'NEW NORMAL'? – THE IMPACT OF THE CRISIS ON SURVEY DATA

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'New normal'? – The impact of the crisis on survey data

• Introduction
• Data
• Results
• Conclusions
Introduction

- Has the relationship between 'hard' and 'soft' data changed or become weaker after the 2008-12 'Great Recession'? 

"There seems to be an inconsistency between the Commission's sentiment indicator for Italy and our modest growth," the Italian Treasury's chief economist Riccardo Barbieri told Reuters after weaker-than-expected third quarter GDP data.*

*Jones, Gavin, 'Italy puzzles over strong confidence, weak growth riddle', 21 January 2016, available on Reuters
Introduction

Are the indicators back to pre-crisis levels, while this is not the case for the corresponding hard data?

Before the 2008-12 'Great Recession', a clear linear relation was visible between soft and hard data. Is there a break in this relation?

If yes, has the 2008-12 'Great Recession' changed the parameters for the linear functions permanently?
Introduction

*If yes, why?*

Changes in the samples?
- Only strong enterprises survived?

Psychological factors?
- Respondents may have lowered their underlying reference standards or 'level of aspiration'?
Data

- The relationship between soft and hard data has been checked for:
  - ESI versus GDP growth
  - COF in Industry, Services and Consumers versus GDP growth and respective 'hard' reference series (Industrial Production, VA in services and Private consumption)
  - Euro area, Germany, France, Italy, Spain, the Netherlands, Belgium, Portugal, the UK, Poland and Sweden
Data

In addition, two individual survey questions for each of the three sectors have been scrutinised:

✓ Industry survey:
  - Q1 (managers assessment of past production)
  - Q2 (adequacy of overall order books)

✓ Service survey:
  - Q1 (business situation past developments)
  - Q2 (demand past developments)

✓ Consumer survey:
  - Q1 (respondent financial situation past developments)
  - Q3 (past developments of the general economic situation of the respondent's country)
Data

- Quarterly question on capacity utilisation in the industry (manufacturing) sector combined with industrial production (hard) data

Perceived potential manufacturing output

Has the crisis led managers to reduce their perception of 'normal' potential output?
Results, euro-area ESI and GDP growth

NB: all soft and hard data were standardised
Results, euro-area ESI and GDP growth

- Actual GDP growth
- GDP nowcasted with pre-crisis coefficients
- GDP nowcasted with post-crisis coefficients
Results, euro-area Industry COF and IP
Results, euro-area Industry COF and IP

- Actual Industrial Production
- Industrial Production nowcasted with pre-crisis coefficients
- Industrial Production nowcasted with post-crisis coefficients
Results, euro-area Consumers' COF and PC

- Consumers' COF
- Private consumption - annual % changes
Results, euro-area Consumers’ COF and PC

- Actual Private Consumption
- Private consumption nowcasted with pre-crisis coefficients
- Private Consumption nowcasted with post-crisis coefficients

Graph showing Actual Private Consumption and two variants of private consumption nowcasted with pre-crisis and post-crisis coefficients.
Results, euro-area Service COF and VA in services
Results, euro-area Service COF and VA in services

- Actual Value Added in Services
- Value added in services nowcasted with pre-crisis coefficients
- Value added in services nowcasted with post-crisis coefficients

1.8 pps

0.8 pps
Full results

Of the 143 screened series:

- 50% do not show any difference between pre and post-crisis levels of the survey indicators
- 40% show some differences
- 10% not clear
Country level results

Level shifts were visible:

- in Germany, France, Italy, Spain and Portugal for ESI versus GDP growth
- in Germany, the UK and Poland for Consumer confidence (in particular question Q3 on general economic situation) and Private consumption
Country level results

- in Germany, Belgium, Portugal, the UK and Poland for Services COF versus VA in services

No clear evidence for level shifts in the industry survey (except for Poland) in line with the euro-area results
Manufacturers' perceived potential output

Q13 on Capacity Utilisation (CU) can be interpreted as the ratio between current level of Industrial Production (IP) and its (perceived) potential manufacturing output (PMO)

\[ CU_t = \frac{IP_t}{PMO_t} \times 100 \]

\[ PMO_t = \frac{IP_t}{CU_t} \times 100 \]
Manufacturers' perceived potential output

(Perceived) potential manufacturing output vs. IP index (2010=100, rhs)
Manufacturers' perceived potential output
Manufacturers' perceived potential output

- FR
- PT
- UK

1990Q1 to 2016Q1
Manufacturers' perceived potential output

IT  ES  SE
Manufacturers' perceived potential output

**Italy - number of enterprises**

**Italy - PMO/number of enterprises**
Manufacturers' perceived potential output

Spain - number of enterprises

Spain - PMO/number of enterprises
Conclusions

The comparison of BCS data with their reference series in a pre-crisis versus a post-crisis set-up indicates:

- Possible shifts in respondents' reference standards
- For the euro area, the shifts appear to be strongest among consumers
- A shift is visible also among managers in the services sector
- More recently, this 'positive bias' has been diminishing
Conclusions

- No evidence of any level shift in the manufacturing industry
- The absence of a 'new normal' in the manufacturing sector is also supported by the analysis of managers' answers to Q13 on capacity utilisation
Thanks for your attention!

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