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3rd Quarter 2020

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European Business Cycle Indicators

3rd Quarter 2020

Special topic

- The impact of COVID-19 and containment measures on business sentiment across the EU: Drilling down on subsector results.

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OVERVIEW

Recent developments in survey indicators

- The Economic Sentiment Indicators (ESI) for the euro area (EA) and the EU continued to rise during the third quarter of 2020, gaining, in both regions, 15.3 points over the quarter and recovering close to 70% of the combined losses of March and April. At 91.1 (EA) and 90.2 (EU) points, both indicators are still below their long-term average of 100.
- While losing steam compared to the early rebound phase of May and June, also the Employment Expectations Indicator (EEI) continued to recover during the third quarter of 2020. The indicator recovered around 70% of the losses incurred in March and April. At 91.8 in both the EA and the EU, the employment indicator remains below its long-term average of 100.
- The recovery in economic sentiment over the third quarter was driven by substantial improvements in the services, retail trade and industry sectors. By contrast, confidence in construction and among consumers remained broadly unchanged compared to June.
- Consumers' savings expectations rose further over the third quarter, hitting an historical high in September.
- At country level, the ESI continued to recover in all six largest EU economies. In 2020-Q3, marked increases were registered in France (+19.1), Italy (+17.8), the Netherlands (+14.5), Germany (+13.6), and Poland (+6.6).
- While capacity utilisation in manufacturing rebounded (+3.8 percentage points in the EA, +3.5 in the EU), it recovered only a fraction of the 12.6 (EA) and 11.9 (EU) percentage points loss recorded in the previous survey wave in April. At 72.1% (EA) and 72.4% (EU) in July, industrial capacity utilisation thus remained far below its long-term average of 80.7% (EA) and 80.6% (EU). By contrast, capacity utilisation in services registered a further marginal decrease by 0.1 percentage points in both regions. At 85.6% (EA) / 86.0% (EU), the rates remained below their respective long-term averages (as calculated from 2011 onwards) of 88.8% and 89.1%.

Special topic: The impact of COVID-19 and containment measures on business sentiment across the EU: drilling down on subsector results

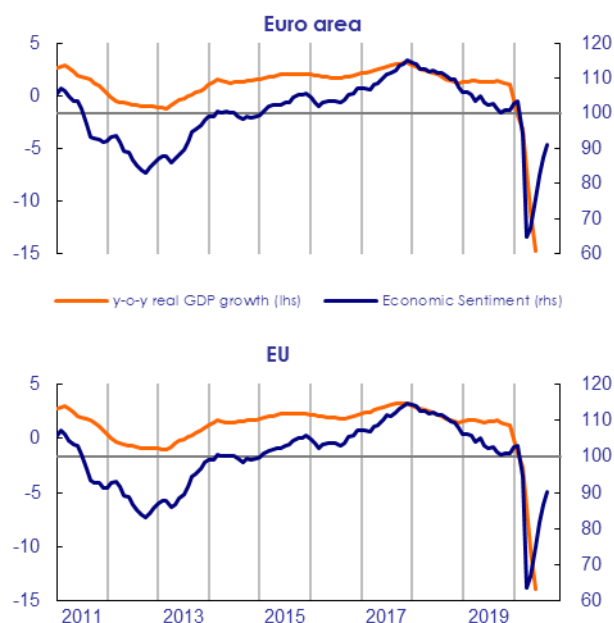
While the COVID-19 pandemic and the ensuing containment measures have hit hard the EU economies, their effect on businesses has varied greatly across subsectors. The special topic looks at detailed BCS data for 66 branches (i.e. divisions from the NACE Rev. 2 classification), so as to identify which subsectors have been most or least affected. Business assessments and expectations in travel services, accommodation and food services have been severely hit and the recovery is still lagging behind other sectors. By contrast, industry, and in particular heavy industry, stands out as an activity where managers' business assessments of the past appear to have recovered virtually fully since February. Finally, manufacture of basic pharmaceutical products and pharmaceutical preparations has been virtually unaffected during the health crisis.

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS

1.1. EU and euro area

Due to strict containment measures enacted across Europe, the Economic Sentiment Indicators (ESI) for the euro area (EA) and the EU fell dramatically in March and April. In May and June, when the containment measures were gradually released, the indicators started to recover. During the third quarter of 2020, the indicators continued to rise, gaining, in both regions, 15.3 points over the quarter and recovering nearly 70% of the combined losses of March and April. At 91.1 (EA) and 90.2 (EU), both indicators are still well below their long-term average of 100.

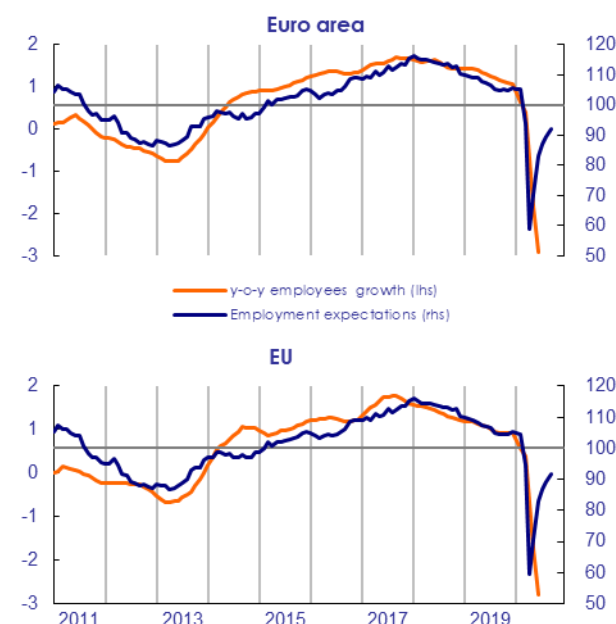
Graph 1.1.1: Economic Sentiment Indicator



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.

While losing steam compared to the early rebound phase of May and June, also the Employment Expectations Indicator (EEI)¹ continued to recover during the third quarter of 2020. In September, the indicator for both the EA and the EU was 8.8 points higher than in June. While recovering around 70% of the losses incurred in March and April, at 91.8 in both the EA and the EU, the employment indicator remains significantly below its February level (-13.2 points in the EA and -12.7 in the EU), and clearly below its long-term average of 100. Zooming into the EEI's sectoral components (see Graphs 1.1.5 and 1.1.7 below), employment plans in September were higher than in June in all sectors. However, the construction sector's increase was only marginal.

Graph 1.1.2: Employment expectations indicator

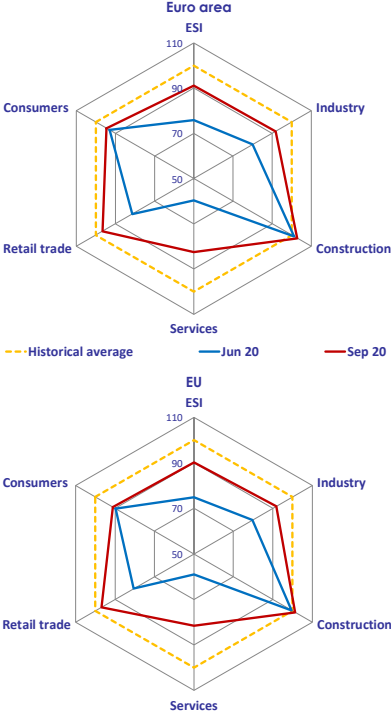


¹ The new indicator has been presented in the 2019-Q4 special topic of the [European Business Cycle Indicators](#) publication (see also the [Methodological User Guide](#) to the Joint Harmonised EU Programme of Business and Consumer Surveys, p. 22, for a description of the EEI).

