

The Economic Recovery across the EU vs the Global Crisis

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Abstract: The paper deals with the impact of the economic crisis on the EU27 and Euro area using another scientific approach. The main objective of the paper is to realise a forecast of the economic recovery across Europe for the next two years. In order to realise this, the scientific method and the approach are connected to the latest other researches in this topic area. The analysis and the conclusions of the paper are based on latest official statistical data, statistical tables and pertinent diagrams. The results of the analysis are new forecasts for the main economic indicators for EU27 and Euro area. The problem is that the crisis is far away from being solved and EU27 is not able to manage a more realistic economic recovery plan.

Keywords: recovery process; economic disparities; economic aggregate evolution; economic risks.

1 Introduction

The global financial crisis led to an economic recovery process across the EU which operated optimally still the third quarter of 2011 (Reinhart C.M., Rogoff K.S., 2009). The problem is that the economic recovery process is slower. It is affected by the weak demand in the private sector and the tighter credit conditions (European Central Bank, 2011). On the other hand, the economic environment changes quickly and is very difficult to find pertinent trends for the next few years. This is why, we tried to realise an overview on the EU economy and to forecast its evolution. It is the main objective of this research. The analysis deals with the latest dedicated scientific papers and with the official statistical data from Eurostat and the World Bank. As a result, we were forced to operate only to 2010-2013 time period data. We supported the analysis and the conclusions of this paper with pertinent diagrams and statistical tables.

2 Related Works Survey

There are a lot of books and scientific papers focused on the economic forecasting under the global crisis impact. A recent book coordinated by Carnot is focused on the theoretic approach of the forecasting processes, including policy making and forecasts or macroeconomic models. A distinct part of the book covers the risks and accuracy in forecasting (Carnot N., Koen V., Tissot B., 2011). Another scientific approach provides up-to-date coverage of both new and well-established fields in the sphere of economic forecasting. The chapters are written by world experts in their respective fields, and provide authoritative yet accessible accounts of the key concepts, subject matter, and techniques in a number of diverse but related areas. It covers the ways in which the availability of ever more plentiful data and computational power have been used in forecasting, in terms of the frequency of observations, the number of variables, and the use of multiple data vintages. Greater data availability has been coupled with developments in statistical theory and economic analysis to allow more elaborate and complicated models to be entertained; the volume provides explanations and critiques of these developments (Clements M.P., Hendry D.F., 2011).

2012 started with two important dedicated scientific books. First of them is signed by González-Rivera G. and started from the idea that knowledge of forecasting methods is among the most demanded qualifications for professional economists, and business people working in either the private or public

CRISIS AND ANTI-CRISIS

sectors of the economy. The general aim of this textbook is to carefully develop sophisticated professionals, who are able to critically analyze time series data and forecasting reports because they have experienced the merits and shortcomings of forecasting practice (González-Rivera G., 2012).

The second is based on the economic and monetary disaster predicted by Peter Schiff. And nobody understands what to do in this situation better than the man who saw it coming. For more than a decade, Schiff has not only observed the economy, but also helped his clients restructure their portfolios to reflect his outlook. What he sees today is a nation facing an economic storm brought on by growing federal, personal, and corporate debt; too little savings; and a declining dollar. *Crash Proof 2.0* picks up right where the first edition—a bestselling book that predicted the current market mayhem—left off. This timely guide takes into account the dramatic economic shifts that are reshaping the world and provides you with the insights and information to navigate the dangerous terrain. Throughout the book, Schiff explains the factors that will affect your future financial stability and offers a specific three step plan to battle the current economic downturn (Schiff P.D., 2012).

3 Recovery and Disparities across the EU Member States

3.1 The Economic Growth

As principle, a temporary slowdown in the economic activity is not unusual during the economic recovery. During the latest 3.5 years, the EU27 and the Euro area faced to GDP growth rates of about 1%. The economic forecasts for 2013 is more optimistically than for 2012 for almost all economic indicators (see Table 1).

