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European *Business Cycle* indicators

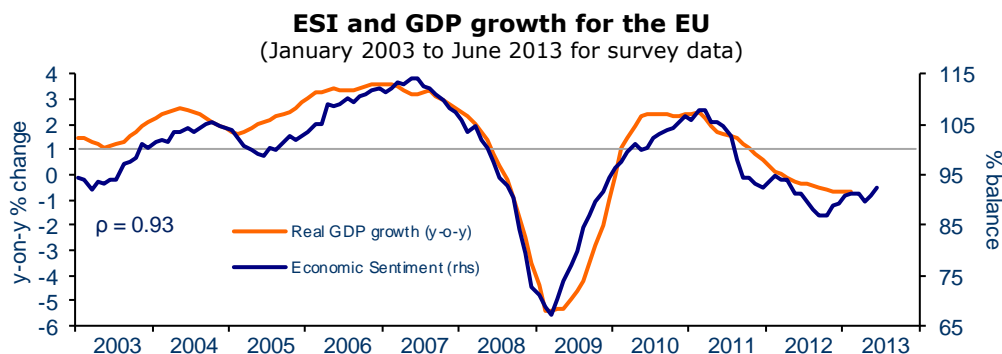
SHORT - TERM ANALYSIS FROM EUROPEAN COMMISSION'S DIRECTORATE GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Developments in business and consumer survey data in 2013Q2

- In the second quarter of 2013, economic sentiment continued its upward trend. Following the flat development of March and its deterioration in April, the indicator rose again in May and June. Nevertheless, the ESI still scores well below its long-term average.
- The improvements were driven by higher confidence among consumers and retail trade managers. Also industry witnessed increases in confidence, albeit of lower magnitude. Confidence in construction and services decreased.
- Economic sentiment booked marked increases in Spain, the Netherlands and Italy. It decreased - to a lesser extent - in Germany, Poland and the UK and remained virtually unchanged in France.
- Capacity utilisation in the manufacturing industry is around 75.5% in both the EU and the euro area, around 3½ percentage points below the long term average.

Highlight: Factors limiting production in the manufacturing, services and construction sectors

Apart from useful tools for the assessment of the overall economic picture, the EU-wide harmonised survey programme for the business sector also provides more granular information about the factors underlying managers' assessment of the business situation. Questions on 'factors limiting production' allow to investigate the sources of potential limitations to business activity, e.g. whether they are rooted in the demand or the supply side of the economy. Coming out of the financial crisis, the importance of the financial factor, i.e. the percentage of managers reporting financial constraints as a limiting factor for their business, is of particular interest. The country analysis points to important differences across countries. As expected, the percentage of firms facing financial constraints increased in Greece, Cyprus, Portugal, Spain and Italy, while it remained relatively stable in France and Germany.



Note 1: The horizontal line (rhs) marks the long-term average (=100) of the sentiment indicator.
Note 2: Both ESI and y-o-y GDP growth are plotted at monthly frequency. Monthly GDP data are obtained by linear interpolation of quarterly data.

"European Business Cycle Indicators" provides short-term analysis based on Business and Consumer Survey data. It appears quarterly.

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1. Recent developments in survey indicators for the EU and the euro area

The Economic Sentiment Indicator (ESI) for the EU and the euro area increased over the second quarter of 2013. Following the flat development of March and deterioration in April, the indicator rose again in May and June, continuing the upward trend that had started last autumn.

Compared to the readings at the end of the first quarter of 2013, the ESI has booked gains of 1.1 (EU) and 1.2 points (euro area). Standing currently at 92.6 (EU) and 91.3 (euro area), the ESI has undone about 5½ points of the 7-point loss it booked over the second and third quarters of 2012 in the EU (the loss was sharper at around 9½ points in the euro area). The quarterly profile of the ESI is in line with the results of the Ifo's Business Climate Index (for Germany) and Markit Economic's Composite PMI for the euro area.

At the sector level, the ESI was driven by increasing confidence of consumers and managers in retail trade and – to a lesser extent – industry, while services and construction managers reported lower confidence than at the end of the previous quarter. Brightening expectations about future business contributed significantly to the improvements in industry and retail trade. Expectations also improved in services, but were dominated by worsened assessments of past business developments. Consumer expectations increased throughout the quarter, and for the seventh consecutive month. Brightening retail trade confidence over the last two months more than compensated for the loss registered in April. The same goes for industry, where the recovery was however more muted in the EU than in the euro area. For services, improvements in May and June could not make up for the sharp losses seen in April. Developments in construction confidence were rather volatile over the quarter.

At the country level, Germany, France and Italy show broadly similar overall developments as the ESI for the EU/euro area. However, in Germany and France the increases over the last two months could not compensate for the losses in confidence recorded in April. In the UK and Poland, economic sentiment deteriorated in April and recovered in May, but went down again in June. As a result, sentiment deteriorated in both countries over the quarter. Spain and the Netherlands saw marked increases over the quarter. In Spain, after a pick-up in April, the ESI remained broadly unchanged in May but then resumed its upward trend in June. In the Netherlands the ESI increased throughout the quarter.

Sector developments

In the course of the second quarter of 2013, confidence in **industry** improved by 1.0 points in the

euro area and edged up marginally by 0.3 points in the EU. The relative slowdown compared to the previous quarter's dynamism is mainly due to April's negative evolution. Nevertheless, the broad upward trend of industry confidence observed since last November was sustained. Compared to March, the industrial confidence indicator increased significantly in Germany, Spain, Poland and – to a lesser extent – in France, Italy and the Netherlands. By contrast, industrial confidence deteriorated sharply in the UK.