During the third quarter, developments in the ESI were only partly in line with developments in other survey-based bellwethers for the EA/EU. Markit Economics' PMI Composite Output Index rebounded very strongly until July, even outperforming its February level. It then fell again slightly in August and September, reaching a level of 50.1, lower than in February. The trend discrepancy is partly explicable by differences in the sectoral coverage of the two indicators and the time horizons to which the underlying survey questions refer.

By contrast, the Ifo Business Climate Index for Germany showed a similar path to that of the ESI. It continued to recover over the third quarter, albeit at a somewhat slower speed than in May and June, and is still slightly below its February level.

Graph 1.1.3: Radar Charts



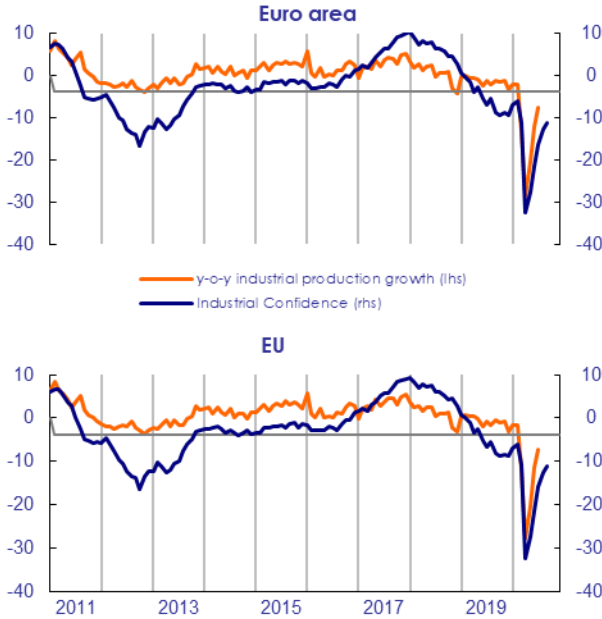
Note: A development away from the centre reflects an improvement of a given indicator. The ESI is computed with the following sector weights: industry 40%, services 30%, consumers 20%, construction 5%, retail trade 5%. Series are normalised to a mean of 100 and a standard deviation of 10. Historical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

Looking at the ESI's sectoral components (see Graph 1.1.3), the recovery over the third quarter was driven by substantial improvements in the services, retail trade and industry sectors. By

contrast, confidence in construction and among consumers remained broadly unchanged compared to June. In industry, confidence recuperated around 80% of the losses of March and April. Having registered the most important fall during the crisis, confidence in the services sector recovered only close to 60% of the losses registered from March to May. The rebound in the retail trade sector offset around 70% of its previous losses registered in March and April. Construction is the only sector where the confidence indicator stands above its long-term average. However, the indicator is still far below its pre-crisis level and recovered only around 35% of the losses incurred due to the pandemic. Finally, confidence among consumers recovered some 50% of the combined losses of March and April.

At county level, the ESI continued to recover in all six largest EU economies. In September compared to June, marked increases were registered in France (+19.1), Italy (+17.8), the Netherlands (+14.5), Germany (+13.6), and Poland (+6.6). All in all, in these countries, between 55% (Spain) and 80% (Germany) of confidence losses suffered during the lockdown were recovered.

Graph 1.1.4: Industry Confidence indicator



Sector developments

Industry confidence continued to recover during the third quarter, albeit at a reduced speed. In September, the indicator was 10.5 (EA) and 10.4 (EU) points higher than in June. In both areas, most of this increase was booked in July, while in August and September, the recovery lost steam. All in all, industry confidence recovered some 80% of the losses attributable to the pandemic. Having scored below their respective long-term averages already before the crisis set in, both indicators are currently still well below average (see Graph 1.1.4).

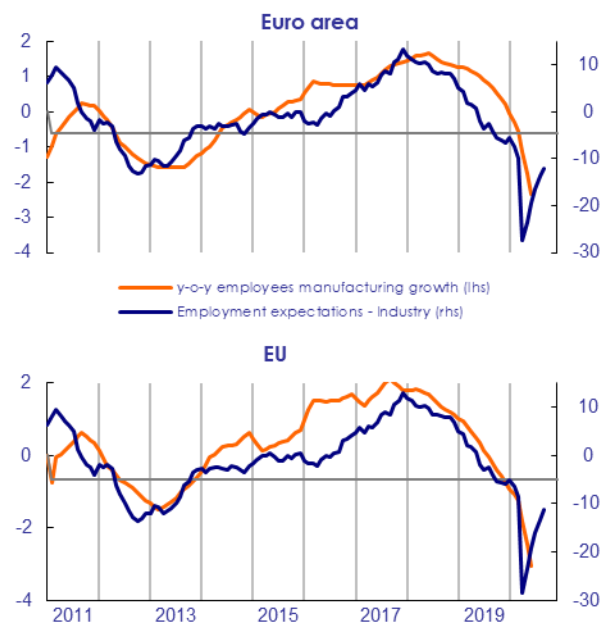
Zooming into the individual components of EA/EU industrial confidence, all three components improved markedly over the quarter. The increase in managers' **assessment of their order books** was particularly strong. Though to a lesser extent, also managers' **production expectations** and **assessment of their stocks** improved markedly. However, over the quarter, the speed of recovery slowed down in all three components. In particular, managers' production expectations increased markedly in July, but decreased in August and picked up only slightly in September.

Of the components not included in the confidence indicator, managers' views on **past production** increased substantially, as did, albeit to a lesser extent, their appraisal of **export order books**. In both cases, however, the growth lost steam in September.

In line with the EA/EU industry confidence indicator, managers' **employment expectations** (see Graph 1.1.5) continued to recover, but, also in this case, the recovery slowed down over the quarter. Managers' **selling price expectations** are now higher than in June, resulting from a marked increase in July, followed by a decrease in August and a small pickup in September.