Table 1 EU27's economic forecast (%)

Indicator	2010	2011	2012	2013
GDP	2.0	1.6	0.6	1.5
Private consumption	1.0	0.4	0.4	1.1
Public consumption	0.7	0.3	-0.2	0.1
Total investment	-0.3	1.9	0.8	3.0
Unemployment rate	9.7	9.7	9.8	9.6
Inflation rate	2.1	3.0	2.0	1.8
Public debt (% of GDP)	80.3	82.5	84.9	84.9

Source: European Commission, European Economic Forecast – Autumn, 2011, Brussels, p.29.

The Euro area is forecasted to achieve worst economic results in terms of GDP, investments, unemployment rate and public debts. Even that almost all Euro area members are developed economies, the future economic evolution of Greece, Spain, Portugal and Italy will have a negative impact (see Table 2).

Table 2 Euro area's economic forecast (%)

Indicator	2010	2011	2012	2013
GDP	1.9	1.5	0.5	1.3
Private consumption	0.9	0.5	0.4	1.0
Public consumption	0.5	0.1	-0.2	0.3
Total investment	-0.5	2.0	0.5	2.9
Unemployment rate	10.1	10.0	10.1	10.0
Inflation rate	1.6	2.6	1.7	1.6

Public debt (% of GDP)	85.6	88.0	90.4	90.9
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Source: European Commission, *European Economic Forecast – Autumn, 2011*, Brussels, p.29

An optimistic point of view talks about the crisis extinction on the European financial markets in 2012. Moreover, some of the 2011 turmoil will disappear or subside. As a result, the consumers and investors' confidence will return and will support a weak economic recovery across the EU27 and Euro area. The positive evolution of the rare materials' prices in the third quarter of 2011 will support both European consumers and producers and the economic growth, as well.

The economic recovery in USA and Japan will lead to a better evolution of the world trade and will support the world economic recovery efforts. A successful approach to the sovereign debt problems and the confidence growth at the end of 2012 are able to produce economic normality in 2013.

When the consumers will increase their confidence in the economic environment, the households saving rate will decrease and the consumption will increase. The increase in consumption will lead to an increase in investment under favourable financing conditions.

Starting the second quarter of 2011, the exports became the main engine of the economic growth across the EU27 and Euro area. As a result, the net exports supported by 0.2% the annual economic growth.

The recovery process was influenced by significant disparities between the Member States. These disparities were connected to: the private leverage (at the beginning of the global crisis), the asset prices' fall (especially on the housing market), the health of the banking sector and the public finances' soundness. Moreover, the competitiveness and the exports structure supported this evolution. As a result, the most developed Member States benefited from the world trade recovery and obtained greater benefits from the foreign trade than the other Member States.

Some Member States with high growth rates (Sweden, Poland, Germany) succeeded to achieve GDPs higher than those from the pre-crisis period. On the other hand, there are great disparities between EU27 and Euro area connected to the forecasted economic growth (see Figure 1).

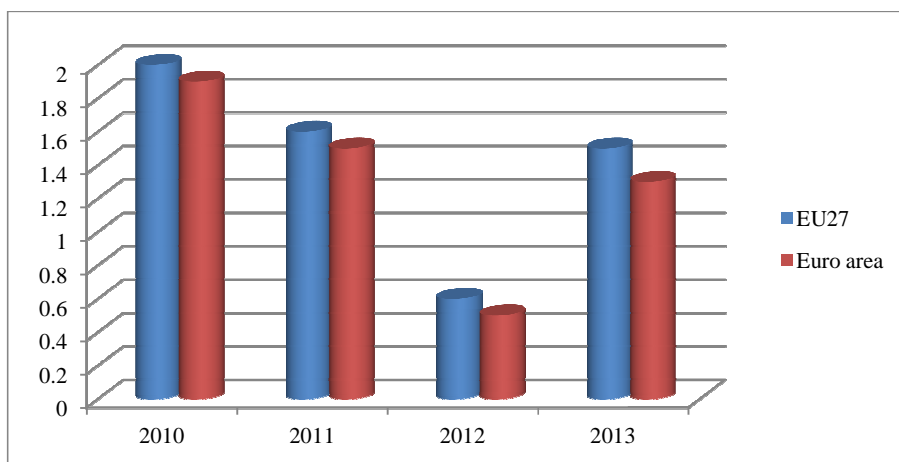


Figure 1 GDP forecast (%)

Source: personal contribution

3.2 The Private and Public Consumption

The private consumption had the most important contribution to the GDP growth during the third quarter of 2009 and the first quarter of 2011. This consumption was dimensioned by the low growth of the available real incomes.