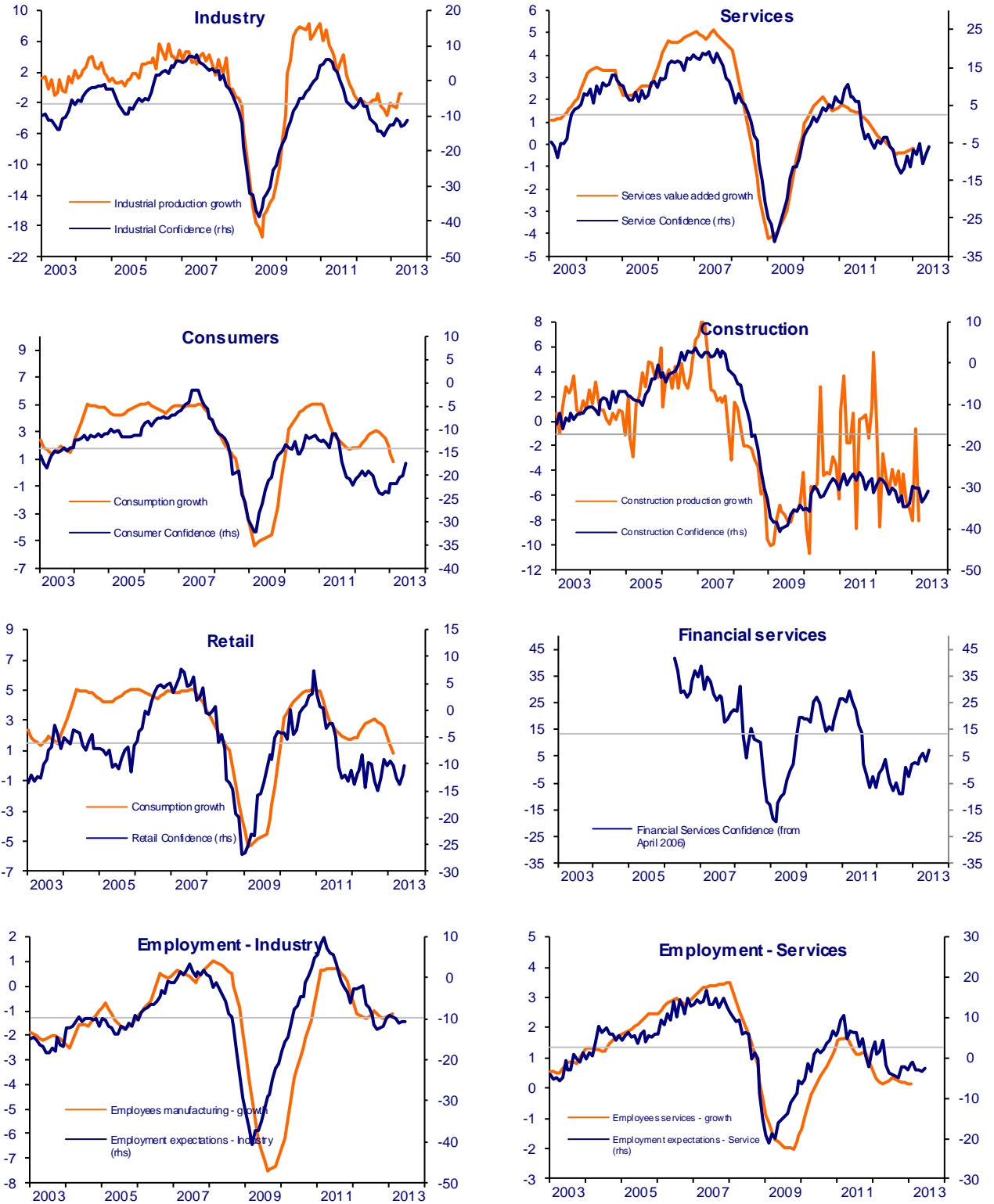
Regarding the components of the industrial confidence indicator, managers' assessments of order books and their production expectations improved significantly in the euro area and – to a lesser extent – in the EU. The main reason for industrial confidence not improving as markedly in the EU as in the euro area was a worsening assessment of the stock of finished products. Managers' assessment of the adequacy of stocks remained virtually unchanged in the euro area. As for the survey questions not included in the industrial confidence indicator, the assessment of production trends observed during recent months improved, especially in the euro area. The assessment of export order books worsened in the EU but improved significantly in the euro area driven by a rebound in June. Employment expectations deteriorated over the quarter due to a worsening in April in both areas, followed by smaller improvements in the subsequent months; in the EU employment expectations stalled in June. Selling price expectations of industry managers decreased in the euro area while increasing marginally in the EU. While both areas witnessed increases in price expectations in June, the divergence is due to sharper downturns in April and May in the euro area.

Following a slight increase in January, April's results for the **quarterly manufacturing survey** showed a stable capacity utilisation rate in the euro area (77.5%) and a marginally lower rate in the EU (77.6% after 77.8%). The levels are still 3-4 points below the long-term average capacity utilisation rate.

According to the latest **bi-annual investment survey** carried out in March-April 2013, manufacturing managers in the euro area estimate a 1.7% growth in real investment for 2012, higher than envisaged last autumn, and expect investment to increase by a further 0.9% in 2013. For the overall EU, survey results point to growth rates of 4% and 2.7%, respectively. Though not fully comparable, these figures are more optimistic than Eurostat estimates of total investment growth for 2012 and Commission forecasts for 2013.¹

¹ The Investment Survey covers only investment by manufacturing companies and therefore only roughly 40% of total GFCF in the economy.

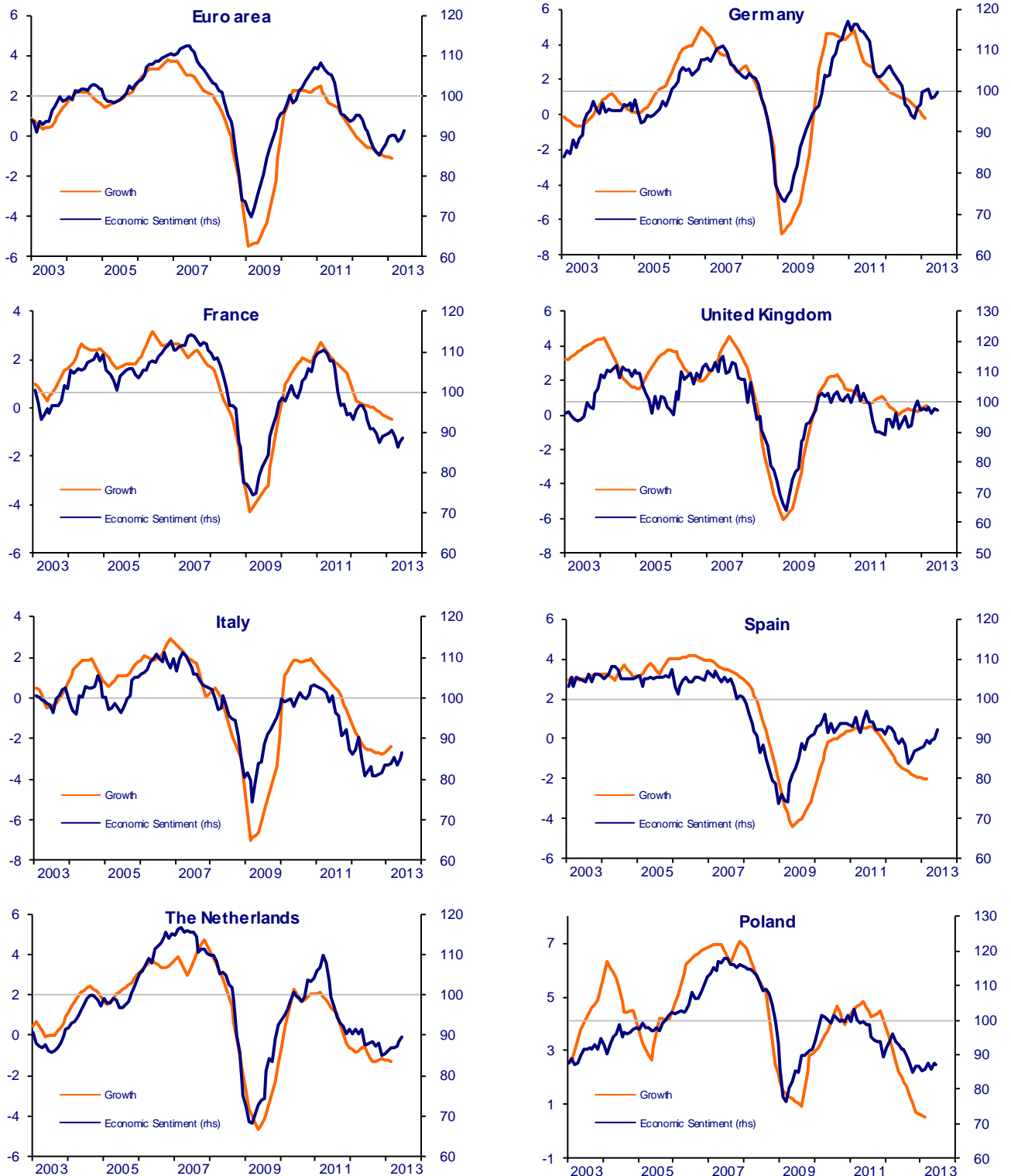
Graph 1.1: Sectoral confidence indicators and reference series for the EU (January 2003 to June 2013 for survey data)



