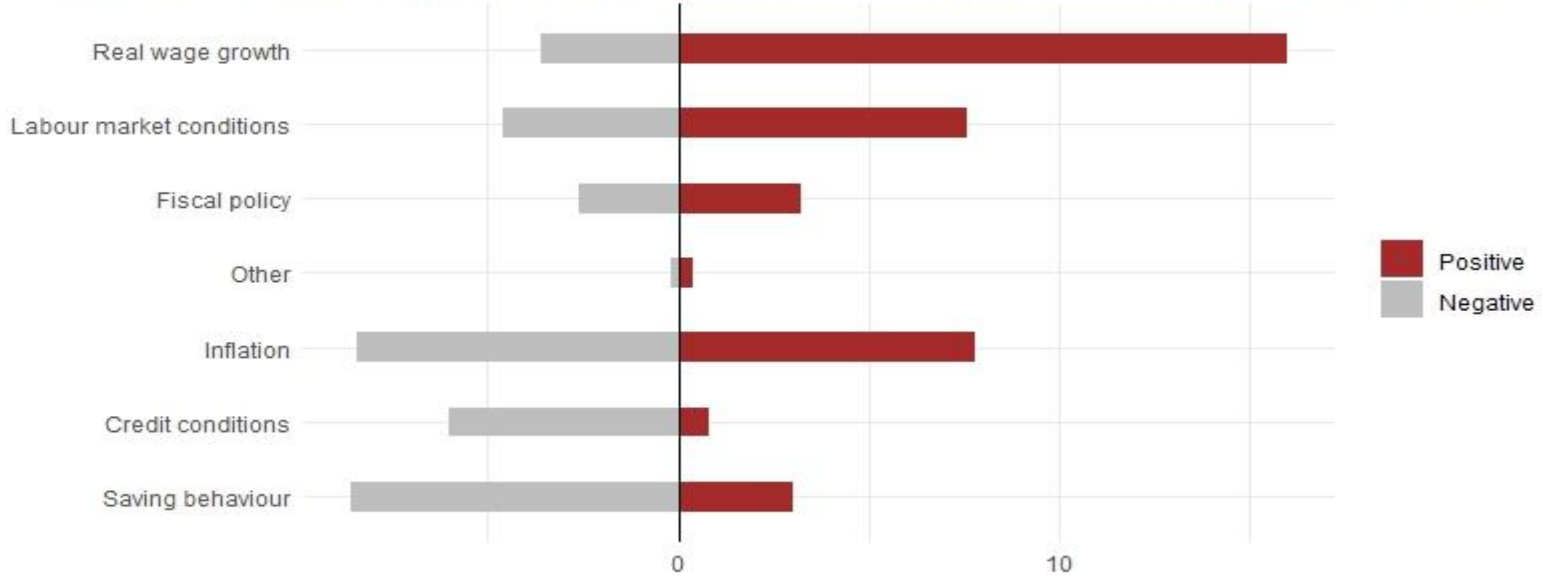


Sources: AIECE Institute forecast

Regarding the domestic demand, while all AIECE members provide positive forecasts for consumption for both years, a reduction in investment is expected for 8 out of 18 countries in 2024 and 2 of 18 in 2025

Factor for Consumption Growth

Figure 2.9 The most important factors on Private Consumption Growth in AIECE Countries