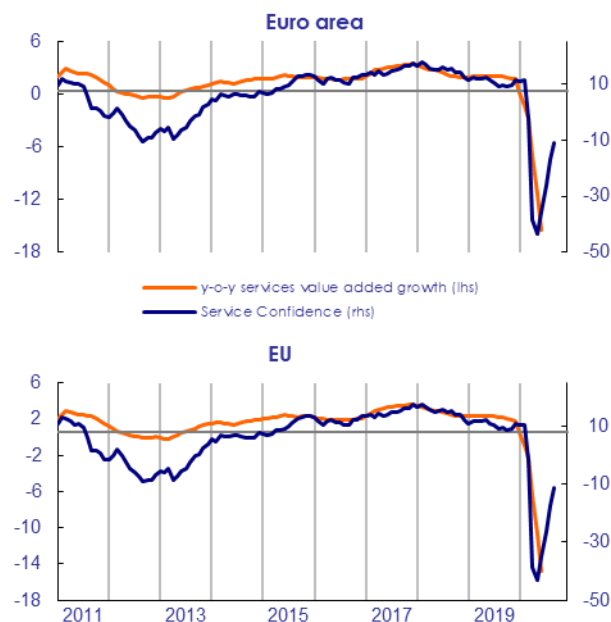
Industry confidence recovered markedly in all six largest EU Member States. The largest rises from June to September were in Germany (+13.4), Spain (+12.1) and Italy (+10.3). Significant increases were also booked in Poland (+8.1), the Netherlands (+8.0), and France (+7.5). In most cases, however, the speed of the recovery lost momentum throughout the quarter; in France and the Netherlands the indicator decreased marginally in September.

Graph 1.1.5: Employment expectations in Industry



According to the quarterly manufacturing survey (carried out in July), **capacity utilisation in manufacturing** recovered around 30% of the losses that were recorded in the previous survey in April. The indicator increased in both the EA (+3.8 percentage points) and the EU (+3.5 percentage points) compared to April. At 72.1% (EA) and 72.4% (EU) in July, both indicators remained well below their respective long-term averages of 80.7% (EA) and 80.6% (EU).

Graph 1.1.6: Services Confidence indicator

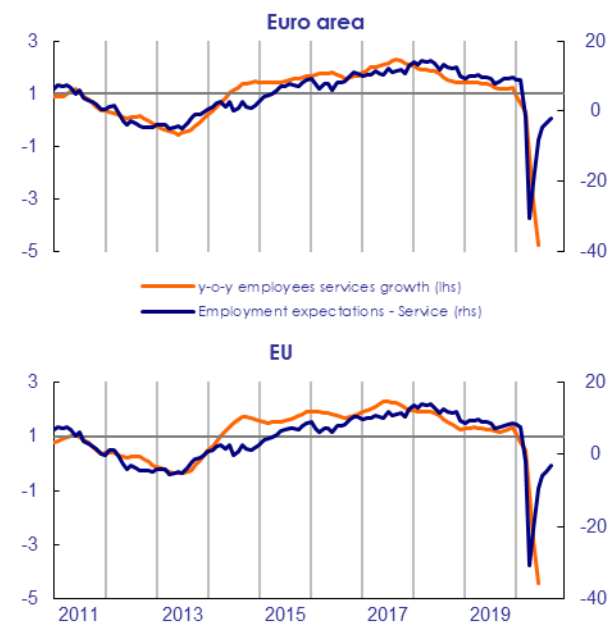


After showing first signs of recovery in June, **services confidence** increased noticeably during the third quarter, even though at somewhat diminishing speed. The indicator increased by 24.4 points in the EA and by 23.8 points in the EU, making up for around 60% of the losses recorded in March, April and May. In both the EA (-11.1) and the EU (-11.4), the level of services confidence is still well below its respective long-term average (see Graph 1.1.6).

Managers in the EA/EU services sector revised their appraisals of **past demand** and the **past business situation** sharply up. By contrast, their **demand expectations** recovered in July but declined in August and September, resulting in a weaker increase than in the two other components when comparing September to June.

In both the EA and the EU, **employment expectations in services** continued to recover in the third quarter but the increases were lower than the ones recorded in May and June (see Graph 1.1.7). Managers' selling price expectations increased sharply in July, offsetting around 50% of the dramatic decrease registered in April, and then remained broadly stable for the rest of the quarter.

Graph 1.1.7: Employment expectations in services

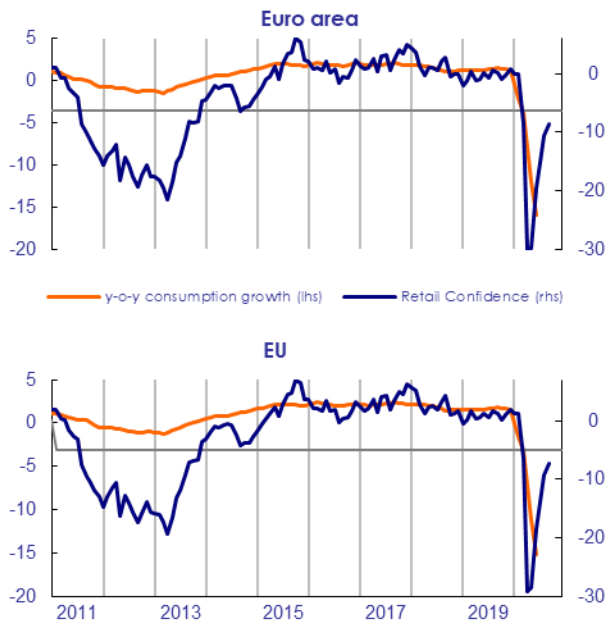


Focussing on the six largest EU economies, the period from June to September saw exceptional increases in services confidence in the Netherlands (+32.5), Italy (+29.5), France (+29.4), Germany (+22.5), and Poland (+20.2). In Germany, however, the recovery came to a halt in September, when the indicator remained unchanged. In Spain (+4.4) the improvement in confidence was less important due to a marked setback registered in August.

After having booked the by far strongest decline on record (since 2011) in April, **Capacity utilisation in services**, as measured by the quarterly survey conducted in July, registered a further marginal decrease by 0.1 percentage points in both the EA and the EU. At 85.6% (EA) / 86.0% (EU), the rates remained markedly below their respective long-term averages (as calculated from 2011 onwards) of 88.8% and 89.1%, respectively.

Retail trade confidence in the EA increased strongly in 2020-Q3. In September the indicator was 10.7 points (EA) and 11.3 points (EU) higher than in June, recovering about 70% of previous losses. Also in this case, however, the growth has slowed down towards the end of the quarter. In both areas, confidence remains well below long-term average (see Graph 1.1.8).

Graph 1.1.8: Retail Trade Confidence indicator



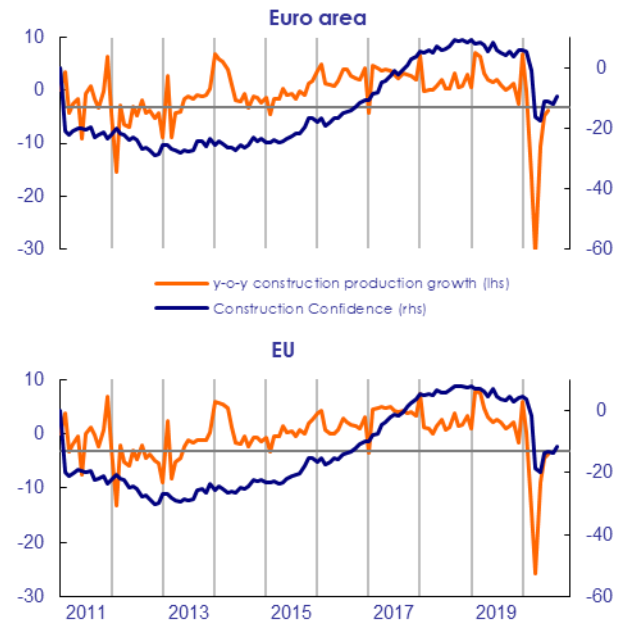
As in industry and services, managers in retail trade are becoming more pessimistic concerning their expectations in respect of the **future business situation**, which improved in July but then decreased in August and September. Managers' assessment of the **past business situation** and the **level of stocks** improved strongly over the quarter. The stocks assessment is currently more benign than it was in February.