Note 1: The horizontal line (rhs) marks the long-term average of the survey indicators.

Note 2: Confidence indicators are expressed in balances of opinion and hard data in y-o-y changes. If necessary, monthly frequency is obtained by linear interpolation of quarterly data.

Graph 1.2: **Economic Sentiment Indicator — Selected EU Member States (January 2003 to June 2013 for survey data)**



Note 1: The horizontal line marks the long-term average (=100) of the sentiment indicator.

Note 2: Confidence indicators are expressed in balances of opinion and GDP in y-o-y changes. Both variables are plotted at monthly frequency. Monthly GDP data are obtained by linear interpolation of quarterly data.

The reported increase in manufacturing investment for 2012 is relatively broad-based across Member States, with only six countries reporting decreases. For 2013 the picture is more mixed, with nine countries foreseeing shrinking real investment. While the investment goods sector emerges as the main driver of investment in 2012, managers expect real investment in 2013 to increase only in the consumer goods sector. At size level, the picture is more positive for large and very large enterprises than for small and medium ones.

In 2013Q2, the upward trend in **services** confidence that had started in October 2012 came to a halt. Following the negative evolution of March, April's large losses in confidence cast doubt on the sustainability of the upturn in the services sector. While confidence in the EU has recovered in both May and June, it edged down slightly again in the euro area in June. The overall negative evolution in the EU is due to the fact that at the end of the quarter only demand expectations were better than in March, while the recovery in the assessment of the past business situation and past demand failed to compensate April's drop. In the euro area the drop in confidence was more severe than in the EU due to an additional worsening of assessments of the past business situation in June.

Among the seven largest EU Member States, confidence decreased markedly in Italy, Germany and - to a lesser extent - in Poland, driven mostly by massive drops in April. Confidence in France remained unchanged over the quarter while it increased sharply in Spain and - to a lesser extent - the UK and the Netherlands.

In the second quarter of 2013, **retail trade** confidence improved in both the euro area and the EU. In the context of high volatility around a fairly flat trend over the last two years, confidence decreased in April and then brightened up in the subsequent months. The increase in confidence was based on favourable developments in all components (past business situation, adequacy of stocks and, particularly, business expectations). After a sharp drop in April, business expectations recovered strongly in May and continued to increase in June. The same goes for the adequacy of stocks; however in the EU appraisals thereof remained unchanged in June. The assessment of the past business situation deteriorated in April in the euro area and, more sharply, in May in the EU but rebounded in both areas in June. Among the seven major EU economies, confidence increased markedly in Spain, Italy, the Netherlands and - to a lesser extent - in Germany, Poland and the UK. It remained broadly unchanged in France. Except for Italy and the UK retail trade confidence generally saw a rebound in June.

Confidence in **construction** deteriorated in the second quarter of 2013 in both areas (more sharply so in the euro area). In both areas the deterioration was driven by a sharp decrease in employment plans, while the assessment of order book levels remained broadly unchanged. June saw improvements in both components in both areas. At country level, confidence increased over the quarter in the Netherlands, Poland, and the UK and - to a lesser extent - in Germany. On the other hand, confidence dropped massively in Italy (mostly in June) and - to a lesser extent - in Spain and France.

Consumer confidence accentuated the upward trend that commenced in the last quarter of 2012. The increase was broadly based with improvements in all components (all of which are forward-looking). The questions related to macroeconomic expectations (consumer expectations about the general economic situation and their unemployment expectations) stand out with large improvements compared to March, mainly due to developments in June. Concerning the other two components of the confidence indicator (households' expected financial situation and envisaged savings), the improvements were more pronounced in the euro area. As for the largest Member States, the increase in confidence was broadly based with only France seeing a decrease (due to higher unemployment expectations and lower envisaged savings in June).

Confidence in **financial services** - which is not included in the ESI - broadly continued the recovery that had started in the last quarter of 2012. While April's sharp increase was partly undone in May, June saw further improvements in both the EU and the euro area. Similar to the previous quarter, improvements were driven by brightening assessments of the past business situation and past demand. On the other hand, demand expectations deteriorated in May and, even more sharply, in June.

The overall positive developments over the second quarter are illustrated by the evolution of the climate tracers.² The economic climate tracer for the EU has been moving into the upswing quadrant (see Annex 1 and Annex 2 for further details). This movement is backed by the climate tracers for industry, services and consumers, which moved further into the upswing quadrant. Also the retail trade and construction climate tracers appear to be on their way from the contraction to the upswing quadrant.

² Due to technical problems the euro-area turning point index could not be calculated for this edition.

2. Recent developments in selected Member States

In the second quarter of 2013, economic sentiment booked marked increases in Spain, the Netherlands and Italy. It decreased - to a lesser extent - in Germany, Poland and the UK and remained virtually unchanged in France. While the sentiment index is currently scoring below its long-term average for all the biggest seven Member States, considerable differences in sentiment levels are apparent.