The real compensation granted to the employees decreased during the crisis and were only partially recovered in 2010. During the first two quarters of 2011, the inflation rate increased based on the food and energy prices' growth. This evolution led to another decrease in the private consumption (-0.3% in EU27 and Euro area). The decrease of the EU private consumption was caused by the negative evolution of the consumption in Germany and France, as a result of the real incomes decrease.

The forecasts talk about a low increase in the consumption during 2012-2013. This evolution will be not able to decrease the disparities between EU 27 and Euro area (see Figure 2).

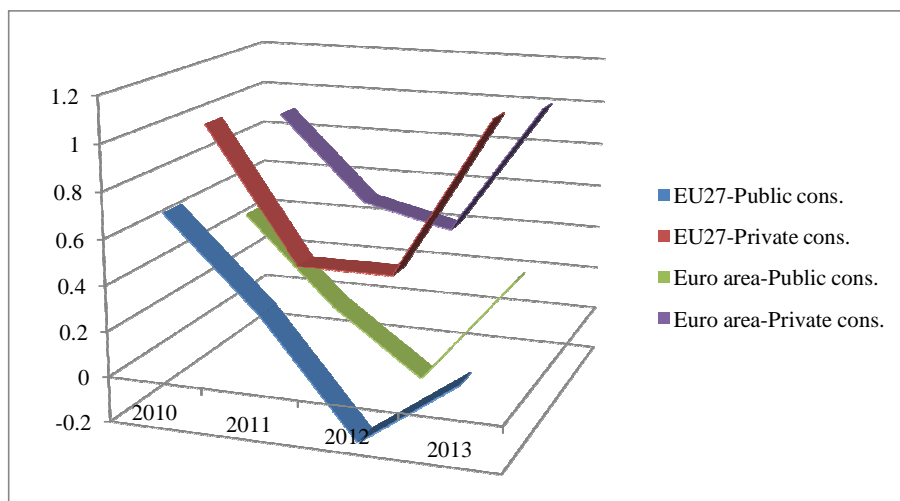


Figure 2 Consumption forecast (%)

Source: personal contribution

3.3 The crisis Impact on the European Trade

The global crisis had a powerful impact on inventory. This is why the inventory management became more responsive to the short term fluctuations and the managers increased their risk aversion, keeping the stocks low (European Commission, 2011).

Recent surveys suggest that stocks in productive activity are increasing. Starting March 2011, the European producers increased their stocks of finished products. But the increasing of the financing costs could force companies to "cut" back in their stocks.

The negative trend of the world trade forced the EU27 Member States to accelerate the exports recovery in order to support their economic growth. As a result, the exports growth rate decreased in the EU27, from 2.2% in 2010, to 0.6% in 2011 and from 2.2% to 0.7% in Euro area.

The European trade forecasts talk about negative trends, which are supported by the risk factors as the financial market turmoil. The high uncertainty may delay the expenditures implementation and investment decisions that will affect the EU27 exports. Moreover, the global economic outlook deteriorating will not bring anything good for the global trade development. The EU27 exports will grow lower in 2012 and, probably higher in 2013.

Some Member States, as Germany and Finland, realise a great part of their exports to the emergent economies. This is a positive conjuncture because the emergent countries will achieve high economic growth rates during 2012-2013. The Member States which are focused on the capital goods exports will face to difficulties caused by the import demand decrease during the economic recession. The Euro area will face to the Euro exchange rates.

The European imports will decrease as a result of the economic downturn. The EU27 imports of goods and services will decrease from 10% in 2010, to 4.5% in 2011 and 3.0% in 2012. The Euro area faced to the same trend: a decrease from 9.5% in 2010, to 5.0% in 2011 and 3.0% in 2012. The European imports are strongly connected to the level and structure of domestic demand and the exchange terms (see Figure 3).