For the six largest EU economies, confidence posted substantial increases in Poland (+19.6), France (+16.6), Italy (+13.7), Germany (11.1) and the Netherlands (+8.8). In Spain (+0.7) confidence remained broadly stable, swinging during the quarter around the level reached in June.

Compared to the other business sectors, **construction confidence** posted a milder improvement of 1.7 (EA) / 2.1 (EU) points. In both regions, the indicator is now slightly above long-term average (see Graph 1.1.9). Nonetheless, the indicator is still far below its February level and recovered only 35% of the dramatic drop registered from March to May.

At component level, in both regions, managers' views on **order books** and their **employment expectations** improved in September compared to June. Employment expectations, however, booked two consecutive drops in July and August, and picked up only in September.

Graph 1.1.9: Construction Confidence indicator

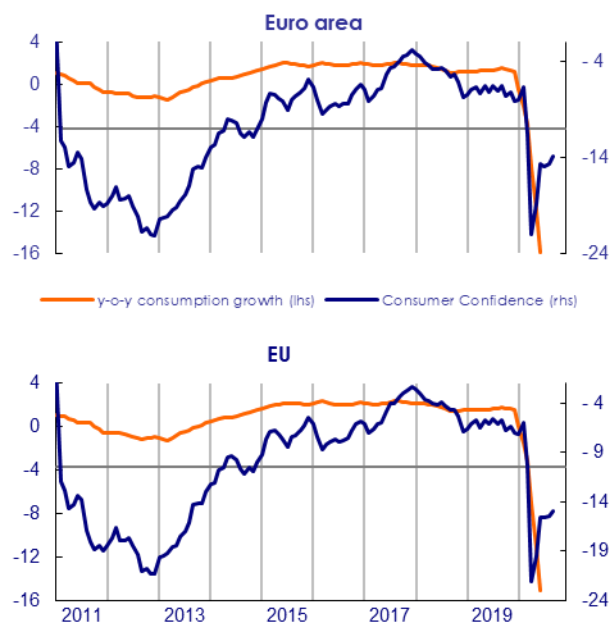


Among the six largest EU economies, construction confidence increased strongly in the Netherlands (+10.2), Poland (+7.3), Italy (6.2), and, to a lesser extent Germany (+2.7). By contrast, the indicator decreased markedly in Spain (-6.3) and slightly in France (-2.1).

Consumer confidence remained broadly stable over the quarter. In September, the indicator was only marginally higher than in June (+0.8 in the EA, +0.7 in the EU). All in all, the indicator recuperated around 50% (EA) and 45% (EU) of the reductions of March and April, remaining far below long-term average (see Graph 1.1.10).

Looking at the individual components of consumer confidence, in both areas, consumers were more optimistic only about their **expectations** about the **general economic situation**, while their views on their **future personal financial situation** remained broadly stable. Consumers' **intentions to make major purchases** and their assessment of the **past personal financial situation** deteriorated. The drop was particularly strong in the latter.

Graph 1.1.10: Consumer Confidence indicator



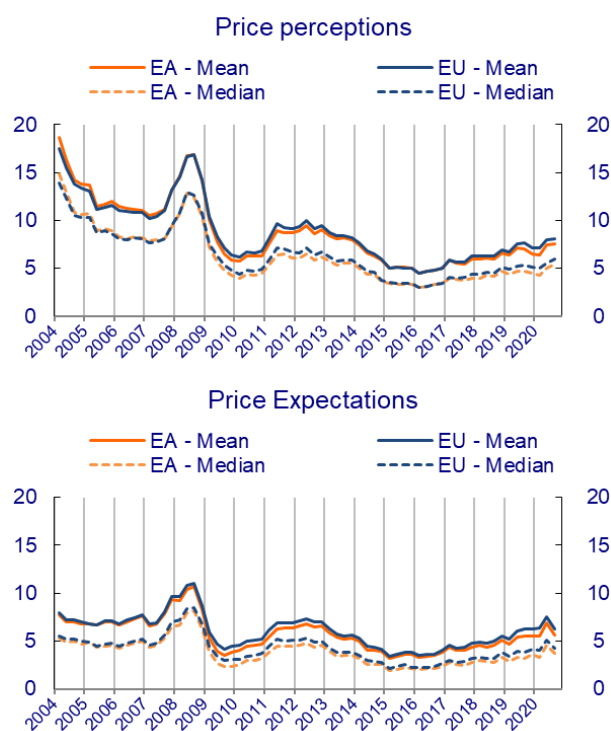
While not included in the Consumer confidence indicator, **consumers' savings expectations** rose further over the third quarter, continuing the surge observed in the second quarter and hitting an historical high in September.

At the country level, consumer sentiment increased only in Germany (+2.5), France and the Netherlands (both +2.0), while it remained broadly stable in Italy, Poland (both -0.4) and Spain (-0.7).

In the EA and the EU, the mean of **consumers' quantitative price perceptions** remained broadly stable in 2020-Q3 compared to 2020-Q2, while the median increased slightly. As regards consumers' **price expectations**, both mean and median at both EA- and EU-level decreased markedly in 2020-Q3 (see Graph 1.1.11).²

More detailed results, broken down by different socio-economic groups, are available in tables A.1.1 and A.1.2 of the Annex to section 1.

Graph 1.1.11: Euro area and EU quantitative consumer price perceptions and expectations

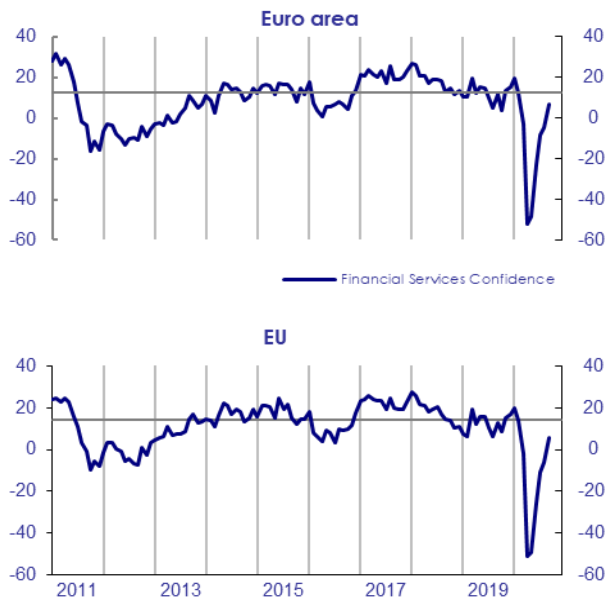


The **financial services confidence** indicator (not included in the ESI) strengthened by 29.5 (EA) / 30.8 (EU) points from June to September. Although the indicator recovered around 90% of the losses registered in March and April, it remained well below long-term average (see Graph 1.1.12).

