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Consumer Confidence in Turbulent Times -
The Case of the Candidate Countries

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European Commission
Directorate-General for Economic and Financial Affairs

European Business Cycle Indicators

1st Quarter 2022

Consumer Confidence in Turbulent Times – The Case of the Candidate Countries

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OVERVIEW

Recent developments in survey indicators

- The EU and euro-area Economic Sentiment Indicators (ESI) dropped sharply in March in response to the Russian invasion of Ukraine, finishing 2022-Q1 5.5 (EU) / 5.3 (EA) points below their levels at the end of 2021. The indicators' current readings (107.5 in the EU, 108.5 in the EA) are still well above their long-term average of 100.
- The Employment Expectations Indicator (EEI) showed no strong reaction to the war in Ukraine, finishing 2022-Q1 1.3 (EU) / 2.0 points (EA) higher than 2021-Q4.
- EU/EA confidence among consumers evaporated as a reaction to the war in Ukraine and took a serious hit in industry. Services confidence improved, probably due to the recent and upcoming relaxation of sanitary measures which had hit services particularly hard. Construction / retail trade confidence remained broadly unchanged.
- Sentiment in all of the six largest EU economies deteriorated on the quarter, most so in Poland (-8.9), France (-8.0) and Italy (-7.7), followed by Spain (-3.5), the Netherlands (-2.5) and Germany (-2.3). Barring Poland, the level of sentiment stayed above its long-term average in all countries.
- The EU Economic Uncertainty Indicator (EUI) rose abruptly in March. While uncertainty rose most sharply among consumers, the increases across all surveyed business sectors testify to the potential fall-out of a further escalation of the war in Ukraine and/or sharpening of sanctions also on sectors where confidence itself did not react in March (services, construction).
- In January, capacity utilisation in manufacturing remained broadly stable compared to October 2021. At 81.7% (EU) / 81.9% (EA), the indicator remained in both regions above its long-term average of 80.6% (EU) / 80.7% (EA). Capacity utilisation in services decreased by 0.7 percentage points in the EU (to 88.5%) and by 0.9 percentage points in the EA (to 88.1%). The latest readings brought the indicator slightly below its long-term average (88.9% in the EU, 88.6% in the EA).
- The share of industry managers pointing to the shortage of material and/or equipment and of labour force as factors limiting production reached the highest values on record in the January survey.
- Consumers' quantitative price perceptions and expectations continued their steep ascent. While price perceptions reached levels last seen in 2008, consumers' price expectations got as high as never before since the question was first asked in 2004.

Special topic: Consumer confidence in turbulent times – the case of the candidate countries

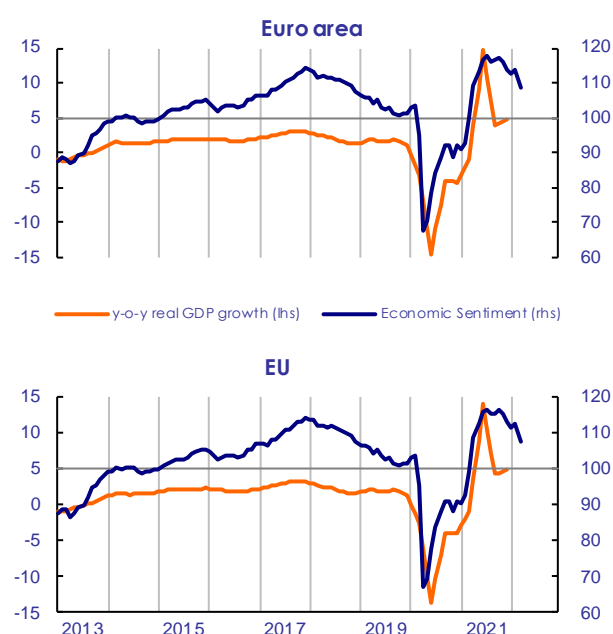
The special topic focuses on consumer survey results in the candidate countries in the turbulent period from the outbreak of the COVID-19 pandemic to the start of the Russian invasion of Ukraine. Consumer confidence in Albania, Montenegro and North Macedonia evolved broadly in line with the EU aggregate, the only major deviation being the incomplete recovery of confidence in North Macedonia from the COVID-19 shock. By contrast, consumer confidence in Turkey and Serbia appears to have been dominated by country-specific forces, resulting in subdued reactions to both the adverse shock of the pandemic and the Russian invasion of Ukraine.

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS

1.1. EU and euro area

Following a broad stabilisation in January/February 2022, the EU and euro-area **Economic Sentiment Indicators (ESI)** dropped sharply in response to the Russian invasion of Ukraine¹ (see Graph 1.1.1).

Graph 1.1.1: Economic Sentiment Indicator



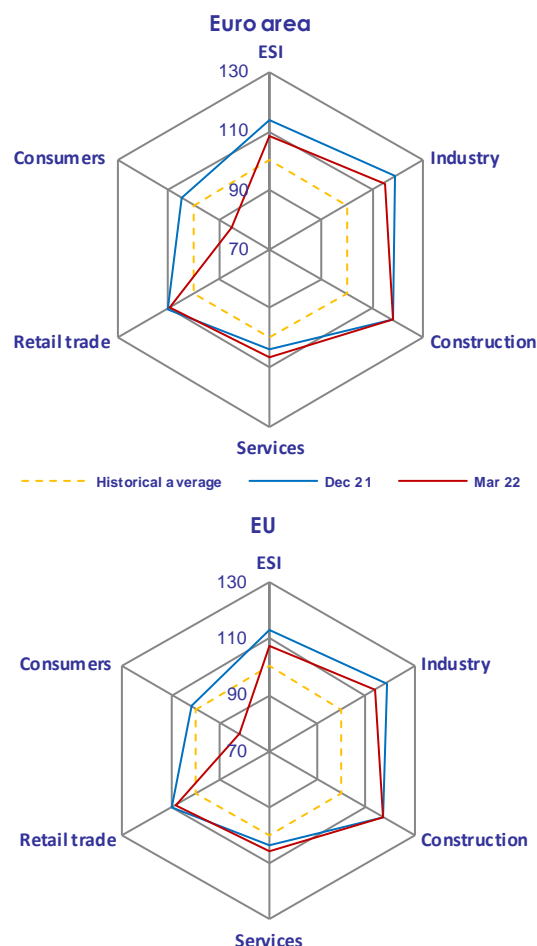
Note: The horizontal line (rhs) marks the long-term average of the survey indicators. Confidence indicators are expressed in balances of opinion and hard data in y-o-y changes. If necessary, monthly frequency is obtained by linear interpolation of quarterly data.

As a consequence, the ESI finished the first quarter of 2022 5.5 (EU) and 5.3 (EA) points below its level of December 2021. In spite of the significant loss, the indicator's current reading (107.5 in the EU, 108.5 in the EA) is still well above its long-term average of 100

and nowhere near the lows it had sunk to in the first year of the COVID-19 pandemic.

From a sectoral perspective (see Graph 1.1.2), EU/EA confidence among consumers evaporated as a reaction to the war in Ukraine and took a serious hit in industry. Services confidence stands out with a solid improvement, likely reflecting the recent and upcoming relaxation of sanitary measures which had hit customer-facing services particularly hard. Confidence in construction and retail trade remained broadly unchanged.

Graph 1.1.2: Radar Charts



Note: A development away from the centre reflects an improvement of a given indicator. The ESI is computed with the following sector weights: industry 40%, services 30%, consumers 20%, construction 5%, retail trade 5%. Series are normalised to a mean of 100 and a standard deviation of 10. Historical averages are generally calculated from 2000q1. For more information on the radar charts see the Special Topic in the 2016q1 EBCI.

¹ The February readings of the indicators were based on surveys conducted until 18 February and, hence, did not reflect the impact of the invasion.

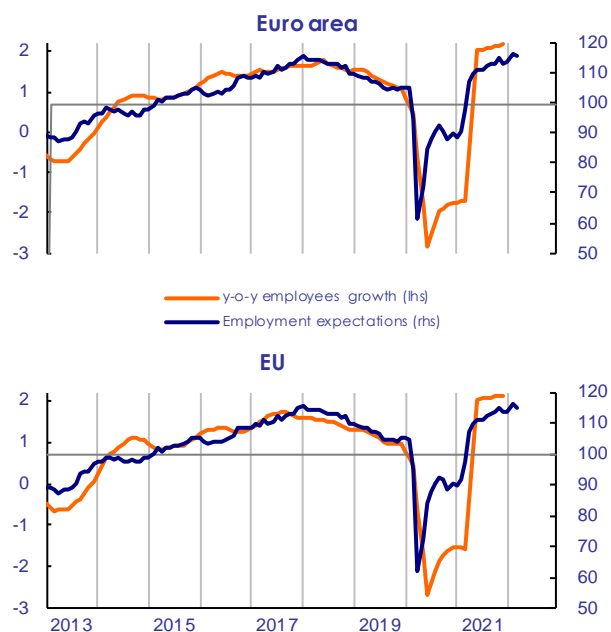
The level of confidence stayed high compared to historic standards, with the exception of consumer morale which fell to a level close to its low-point during the first COVID-19 wave.

Sentiment in all of the six largest EU economies deteriorated on the quarter, most so in Poland (-8.9), France (-8.0) and Italy (-7.7), followed by Spain (-3.5), the Netherlands (-2.5) and Germany (-2.3). With the exception of the Netherlands and Poland, the main part of the quarterly losses can be attributed to significant declines in March. Barring Poland, the level of sentiment stayed above its long-term average in all countries.

The downbeat signal emanating from the ESI is in some contrast to the evolution of Standard & Poor’s Eurozone Composite PMI, which incurred a comparatively contained loss in March (-0.6 points) and, on balance, over the first quarter even increased (+1.6 points compared to December 2021). The discrepancy can be rationalised by the fact that consumer confidence, which showed a much stronger reaction to Russia’s invasion of Ukraine than any of the business surveys entering the ESI computation, does not feature in the S&P Index. The results of the Ifo Business Climate Index (for Germany) were more in line with the ESI-figures, as the indicator declined by 4.1 points compared to December, due to sharply deteriorating sentiment in March.

