



World Economic Situation and Prospects

Weekly Highlights

Prepared by Clive Altschuler

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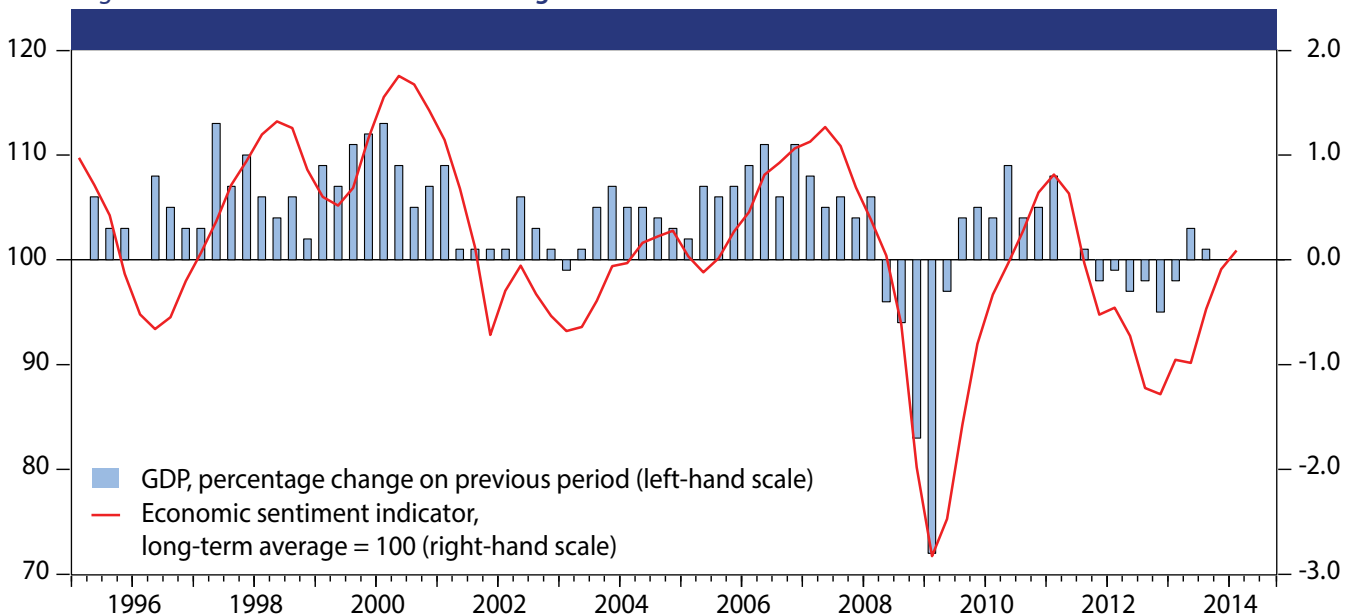
Economic sentiment in the Euro Area: subdued growth and divergence among countries continues

The European Commission produces a monthly indicator of economic sentiment (ESI) for the region as a whole, for its constituent economies, and by type of economic activity¹. The ESI for the euro area tracks quarterly movements in gross domestic product (GDP) fairly well as depicted in figure 1. Sentiment fell sharply during the recession of 1996 (Asian Crisis), 2001 (September 11 terrorist attacks), 2002 (the onset of the Iraq war), the Great Recession in 2007/2008 and the euro crisis in 2011. The ESI series is normalized so that 100 represents its average value since 1990. Looking at the current situation, sentiment has rebounded significantly from the lows of the acute phase of the euro area crisis, during which the region suffered six consecutive quarters of negative growth. Sentiment has only just reached and surpassed its long-term average in the

last two months. This is consistent with continuing positive growth, but is far from a level indicating a stronger growth performance.

The ESI is made up of five components, sentiment in industry, services, construction, retail trade and consumer sentiment. Figure 2 shows sentiment indicators for the most recent period where the series have been normalized so that zero represents their respective long-term averages. During the Great Recession, the components collapsed in a synchronized manner. Services and industry fell the furthest below their long-term averages, but construction also suffered a forty-point drop. In the subsequent upturn, industry rebounded sharply, with services more subdued while retail trade and consumer confidence moved above their long-term averages. However, the construction sector remained