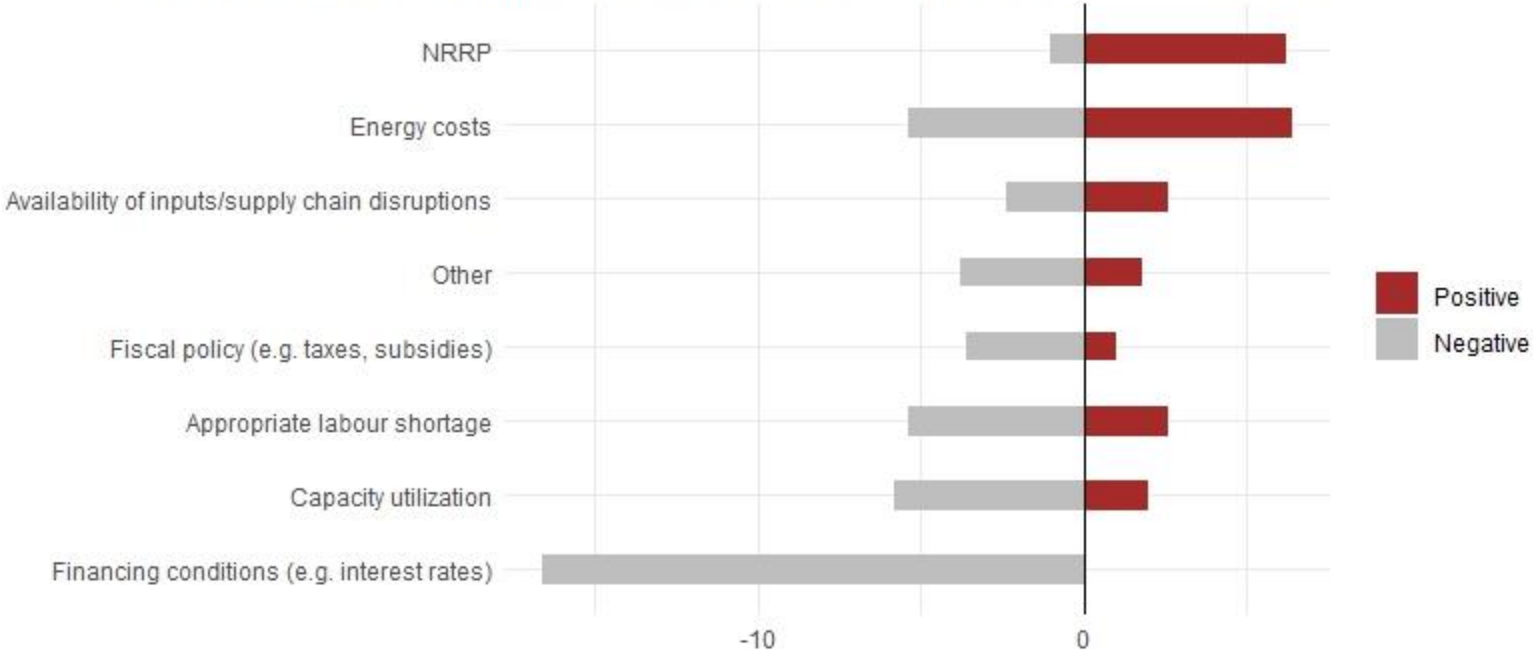


Sources: AIECE Institute forecast

- ✓ For most AIECE members, real wage growth is the most positive factors driving the increase in private consumption followed by a tightening of labour market conditions.
- ✓ Inflation represents at the same time a factor capable of supporting or slowing down private consumption. Most of institutions believe that the disinflationary process could be a driving force for consumption, but the decline in inflation might not be sufficient to stimulate consumption.

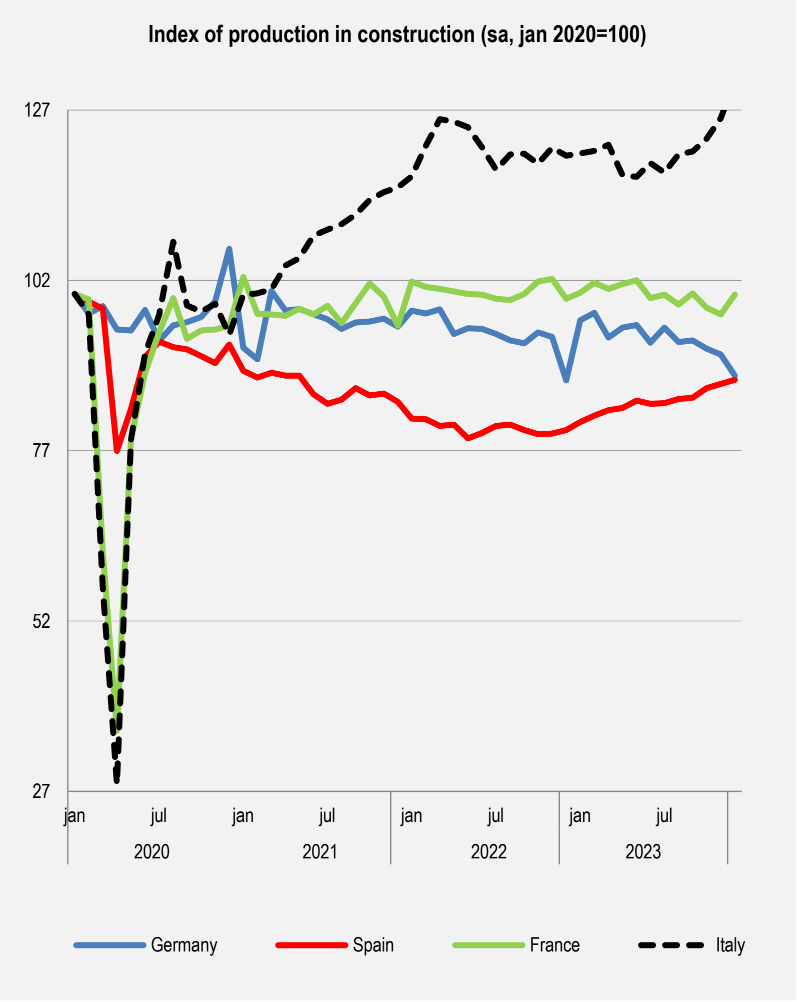
Discussion: Do you believe that there is additional savings (accumulated during the pandemic) to still support the domestic demand in EA?

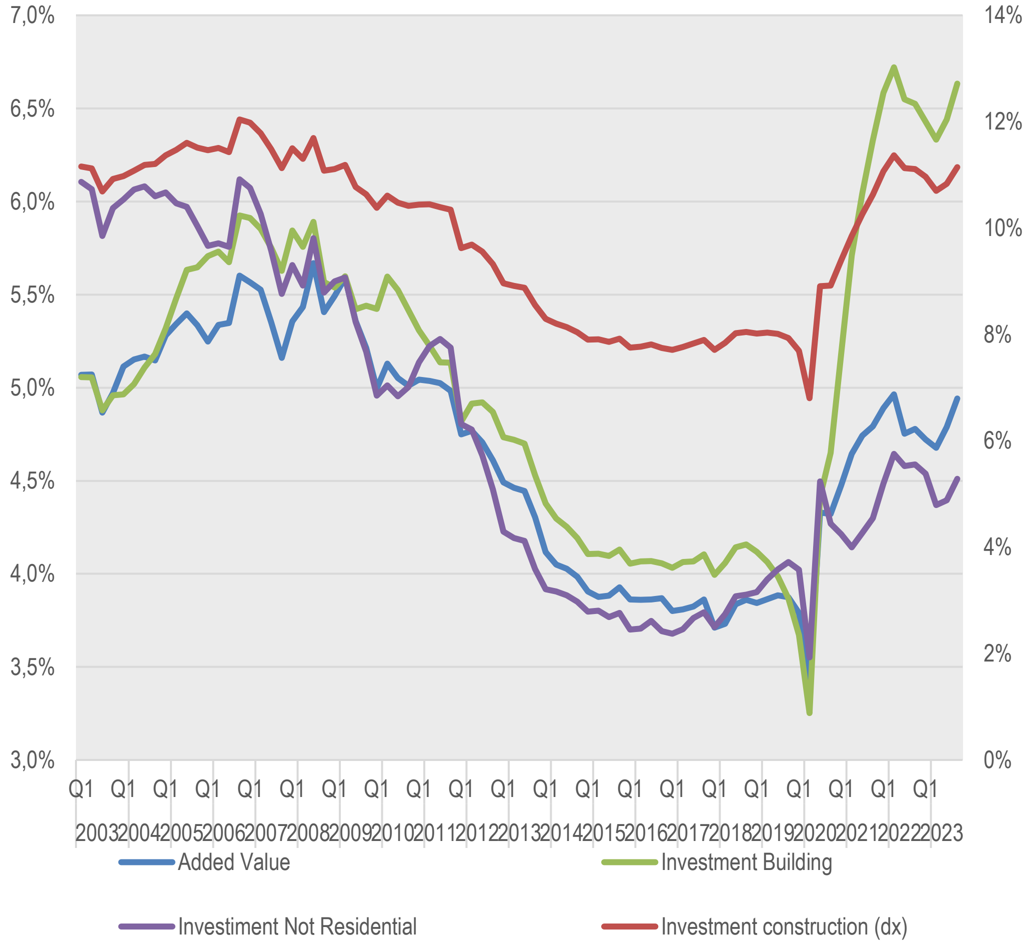
Figure 2.10 The most important factors on GFCF Growth in AIECE Countries