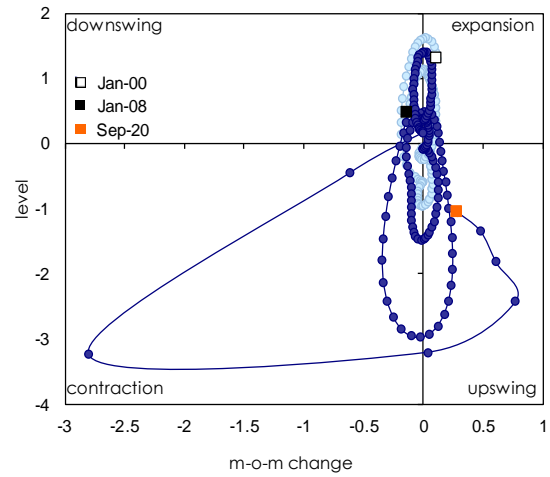
Taking a look at the individual components underlying the indicator, waxing confidence was fuelled mainly by striking increases in managers' assessments of past demand and the past business situation. Also their expectations for future demand finished contributing positively to the quarterly increase, after some volatility during the quarter.

² For more information on the quantitative inflation perceptions and expectations, see the special topic in the previous [EBCI 2019Q1](#).

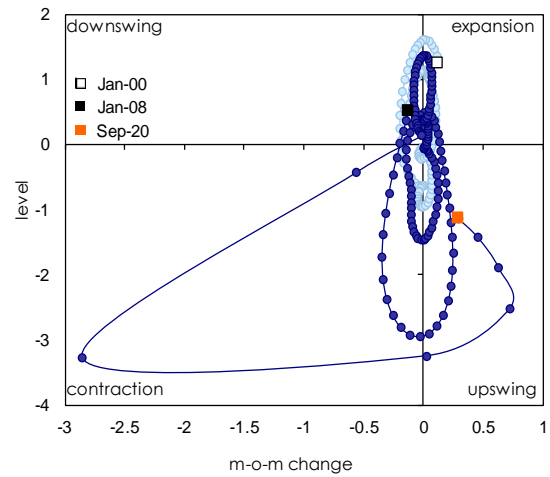
Graph 1.1.12: Financial Services Confidence indicator



Graph 1.1.13: Euro area Climate Tracer



Graph 1.1.14: EU Climate Tracer



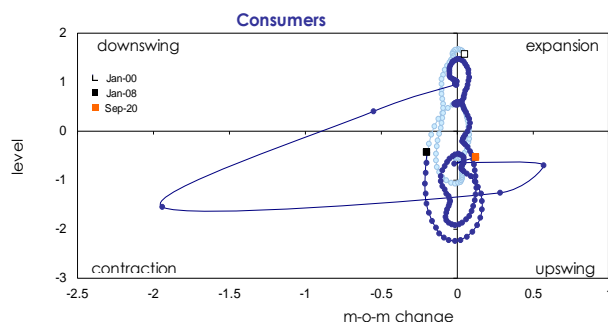
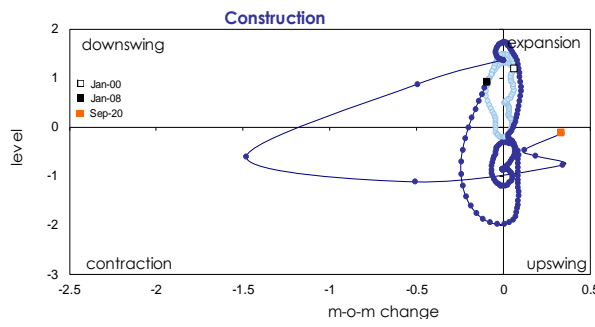
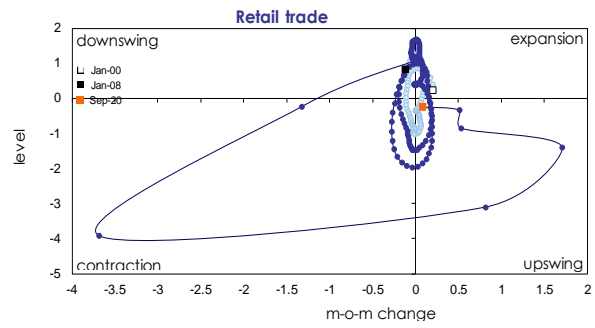
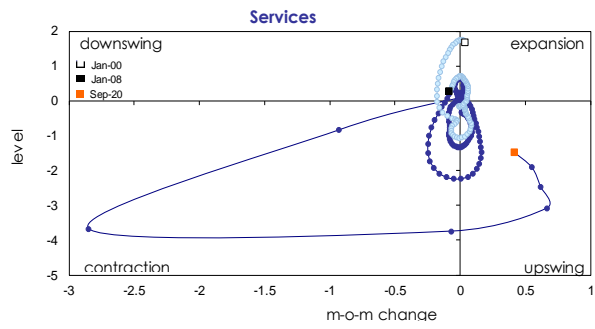
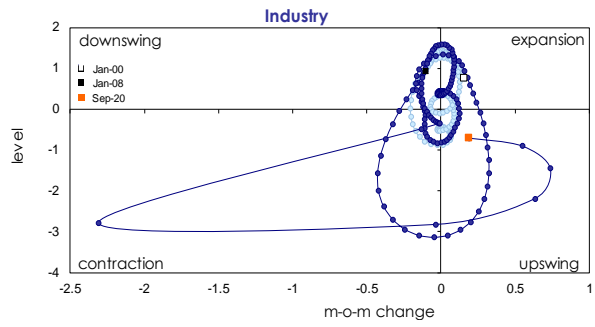
Reflecting the improvement but also the slower pace of recovery of overall sentiment over 2020-Q3, both the EA and the EU **climate tracers** (see Annex for details) remain in the upswing quadrant but are pointing to the contraction quadrant (see Graphs 1.1.13 and 1.1.14).³

Similar to overall sentiment, the dedicated climate tracers for all but one of the surveyed sectors (see Graph 1.1.15) saw decelerating growth in both the EA and the EU. The tracers of these sectors are in the upswing area moving closer to the contraction quadrant. The only exception was the construction sector, which points to the expansion area.

