Hellenic Federation of Enterprises

business & the greek economy

Monthly bulletin

Sponsored by TITAN

Instability in Europe weakens recovery prospects

11 July 2016

Michael Massourakis
Chief Economist
E: mmassourakis@sev.org.gr
T: +302115006104

Michael Mitsopoulos
Senior Advisor
E: mmitsopoulos@sev.org.gr
T: +302115006157

Thanasis Printsipas
Associate Advisor
E: printsipas@sev.org.gr
T: +302115006176

The views expressed in this report are those of the authors and not necessarily of SEV. SEV may not be held responsible for the accuracy or the completeness of the data contained in this report.

Trade balance between Greece and United Kingdom & tourism receipts (Eurostat, Bank of Greece, 2015)

The outcome of the referendum in the United Kingdom in support of the exit from the European Union creates an unstable European environment, both economically and geopolitically with consequences that have not yet become fully evident. Already the decline of the British Pound with respect to the euro, the downgrading of the credit rating of British sovereigns and the rise in the spreads of the yield of sovereigns in the south of Europe with respect to Germany, increase uncertainty. At the same time **the fragile Greek economy shows mixed trends** after the conclusion of the first assessment of the adjustment program. In particular, data released during the past month reflect, on the one hand, the **market optimism that follows the payout of the first tranche of the 3rd program** which is expected to bolster liquidity among businesses and, on the other hand, the **concerns regarding the impact the new measures will have on the income of businesses and households.** In particular:

- **Economic sentiment remained unchanged** during June 2016 when compared to May (at 89.7). In spite of the decline of expectations in services and retail trade, **business climate improved, as did consumer confidence** (to -68 from -71.9 during the previous month), which, although remaining at low levels, improved for the second consecutive month.
- **Although non-oil manufacturing production dropped in May 2016 (-1.6%) after** six consecutive months of growth, **overall for the 5-month period to May 2016 the output rose by +2%.** Moreover, **in June 2016 Purchasing Managers Index in Manufacturing (PMI) returned to a level above 50**, which reflects expansion in the sector. In spite of the extremely fragile circumstances of demand, **employment in manufacturing increased in the four out of six months of 2016, though the rate of increase remains modest.**
- **Retail sales, after the losses observed during the past months and especially in February 2016 (-5.5%), appear to stabilize in April 2016, with the volume except fuels increasing marginally** (+0.1%). The period of sales and offers before Easter appear to have bolstered the market, as the volume of sales increased visibly for clothing and shoes (+16.2%), in large stores (+8.8%) and in shops that sell stationary, gifts and related items (+0.9%). Yet, overall for the first 4 months the volume of retail sales except fuels declined (-1.4%).
- **Seasonally adjusted unemployment fell to 23.3%** in April 2016 (from 23.7% the previous month and from 25.3% in April 2015). At the same time, **during May 2016 there were created 76.591 jobs on a net basis**, mainly as a result of strong hiring in accommodation, food services and retail trade ahead of the peak of the tourist season. This strong hiring more than compensated for the seasonal job losses in education. Moreover, for the 5-month period to May 2016, there were created 201.1 thousand jobs, compared with 194.5 during the same period in 2015.

On the other hand:

- **Non-oil exports of goods declined visibly in May 2016** (-6.4%), overturning the positive trend of the previous months, with a sharp drop in exports to non-EU countries (-19%) while those to EU grew marginally (+0.7%). Overall, in the period Jan – May 2016 non-oil exports of goods have declined (-0.7%).
- **Turnover in industry fell during April 2016** (-15.3%), mainly as a result of the decline in the sales of fuels (-34.8%) and in the mining sector (-11.2%), while in non-oil manufacturing the decline was smaller (-2.3%). Overall, for the period Jan – Apr 2016 turnover in industry declined by -14.3%, and in non-oil manufacturing by -3%. **The decline in oil prices affects strongly the turnover of industry since the fall of 2014** and is reflected in the larger decline of sales to countries outside the euro area (-27.5% in April 2016 and -22.6% for the period Jan-Apr 2016), than in the sales to euro area countries (+1.6% in April 2016 and -6.4% for the period Jan – Apr 2016).
- **The year on year decline in receipts from tourism and shipping during April 2016** (-7% and -48.6% respectively) reflects the **persistent impact of the capital controls**, as an increasing share of the related transactions is migrating outside the Greek banking system. **Overall, for the period Jan – Apr 2016 receipts from tourism weakened by -3.4% and arrivals by -5.3%**. This weakening, in spite of the fact that it refers to small absolute numbers of the low season during the 4-month period to April, when combined with the events following the referendum in the UK and the continuing flow of refugees, creates concerns with respect to the performance of tourism, in spite of the generally positive expectations.
- **Deposits of households,** after the increase observed in April 2016, as a result of the payment of the Easter bonus and various holidays which led to postponed payments, **declined in May (-€840 mil.), returning to the outflow levels observed during the fall of 2015 and March 2016.**