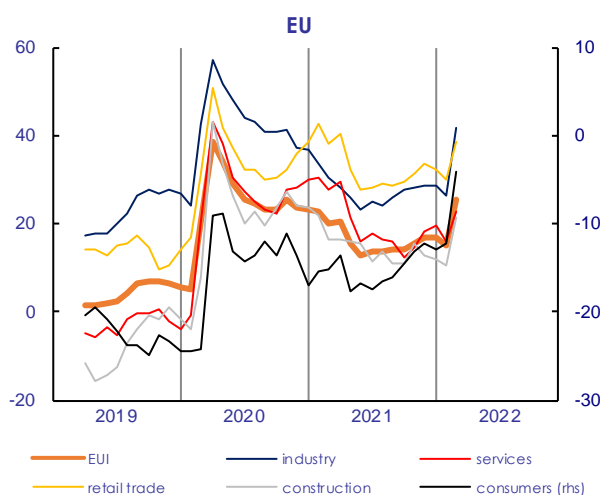
Contrary to the ESI, the **Employment Expectations Indicator (EEI)** showed no strong reaction to the war in Ukraine. Thanks to a solid improvement in February, which brought the indicator to the highest (EU) / second highest (EA) level on record, the indicator finished the first quarter of the year 1.3 (EU) / 2.0 points (EA) higher than 2021-Q4. Still, at the level of the individual components making up the EEI an important difference emerged: While employment expectations in services, retail trade and construction did not see any particularly sharp alteration in March, industry managers posted the strongest deterioration since April 2020, i.e. when COVID-19 hit the continent.

Graph 1.1.3: Employment expectations indicator



After a broad sideways movement in January/February, the **EU Economic Uncertainty Indicator (EUI)**² rose abruptly in March, reflecting growing uncertainty about the impact of Russia’s invasion of Ukraine on the future economic situation of consumers and businesses (see Graph 1.1.4).

Graph 1.1.4: Uncertainty



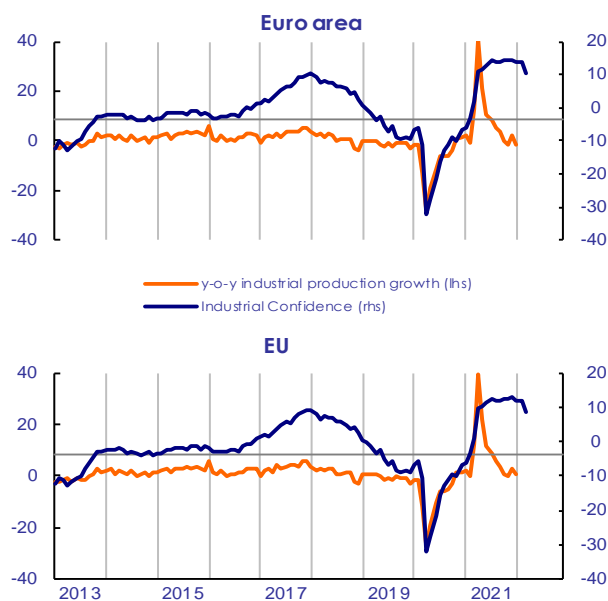
² See the special topic of the [2021-Q3 EBCI](#) for background, and section 3.6 of the [BCS User Guide](#) for methodological details.

While uncertainty rose most sharply among consumers, reaching its highest level on record, the increases across all surveyed business sectors testify to the potential fall-out of adverse future scenarios also on sectors where confidence itself did not react in March (services, construction). The developments in the EA were qualitatively in line with those observed in the EU.

Sector developments

After broadly flat readings in January/February, **industry confidence** in March saw the sharpest monthly drop since the outbreak of COVID-19 on the continent. On balance, the EU/EA indicator shed 4.2 points over the first quarter, but remained well in excess of its long-term average (see Graph 1.1.5).

Graph 1.1.5: Industry Confidence indicator



Zooming into the individual components of industrial confidence, the bulk of the confidence crunch can be attributed to plummeting **production expectations** in March. Managers' assessments of the other components were either flat throughout the quarter (**order books**) or they changed comparatively little (**stocks**, which were assessed as less scarce than at the end of 2021).

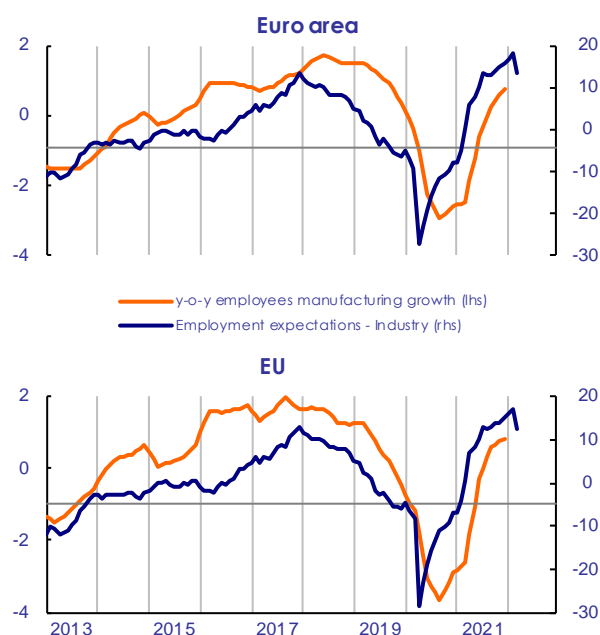
Of the components not included in the confidence indicator, managers' appraisals of **past production** deteriorated on the quarter, while the assessments of **export order books** in March were unchanged (EU) / virtually unchanged (EA) from those in December last year.

After marking a new all-time high in February, industry managers' **employment expectations** saw a sharp deterioration in March (see Graph 1.1.6), putting an end to the indicator's rally since May 2020. Managers' **selling price expectations** continued their rise to

unprecedented levels, whereby the increase in March was the strongest of the quarter, probably reflecting spiralling energy costs as a consequence of the war in Ukraine.

Industry confidence weakened in all of the six largest economies, in particular in Germany (-6.5), Poland (-6.1), France (-5.6), and, to a lesser extent, in Italy (-2.3), the Netherlands (-1.3) and Spain (-0.9). In spite of the losses, the level of confidence stayed above long-term averages, with the exception of Poland.

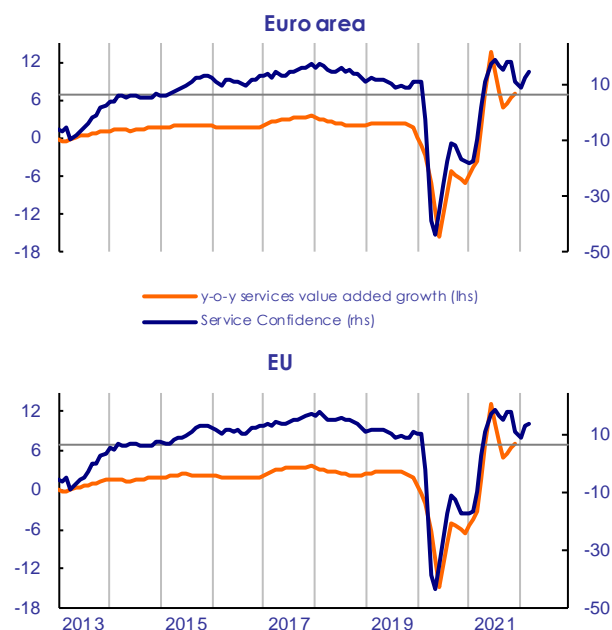
Graph 1.1.6: Employment expectations in Industry



According to the quarterly manufacturing survey (carried out in January), **capacity utilisation** in manufacturing remained broadly stable compared to October 2021 (+0.1 points in the EU, -0.1 points in the EA). At 81.7% (EU) / 81.9% (EA), the indicator remained in both regions above its long-term average of 80.6% (EU) / 80.7% (EA).

The share of industry managers pointing to the shortage of material and/or equipment (51.0% in the EU, 54.0% in the EA) and of labour force (25.9% in the EU, 25.1% in the EA) as **factors limiting production** reached the highest values on record in the January survey.

Graph 1.1.7: Services Confidence indicator

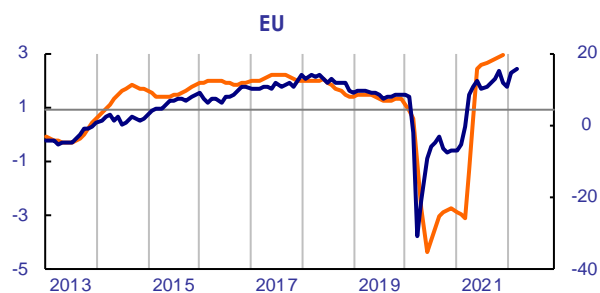
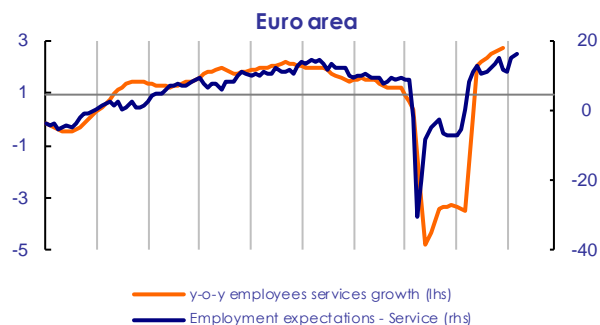


After two quarters of declining readings, **services confidence** rebounded in the first quarter of 2022 (+2.9 (EU) / +3.5 (EA) points compared to December), thanks to improved readings in February and March, which are likely to reflect the recent and upcoming relaxation of sanitary measures that had hit customer-facing services particularly hard. At 14.3 (EU) / 14.4 (EA) points, services confidence in March is well above its long-term average (see Graph 1.1.7).

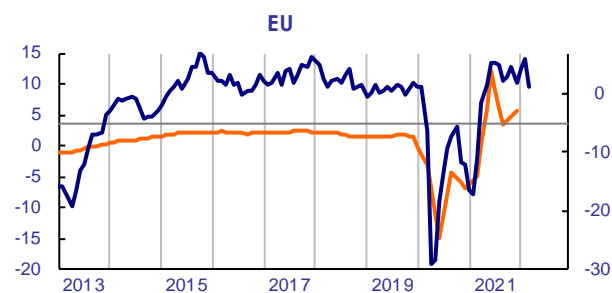
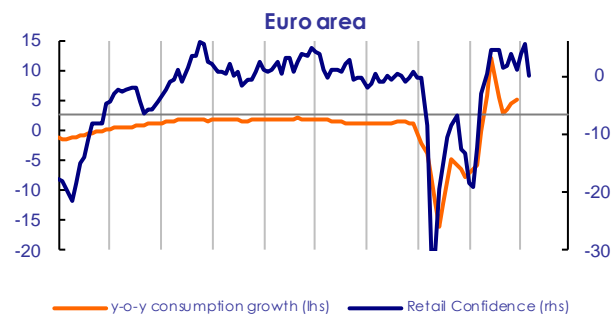
Looking into the components of services confidence, **demand expectations** improved strongly compared to December 2021, while **past demand** improved only slightly and the **past business situation** deteriorated mildly.