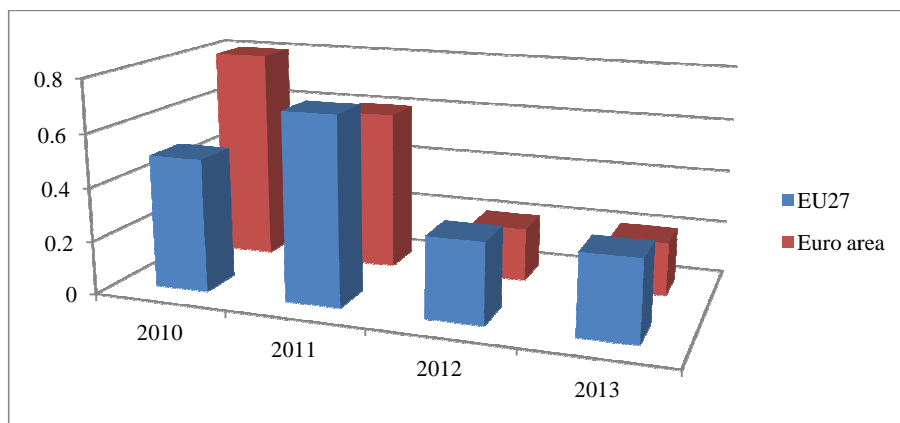


Figure 3 Net exports forecast (%)

Source: personal contribution

The growth of the import goods' prices (including oil) during the first two quarters of 2011 stopped the households and companies to buy goods from import. This trend will continue during 2012-2013, when the households will increase their demand for domestic goods.

2012 is forecasted to decrease the import inputs' demand. Maybe an economic growth in 2013 will be followed by an increase in the domestic demand. Moreover, the gross fixed capital formation and the private investment will support a 5% growth of the imports in EU27 and Euro area.

In 2011, the foreign trade increased about 11%-13% in the EU27 and Euro area. The evolution of the services' foreign trade was positive: the imports decreased by 4.5% and the exports decreased by 1.0%. Unfortunately, the goods foreign trade growth will decrease by more than 50% in 2012, related to 2011. The services exports will decrease moderately, while the imports will grow slowly. In 2013, the foreign trade will start the recovery, based on a recovery in the EU27's economic activity.

3.4 The Myth of Low Unemployment

The average aggregate evolution of the European economy hides high disparities between the Member States. A part of the Euro area's countries succeeded to decrease their imbalances. This process was supported by a strengthening competitiveness in the deficit countries. Spain, Ireland and Greece succeeded to decrease the employment costs during 2010-2011 and are focused on the same objective in 2012. But Germany, Belgium and Finland had a negative performance connected to the employment costs.

The first recovery year brought low progress on the labour markets. The European companies adjusted their labour inputs by decreasing the number of worked hours by each employee rather than by eliminating jobs. As a result, the economic expansion was felt first by normalizing the number of worked hours, but not by increasing the marginal labor employment. This represents a deviation from the standard connection between the economic growth and the unemployment decrease, known as Okun Law. Nowadays, the unemployment decrease needs a higher economic growth rate than in the economic theory.

The EU27 labour market reflects the process to preserve jobs during the crisis and the different support schemes implemented on the labor market by the Member States' governments (Boeri, Bruecker, 2011)

From the second quarter of 2011, the employed persons grew by 0.2% in the EU27 and 0.3% in the Euro area (see Figure 4). Between 2.5% and 5% of the employees participated in shorter working hours during recession in Germany and Italy.