At the same time, **the almost inevitable slowdown of the European economy, as a result of the outcome of the referendum in Great Britain, is likely to weaken investor interest and may have implications on the current account and tourism in Greece**. Even though the consensus estimate is that the immediate impact on the Greek economy will be relatively limited, it is necessary take growth enhancing initiatives so that the country can place itself on a trajectory of growth. As a starting point a comprehensive plan to battle tax evasion, undeclared work and smuggling can be rolled out, along with a rationalization of the tax system and the implementation of a plan to attract investment, with main pillars the privatization program and public – private sector partnerships, the opportunities offered by the digital economy and a focus on productive sectors with high growth potential.

Economic indicators

Economic sentiment	2015/2014 Dec / Dec	2016/2015 June / June
Economic climate	↓ 87.6 / 99.6	↓ 89.7 / 91.2
Consumer confidence	↓ -61.1 / -53.9	↓ -68.0 / -46.8
% stating that their own economic situation will get worse	60% / 63%	72% / 50%
% stating that the country's economic situation will get worse	80% / 66%	77% / 52%
% stating that it is unlikely to increase their savings	90% / 91%	80% / 69%
% stating that unemployment will rise	80% / 66%	74% / 64%

Employment – Unemployment	2014	2015	2016	Period
Employment (change year-to-date, seasonally adjusted)	+16,859 pers.	+32,165 pers.	+29,175 pers.	Jan – Apr
Employment (change during month, seasonally adjusted)	-12,401 pers.	+35,060 pers.	+25,600 pers.	April
Registered unemployed (change year-to-date)	-44,715 pers.	-49,107 pers.	-37,129 pers.	Jan – May
Registered unemployed (change during month)	-13,606 pers.	-31,198 pers.	-29,923 pers.	May
Net hirings (year-to-date)	+160,946 pers.	+194,533 pers.	+201,056 pers.	Jan – May
Net hirings (current month)	+59,470 pers.	+86,146 pers.	+76,591 pers.	May
Unemployment rate (seasonally adjusted)	27.1%	25.3%	23.3%	April
Year to date average rate (seasonally adjusted)	27.1%	25.6%	23.8%	Jan - Apr
Index of wages (whole economy, in constant prices, seasonally adjusted)	4.1%	1.1%	-	Q3
Change Year to date (whole economy, in constant prices, seasonally adjusted)	1.1%	1.3%	-	Jan – Dec
Consumer Price Index	-1.1%	-2.2%	-0.7%	Jun
Change Year to date	-1.4%	-2.3%	-0.9%	Jan – Jun

GDP	Change 2014/2013	Change 2015/2014	Period	Change yoy		
				2016 Q1	2015 Q4	2015 Q3
GDP (in constant prices)	0.7%	-0.2%	12M	-1.4%	-0.9%	-1.7%
Private consumption	0.5%	0.3%	12M	-1.3%	-1.0%	-0.4%
Residential construction investment	-52.5%	-23.1%	12M	-17.3%	-16.5%	-34.0%
Non – residential construction investment	3.1%	-7.5%	12M	3.3%	6.7%	-10.1%
Investment in machinery and equipment	8.5%	5.9%	12M	-5.2%	1.0%	-12.6%
Exports of goods and services	7.5%	-3.8%	12M	-11.7%	-9.3%	-10.5%
Imports of goods and services	7.7%	-6.9%	12M	-12.8%	-12.5%	-19.8%