In both the EA and the EU, **employment expectations in services** increased on the quarter, thanks to improvements in February and March (see Graph 1.1.8). Managers' **selling price expectations** continued their steep ascent, and finished the first quarter of the year with a new all-time high.

Graph 1.1.8: Employment expectations in services



Graph 1.1.9: Retail Trade Confidence indicator



Amongst the six largest EU economies, confidence rallied in Germany (+8.9) and booked significant increases in Spain (+3.9) and the Netherlands (+3.4). In France, sentiment stayed broadly unchanged (+0.3), while it deteriorated in Italy (-5.7), due to a sharp decline in January, and in Poland (-7.5).

Capacity utilisation in services, as measured by the quarterly survey conducted in January, decreased by 0.7 percentage points in the EU (to 88.5%) and by 0.9 percentage points in the EA (to 88.1%) compared to October 2021. In both regions, the latest readings brought the indicator slightly below its long-term average (88.9% in the EU, 88.6% in the EA).

Retail trade confidence posted a moderate decrease in the first quarter of the year (-0.9 points in both the EU and the EA), due to a sharp decline in March, which more than offset the improvements registered in January/February. In spite of the loss, confidence in both regions continued outstripping historical means (see Graph 1.1.9).

Managers' expectations regarding the **future business situation** collapsed in March and, hence, finished the first quarter significantly lower than the preceding one. By contrast, the appraisals of the **past business situation** and **stocks** (which enter the confidence indicator with inverted sign), improved slightly over the first quarter.

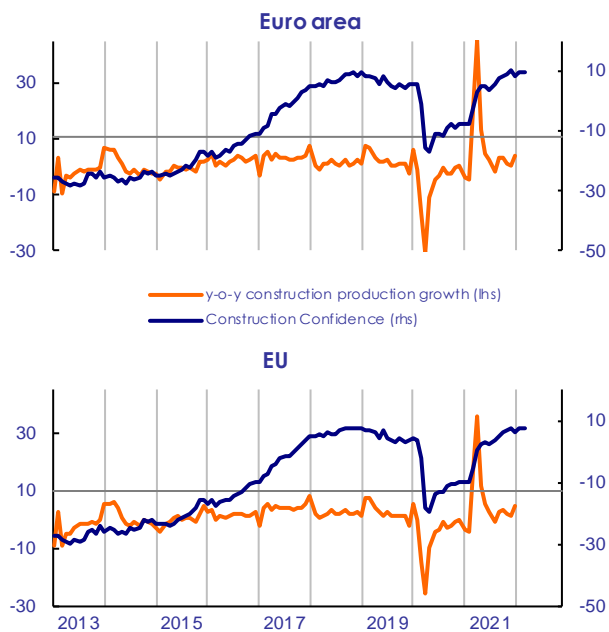
At the level of the six largest EU economies, confidence clouded over in Spain (-6.1), France (-4.7), the Netherlands (-4.4), Italy and Poland (both -3.6). German confidence improved on the quarter (+4.7), thanks to a surge in January which was only partly offset by the slump in March.

After six buoyant quarters, **construction confidence** stayed broadly unchanged at the beginning of the year (-0.3 points in March compared to December in both EU and EA). The level of confidence stayed exceptionally high (see Graph 1.1.10).

While the appraisals of **order books** marked a new all-time high in March, managers' **employment expectations** got more pessimistic compared to December 2021.

The share of construction managers pointing to the **shortage of labour as a factor limiting production** stayed unchanged compared to December 2021 in the EU (at 30.9%), while it edged down in the EA (to 29.3%). The March readings are close to the all-time highs reached in January. Meanwhile, the corresponding shares for **shortage of material and/or equipment** skyrocketed to new record scores in March (33.6% in the EU, 35.7% in the EA).

Graph 1.1.10: Construction Confidence indicator



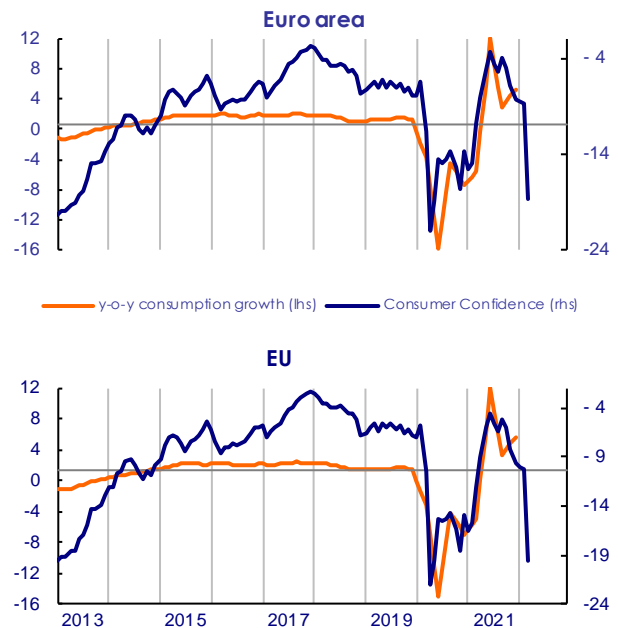
Amongst the six largest EU economies, construction confidence improved in Spain (+6.5) and, less so, in France (+0.6), while it got weaker in Poland (-4.0), Germany (-2.8) and Italy (-1.3). Dutch sentiment stayed unchanged (+0.0).

Following broadly flat readings in January/February, **consumer confidence** plummeted in March to a level almost as low as in the first COVID-19 wave. Compared to December 2021, the indicator lost 10.0 (EU) / 10.3 (EA) points (see Graph 1.1.11).

The confidence crunch was caused by the collapse in households' expectations about the **general economic situation in their country**, as well as their assessments of their **own future financial situation**, which fell to a historical low. Consumers' **intentions to make major purchases** and their assessment of their **past**

financial situation eased to 13- and 11-month lows.

Graph 1.1.11: Consumer Confidence indicator



While not included in the consumer confidence indicator, **consumers' savings expectations** decreased for the third consecutive quarter, as March brought one of the sharpest monthly decreases of the indicator on record.

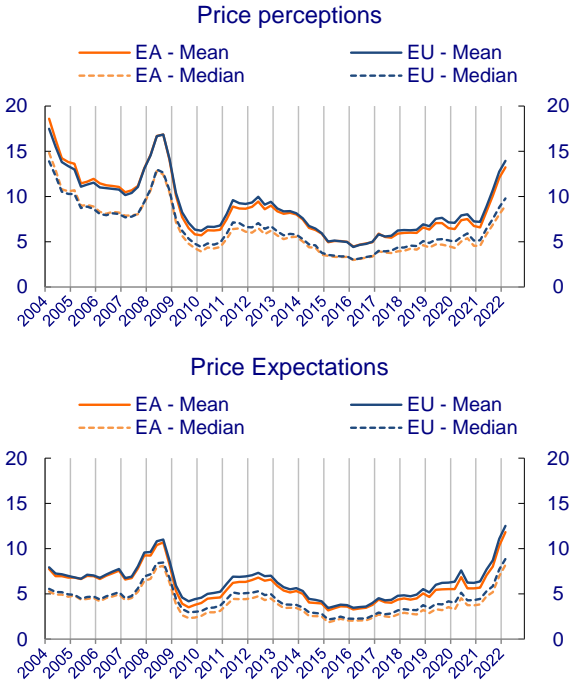
Consumer confidence plummeted in Spain (-14.2), Italy (-13.5), France (-11.1), the Netherlands (both -10.6), as well as Germany (-6.9) to levels just slightly above the trough marked in the first COVID-19 wave. In Italy, France and Spain, March's decline in consumer morale was the sharpest on record both when measured against the preceding month and the preceding quarter. Consumer confidence in Poland saw a relatively mild decline (-3.9), which left the indicator roughly in the middle between its level prior to the outbreak of the pandemic and the trough marked in its first wave.

In the EU and the EA, both the mean and the median of **consumers' quantitative price perceptions** and **expectations** continued their steep ascent in 2022-Q1. While price perceptions (change over past 12 months, in %) reached levels last seen in 2008, consumers'

price expectations (change over the next 12 months, in %) got as high as never before since the question was first asked in 2004 (see Graph 1.1.12).³ The persistent upward trend was observed across all income, education and age groups, as well as among both men and women.

The detailed results among the different socio-economic breakdowns can be downloaded from the [European Commission’s website](#).

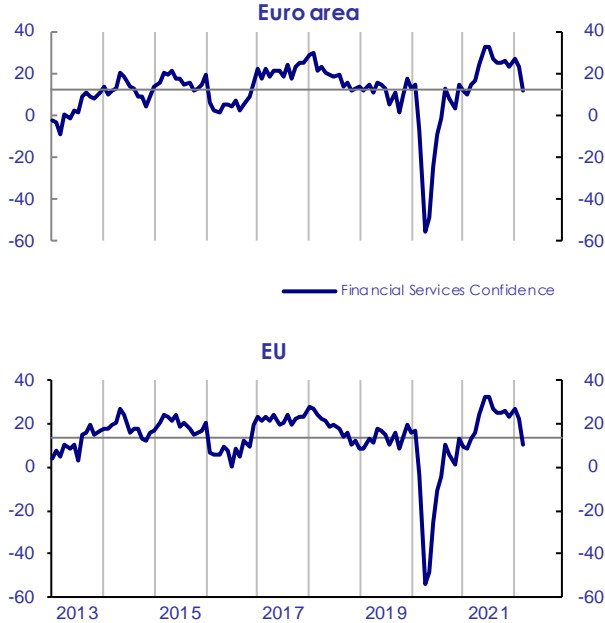
Graph 1.1.12: Euro area and EU quantitative consumer price perceptions and expectations



The **financial services confidence** indicator (not included in the ESI) saw a sharp decrease on the quarter (-5.8 in the EU, -3.6 in the EA), as sentiment in March collapsed (see Graph 1.1.3). The slide sent confidence down to its long-term average.