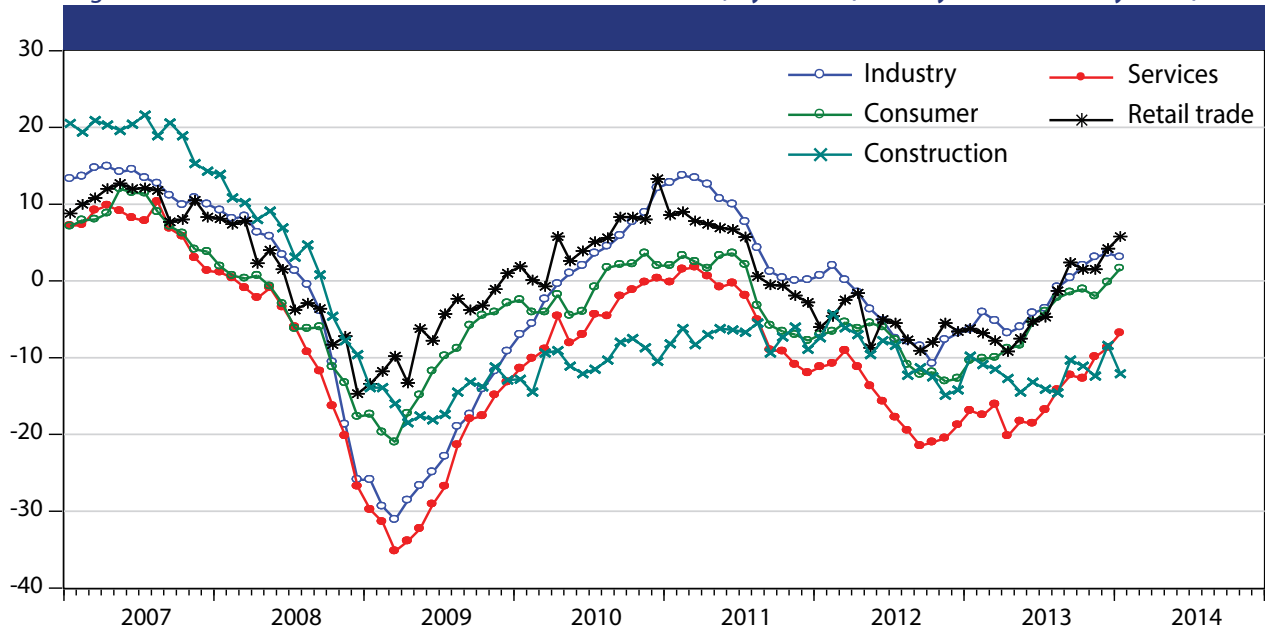
Figure 1: Economic sentiment and GDP growth in the euro area



Source: The European Commission Economic Sentiment Indicator.

1 The European Commission Economic Sentiment Index http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm.

Figure 2: Economic sentiment indicator for the euro area, by sector (January 2007 - January 2014)



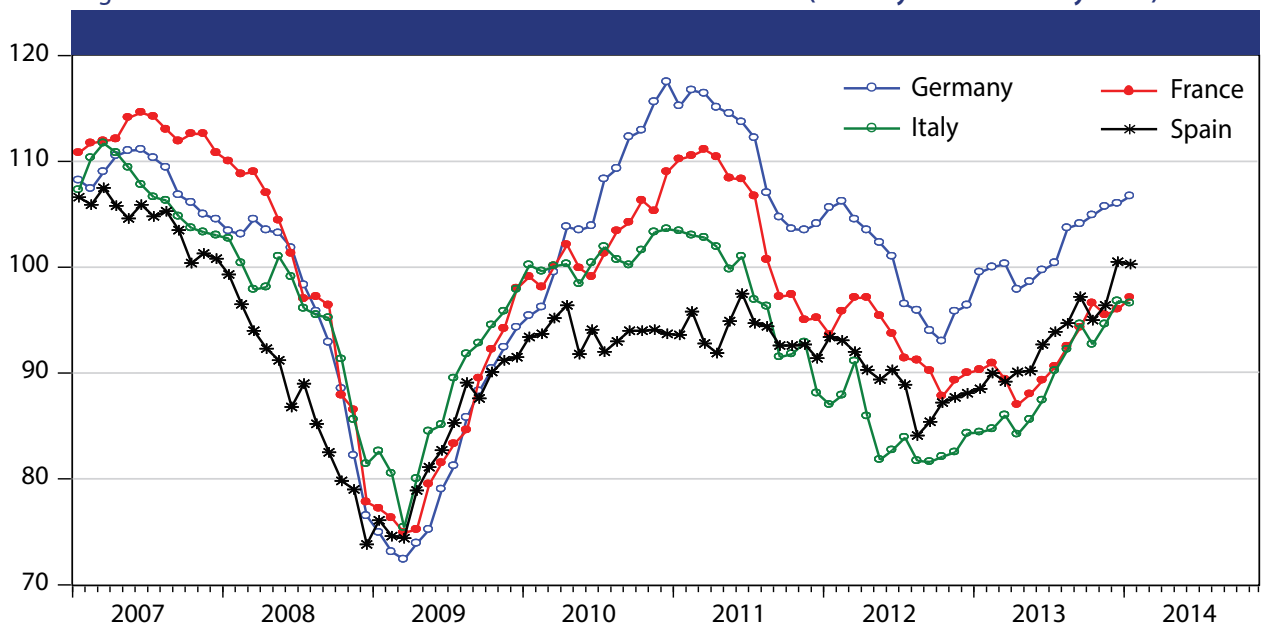
Source: The European Commission Economic Sentiment Indicator.

depressed. At the current juncture, retail trade, industry and consumer sentiment are all above their long-term averages, but not significantly. Construction remains depressed, while the services sector has recovered somewhat but remains well below its long-term average. This points again to a picture of very subdued growth.

At the country level, the four largest economies displayed very different rebounds from the Great Recession, with Germany reaching a peak in sentiment at the end of 2010 (close to its maximum value since 1990), sentiment in Spain stalling at a low level, and France and Italy lying between the

two. More recently, Germany recovered fairly rapidly from the dip during the acute phase of the euro area crisis and has now been above its long-term average since mid-2013, but still remains below the two most recent previous peaks. Spain has made quite a rapid recovery to its long-term average, while France and Italy still remain below. This points to continued divergence in growth performance within the region, with Germany the strongest of the large economies, Spain continuing to expand modestly after its long period of decline, but Italy likely to continue to contract, while in France activity looks set to remain weak.

Figure 3: Economic sentiment in selected euro area economies (January 2007 - January 2014)



Source: The European Commission Economic Sentiment Indicator.