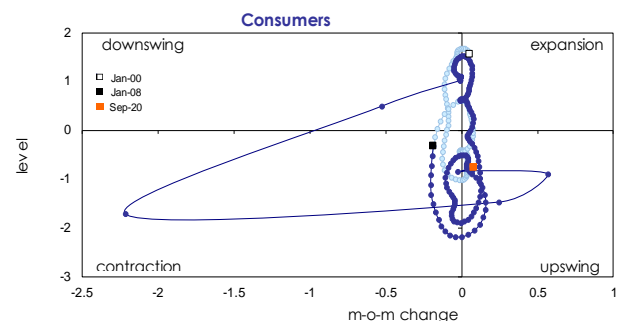
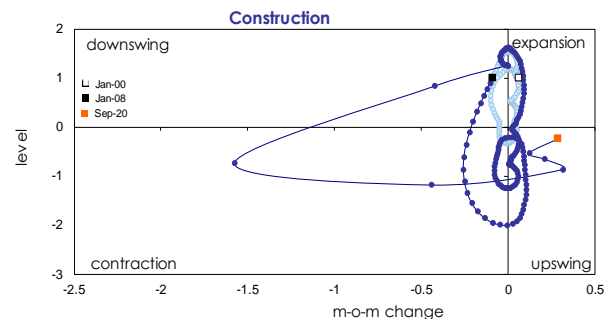
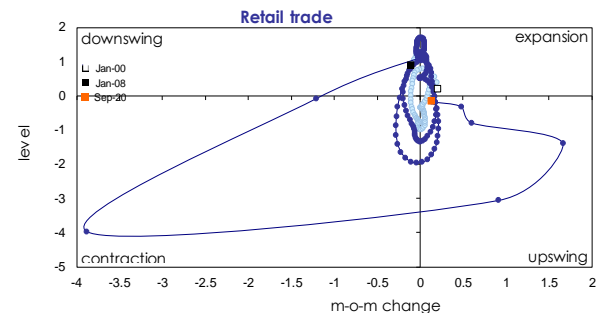
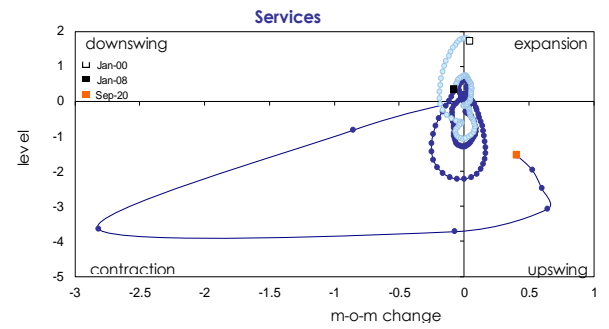
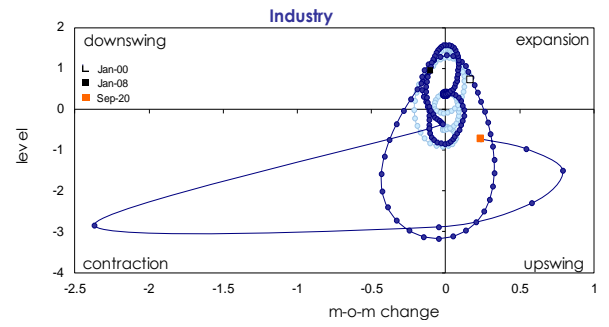
³ To avoid that the recent sudden declines and recoveries in the indicators are smoothed out by averaging with pre-crisis observations, the observations since March, unlike all previous observations, have not been run through the usual HP filter. This applies to all climate tracer graphs in this edition.

Graph 1.1.15: Economic climate tracers across sectors

Euro area



EU



1.2. Selected Member States

Confidence increased in all large Member States and in most sectors. Over the period from June to September, sentiment climbed in Poland (+20.3), France (+19.1), Italy (+17.8), the Netherlands (+14.5), Germany (+13.6), and Spain (+6.6).

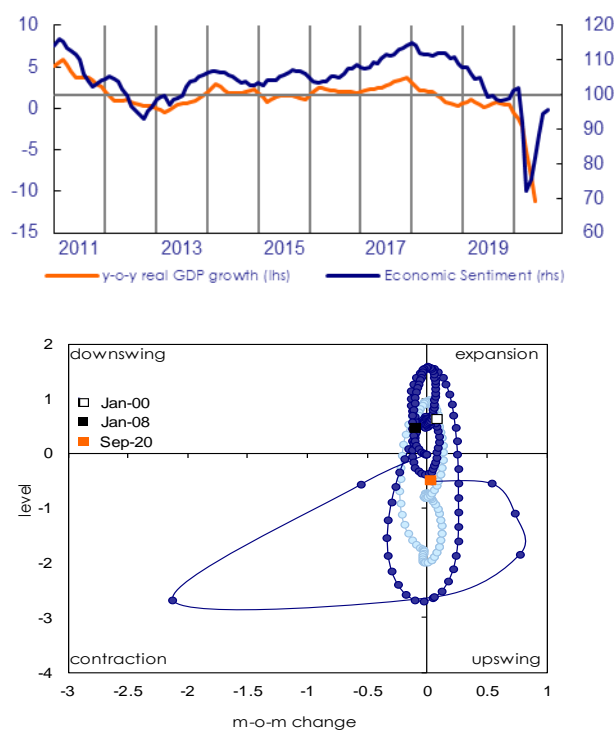
Compared with June, sentiment in **Germany** recovered 13.6 points until September. Sentiment increased strongly in July and August and, less so, in September. Sentiment recovered nearly 80% of the total losses of March and April, bringing the ESI to 95.5 points, still somewhat below the long-term average of 100.

The sudden decrease in the speed of recovery pushed the German climate tracer close to the border of the upswing area with the contraction quadrant (see Graph 1.2.1).⁴

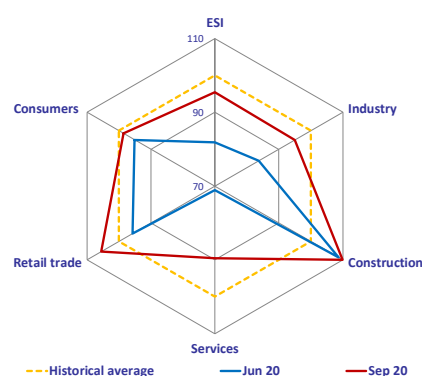
The Employment Expectations Indicator (EEI) rose (+6.7 points in September compared to June), reflecting more optimistic employment plans across all four business sectors.

From a sectoral perspective, confidence rose sharply in industry, services and retail trade, while the rises were milder in construction and among consumers. While confidence is still well below its February level in services, retail trade, construction, and among consumers, confidence in industry completely recovered from the blow due to the COVID-19 pandemic and is now above its February level. Confidence indicators for construction and retail trade are now scoring far above their long-term averages, while confidence in industry and among consumers is below but close to its long-term average. By contrast, confidence in services is still scoring far below its long-term average (see Graph 1.2.2).

Graph 1.2.1: Economic Sentiment Indicator and Climate Tracer for Germany



Graph 1.2.2: Radar Chart for Germany

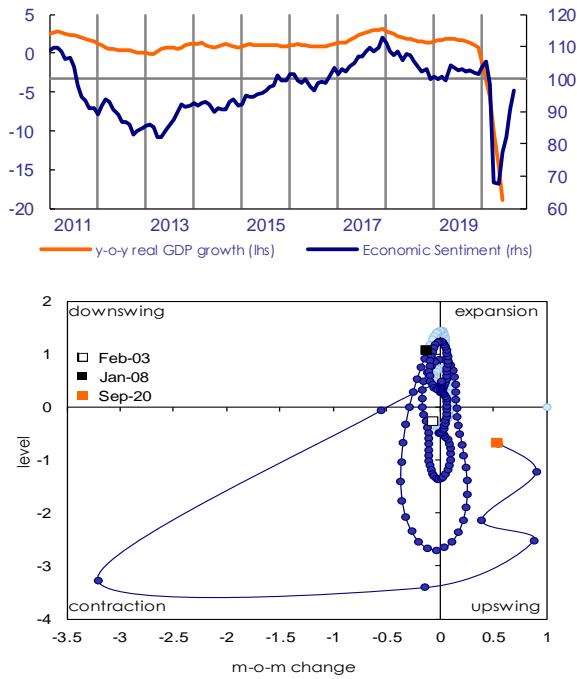


In **France**, the ESI soared during 2020-Q3, gaining a total of 19.1 points over three months, and recovering around 75% of previous losses. Yet, at 96.6 points, the indicator is still somewhat below its long-term average of 100.