The decrease in confidence was mainly driven by much more cautious **demand expectations** and, to a lesser extent, more downbeat appraisals of **past demand** and the **past business situation**.

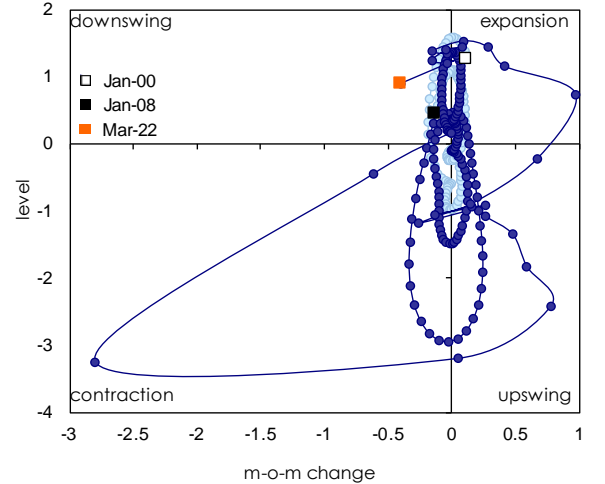
Graph 1.1.13: Financial Services Confidence indicator



The sharp deterioration of sentiment in 2022-Q1, as captured by the ESI, also showed in the EU/EA **climate tracers** (see Annex for details). Both moved from their position close to the intersection between expansion and downswing, which they had occupied in December 2021, deeper into the downswing quadrant, (see Graphs 1.1.14 and 1.1.15).

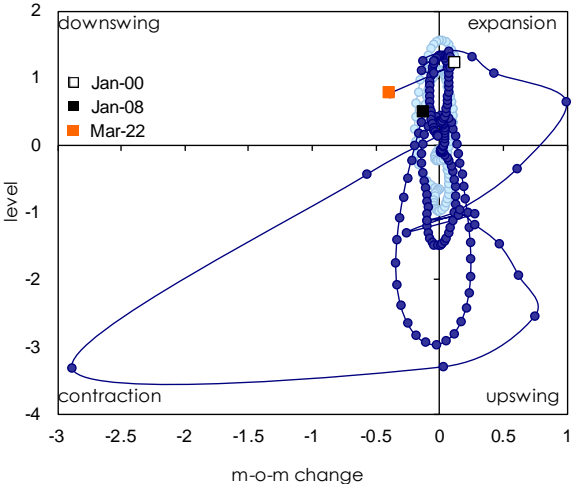
The most significant movements in the EU/EA sectoral climate tracers (see Graph 1.1.16) were regime changes in industry (from expansion to downswing), among consumers (from downswing to contraction) and in services (from downswing to expansion).

Graph 1.1.14: Euro area Climate Tracer



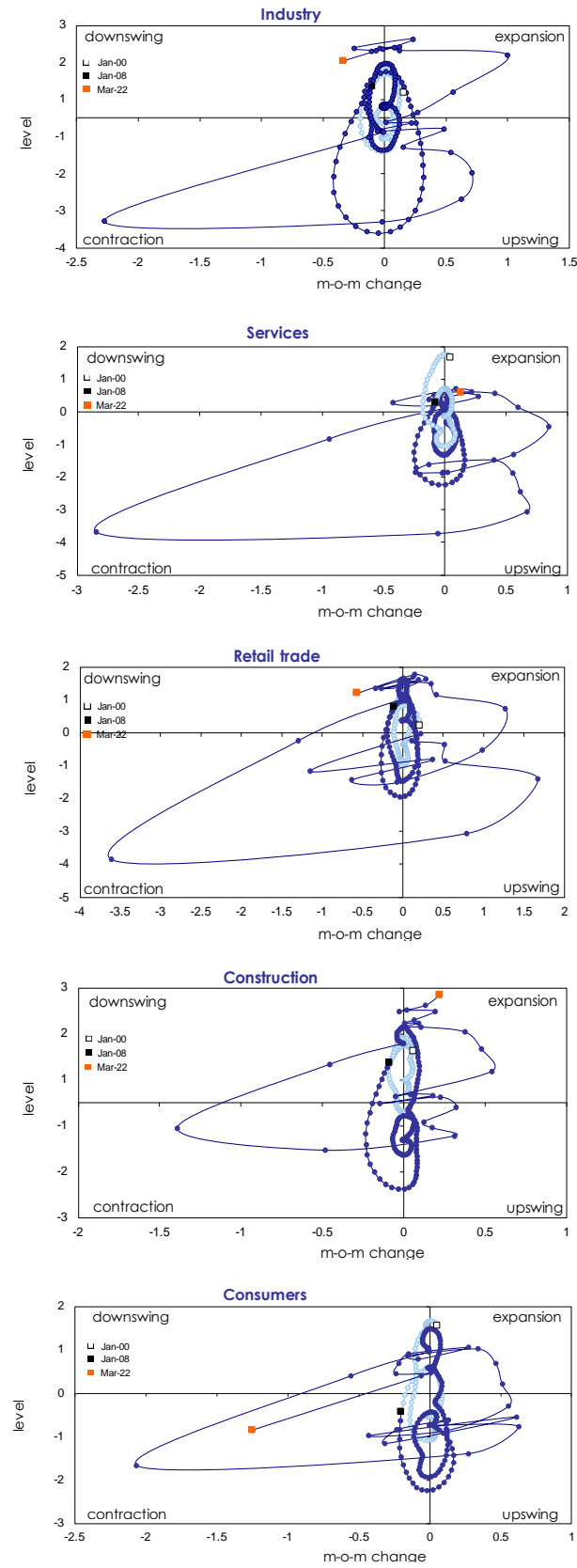
³ For more information on the quantitative inflation perceptions and expectations, see the special topic in the [EBCI 2019Q1](#).

Graph 1.1.15: EU Climate Tracer

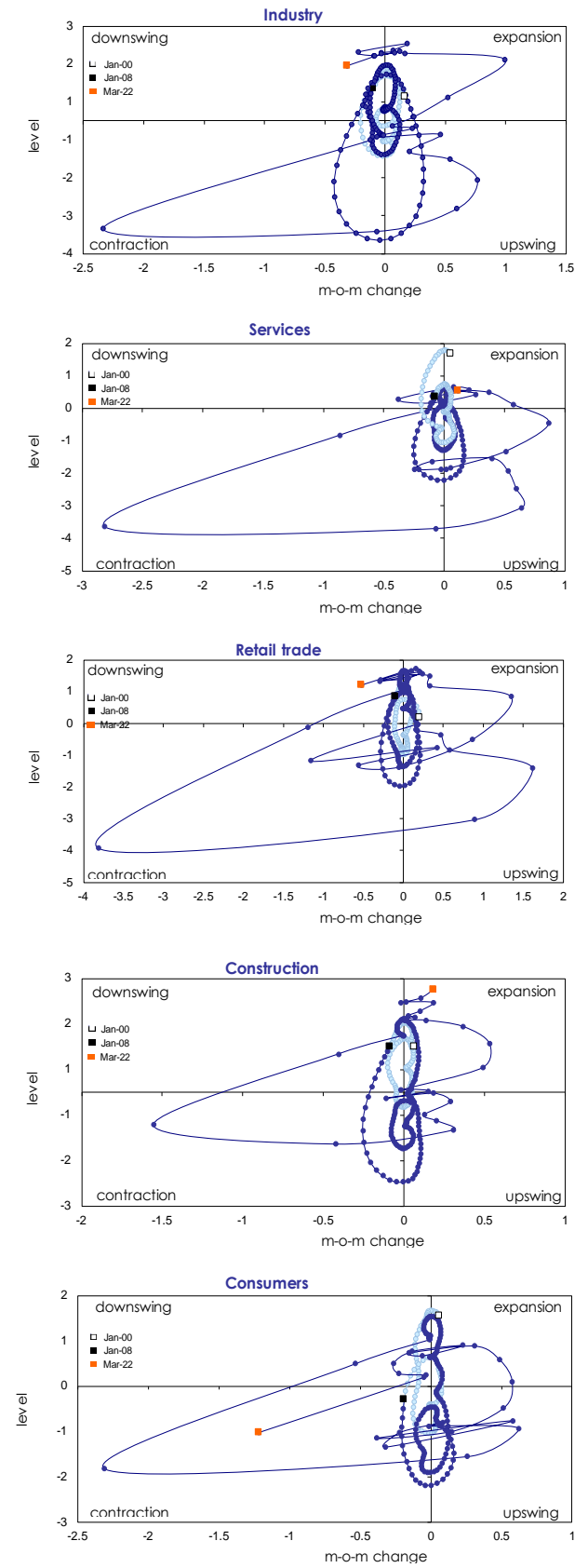


Graph 1.1.16: Economic climate tracers across sectors

Euro area



EU

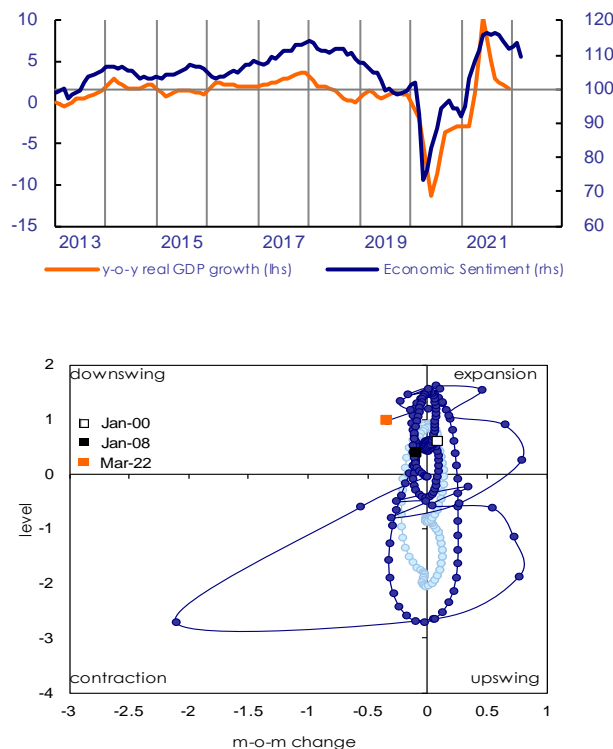


1.2. Selected Member States

The **German** ESI responded to the Russian invasion of Ukraine with a substantial drop in March, which let the indicator finish the first quarter of the year 2.3 points below its reading at the end of 2021-Q1. The indicator's level in March (109.2 points) nevertheless still exceeds its long-term average and pre-pandemic level by a comfortable margin. In line with the downbeat developments in the first quarter, the German climate tracer moved deeper into the downswing quadrant.