Economic sentiment in **Germany** decreased in the second quarter of 2013, due to a significant drop in April. However, developments over the subsequent months resumed the upward trend that had started in November 2012. At 99.8 points in June, the ESI stands just below its long-term average of 100 (that it had already reached in February and March). The quarterly decrease was driven by large losses in confidence in services, itself due to a sharp decrease in April. All other confidence indicators improved, led by industry and consumers.

In **France**, the ESI remained virtually unchanged. Confidence losses in construction and among consumers were balanced by favourable developments in industry and, to some extent, retail trade. Confidence in services remained unchanged. While confidence decreased in April in all sectors except for construction, the positive evolution in May and June brought the end-of-quarter readings above those of March for industry and retail trade. The negative evolution of construction and consumer confidence is due to losses recorded in May and June. At 88.7 points, economic sentiment stands well below its long-term average of 100.

The ESI in the **United Kingdom** continued to decrease in the second quarter, in a context of high monthly volatility. At 97.3 points in June, it has been fluctuating just below its long-term average that it had already reached once in November of last year. The quarterly decrease in the ESI is the result of a large deterioration in industrial confidence which outweighed markedly brightening confidence in the other sectors, particularly in services and among consumers.

In **Italy**, the ESI continued the recovery that had started in October last year. The increase was fuelled by significantly improving confidence among consumers and in retail trade.³ Also industry confidence improved somewhat. At the same time,

confidence in the services and construction sectors lost ground significantly. Standing at 86.6 points, the ESI still remains well below its long-term average of 100.

In **Spain**, the ESI accelerated the recovery that had started in September 2012, fuelled by confidence gains in all surveyed sectors except for construction. The increase was particularly massive in the services sector, thanks to large gains in April and June. The sharp loss in construction confidence resulted from massive drops in April and May. At 92.3 points in June, economic sentiment almost made up for the losses it registered during the first half of 2012.

In the **Netherlands**, economic sentiment continued to recover from the low levels reached at the end of 2012. The significant increase in the second quarter was broadly based across sectors. While consumers and retail trade managers reported sharp improvements, the increase in industrial confidence was less pronounced. The ESI currently stands at a 14-month high of 89.5 points, but still markedly below its long-term average.

Sentiment in **Poland** deteriorated slightly over the second quarter, in a context of volatile monthly fluctuations around a flimsy upward trend observed since November 2012. The brightening sentiment observed in May failed to counterbalance the losses that occurred in April and June. The sharp decrease in confidence in the services sector outweighed the positive evolution in the other business sectors and, particularly, among consumers. The ESI currently stands at 86.9 points, well below its long-term average of 100.

³ The Italian surveys were subject to some methodological improvements in June concerning sampling and survey techniques. The strong increase/decrease in confidence among consumer/services might partly reflect these methodological changes in data collection.

3. Highlight: Factors limiting production in the manufacturing, services and construction sectors

Business and consumer survey results reveal economic agents' expectations about future developments and the cross-sectional dispersion thereof. While 'confidence indicators' based on balances of positive and negative responses to selected survey questions can be used to quantify consumers' and managers' expectations about the course of the economy/their business, 'uncertainty indicators' for the economy can be constructed based on the degree of dispersion in respondents' replies.⁴ Apart from these useful tools for the assessment of the overall economic picture, the EU-wide harmonised survey programme for the business sector also provides more granular information about the factors underlying managers' assessment of the business situation.

Questions on 'factors limiting production' allow to investigate the sources of potential limitations to business activity, e.g. whether they are rooted in the demand side or the supply side of the economy. Against the backdrop of the financial crisis, the importance of the financial factor (i.e. the percentage of managers reporting financial constraints as a limiting factor for their business) is of particular interest and could usefully contribute to the assessment of credit supply conditions.

Against this background, this section presents the results of the questions on 'factors limiting production' in the manufacturing, services and construction sectors, with a particular focus on financial constraints faced by firms.

The data

Managers in the manufacturing, services and construction sectors are asked quarterly (monthly in the case of construction) for the main factors currently limiting their production (business in the case of services). Unless they consider that 'none' is the appropriate answer, managers can choose one or more of the following factors: insufficient demand; weather conditions (only in the construction survey); shortage of labour force, shortage of material (space in the services survey) and/or equipment; financial constraints; other factors.

Data are available from 1990 for the manufacturing sector, 1993 for the construction sector and mid-2003 for the services sector. Given that managers

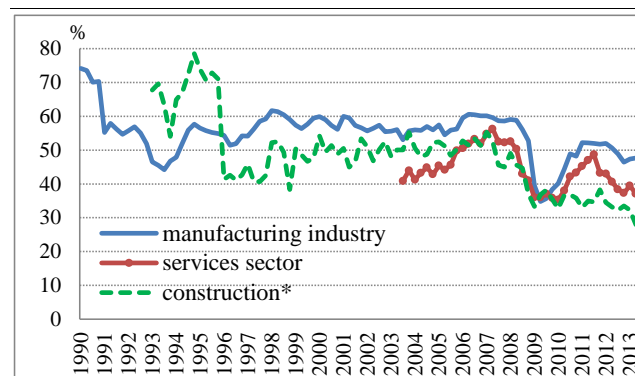
⁴ See 'Assessing the impact of uncertainty on consumption and investment', Quarterly Report on the Euro Area, Vol. 12 No.2 (2013) for a recent study using survey data to measure uncertainty and its impact on the economy.

can choose more than one factor, the shares of managers reporting individual limiting factors can add up to more than 100%.

A first look at the percentage of firms not facing any factor limiting their production...

Graph 1 shows that the percentage of managers reporting no limiting factor was rather similar (in a range of 40-60%) across the three sectors until mid-2007. In manufacturing and construction this percentage remained rather stable from the mid-90s to 2007, when it dropped by almost 30 percentage points in one year and a half. In the services sector, the percentage of "none" replies was on an upward trend until early 2007 and then decreased by close to 30 ppts rather rapidly, too. At the end of 2008 the percentage of "none" replies started to increase in the manufacturing and services sectors, while remaining on a downward trend in construction. The percentage of "none" replies did not, however, reach the pre-crisis levels in either manufacturing or services and started to decrease again in the second half of 2011 in services and - to a lesser extent - in the manufacturing sector at the end of 2011.

Graph 1: Euro area: percentage of "no factors limiting production"



* Data for construction are available monthly, but have been converted on quarterly for graphical reason.

Source: European Commission.