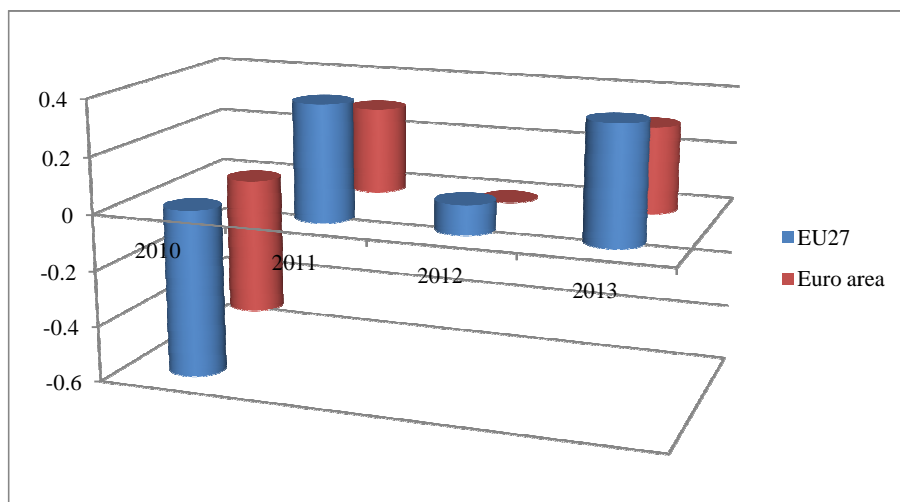


Figure 4 Labour forecast (%)

Source: personal contribution

Under the economic recovery, the unemployment rate was stable across the EU27 (about 9.5%) and the Euro area (about 10.0%). As a result, 22.5 million persons are unemployed in EU27 (16 million persons in the Euro area). Moreover, there are great disparities between the Member States connected to jobs creating and unemployment rates.

During August 2010-December 2011, for example, Spain achieved the greatest unemployment rate: 21.2%. Germany, Poland, Belgium and Austria emerged from the crisis with lower unemployment rates (Burda M.C., Hunt J., 2011). The latest unemployment growth in some EU27 peripheral countries supports the EU labour market indicators dispersion increasing.

The situation is forecasted to become worst during 2012-2013. The employment rate will grow by 0.1% in the EU27 and 0.0% in the Euro area. On the other hand, the unemployment rates will be 9.8% in the EU27 and 10.1% in the Euro area (see Figure 5).

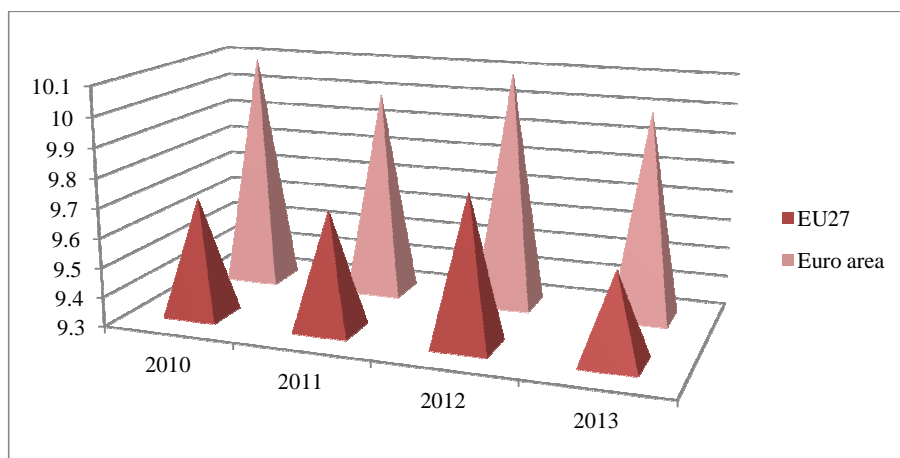


Figure 5 Unemployment forecast (%)

Source: personal contribution

The EU27 labour markets have a high level of diversity. It is made by the crisis' asymmetric effects and the different constraints of the financial sector and fiscal policy. These elements reflect the disparities between the Member States connected to the sectoral composition of the employment and the institutional features.

The low forecasted economic performance in 2012 will slow the employment growth in all Member States which achieved expansion in 2011, excepting Hungary and Romania. The unemployment rate will grow in more Member States in 2012. Three of them will face with unemployment growth rates higher by 0.5% related 2011. The extreme unemployment rates will be 4% in Austria and 20% in Spain.

3.5 The Challenge of Inflation

The inflation evolution in 2011 was supported by the increase of the rare materials' process in 2010 (about 30%) and in the first quarter of 2011. This process pushed the import prices to high levels in EU27 and the Euro area.