In contrast to the ESI, the Employment Expectations Indicator (EEI) held up well, gaining 1.4 points on the quarter, thanks to more upbeat employment expectations in services and retail trade, which were only partly offset by a collapse of expectations in March among industry and construction managers.

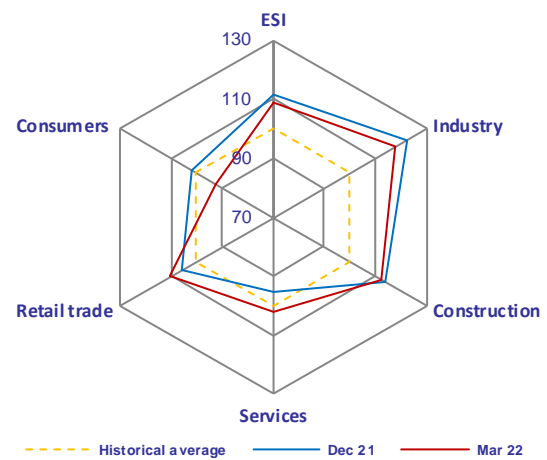
Graph 1.2.1: Economic Sentiment Indicator and Climate Tracer for Germany



From a sectoral perspective, the German radar chart (see Graph 1.2.2) shows that confidence plummeted among consumers and booked significant losses in industry and construction, while services and retail trade managers ended

the first quarter of 2022 more upbeat than the preceding one. Services was the only sector posting improved sentiment in March, i.e. in the first survey month following the outbreak of war in Ukraine. The observation is likely to reflect the positive effect of the recent and upcoming relaxation of sanitary measures which had hit customer-facing services particularly hard. The level of confidence stayed above long-term averages in all business sectors, but not among consumers.

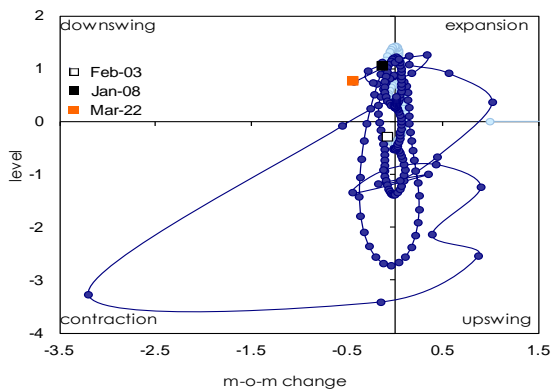
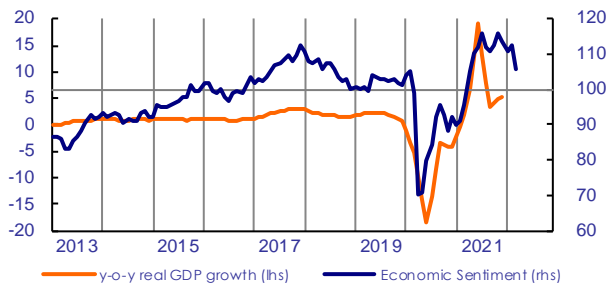
Graph 1.2.2: Radar Chart for Germany



The **French** ESI declined by 8.0 points in the first quarter of the year, as it posted one of the highest monthly deteriorations on record in March. Even so, the indicator stayed above its long-term average, at 105.7 points in March. The French climate tracer inched from the intersection between expansion and downswing firmly into the downswing quadrant (see Graph 1.2.3).

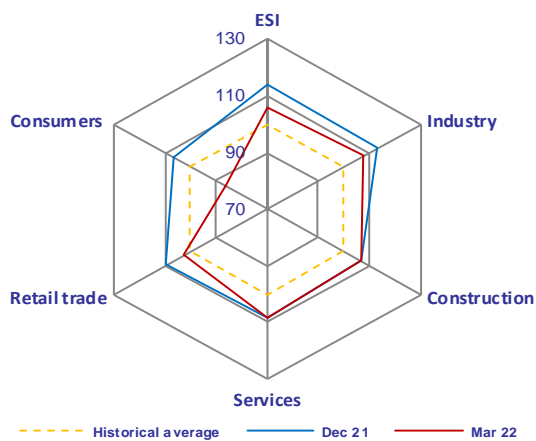
In spite of sentiment clouding over, the Employment Expectations Indicator (EEI) marked a 4.5-point increase on the quarter, reflecting more optimistic employment plans in services and construction, which were only partially offset by more cautious plans among retail trade managers. Employment plans in industry remained broadly unchanged on the quarter, although taking a hit in March.

Graph 1.2.3: Economic Sentiment Indicator and Climate Tracer for France



From a sectoral perspective, the French radar chart (see Graph 1.2.4) shows a collapse of consumer morale, as well as significant decreases in industry and retail trade confidence, all caused by the losses incurred in March. Confidence among services and construction managers stayed virtually unchanged. The level of confidence stayed above long-term averages in all business sectors, while consumer confidence fell below its historic mean.

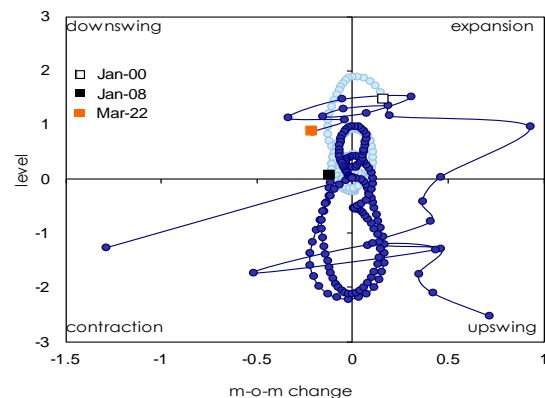
Graph 1.2.4: Radar Chart for France



The **Italian** ESI posted a significant decline over the first quarter of the year (-7.7 points compared to December) which, unlike developments in most other EU countries, was mainly caused by a dent in January, rather than March. At 109.0 points, the indicator continued outstripping its long-term average of 100. Deteriorating sentiment reverberated in the Italian climate tracer, which inched from the intersection between expansion and downswing into an unequivocal downswing position (see Graph 1.2.5).

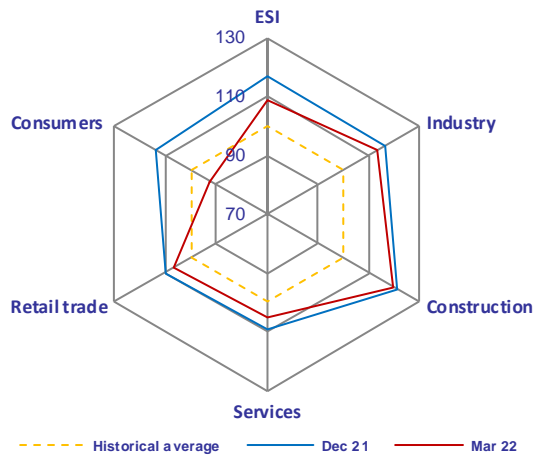
The Italian EEI improved slightly, by 0.6 points, compared to December 2021, reflecting the opposing forces of more cautious employment expectations in industry / construction and more optimistic ones among services and retail trade managers.

Graph 1.2.5: Economic Sentiment Indicator and Climate Tracer for Italy



From a sectoral perspective, confidence deteriorated in all business sectors and registered the sharpest quarterly decline on record among consumers. Consumer confidence was the only indicator showing a striking decrease in sentiment in March and falling below its long-term average (see Graph 1.2.6).

Graph 1.2.6: Radar Chart for Italy

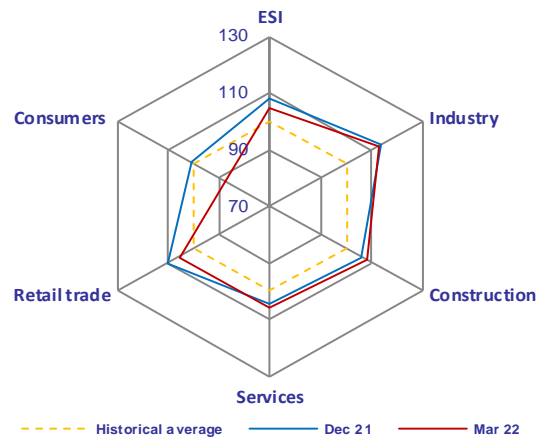


The Spanish EEI improved (+3.4 points in March compared to December last year), fuelled by more optimistic employment expectations in industry, services and construction. Employment plans in retail trade, by contrast, took a hit.

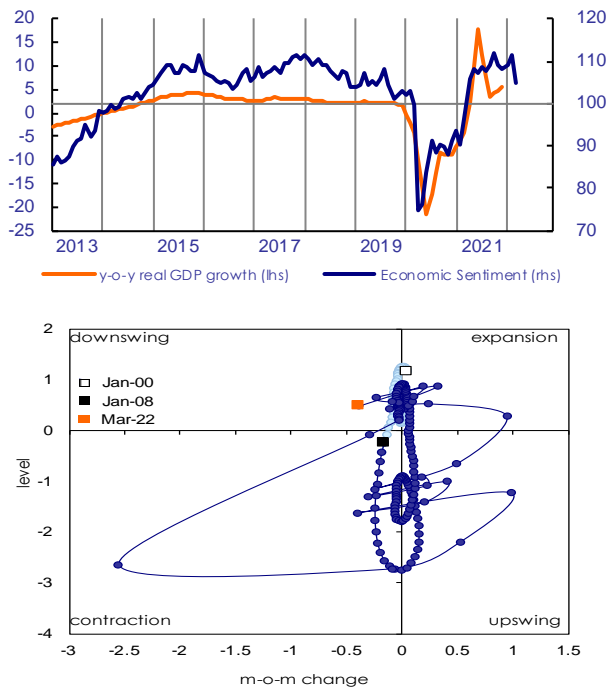
As shown in the radar chart (see Graph 1.2.8), confidence slipped in retail trade and, starkly so, among consumers, which posted the strongest decline on record in March. Services and construction managers reported higher morale, while industry confidence stayed broadly flat. Consumer confidence was the only sector completing the first quarter below its long-term average.