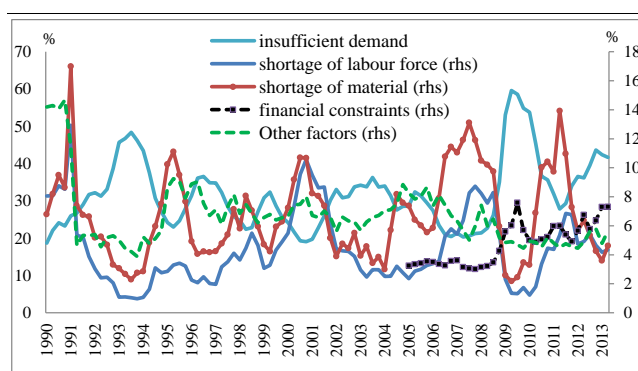
These results are in line with developments in cyclical reference series for the three sectors. The correlation coefficient between the share of "none" replies in manufacturing and industrial production (IP) in the sector is 0.63 (and 0.75 for a one-quarter lag, see table 1); the correlation with the year-on-year change of value added (VA) in the services sector⁵ is 0.85 (Table 2). For the construction sector the correlation with the year-on-year change in production in construction (PC) is 0.67 (Table 3).

⁵ The services sector considered in this note includes the NACE2 activities: G-I-J-L-M-N-R-U.

...and those reporting factors limiting production

In the *manufacturing sector*, the main factor reported to limit production is "insufficient demand". In the euro area, the percentage of managers stating a lack of demand increased markedly between early 2008 and early 2009. Demand was stated as a limiting factor by 60% of managers in April 2009 (see Graph 2). This factor mirrors quite well (inverse) cyclical developments in the sector - the correlation coefficient between the year-on-year growth of IP and the "insufficient demand" factor is -0.68 (-0.83 for a one-quarter lag).

Graph 2: Euro area: factors limiting production in the manufacturing sector



Source: European Commission.

The supply-side factors 'shortage of labour force' and 'shortage of material and/or equipment' are procyclical, showing high positive correlation coefficients with year-on-year changes in IP especially for the material-related factor (see Table 1). The financial constraints factor, which is available for the euro area only from 2004,⁶ increased rapidly from mid-2008 to end-2009. It then decreased somewhat but never came back to the levels registered before the crisis. Since 2010 the importance of the factor has increased again; in January and April 2013, the share of euro-area managers reporting financial constraints as a limiting factor was almost as high as at the peak of the financial crisis, at around 7-8%. Some interesting differences across euro-area countries are reported in the next section.

⁶ The 'financial factor' was introduced as an additional answer category to the survey questionnaires only in late-2003.

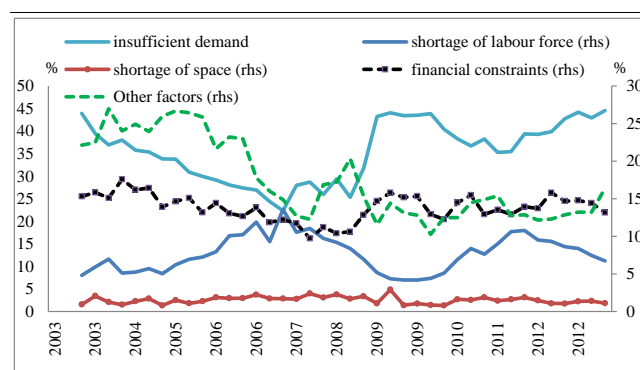
Table 1: Euro area, manufacturing sector: correlation between factors limiting production and year-on-year change in Industrial Production (IP)

	None -IP	Insufficient demand - IP	shortage of labour force - IP	shortage of material - IP	other factors - IP	financial constraints - IP
survey leading 2	0.09	-0.06	-0.21	0.05	0.14	-0.02
survey leading 1	0.38	-0.40	0.06	0.36	0.23	-0.27
coincident	0.63	-0.68	0.30	0.61	0.32	-0.44
survey lagging 1	0.75	-0.83	0.47	0.73	0.37	-0.48
survey lagging 2	0.73	-0.82	0.55	0.71	0.39	-0.43

Source: European Commission.

In the case of *services*, the series are available from mid-2003. Despite the shorter length of the series, the results are in line with the economic developments in this sector. Also in the services sector the main factor limiting production is "insufficient demand". This factor was on a downward trend between 2003 and mid-2007, increased moderately at the end of 2007 and then remained broadly stable until the end of 2008. It then rose markedly and remained at high levels (close to 50% of the firms) until now (see Graph 2). The two factors "shortage of labour force" and "shortage of space and/or equipment" are faced only by a minor percentage of firms (below 14% and 3%, respectively). The "financial constraints" factor, which registered an increase to around 20% between end-2008 and mid-2009, currently still represents a constraint for around 15% of respondents.

Graph 3: Euro area: factors limiting production in the services sector



Source: European Commission.

The correlation coefficients with the reference series (value added in the services sector) are rather high for "insufficient demand" (-0.75) and "shortage of labour force" (0.59) (see Table 2).

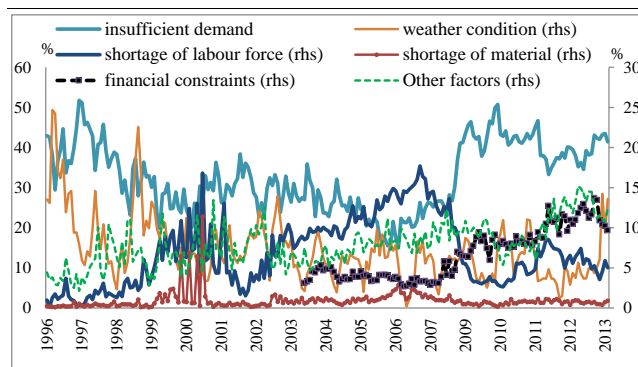
Table 2: Euro area, services sector: correlation between factors limiting production and year-on-year change in value added in the services sector (VA)

	None -VA	insufficient demand -VA	shortage of labour force -VA	shortage of space -VA	financial constraints -VA	other factors -VA
survey leading 2	0.55	-0.32	0.21	-0.05	0.06	0.38
survey leading 1	0.73	-0.56	0.43	0.04	-0.20	0.39
coincident	0.84	-0.75	0.59	0.18	-0.39	0.39
survey lagging 1	0.85	-0.76	0.60	0.18	-0.39	0.39
survey lagging 2	0.85	-0.77	0.60	0.19	-0.40	0.40

Source: European Commission.

In the *construction sector* the data (for all the factors except "financial constraints", which started in 2004) are available since 1996, at a monthly frequency. Again, the most important problem that firms encounter is insufficient demand, which has been ticked, on average across the whole sample, in 33% of the cases. Lack of demand was mentioned by only around 15% of respondents at the end of 2006, then rising rapidly to reach nearly 50% at the end of 2009. Since then, the percentage of managers reporting this factor as limiting decreased slowly until end-2011 to levels around 37%. Over 2012-13 the share has risen somewhat again.

Graph 4: Euro area: factors limiting production in the construction sector



Note: Series are not seasonally adjusted, except for "weather condition"

Source: European Commission.