Sources: AIECE Institute forecast

Regarding investments, on the other hand, financing conditions represent the most relevant negative factor, due to high interest, followed by the increase in energy costs. This latter is deemed as a stimulus together with the implementation of the NRRP (National Recovery and Resilience Plan) in the various Euro Area countries.





Italy experienced in the most recent years an increase in the construction sector

Italian Construction sector: investment

	Growth Rate	Contribution				
		Buildi ng	Not residential	Machinery	Biological	Research
2020	-7,9%	-1,8	-1,2	-4,9	0	0
2021	20,2%	11,1	1,7	6,6	0,0	0,8
2022	8,7%	4	1,9	2,4	0,0	0,4
2023	4,9%	1,2	0,6	2,2	0,0	0,9

Discussion:

1. Which are the main drivers behind your investment growth?

2. Whether and to what extent do you think high interest rates have reduced potential growth through their effects on investment?

Effects of the global economic growth slowdown in 2023 on the Italian economy, adopting two analytical approaches:

1. effects of the international slowdown and the German recession on Italy's GDP: estimated by carrying out two simulation exercises using the Istat MEMo-it macroeconometric model. In both cases, it is assumed that in 2023, global trade and Italian exports to Germany, in the absence of shocks, would have recorded the same dynamics observed in 2022;

2. given the importance of German demand for the Italian economic system, the trade relationships between these two countries are analyzed from a perspective of mutual dependence in the long run: measured through input-output tables, following a recent analysis of the exposure of US economy to foreign productions (Baldwin et al., 2023), based on the OECD ICIO tables.

Impact of Germany Economy on Italy: model approach

1. Lower demand for Italian goods from Germany alone would result in a decrease in total exports compared to the baseline scenario (-1.0 p.p. in 2023), also triggering a less lively import dynamic (-0.3 p.p.) (slowdown in volumes is associated with a slight decrease in trade and consumption and investment deflators). Overall, the negative impact on GDP growth would be 0.2 p.p.
2. Deceleration of global trade induced by the international cycle slowdown would reduce, in 2023, the growth of Italian goods exports in volume by 3.7 p.p. also causing a lower demand for imported intermediate goods (-1.5 p.p.). These dynamics would consequently lead to a lower growth in the trade balance as a percentage of GDP (-0.9 p.p.).
3. The effects of the German shock would therefore account for about a quarter of the overall impact of the international cycle slowdown.

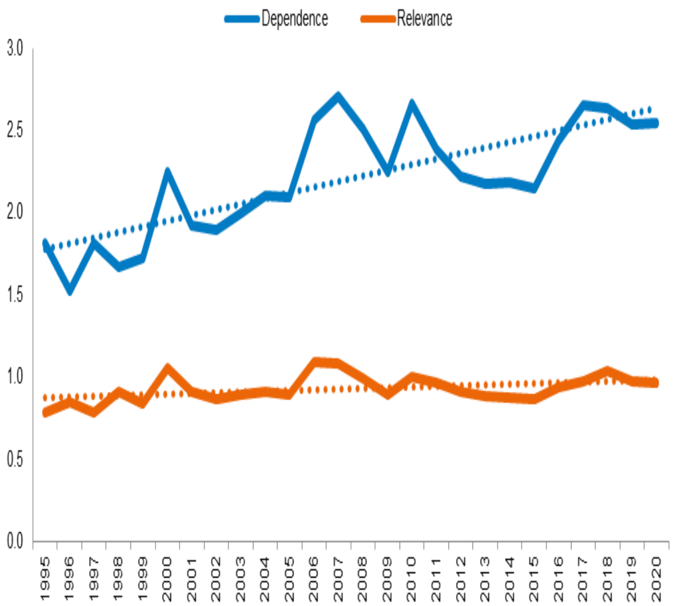
TABLE 1. EFFECTS ON THE ITALIAN ECONOMY OF GLOBAL TRADE SLOWDOWN AND RECESSION IN GERMANY. YEAR 2023 (CHANGES COMPARED TO BASELINE SCENARIO, PERCENTAGE POINTS)

VARIABLES	EFFECTS OF THE SLOWDOWN IN WORLD TRADE	EFFECTS OF GERMAN RECESSION
GDP	-0.8	-0.2
Domestic demand	0.0	0.0
Household consumption and ISP	0.0	0.0
Total investments	0.0	0.0
Exports	-3.7	-1.0
Imports	-1.5	-0.3
GDP deflator	-0.3	0.0
Household consumption deflator	-0.2	-0.1
Investment deflator	-0.3	-0.1
Terms of trade	-0.1	-0.1
Work units	-0.6	-0.1
Unemployment rate	0.0	0.0
Trade balance (as % of GDP)	-0.9	-0.2

Source: calculations on Istat data.