Based on the latest sentiment data, during 2020-Q3, the French climate tracer moved upward, remaining in the upswing quadrant (see Graph 1.2.3).

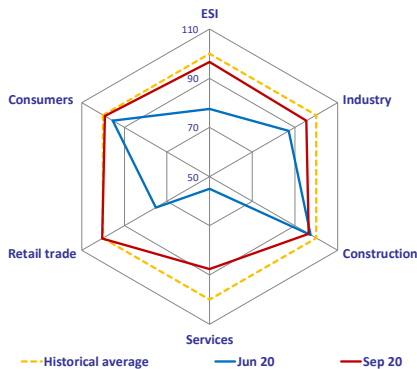
⁴ All observations since March of all climate tracers have not been smoothed (filtered), see footnote 3.

Graph 1.2.3: Economic Sentiment Indicator and Climate Tracer for France



The EEI recovered further (+10.7 points in September compared to June), thanks to marked improvements in employment plans in all business sectors but one. Only managers in the construction sector revised downward their employment plans compared to June.

Graph 1.2.4: Radar Chart for France



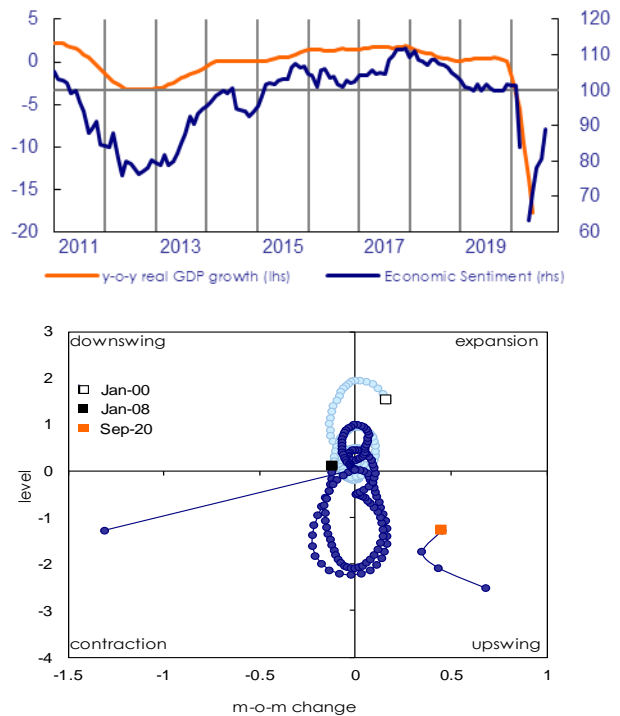
The French radar chart (see Graph 1.2.4) shows that the strongest increases were registered in services and retail trade. Confidence improved markedly also in industry and, less so, among consumers, while it decreased slightly in the construction sector. With the exception of confidence in retail trade that recovered nearly all losses recorded from March to May, all the other confidence indicators are still well below their February levels. Confidence in retail trade and among consumers now scores very close to

long-term average, while confidence in the other sector still remains below it.

Sentiment in **Italy** climbed (+17.8) from June to September. The trough of the crisis is not known as data could not be collected in April. At 89.0 points, the indicator is still markedly below both its February level of 101.3 and its long-term average of 100. In line with the improving sentiment indicator, the Italian climate tracer moved higher in the upswing quadrant (see Graph 1.2.5).

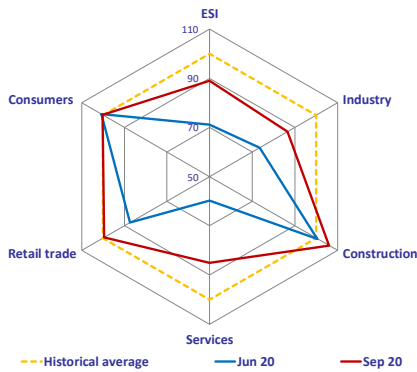
Also the Italian EEI recovered (+7.8 points in September compared to June), reflecting strong increases in employment plans across all four business sectors, in particular in services and retail trade.

Graph 1.2.5: Economic Sentiment Indicator and Climate Tracer for Italy



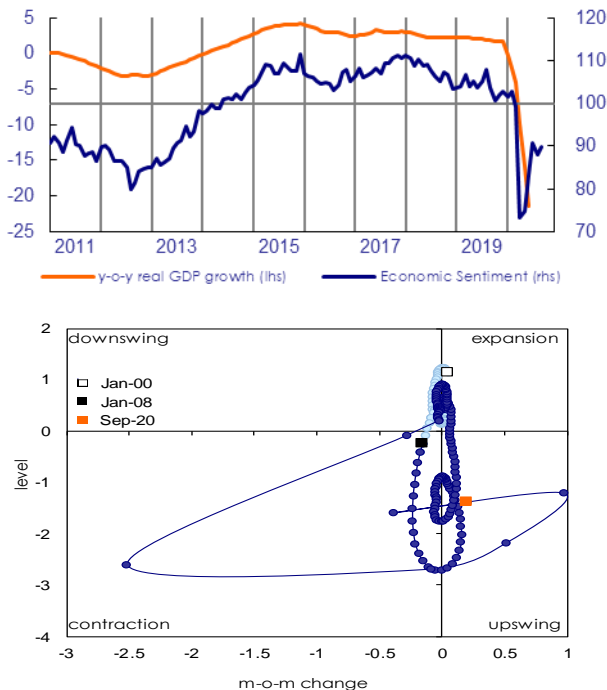
A look at the Italian radar chart (see Graph 1.2.6) shows mounting confidence in industry, retail trade, and, in particular, services. Confidence improved also in construction, while it remained broadly stable among consumers. Confidence levels continue to be far below their long-term averages in industry and services, while they are around it in retail trade and among consumers. Confidence in construction is now above its long-term average. In all sectors, confidence continues to score well below February levels.

Graph 1.2.6: Radar Chart for Italy



In **Spain**, the ESI currently stands at 89.7 points, i.e. 6.6 points above its June reading but markedly below long-term average. The indicator increased strongly in July, then declined somewhat in August and picked up slightly in September. Mirroring the recent volatile developments, during 2020-Q3, the Spanish climate tracer jumped from the upswing area to the contraction quadrant and came back to the upswing area in September (see Graph 1.2.7).