Weather conditions have been cited as a factor limiting production by up to 15% of the firms in 2013 so far. In periods of favourable economic developments, the "shortage of labour force" typically becomes the second most important factor mentioned by managers. For example it reached 18% in August 2007. Following a decline to around 3% in 2009/10, the factor currently concerns around 5% of the firms. Financial constraints concerned below 5% of the firms until the beginning of 2008.

The importance of this limiting factor then increased almost continuously until early 2013, to 13%. Since the beginning of the year, this factor is on a downward trend and now stands at around 10%. Finally, the shortage of material seems to usually concern only a marginal percentage of firms.

The lack of demand and financial constraints mirror the development in year-on-year changes of production in construction. The correlation coefficient is of around -0.6 in both cases (see Table 3). The two supply-side factors, shortage of labour force and shortage of material/equipment, are positively correlated (albeit the coefficient is rather low) with production in construction.

Table 3: Euro area, construction sector: correlation between factors limiting production and year-on-year change in production in construction (PC)

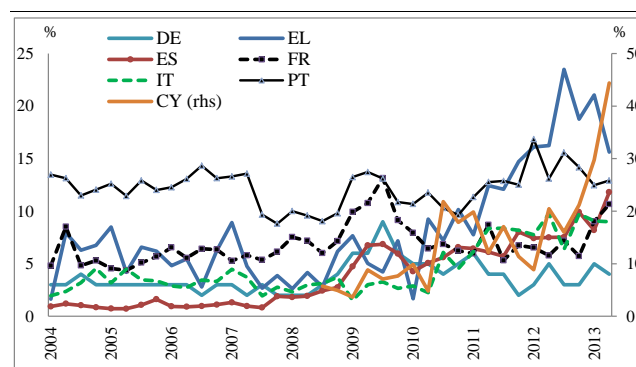
	None -PC	insufficient demand -PC	Weather conditions PC	shortage of labour force -PC	shortage of material-PC	financial constraints -PC	other factors -PC
survey leading 2	0.59	-0.51	0.18	0.32	0.23	-0.65	-0.29
survey leading 1	0.64	-0.55	0.10	0.37	0.27	-0.66	-0.32
coincident	0.67	-0.57	-0.01	0.40	0.25	-0.66	-0.29
survey lagging 1	0.68	-0.58	-0.07	0.42	0.29	-0.67	-0.25
survey lagging 2	0.64	-0.56	-0.03	0.43	0.25	-0.68	-0.28

Source: European Commission.

Financial constraints

The results concerning the "financial constraints" factor at the euro area level hide important differences at the country level.

Graph 5: Financial constraints in selected countries, manufacturing industry sector



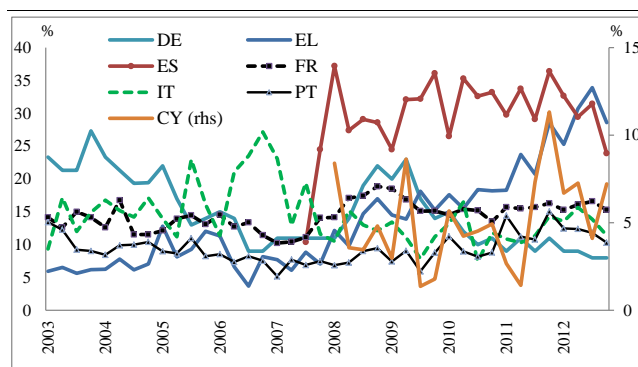
Source: European Commission.

Graph 5 displays the series on financial constraints faced in the *manufacturing sector* in seven euro-area countries. In line with tightening financial market developments, financial constraints increased markedly since the end of 2008 in Greece, Spain,

Italy and Cyprus. In the latter country, the importance of financial constraints recently jumped from around 20% to more than 40% in less than one year. Also for Portugal the series mirrors the increase of long-term interest rates that started in early 2010. Moreover, the share of managers reporting financial limitations sharply decreased in 2013. In Germany and France, the percentage of firms facing financial constraints was only temporarily impacted by the financial crisis; in both countries the percentage increased between 2009 and 2010 but then came back to pre-crisis levels. In France, however, the percentage picked up in the last two surveys and reached 11% in April 2013.

In the *services sector* the picture is slightly different. As in manufacturing, an increasing number of firms faced financial constraints in Spain, Greece and, to some extent, Portugal, while in Italy the percentage of managers reporting this factor remained broadly constant over the past few years. Also in Cyprus the number of services managers reporting financial constraints is not as important as in the manufacturing industry.

Graph 6: Financial constraints in selected countries, services sector

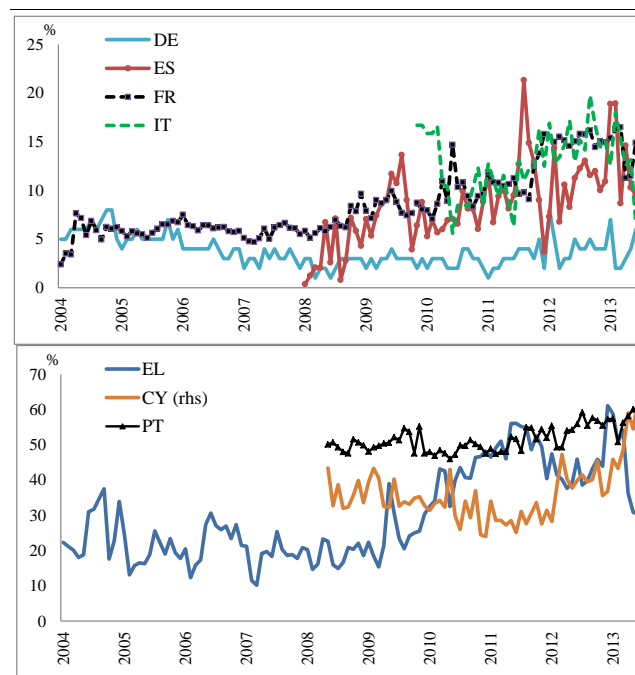


Source: European Commission.

In the *construction sector*, financial constraints play a significant role in Greece, Cyprus and Portugal. At the end of 2012, this factor was ticked by more than 50% of the managers in all three countries. In 2013 the percentage has decreased markedly in Greece, but remains elevated compared to pre-crisis levels.

In Spain the series is rather volatile but shows an upward trend since 2008 that, after some easing over 2009/10, set in again in 2010/11. Despite some easing recently, the importance of the financial factor remains elevated.

Graph 7: Financial constraints in selected countries, construction sector



Source: European Commission.