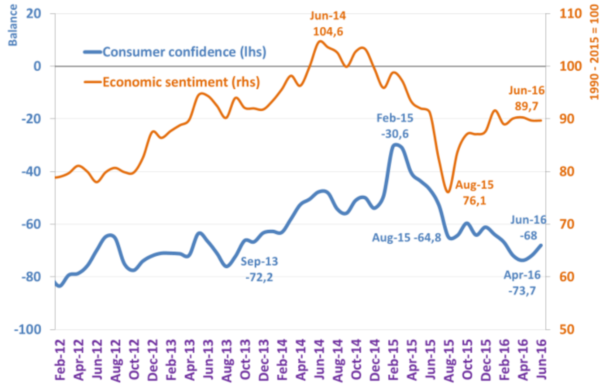
Short term conjunctural indicators	Change 2015/2014	Change 2016/2015	Period	Change 2016/2015	Period
Industrial production	0.7%	0.8%	Jan – May	2.9%	May
Manufacturing (excluding oil)	2.7%	2.0%	Jan – May	-1.6%	May
Production in construction	1.3%	-	Jan – Dec	-9.3%	Q1
Building	9.2%	-	Jan – Dec	-1.9%	Q1
Non – building	-4.2%	-	Jan – Dec	-15.5%	Q1
Private building activity – building permits (volume in m^3)	29.2%	-11.9%	Jan – Mar	-34.8%	March
Retail sales (volume)	-0.5%	-2.8%	Jan – Apr	-1.5%	April
Excluding automotive fuel	0.7%	-1.4%	Jan – Apr	0.1%	April
New vehicle licenses	27.0%	9.2%	Jan – Jun	-2.5%	June
Revenue from tax on mobile telephony	-5.8%	-6.9%-	Jan – Mar	-42.6%	March
Non-oil exports of goods (ELSTAT, current prices)	13.4%	-0.7%	Jan – May	-6.4%	May
Tourism – receipts	12.6%	-3.4%	Jan – Apr	-7.0%	April
Transportation – receipts	1.6%	-45.9%	Jan – Apr	-48.6%	April
Other services* – receipts	-0.1%	-28.1%	Jan – Apr	-24.9%	April
Inbound travelers	45.6%	-6.2%	Jan – Apr	2.5%	April

Economic Forecasts for Greece	EU (May 2016)				OECD (June 2016)			
	2014	2015	2016	2017	2014	2015	2016	2017
Real GDP (% change)	**0.7**	**-0.2**	**-0.3**	**2.7**	**0.7**	**-0.3**	**-0.2**	**1.9**
Private consumption (% change)	0.5	0.3	-0.4	1.8	0.7	0.3	-0.1	1.3
Public consumption (% change)	-2.6	0.0	-0.5	-0.1	-2.4	-0.1	-2.1	-0.8
Total investment (% change)	-2.8	0.7	-0.9	11.6	-2.6	0.9	3.6	4.0
Exports of goods and services (% change)	7.5	-3.8	0.5	4.2	7.4	-3.7	-1.0	5.7
Imports of goods and services (% change)	7.7	-6.9	-0.1	3.8	7.8	-6.9	-1.9	3.5
Consumer price inflation (%)	-1.4	-1.1	-0.3	0.6	-1.4	-1.1	-0.5	0.0
Current account balance (% of GDP)	-3.0	-0.2	0.6	1.3	-2.1	-0.1	-1.6	-0.9
General Government balance (% of GDP)	-3.6	-7.2	-3.1	-1.8	-3.7	-7.3	-1.9	-0.5
General Government gross debt (% of GDP)	180.1	176.9	182.8	178.8	182.9	182.7	185.3	182.3

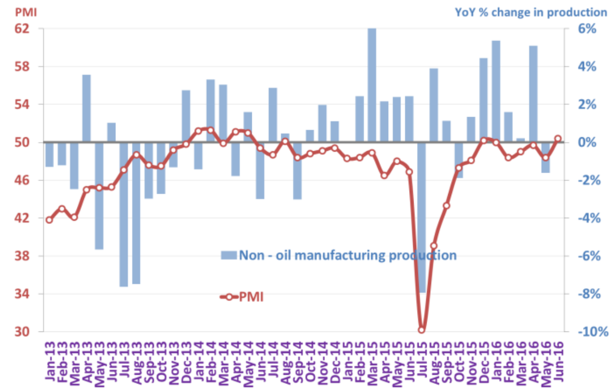
* includes construction business activity abroad, software and technology exports, etc

Source: IOBE, ELSTAT, Bank of Greece, Ministry of Labour and Social Solidarity, DG ECFIN, European Commission

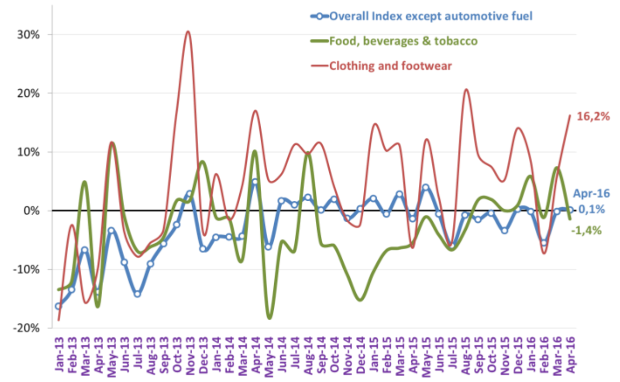
Economic sentiment and consumer confidence
(IOBE, June 2016)



PMI and non-oil manufacturing production
(Markit, June 2016, ELSTAT, May 2016)



Retail sales (volume)
(ELSTAT, April 2016)



Non-oil exports of goods
(ELSTAT, May 2016)