At the end of 2011, the inflation rate achieved 5.5% in EU27 and 6.0% in the Euro area. During 2012-2013, the unemployment rate will decrease to 1.5%-2.0% across the EU27 and Euro area (see Figure 6).

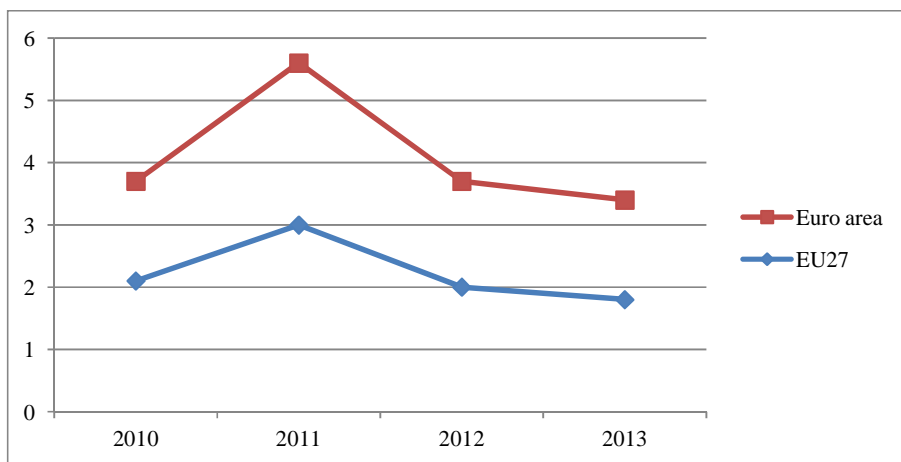


Figure 6 Inflation forecast (%)

Source: personal contribution

During the economic recovery, the wages increased moderately. As a result, the average wages increased rate was 1.5%-2.0% in the Euro area in 2011. The economic perspective supports a wage annual average growth rate of 2.25% in the EU27 and 2.0% in the Euro area during 2012-2013. On the other hand, the non-wage labour costs will grow to the same rates.

The labour productivity increased by 1.25% in 2011 and is forecasted to grow by 0.5% in 2012 in EU27 and the Euro area. During the first three quarters of 2011, the industrial prices grew supported by the energy prices' evolution, which represented about 25% from the prices index. The prices' trend influenced the used production capacity. The average used production capacity rates decreased in 2011, from 81.1% to 80.7% in EU27 and from 81.6% to 80.9% in the Euro area.

During the same first three quarters of 2011, the consumer prices were affected by volatility and by indirect taxes and administered prices' increases. As a result, the inflation rate increased over that in 2010. The contribution of the energy prices to the total inflation was about 1.25% in 2011. UK faced to an inflation growth of about 0.25%, caused by the taxes' increase, and another growth by 1.0%, caused by a new VAT of 20%.

The indirect taxation and the methodological changes had a significant impact on core inflation, affecting the prices of all goods, except those of unprocessed food and energy. Moreover, the past experiences show that an increase in oil price has lower impact on growing core inflation (Bachmeier L.J., Cha I., 2011).

The 2012 forecasted inflation rate will be about 2.0% in EU27 and 1.7% in the Euro area. In 2013, the inflation rate will achieve 1.75% in EU27 and 1.5% in the Euro area. There were great disparities connected to the inflation rates between the Member States in 2011. The inflation rates varied from 1.1% in Ireland, to 5.2% in Estonia and 5.9% in Romania. Moreover, the inflation rates in the five largest economies in the Euro area in 2011 ranged between 2.2% and 3.0%. The two largest economies outside the Euro area recorded higher inflation rates: 3.7% in Poland and 4.3% in UK. During 2012-2013, the Member States will achieve lower inflation rates, excepting Hungary and the Czech Republic.

3.6 The Financial Market and the Public Debt

The negative evolution of the public finances across the EU27 and the Euro area was supported by the economic downturn and the sharp deterioration of the financial market conditions under the sovereign debt crisis. Nevertheless, 2011 marked the transition from stabilization to fiscal consolidation both in EU27 and the Euro area.