Also in Italy the percentage for the financial factor increased again from 2010 until mid-2012 but currently shows some signs of slowdown. In contrast to the other two sectors, the percentage of firms facing financial constraints in France increased continuously over the period 2009-2012. Despite some signs of easing in early 2013, the percentage of French construction firms limited by financial factors is at high levels compared to the pre-crisis period. In Germany the share of respondents stating financial constraints as limiting construction production has remained very low.

Summary and conclusions

The section presented a descriptive analysis of the results on 'factors limiting production' asked in the manufacturing, services and construction sectors. At euro-area level, the percentage of managers stating no limiting factor was on average around 50-60% before 2008, and then dropped markedly in all the three sectors in early 2008. At the end of 2008 the percentage of "none" replies started to recover in the manufacturing and services sectors, while remaining on a slight downward trend in construction. Since the end of 2011 the percentage of "none" replies re-embarked on a downward path particularly in the services sector.

Amongst the factors limiting production, the most important is – in all the three sectors – "insufficient

demand", which is highly (negatively) correlated with developments in the respective sectoral reference series. The importance of the two supply-side constraints "shortage of labour costs" and "shortage of material (space)/equipment" is relatively contained in all three sectors.

Finally, the factor "financial constraints" shows developments in line with financial market developments. The country analysis highlighted important differences across countries. As expected, the percentage of firms facing financial constraints increased in Greece, Cyprus, Portugal, Spain and

Italy, while it remained relatively stable in France and Germany.

All in all, the analysis indicates that the series on 'factors limiting production' can give important complementary information on economic developments. Notwithstanding the fact that the survey respondents do not receive a precise definition of "financial constraints" when answering the survey questionnaire, it appears that the collected series do reflect difficulties in accessing credit in the analysed euro-area countries.

Annex 1: The Economic Climate Tracer

The graphs below show the economic climate tracer for the EU (including sectoral components), the euro area and the seven largest EU Member States.

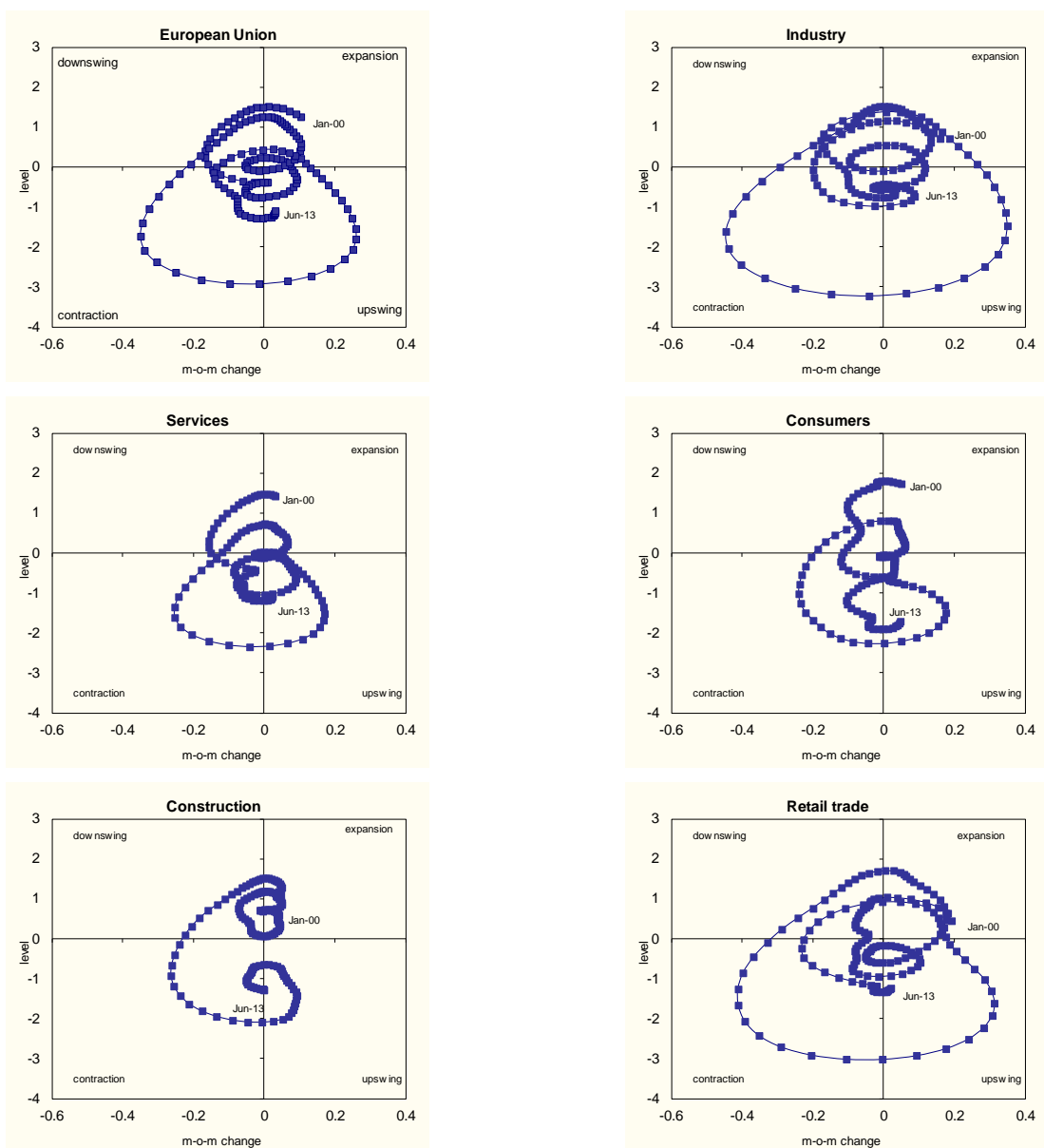
The series levels are plotted against their first differences (m-o-m changes), so that each chart depicts — at the same time — the current stance of the sector/country and its most recent dynamics. Series are smoothed to eliminate short-term fluctuations.