Trade and productive interaction between Italy and Germany also from a long-term perspective, considering for the period between 1995 and 2020:

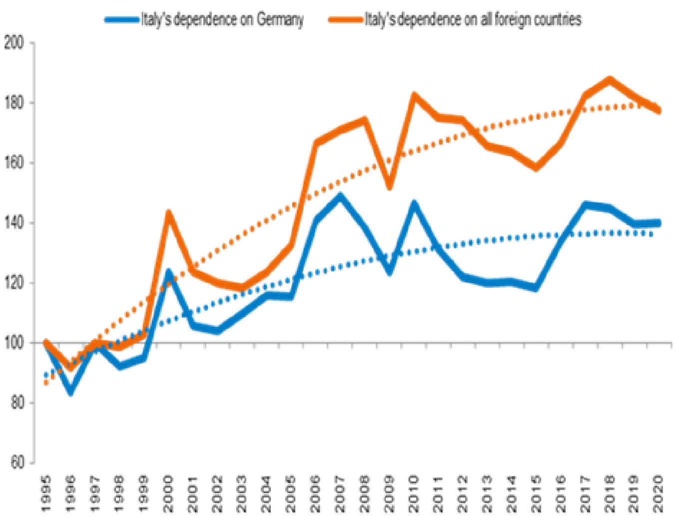
1. **Dependence:** the extent to which the production processes of a given country require the production inputs of another country (observing this relationship from the perspective of imports of the demanding country);
2. **Relevance:** importance of the domestic inputs of the supplying country for the production processes of other countries (thus observed from the perspective of exports of the supplying country).

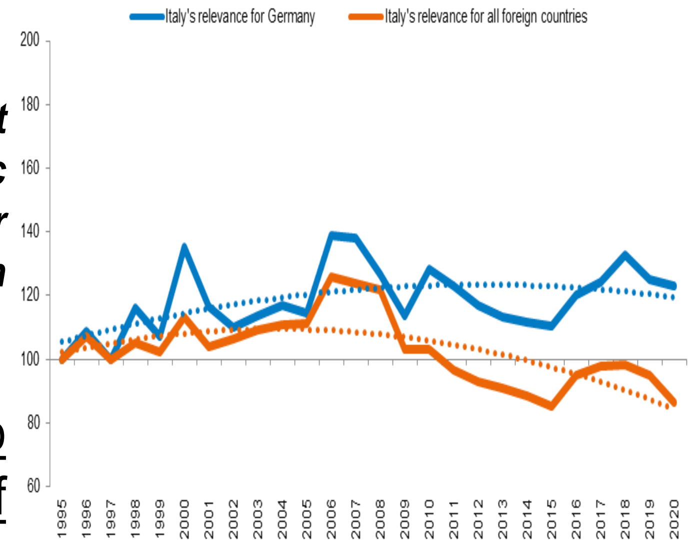


1. As of 2020, the degree of dependence of the Italian production system on German production inputs was about 2.5 times higher than the level of relevance of Italian production inputs for the German production system. In other words, at the beginning of the current decade, the Italian economy depended more on the German economy than vice versa.
2. Italy's dependence showed a significant increase between 1995 and 2020 (in this period, the indicator value increased by 40%), while its relevance for Germany showed a more modest growth (+23%). Both indicators also decreased between 2018 and 2020 (-3.5 and -8.4%, respectively).

1. Regarding dependency a divergence in growth trajectories is evident from the early 2000s: for the entire period considered, while the indicator related to the link with Germany increased by 40%, that related to the total of foreign countries grew by about 80%, reflecting an increasing articulation of international trade relations.
2. As for relevance the divergence of indicators' trajectories is evident starting from the 2008-09 crisis with a smaller reduction for Germany than for the rest of the world. For the entire period considered, the former increased by 22%, while the latter decreased by about 15%.

Index 1995 = 100





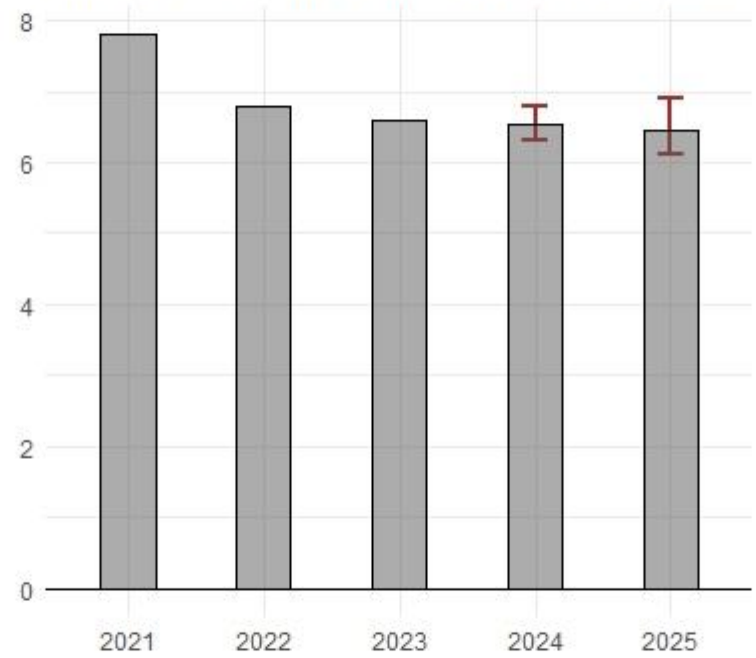
Italy's productive and trade dependence on Germany in recent decades has been increasing, but it decreased in pre-pandemic years: a weakening correlation (confirm evidence from other studies, CSC, 2023) implying a progressive decrease in integration between the two economies.

Discussion: If recent trends continue in the years to come, should we expect less effective transmission of shocks from Germany?

Labour Market

The recent data for the Euro Area confirm a strengthening of labor market conditions, continuing the downward trend in the unemployment rate over the past 10 years, which was only interrupted during the pandemic period. In March 2024, the euro area seasonally adjusted unemployment rate was 6.5%, stable compared with February 2024 and down from 6.6% in March 2023.