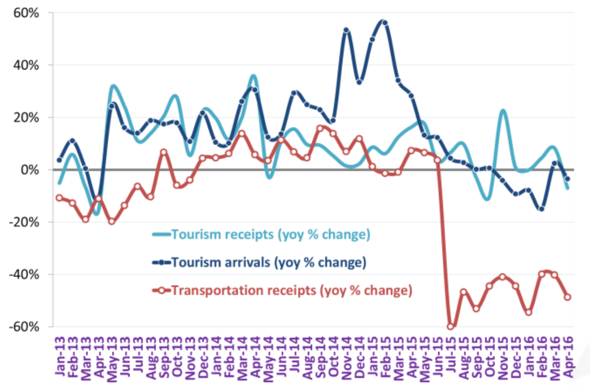
Including Oil

(€ mil.)	January – May			%Δ	
	2014	2015	2016	15/14	16/15
European Union	5,161.9	5,766.1	5,806.9	11.7%	0.7%
Third countries	5,527.3	5,014.1	4,059.7	-9.3%	-19.0%
Total	**10,689.2**	**10,780.2**	**9,866.6**	**0.9%**	**-8.5%**

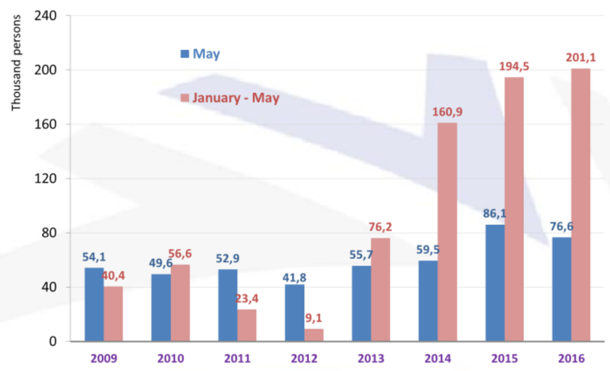
Excluding Oil

(€ mil.)	January – May			%Δ	
	2014	2015	2016	15/14	16/15
European Union	4,396.7	5,021.5	5,196.9	14.2%	3.5%
Third countries	2,280.6	2,550.3	2,319.2	11.8%	-9.1%
Total	**6,677.3**	**7,571.8**	**7,516.1**	**13.4%**	**-0.7%**

Tourism arrivals & receipts, transportation receipts
(Bank of Greece, April 2016)



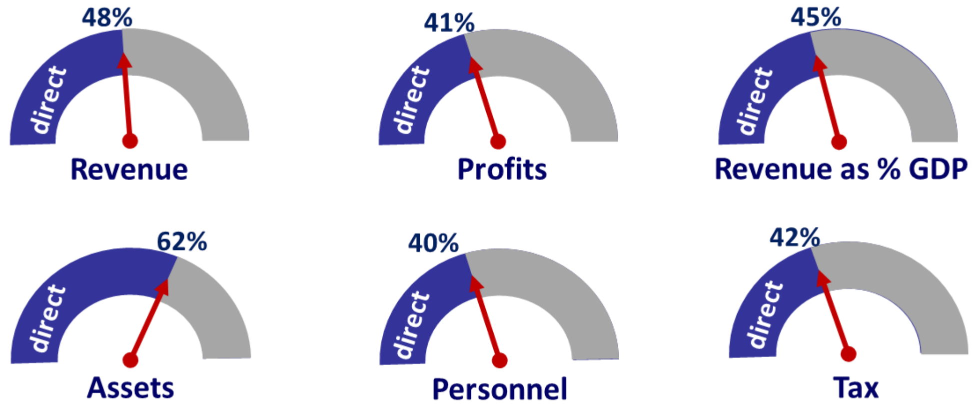
Net hirings
(ERGANI, May 2016)



SEV members are the key corporate leaders in Greece

- **Sectors:** Energy, transport, manufacturing, pharma, metals, food, financial, constructions, technology, chemicals, wholesale, services etc
- **Registry:** 3,500 corporates, including members of 43 sectoral & regional associations.

SEV direct members account for 50% of the business activity



Source: 28.000 SA & Ltd balance sheets, ICAP, 2013 – IKA, 2013

SEV Hellenic Federation of Enterprises

SEV Hellenic Federation of Enterprises
5, Xenophontos Str ,105 57 Athens
T: 211 5006 000
F: 210 3222 929
E: info@sev.org.gr
www.sev.org.gr

SEV Hellenic Federation of Enterprises
168, Avenue de Cortenbergh
B-1000 Bruxelles
M: +32 (0) 494 46 95 24
E: sevbrussels@proximus.be

Follow us

Sponsored by TITAN