The four quadrants of the graphs enable four phases of the business cycle to be distinguished:

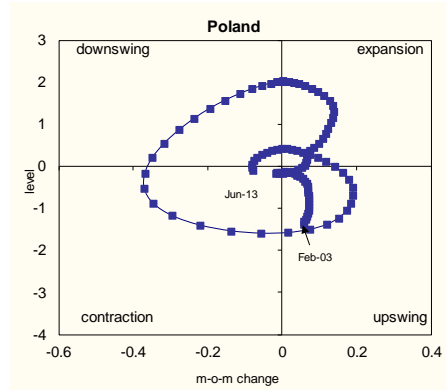
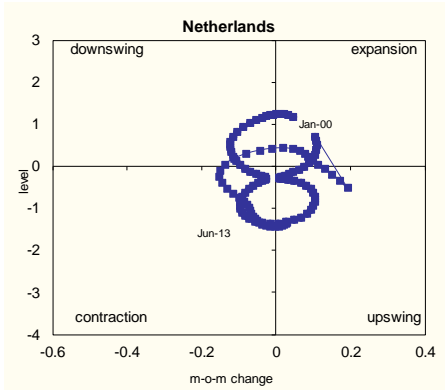
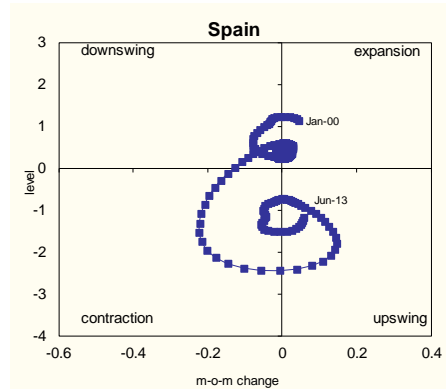
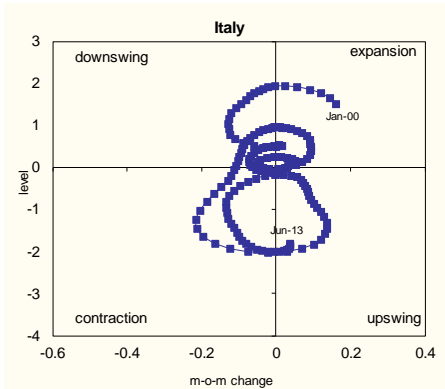
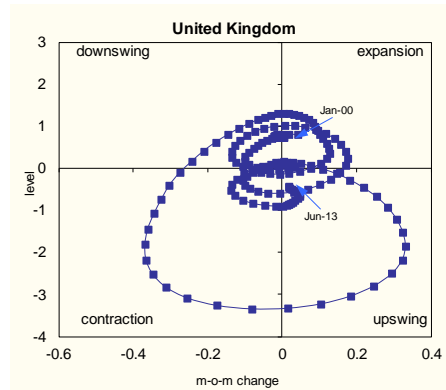
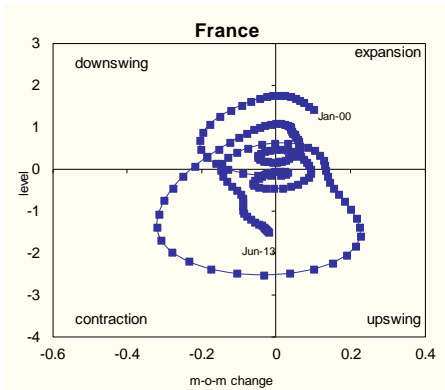
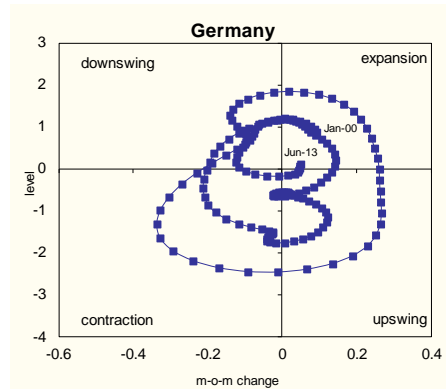
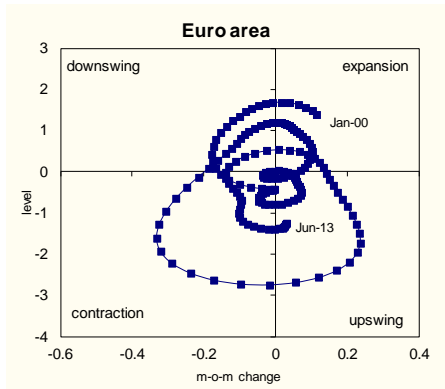
- "expansion" (top right quadrant),
- "downswing" (top left),
- "contraction" (bottom left), and
- "upswing" (bottom right).

Cyclical peaks are positioned in the top centre of the graph, and troughs in the bottom centre.

Economic climate tracer across sectors, EU



Economic climate, largest EU Member States



Annex 2: Reference series

The reference series are from Eurostat, via Ecwin:

Confidence indicators	Reference series (volume/year-on-year growth rates)
Total economy (ESI)	GDP, seasonally- and calendar-adjusted
Industry	Industrial production, working day-adjusted
Services	Gross value added for the private services sector, seasonally- and calendar-adjusted
Consumption	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Retail	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Building	Production index for building and civil engineering, trend-cycle component

Economic Sentiment Indicator

The economic sentiment indicator (ESI) is a weighted average of the balances of replies to selected questions addressed to firms and consumers in five sectors covered by the EU Business and Consumer Surveys Programme. The sectors covered are industry (weight 40 %), services (30 %), consumers (20 %), retail (5 %) and construction (5 %).

Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. The Commission calculates EU and euro-area aggregates on the basis of the national results and it seasonally adjusts the balance series. The indicator is scaled to have a long-term mean of 100 and a standard deviation of 10. Thus, values greater than 100 indicate above-average economic sentiment and vice versa. Further details on the construction of the ESI can be found at:

[Methodological guides - Surveys - DG ECFIN website](#)

Long time series of the ESI and confidence indicators are available at:

[Survey database - DG ECFIN website](#)

Economic Climate Tracer

The economic climate tracer is a two-stage procedure. The first stage consists of building economic climate indicators. These are based on principal component (PC) analyses of

balance series (s.a.) from the surveys conducted in industry, services, building, the retail trade and among consumers. In the case of industry, five of the monthly questions in the industry survey are used as input variables (employment and selling-price expectations are excluded). For the other sectors the number of input series is as follows: services: all five monthly questions; consumers: nine questions (price-related questions and the question about the current financial situation are excluded); retail: all five monthly questions; building: all four monthly questions. The economic climate indicator (ECI) is a weighted average of the five PC-based sector climate indicators. The sector weights are equal to those underlying the economic sentiment indicator (ESI), i.e. industry 40 %; services 30 %; consumers 20 %; construction 5 %; and retail trade 5 %. The weights were allocated on the basis of two broad criteria: the representativeness of the sector in question and historical tracking performance in relation to GDP growth.

In the second stage of the procedure, all climate indicators are smoothed using the HP filter in order to eliminate short-term fluctuations of a period of less than 18 months. The smoothed series are then standardised to a common mean of zero and a standard deviation of one. The resulting series are plotted against their first differences. The four quadrants of the graph, corresponding to the four business cycle phases, are crossed in an anti-clockwise movement. The phases can be described as: above average and increasing (top right, 'expansion'), above average but decreasing (top left, 'downswing'), below average and

decreasing (bottom left, 'contraction') and below average but increasing (bottom right, 'upswing'). Cyclical peaks are positioned in the top centre of the graph and troughs in the bottom centre.