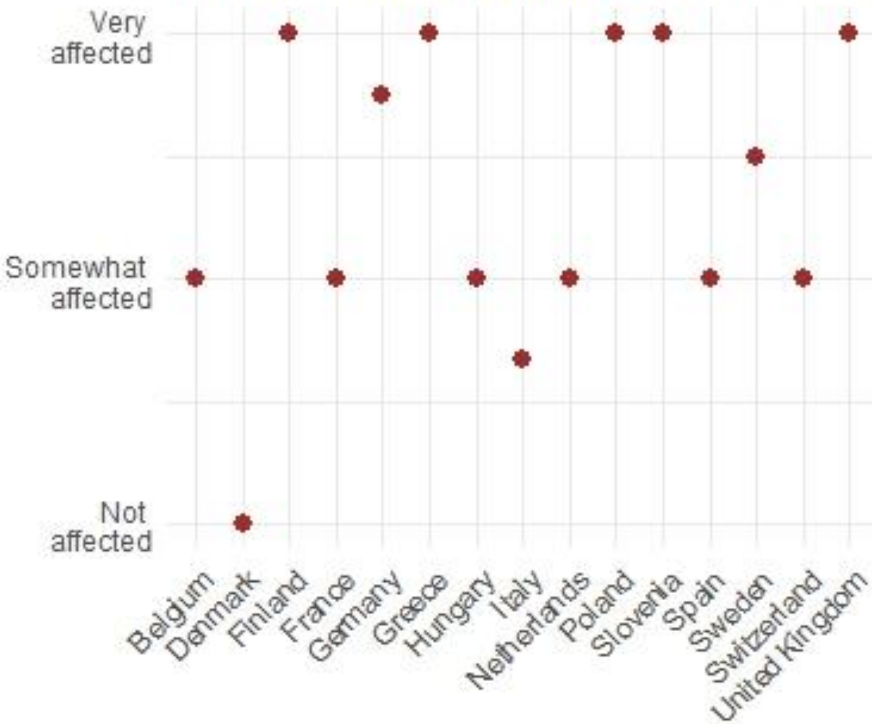
Figure 2.11 Unemployment rate, Euro Area



Sources:Eurostat; AIECE Institute forecast

AIECE member forecasts confirm the downward trend in the unemployment rate for the current and next year, stabilizing around 6.5%

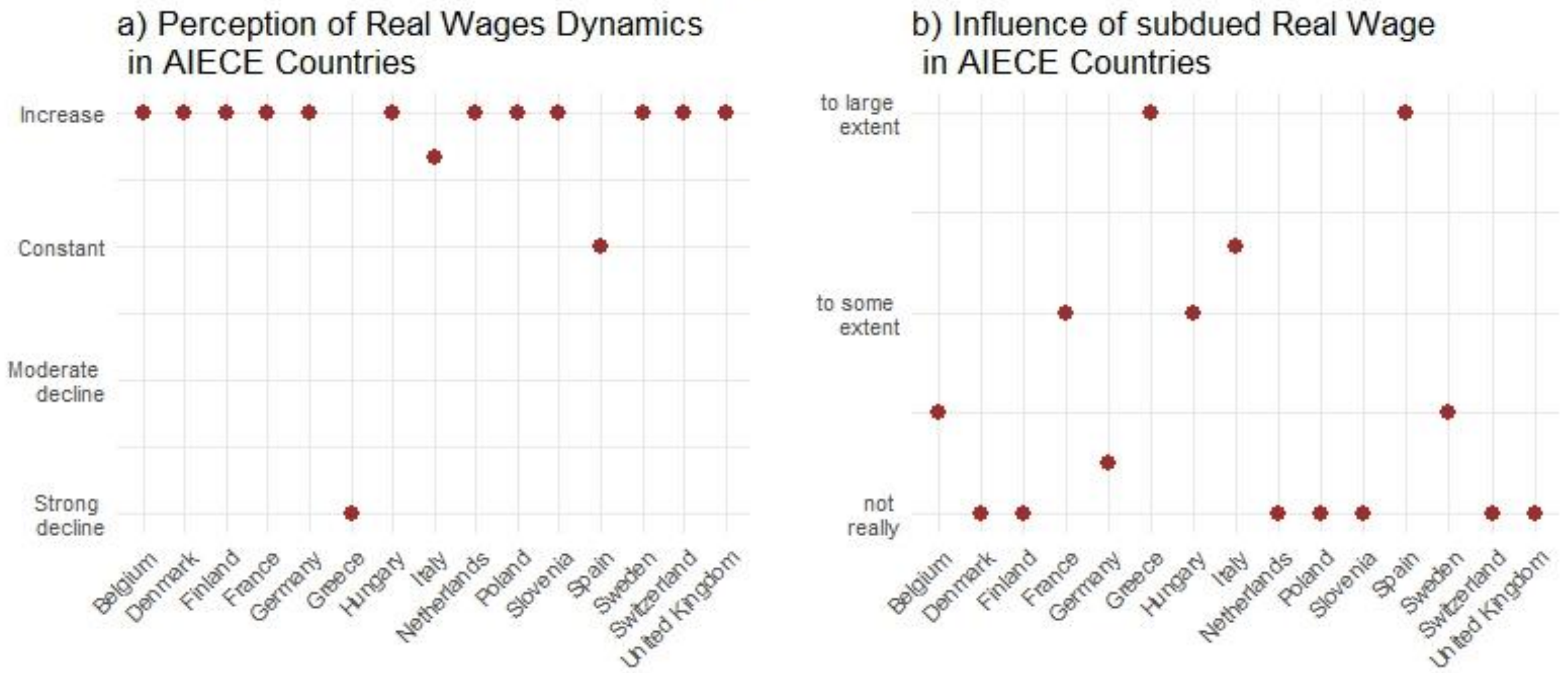
Figure 2.12 Influence of shortage in Labour Market in AIECE Countries



Sources:Answers AIECE Institute

As for the workforce, the mismatch between supply and demand remains a problem that affects almost all AIECE countries with varying intensity. Only Denmark is not affected by this situation, while Germany, Greece, Poland, Slovenia and the UK are defined as "very affected by a shortage of appropriate labor."