In 2011, the general public deficit achieved 4.7% of GDP in EU27 and 4.1% of GDP in the Euro area. The public deficit improvement in 2011 was caused by the additional consolidation measures implemented by several Member States, in response to the financial market pressure.

The general public deficit will decrease slowly during 2012-2013. As a result, the public deficit will be 3.9% and 3.2% in EU27 and 3.4% and 3.0% in the Euro area in 2012 and 2013 (see Figure 7).

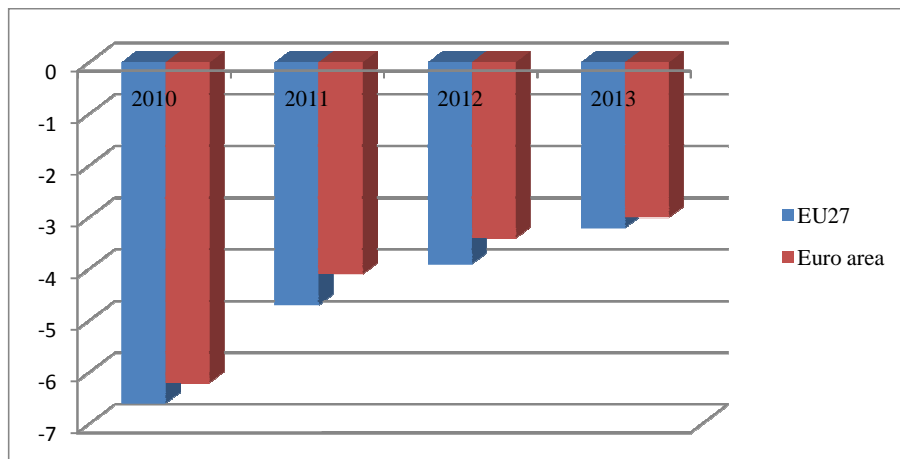


Figure 7 Public deficits (% of GDP)

Source: personal contribution

Only 4 of the 27 Member States are not subject to the Excessive Deficit Procedures: Estonia, Luxembourg, Sweden and Finland. The European Commission asked to Bulgaria, Hungary and Malta to decrease their general public deficit less than 3% of reference GDP in 2011. The same goals have Belgium, Cyprus, Italia, Lithuania and Poland until 2012. For the remaining Member States, EDP will be applied in 2013 or later.

On the other hand, Greece, Portugal, Ireland and Latvia benefit by financial assistance, according to the implementation stage of their individual programs of economic adjustment. The growth of the public revenues and the expenditures decrease will support the general government balance improving in 2012. The forecasts for 2013 talk about an average deficit of 45.0% of GDP in EU27 and 46.0% of GDP in the Euro area

Despite the expected improvement of the budgetary situation in most Member States, the size of public debt was revised up slightly. In 2011, the main engine of the public debt upward revision for the Euro area inflation was the lower inflation. In 2012, the main driver of the debt growth is given by the downward revision of the growth prospects. Across EU27, the gross debt ratio is projected to reach a peak of about 85% of GDP in 2012 and to stabilize in 2013. The gross debt ratio in the Euro area is projected to achieve 90% of GDP in 2012.

4 Conclusions

The uncertainty generated by the current situation is high and the risks of weakening economic outlook remains very current for EU27. The risks connected to the growth prospects are real. Some of these risks, such as financial crisis and lower world growth rate have already materialized and have been included in forecasts. On the other hand, new risks have emerged and affect the growth prospects in EU27.

The financial crisis that has not been exceeded may still have great side effects on other market segments and on the real economy. This crisis can generate a stronger and harmful feedback than currently expected.

The inflation risks appear more balanced. The economic activity may suffer constraints of price increases higher than currently envisaged. A stronger than expected recovery in the global economic growth or the tensions increase in the oil-exporting countries could lead to stronger inflationary

pressures. Moreover, the long-term measures regarding the economic recovery, based on liquidity and exceptional liquidity, could ultimately lead to a stronger than expected growth in the consumer prices.

The crisis is far away from being solved and EU27 is not able to manage a more realistic economic recovery plan.

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