The **Spanish** ESI slipped in March and finished the first quarter of the year 3.5 points below its level at the end of 2021. At 104.8 points, the indicator nevertheless stayed above its long-term average and pre-pandemic level (see Graph 1.2.7). Dovetailing with the ESI, the Spanish climate tracer moved from the intersection between expansion and downswing firmly into the downswing quadrant (see Graph 1.2.7).

Graph 1.2.8: Radar Chart for Spain



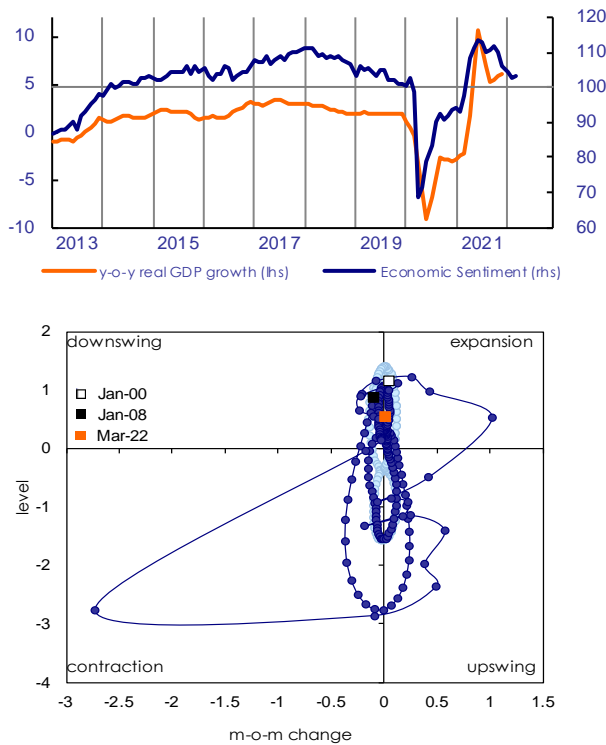
Graph 1.2.7: Economic Sentiment Indicator and Climate Tracer for Spain



The ESI for the **Netherlands** incurred a comparatively contained loss over the first quarter of the year (-2.5 points compared to December 2021). In contrast to most other countries surveyed, its monthly profile showed no strong reaction in March to the outbreak of war in Ukraine. The level of Dutch sentiment is close to, albeit still slightly above, its long-term average.

The climate tracer for the Dutch economy stayed on the border between the expansion and downswing quadrant (see Graph 1.2.9).

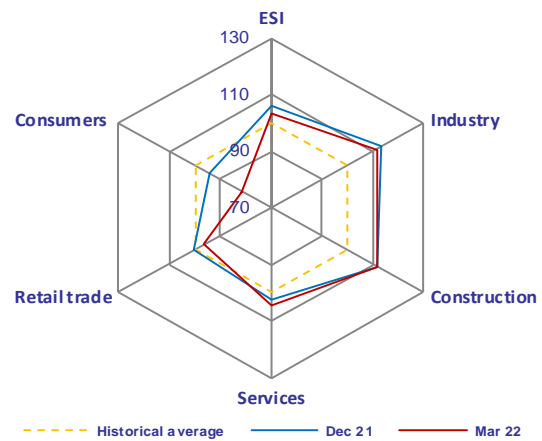
Graph 1.2.9: Economic Sentiment Indicator and Climate Tracer for the Netherlands



The EEI for the Netherlands improved slightly on the quarter (+1.3 points compared to December 2021), as employment plans brightened in services and, to a lesser extent, retail trade, while they clouded over in industry and construction.

As shown in the radar chart (see Graph 1.2.10), consumer confidence evaporated, while industry and retail trade confidence took a comparatively smaller hit. Services managers posted more upbeat sentiment, while morale among construction executives stayed unchanged. Confidence levels outstripped historical averages in all business sectors, but not among consumers.

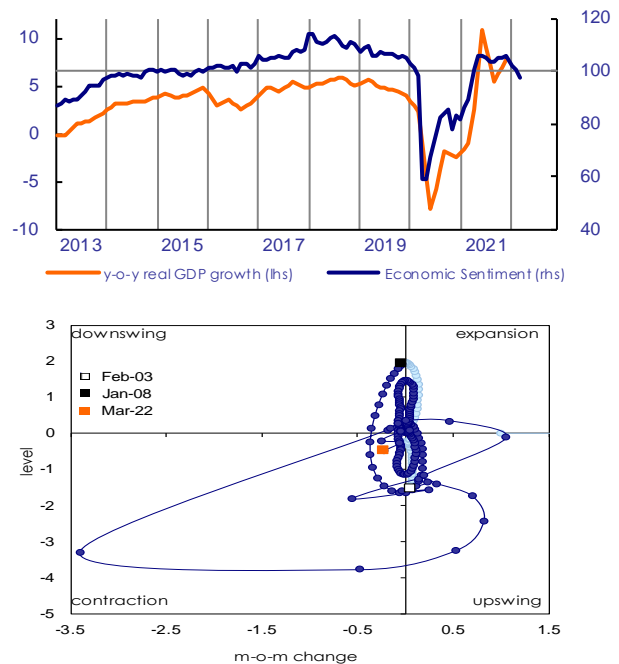
Graph 1.2.10: Radar Chart for the Netherlands



Sentiment in **Poland** saw the sharpest deterioration among all of the six largest EU economies (-8.9 points compared to December 2021). The steady deterioration throughout the quarter brought the indicator to a level (97.3 points in March) below its long-term average.

The Polish climate tracer moved from the intersection between all four quadrants, which it had populated at the end of 2021-Q4, into the contraction quadrant (see Graph 1.2.11).

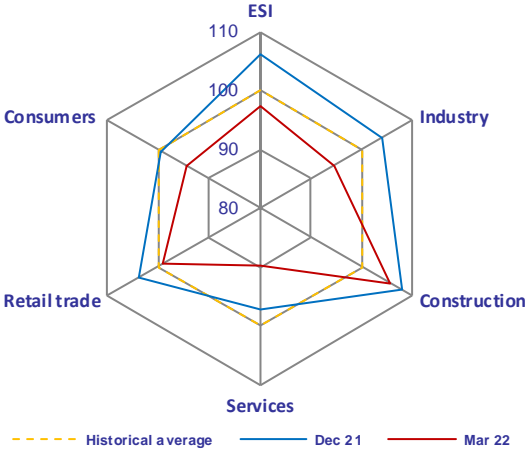
Graph 1.2.11: Economic Sentiment Indicator and Climate Tracer for Poland



The Polish EEI slipped by 6.0 points over the first quarter of the year, reflecting significantly more pessimistic employment plans in all surveyed business sectors.

As shown in the radar chart (see Graph 1.2.12), confidence declined in all surveyed business sectors and among consumers. Deviating from the pattern observed in most other surveyed countries, the magnitude of the decrease of consumer sentiment did not stand out as particularly sharp, both in terms of quarterly developments and month-on-month changes in March. The level of confidence was below historic averages in industry, services, retail trade and among consumers, contrasting with the situation in construction.

Graph 1.2.12: Radar Chart for Poland



2. SPECIAL TOPIC: CONSUMER CONFIDENCE IN TURBULENT TIMES – THE CASE OF THE CANDIDATE COUNTRIES

Only two years after the severe shock induced by the COVID pandemic, the Russian invasion of Ukraine on 24 February caused another blow to consumer confidence⁴ across the continent.

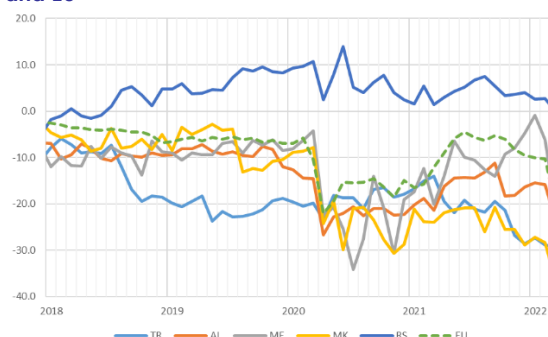
This special topic looks into developments in consumer confidence in the five candidate countries Montenegro, North Macedonia, Serbia, Albania and Turkey, which - though being fully integrated in the Joint Harmonised EU Programme of Business and Consumer Surveys for many years - are not usually in the spotlight of the regular monthly and quarterly publications on EU and euro area business and consumer survey data.⁵ The presentation will focus on the turbulent period from the outbreak of the COVID-19 pandemic to the start of the Russian invasion of Ukraine.

Consumer confidence in the EU has plummeted by 9.4 points in March, mostly reflecting the collapse in households' expectations about the general economic situation in their country but also in their assessments of their own future financial situation, which fell to a historical low.⁶

While the immediate impact of the Russian invasion of Ukraine on consumer confidence was of a similar magnitude in Albania, North Macedonia and Montenegro⁷, consumer confidence in Serbia and, in particular, Turkey

has hardly reacted to the geopolitical threat in their immediate neighbour region (Graph 2.1). Neither of the two countries have placed sanctions on Russia in the context of the war against Ukraine, possibly feeding the expectation of no major ripple effects from the nearby geopolitical tensions on their own economies.

Graph 2.1. Consumer confidence – candidate countries and EU



A closer analysis of the components of consumer confidence shows, however, that consumers' expectations about the general economic situation and their personal financial situation bent down in Serbia, qualitatively in line with the EU, but this was partially offset by an improved assessment of Serbian households' past financial situation. Moreover, again in line with EU developments, consumers' price expectations for the next twelve months shot up in Montenegro, Albania, Serbia and, to a lesser extent, North Macedonia (Graph 2.2). In Turkey, where consumers' perceptions of past price developments have risen markedly since the 2018 currency and debt crisis (see more below), consumers' price expectations did not show a particular reaction to the Ukraine war.

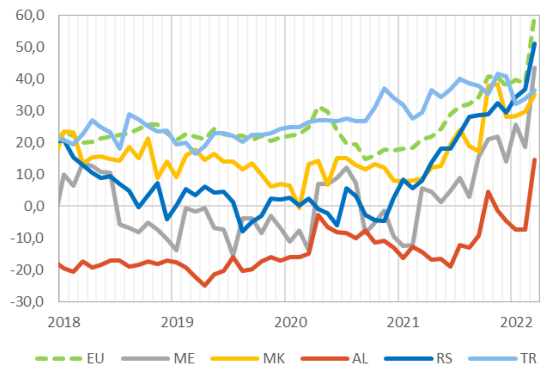
⁴ For the details of the composition of the consumer confidence indicator, see the [User Guide to the BCS Programme](#).