Figure 2.13



Sources:Answers AIECE Institute

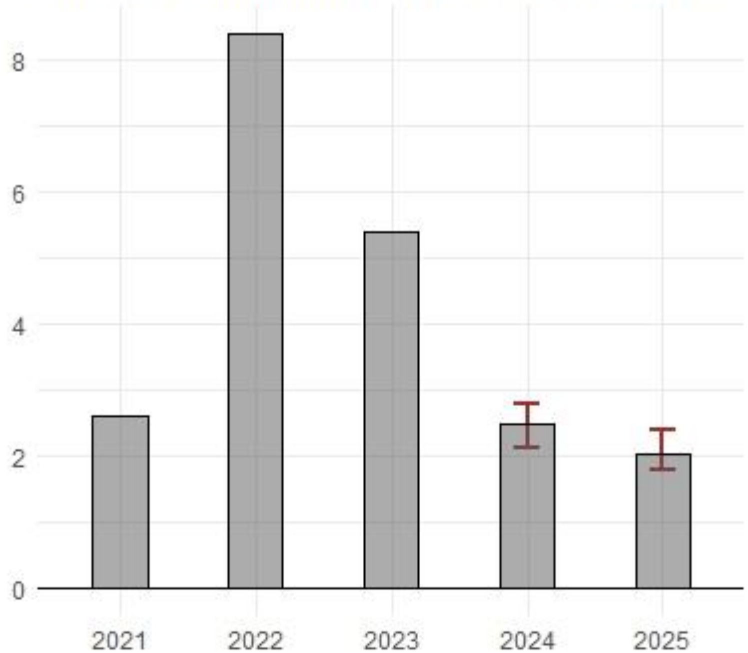
The perception regarding the future dynamics of real wages in 2024 is positive for all AIECE member countries except for Greece, which expects a strong decline in real wages in the near future (Figure 2.13 a). However, the problem of compressed real wages persists for 3 out of 14 member countries (Italy, Spain, Greece), while for 10 others it is "not really" a problem (Figure 2.13 b).

Inflation

Inflation Rate

The disinflation process continues in the Euro Area thanks to the fall in energy prices and still restrictive monetary conditions. However, in the first four months of 2024, Brent prices have resumed growing ($84.9 the average in January-April compared to $82.6 in 2023), also driven by the effects of geopolitical tensions, while natural gas prices have continued to decline. The disinflationary process in Europe has continued: in April, consumer inflation remained stable (2.4% year-on-year)

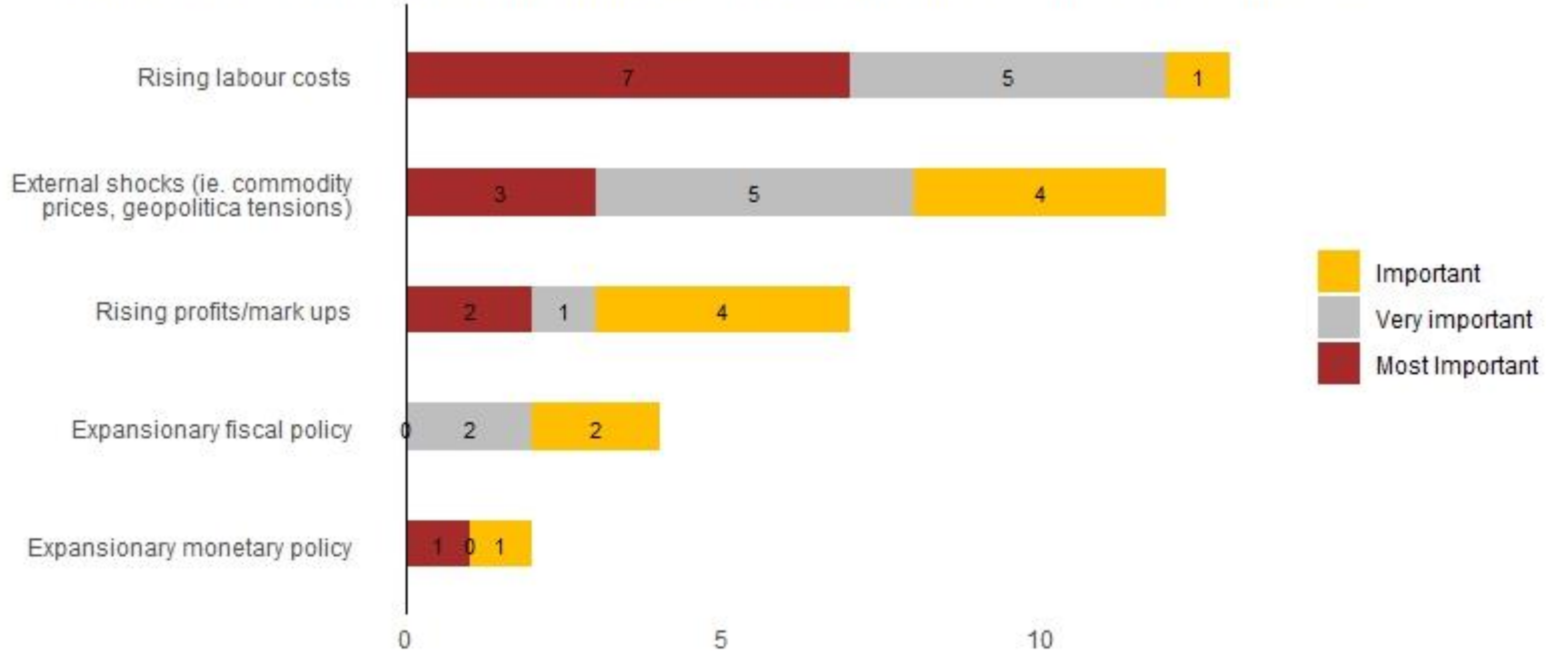
Figure 2.14 Inflation rate (HICP), Euro Area



Sources:Eurostat; AIECE Institute forecast

AIECE members confirm a decline in the inflation rate (average 2.5 and 2) for the Euro Area in 2024 and 2025. Looking at the situation in the countries, 53% does not expect to reach the ECB target in 2024.

Figure 2.16 The three most important factors for High Inflation in AIECE Countries

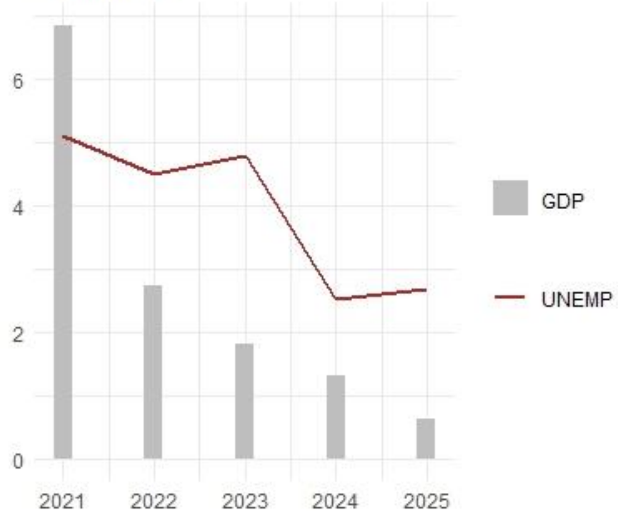


Sources:Answers AIECE Institute

The main factors that would keep the inflation rate above the GDP level are rising labour costs, which had the most responses and the highest number of "most important." External shocks caused by commodity prices and geopolitical tensions would also have a "most important" or "very important" impact.

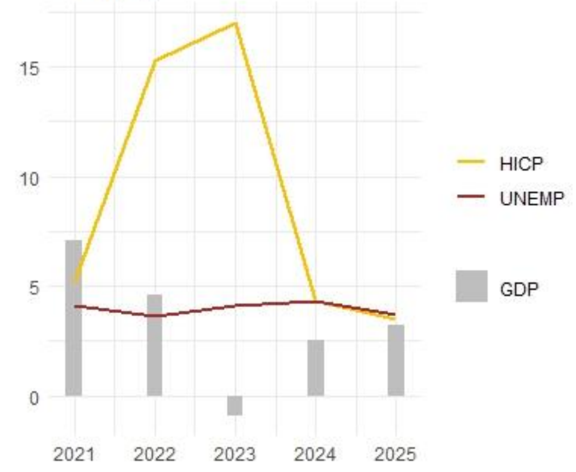
Non-EA countries

Figure 2.17 Macroeconomic outlook Denmark



Sources:IMF and AIECE Institute forecast

Figure 2.18 Macroeconomic outlook Hungary

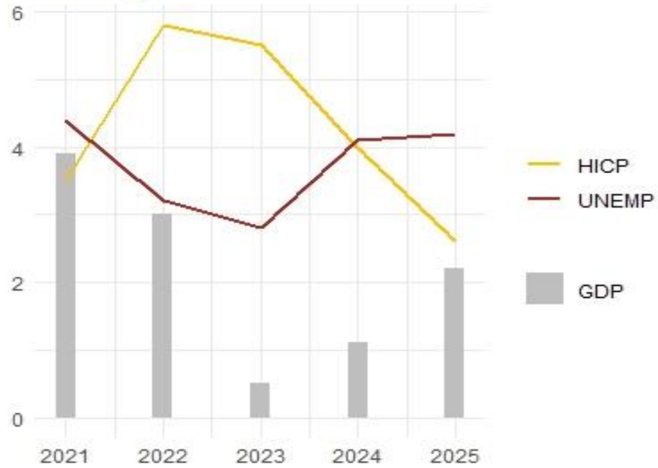


Sources:IMF and AIECE Institute forecast

More contained growth: +1.3% in 2024 and +0.6% in 2025. Monetary policy and weak external demand are the two most important factors that could affect growth in 2024. In particular, financing conditions (i.e.. interest rates) could negatively affect private investment growth and credit conditions private consumption. The labour market will remain robust

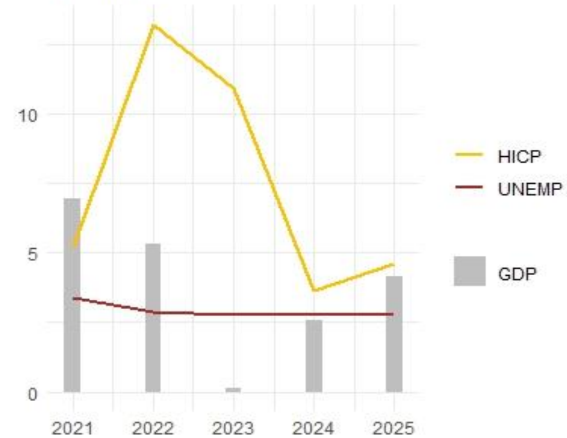
Very rapid disinflation: after the peak registered at the beginning 2023, HICP annual growth rate was 17% and forecasts indicate that price growth in 2024 will be 4.3%, and 3.5% in 2025. More a robust and steady growth: +2.5% in 2024 and +3.2% in 2025 driven by internal demand even if, as pointed out, consumption growth will be moderate, and the resulting incentive for domestic-oriented firms to increase their investment activity will be moderate as well. At the same time, the export outlook is profoundly uncertain, due to the weak growth prospects in Europe and especially in Germany.

Figure 2.19 Macroeconomic outlook Norway



Sources:IMF and AIECE Institute forecast

Figure 2.20 Macroeconomic outlook Poland

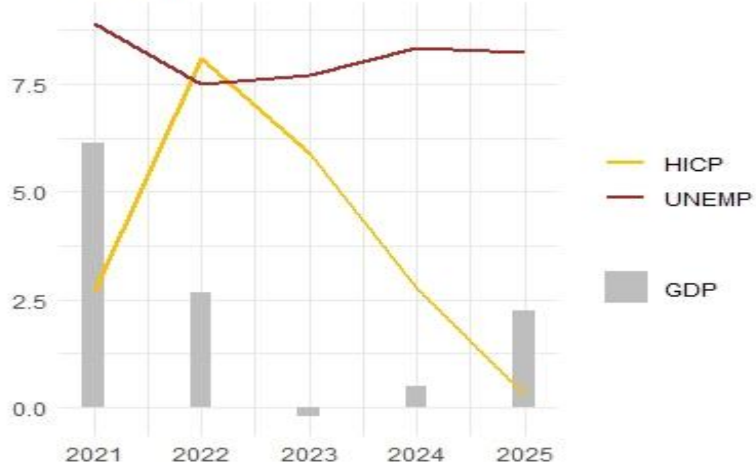


Sources:IMF and AIECE Institute forecast

Norway has seen virtually no real wage growth in the period 2015–2023. Last year, nominal wage growth was 5.2%, while prices rose by 5.5%, measured by the CPI. Price growth was thus slightly lower than in 2022, when the CPI rose by 5.8%. Economic activity is expected to remain close to its potential over the forecast horizon and to average 1.1% in 2024 and 2.2% in 2025. Gross fixed capital formation will register a decline in the forecast horizon (-1.2% and -1.3% respectively in 2024 and 2025) with main negative factor being financing conditions