⁵ Turkey has been included in the BCS programme since 2007, followed by North Macedonia (2008), Montenegro (2012), Serbia (2013) and Albania (2016). For previous EBCI special topics presenting BCS data in the candidate countries see '[A closer look at the BCS data from the Balkan candidate countries](#)' (2019 Q2) and '[BCS data from Macedonia, Turkey and Croatia – unearthing a survey treasure](#)' (2014 Q3).

⁶ See the [ESI press release](#) of 30 March.

⁷ The drop in Montenegro came after a marked decline already in February.

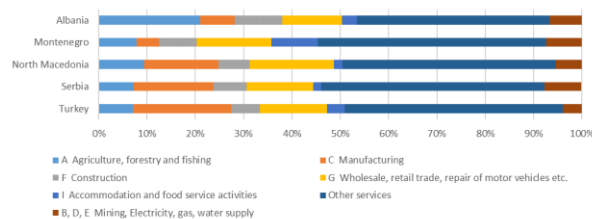
Graph 2.2. Consumers' price expectations for the next 12 months – candidate countries and EU



Looking at developments during the COVID crisis, consumer confidence in Albania, Montenegro and North Macedonia has (again) followed a path broadly similar to that of the EU aggregate. Consumer confidence in these countries showed its sharpest drop on record when the pandemic hit in early 2020 and went through a long recovery period⁸. By contrast, the effect of the pandemic on consumer confidence was barely visible in Turkey and very short-lived in Serbia, where confidence rebounded sharply in June 2020 and settled on a level only mildly below pre-crisis thereafter.

To some extent, these differences in countries' reactions to the pandemic may be linked to different sectoral specialisation patterns. Albania's economy is more intensive in agriculture,⁹ Montenegro in tourism and services in general, whereas North Macedonia, Serbia and Turkey have a relatively broad manufacturing industry base (see Graph 2.3). Given that manufacturing branches were *grosso modo* better insulated from the fall-out of the COVID pandemic, while the contact-intensive tourism sector had to bear the brunt of the economic restrictions, differences in the trajectories of consumer confidence in e.g. Serbia and Turkey on the one hand, and Montenegro on the other, can partly be rationalised by consumers' different realities.

Graph 2.3. Sectoral shares of gross value added – 2019



Source: National Accounts

As each country has its own specificities, the remainder of this special topic will briefly look into each country individually, focusing on selected insights from the harmonised consumer surveys.

Serbia – generous income support helped consumers through COVID crisis

In addition to its comparatively large industry sector, the fact that consumer confidence in Serbia stayed remarkably stable throughout the pandemic may be explained by two main factors: first, a comparatively mild set of confinement measures taken during the pandemic, and second, a rather generous and sustained income support scheme. Graph 2.4 shows that the COVID stringency index¹⁰ decreased at a very early stage (as of May 2020) and remained low ever since. As a result, Serbia experienced the lowest contraction among the Balkan candidate countries in 2020¹¹ and high growth in 2021 (+7.4%).

⁸ It took over a year for consumer confidence to recover its pre-pandemic level in Albania, almost two years in Montenegro, and it has not yet recovered in North Macedonia.

⁹ The national accounts figures for Albania mask the far broader indirect dependence of the economy on tourism (as measured by input-output tables), and its strong contribution to exports and employment.

¹⁰ The [stringency index](#) is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest).

¹¹ Growth in 2020 was -0.9% in Serbia, -3.2% in Albania, -3.7% in North Macedonia and -14.4% in Montenegro. Only Turkey had positive growth in 2020: +0.9%.

Graph 2.4. COVID policy measures - Serbia



Source: Oxford COVID-19 Government Response Tracker

At the same time, Serbia implemented a generous income support scheme over a sustained length of time, including direct aid financing employees' salaries for up to 3 months, additional salary financing depending on the size of business, and partial salary funding for up to 10,000 people younger than 30 years, without previous working experience. Graph 2.4 shows that income support as measured by the Oxford income support index¹² was at its maximum level from August 2020 to end of January 2022.

Finally, COVID hit after a prolonged period of declining unemployment rates. Between 2015-Q4 and 2020-Q2, the unemployment rate had more than halved from 19.2% to 8.9% (see Graph 2.5). With memories of staggering unemployment levels still fresh, the temporary increase of the unemployment rate to 11.5% in 2021-Q1 was arguably perceived as less dramatic, thus limiting the impact on consumer confidence. Unemployment started to fall again as from 2021-Q2.

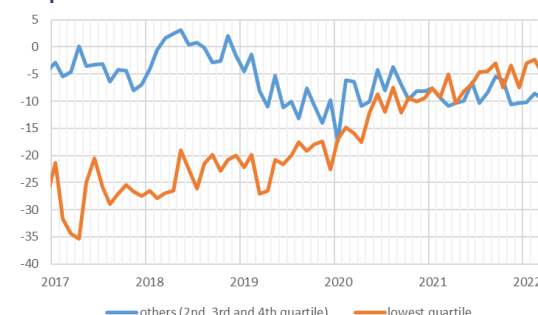
Graph 2.5. Unemployment rate – Serbia



Source: Commission Services

Declining unemployment before the COVID pandemic mainly benefitted the low-income bracket, the share of unemployed being higher in the lower income group. Indeed, when comparing the assessment of the current financial situation¹³ reported by households for different income groups since 2016 (i.e. when the decrease of unemployment started), Graph 2.6 shows a steady improvement for the low-income group, contrasting with a broadly stable evolution for all other households (2nd, 3rd and 4th income quartiles). In particular, fewer households from the low-income group reported to be running into debt.

Graph 2.6. Current financial situation – Serbia



Turkey – recovery from economic turmoil during COVID 19

Consumer confidence showed almost no reaction to the breakout of COVID in 2020 as it occurred during a recovery phase from a very turbulent economy in 2018, marked by negative growth,

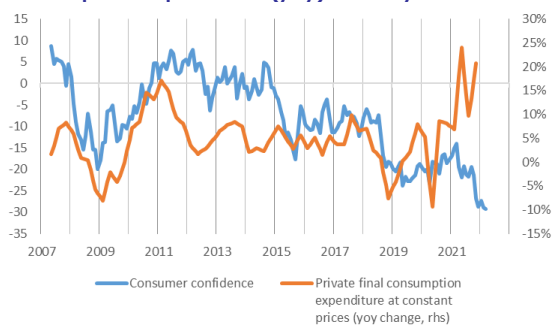
¹² The [Oxford Income support metric](#) captures if the government is covering the salaries or providing direct cash payments, universal basic income, or similar, of people who lose their jobs or cannot work. (Includes payments to firms if explicitly linked to payroll/ salaries). 0 - no income support, 1 - government is replacing less than 50% of lost salary (or if a flat sum, it is less than 50% median salary), 2 - government is replacing 50% or more of lost salary (or if a flat sum, it is greater than 50% median salary).

¹³ Question 12 from the harmonised consumer questionnaire reads 'Which of these statements best describes the current financial situation of your household? + + we are saving a lot, + we are saving a little, = we are just managing to make ends meet on our income, - we are having to draw on our savings, - - we are running into debt'.

rising unemployment and high inflation. In 2018, the unemployment rate rose from 10 to 14% and year-on-year (yoy) inflation shot up from 10 to 25%. By contrast, during the first COVID wave in 2020, the unemployment rate was almost unaffected and the inflation rate remained stable at around 12-13%.

Graph 2.7 presents consumer confidence and yoy growth in final consumption in Turkey. It emerges that 2019/2020 were recovery years for Turkey, with confidence improving steadily and private consumption growth recovering very fast from the temporary COVID shock induced by the first lockdown.

Graph 2.7. Consumer confidence and private final consumption expenditure (yoy) – Turkey



Source: Quarterly National Accounts, Commission Services

The main driver of consumer confidence in Turkey seems to be inflation: the most significant recent drops in confidence, in the second half of 2018 and in late 2021, correspond to extreme surges in inflation and/or rapid depreciation of Lira (2018), entailing negative wealth effects for consumers (see Graph 2.8).

Graph 2.8. Consumer confidence and harmonised index of consumer prices (HICP) – Turkey

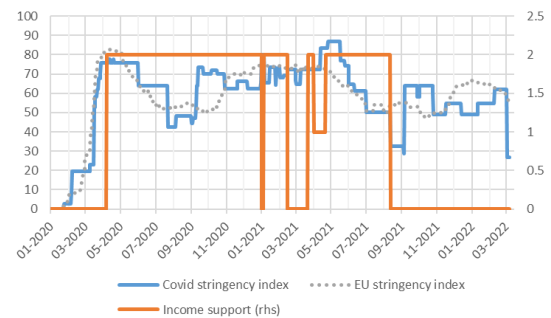


Source: Commission Services

Spiralling inflation as of January 2022 happened against the backdrop of a recent suspension of the Turkish COVID income support scheme in August 2021 and a re-introduction of far-reaching confinement measures in September 2021 (see Graph 2.9). In this difficult environment,

consumer confidence has remained surprisingly unaffected by the Russian invasion of Ukraine and the uncertainty it entails for the region. Apart from a strong base effect of already historically low confidence levels at the end of 2021, the mitigated impact may also reflect the fact that Turkey has not joined the recent severe sanctions against Russia.

Graph 2.9. COVID policy measures – Turkey

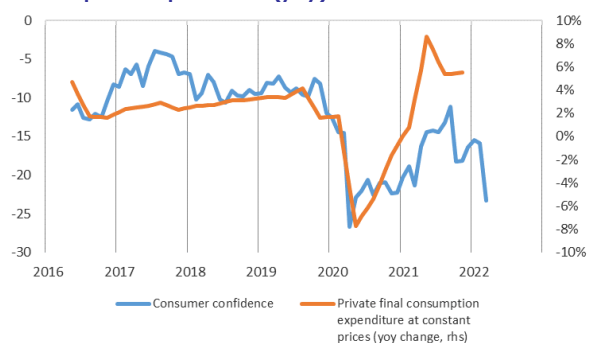


Source: Oxford COVID-19 Government Response Tracker

Albania – targeted support measures helped lower income households

Albanian consumer confidence showed similar developments to those of the EU aggregate and Montenegro, dropping sharply at the outbreak of the COVID pandemic,¹⁴ before slowly recovering and dropping again at the end of 2021 due to the new virus variant and, finally, reacting with a significant fall to the outbreak of war in Ukraine (see Graph 2.10).

Graph 2.10. Consumer confidence and private final consumption expenditure (yoy) – Albania

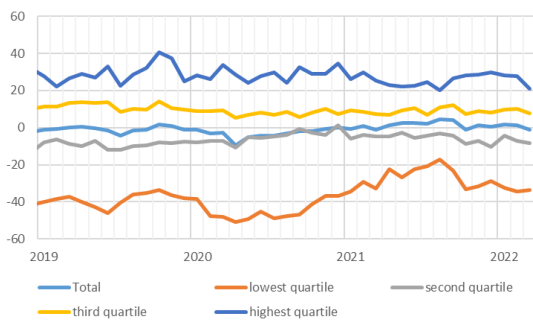


Source: Quarterly National Accounts, Commission Services

¹⁴ The rather marked impact of COVID-19 on consumer confidence in Albania is explicable by the significant indirect dependence of the Albanian economy on tourism and tourism's strong contribution to exports and employment.

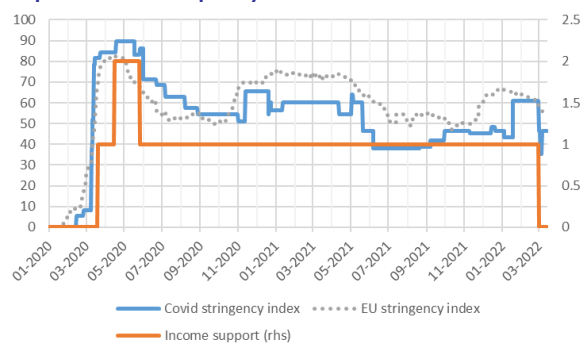
Following the major initial COVID-induced shock to the economy, as of September 2020 Albanian consumers already reported an improved financial situation compared to the pre-pandemic level. Graph 2.11 zooms into the results broken down by household income and shows that the recovery was driven by perceived improvements among the lowest income group as from the second half of 2020.

Graph 2.11. Current financial situation – Albania



After the marked deterioration in the aftermath of the first COVID-19 wave, the rebound in the assessment of the financial situation of lower income households can be rationalised by the social support measures targeting vulnerable households over a long period (see Graph 2.12).¹⁵ Moreover, remittances benefitting mostly the lower income population saw a solid recovery.

Graph 2.12. COVID policy measures – Albania



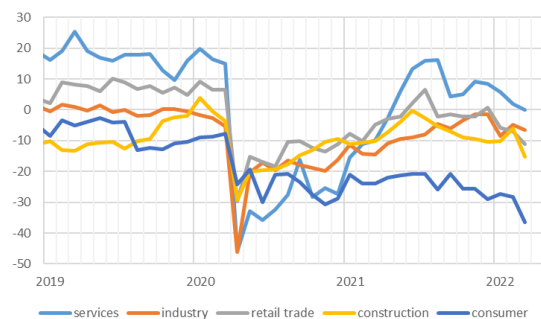
Source: Oxford COVID-19 Government Response Tracker

¹⁵ In January 2021 the minimum wage was increased by 15.4% compared to 2020, while inflation was still low and electricity prices kept stable for households and SMEs. At the same time, profit taxes for a large number of micro and small enterprises were abolished.

North Macedonia – Consumer recovery dampened by rising inflation

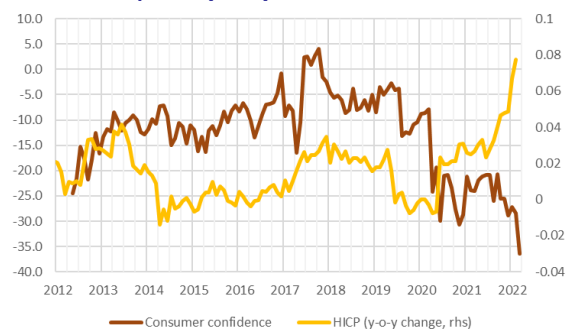
As for most countries, consumer confidence in North Macedonia fell sharply in Spring 2020. What was different though is that consumer confidence did not pick up again after the initial shock. Oscillating around a level of some 15 points below its pre-pandemic level, consumer confidence then received a further blow in March 2022 after the outbreak of war in Ukraine. By contrast, confidence of North Macedonian managers across business sectors had recovered to its pre-pandemic levels by mid-last year (Graph 2.13).

Graph 2.13. Business and consumer confidence – North Macedonia



Graph 2.14 displays consumer confidence along with HICP inflation. It emerges that during the period when business confidence recovered but consumer confidence did not, consumer price inflation increased sharply from 3 to 8%, a level unseen since 2008.

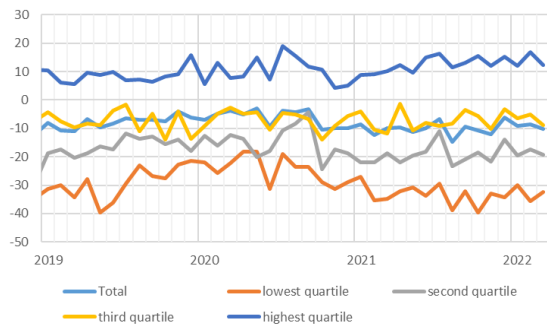
Graph 2.14. Consumer confidence and harmonised index of consumer prices (HICP) – North Macedonia



Source: Commission Services

Graph 2.15 suggests that increasing inflation during the COVID crisis put an end to a period of slightly improving assessments of the financial situation of lower income households that had started in early 2019.

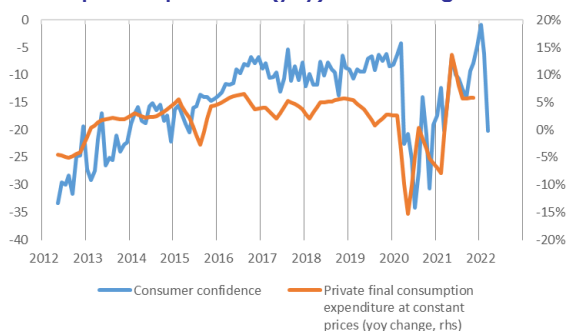
Graph 2.15. Current financial situation by income quartile – North Macedonia



Montenegro – hard hit tourism-oriented economy

Consumer confidence in Montenegro was heavily impacted by the COVID pandemic, showing the largest drop in confidence among candidate countries. As a tourism-oriented economy (see Graph 2.2), virus containment measures and restrictions to travel dealt a severe blow to consumer confidence. As the restrictions were lifted, confidence gradually built up until fully recovering at the end of 2021. The Ukraine war had a similarly severe effect on consumer confidence, with expectations about the general macroeconomic situation and households’ own financial situation plummeting and price expectations shooting up.

Graph 2.16. Consumer confidence with private final consumption expenditure (yoy) – Montenegro

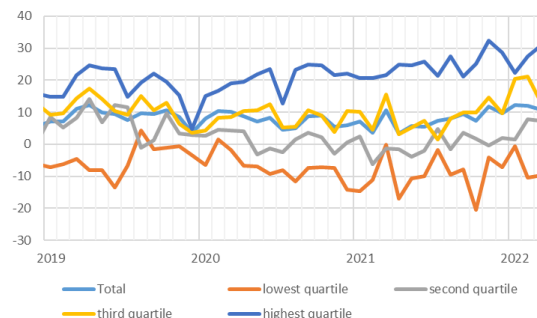


Source: Quarterly National Accounts, Commission Services

During the recovery from the COVID crisis, the assessment of the current financial situation deteriorated most severely among low-income households, while higher income households reported an improved financial situation

compared to pre-COVID times (see Graph 2.17).¹⁶

Graph 2.17. Households’ current financial situation per income quartile – Montenegro



Conclusion

This special topic focused on consumer survey developments in the candidate countries in the turbulent period from the outbreak of the COVID-19 pandemic to the start of the Russian invasion of Ukraine.

Overall, consumer confidence in Albania, Montenegro and, to some extent, North Macedonia evolved broadly in line with the main developments in EU consumer confidence. Unlike in its peers, consumer confidence in North Macedonia was still far below its pre-COVID level when the Ukraine war dealt another blow to consumers’ economic outlook. By contrast, consumer confidence in Turkey and Serbia appears to have been dominated by country-specific forces, resulting in subdued reactions to the adverse shock of the pandemic. Partly explicable also by their larger manufacturing sectors, both countries managed to fence off consumers from a strong negative fallout of the pandemic on their economic outlook. In Turkey, spiralling inflation has however taken its toll on consumer confidence.

In Albania, low-income households appear to have been shielded to some extent from the negative fallout of the pandemic through targeted income support measures. By contrast, in North Macedonia and Montenegro, the consumer survey data points to a (relative) deterioration of

¹⁶ The improved financial assessment may be linked to loan moratoria adopted in 2020 in the context of COVID-19.

the financial situation of lower income households during the pandemic.

To some extent mirroring the trends during the pandemic, also the recent darkening of consumers' outlook due to the geopolitical and economic uncertainties linked to Russia's invasion of Ukraine has been subdued so far in Serbia and, in particular, Turkey. Neither of the two countries have placed sanctions on Russia in the context of the war against Ukraine, possibly

feeding the expectation of no major ripple effects from the nearby geopolitical tensions on their own economies. Consumer survey releases in the coming months will allow shedding more and timely light on consumers' reading of the situation as it unfolds.

ANNEX

Reference series

Confidence indicators	Reference series from Eurostat, via Ecwin (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. EU and euro-area aggregates are calculated on the basis of the national results and seasonally adjusted. The ESI is scaled to a long-term mean of 100 and a standard deviation of 10. Thus, values above 100 indicate above-average economic sentiment and vice versa. Further details on the construction of the ESI can be found [here](#).

Long time series (ESI and confidence indices) are available [here](#).

Economic Climate Tracer

The economic climate tracer is a two-stage procedure. The first stage consists of building economic climate indicators, based on principal component analyses of balance series (s.a.) from five surveys. The input series are as follows: industry: five of the monthly survey questions (employment and selling-price expectations are excluded); services: all five monthly questions except prices; 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 sector climate indicators. The sector weights are equal to those underlying the Economic Sentiment Indicator (ESI, see above).

In the second stage, 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 normalised (zero mean and unit standard deviation). 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 and 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. In order to make the graphs more readable, two colours have been used for the tracer. The darker line shows developments in the current cycle, which in the EU and euro area roughly started in January 2008.

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- http://ec.europa.eu/economy_finance/publications/cycle_indicators/index_en.htm
(European Business Cycle Indicators)

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