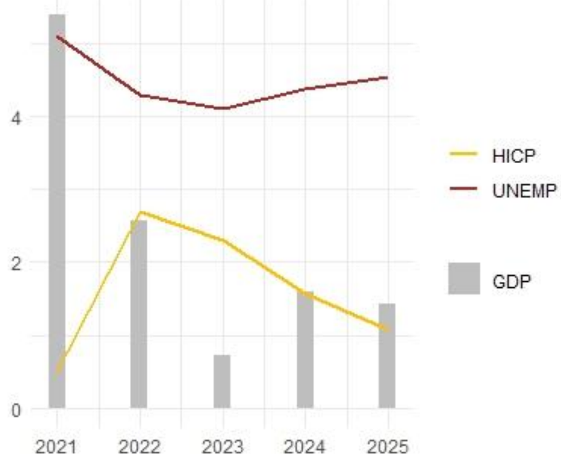
Economy is expected to rebound in the next two years accelerating following a weak 2023 with the major boost related to consumption. After inflation drop, real wages expand at approximately 10% year-on-year and, furthermore, disposable incomes are supported by fiscal policy (increasing child benefit). Overall economic activity will grow by 2.6% and 4.2% in 2024 and 2025

Figure 2.21 Macroeconomic outlook Sweden



Sources:IMF and AIECE Institute forecast

Figure 2.22 Macroeconomic outlook Switzerland

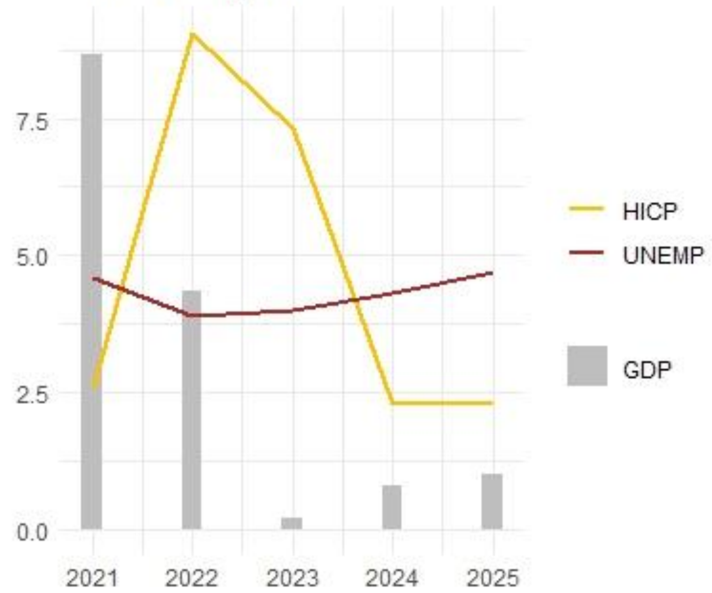


Sources:IMF and AIECE Institute forecast

The Swedish economy has been operating below capacity for almost a year and is going through a recession. The first half of the year, the growth will continue to be low. Inflation has dropped back rapidly in recent months and will continue to fall in 2024. Soon the Riksbank will therefore commence a series of interest rate reductions and with low inflation and interest rate cuts in sight, the consumers will enjoy real wage increases which will fuel an increase in the private consumption. Moreover, an expected moderate increase in the external demand will support exports as well. Overall, the economy will grow by 0.5% in 2024 and 2.2% in 2025

Due to the past real appreciation of the Swiss franc, the weak international economy and the associated weak demand for investment, economic growth in Switzerland will remain below potential in the first half of 2024. The manufacturing industry will remain under pressure for the time being, while the service sectors will provide support. A recovery is expected from the second half of 2024, driven by global demand and industrial momentum. This will be accompanied by an increase in investment demand. GDP growth amounts to +1.6% in 2024 and a +1.4% in 2025

Figure 2.23 Macroeconomic outlook United Kingdom



Sources:IMF and AIECE Institute forecast

The UK GDP following the moderate growth in 2023 will likely remain sluggish into the medium term. The AIECE member expects GDP to grow by 0.8 per cent in 2024 and at a similar rate in 2025 (+1.0%). Inflation will come down to reach the Bank's target of 2 percent: +2.3% in both 2024 and 2025. Energy price and demand or supply side constraints are considered the most important factors according to their effect on economic growth in 2024. Inflation is expected to be a negative factor for private consumption on the other end real wage growth should give a positive influence. Unemployment rate will slightly increase in 2024 to 4.3% and to 4.7% in 2025 with labour market very affected by a shortage of appropriate labour.

Discussion:

1. We have noticed that unemployment forecasts for the Euro area show a downward trend, while non-Euro countries are experiencing an increase in 2024. What could be the reasons behind this difference?
2. We have observed that inflation rates in non-Euro countries are forecasted to decrease. What does this indicate about the current stance of monetary policy in these countries, and what are the expectations for the near future?

1. The war in Ukraine has exposed Europe's dependence on Russian energy. How can Europe ensure a stable and affordable energy supply in the long term?

2. Europe is committed to a green transition, but how can this be achieved while maintaining competitiveness and ensuring a just transition for workers in carbon-intensive industries?