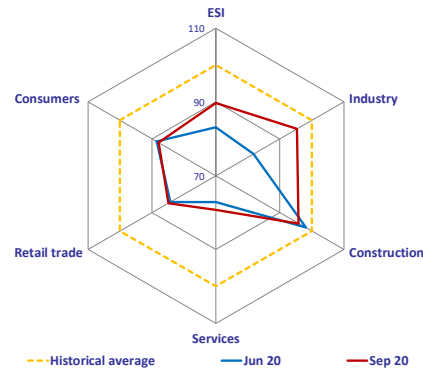
Graph 1.2.7: Economic Sentiment Indicator and Climate Tracer for Spain



The Spanish EEI increased (+2.8 points in September compared to June), resulting from a striking increase in employment plans in industry and a milder rise in services, which were partly offset by decreases observed in the retail trade and construction sectors.

As shown in the radar-chart (see Graph 1.2.8), higher confidence resulted mainly from markedly rising confidence in industry and a small improvement in services, while confidence in retail trade and among consumers remained broadly unchanged at their June levels. Confidence in the construction sector declined somewhat in September compared to June. In September, the indicators in all the sectors were far below their respective long-term averages. Moreover, except for industry confidence that recovered around 70% of the losses recorded in March and April, all other indicators are far below their respective February levels.

Graph 1.2.8: Radar Chart for Spain



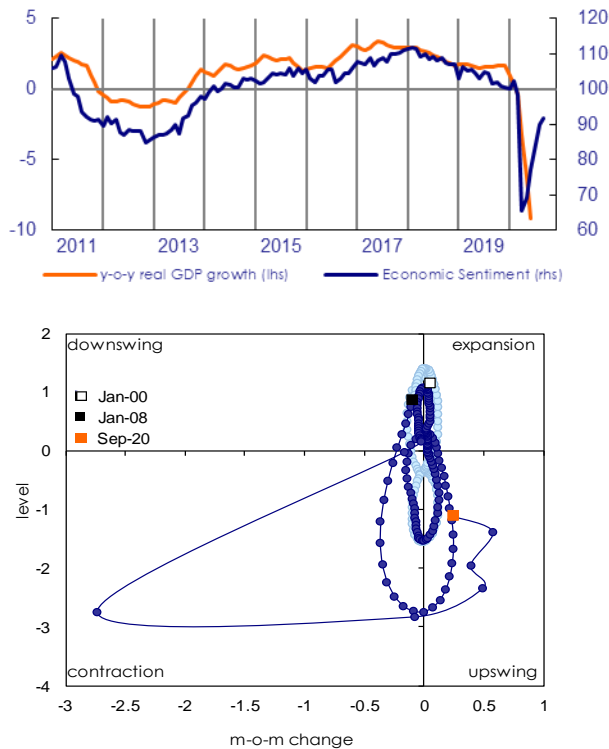
In the **Netherlands**, sentiment gained 14.5 points from June to September, recovering around 70% of the losses of March and April and bringing the ESI to 91.9, still noticeably below its long-term average of 100. The speed of recovery slowed down at the end of the quarter. Consequently, the Dutch climate tracer, while remaining in the upswing quadrant, moved into the direction of the contraction quadrant (see Graph 1.2.9).

Also in the Netherlands, the EEI improved markedly (+4.1 points in September compared to June), thanks to strong increases in managers' employment plans across all four business sectors, in particular in the construction sector.

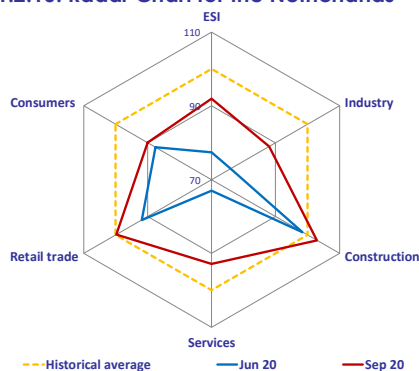
Since June, sentiment has returned forcefully in services and, somewhat less strikingly, in industry, retail trade and construction, while confidence among consumers improved only slightly. Confidence in industry, services and among consumers remained below long-term average, while in retail trade and construction, confidence is above average (see Graph 1.2.10). Construction is also the sector that recovered

most of the losses recorded during the crisis, while in all other sectors, confidence is still far below the February level.

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



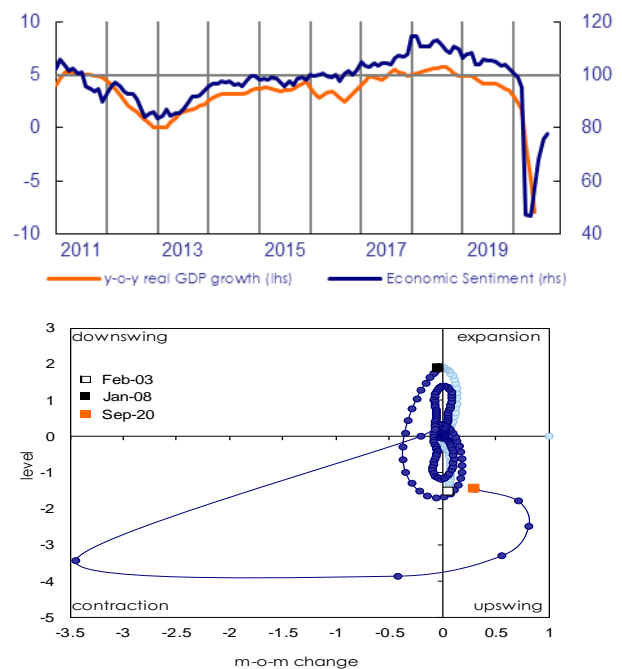
Graph 1.2.10: Radar Chart for the Netherlands



In **Poland**, sentiment soared during the third quarter of 2020, scoring an increase of 20.3 points from June to September. At 77.9 points, the indicator is nevertheless still very far below both its long-term average of 100 and its February level of 99.2. Improving confidence maintained the Polish climate tracer in the upswing area, but the slowdown in the recovery observed in September drove the tracer into the direction of the contraction quadrant (see Graph 1.2.11).

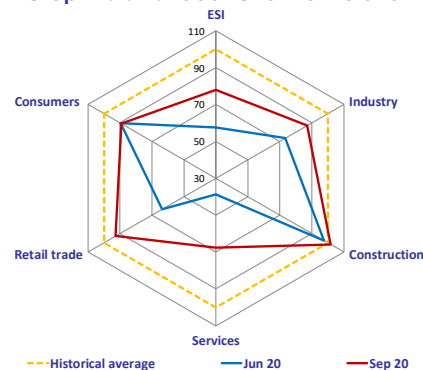
The increase in the Polish EEI (+9.3 points in September compared to June) resulted from improved employment plans across all four business sectors, in particular in the industry and the construction sectors.

Graph 1.2.11: Economic Sentiment Indicator and Climate Tracer for Poland



As the radar chart shows (see Graph 1.2.12), confidence rocketed in services and retail trade. Marked increases were registered also in industry and construction, while confidence among consumers remained broadly at the same level as in June. The level of confidence is markedly below long-term average in all sectors, except for construction. Finally, confidence is still well below its February level in all sectors.

Graph 1.2.12: Radar Chart for Poland



2. SPECIAL TOPIC: THE IMPACT OF COVID-19 AND CONTAINMENT MEASURES ON BUSINESS SENTIMENT ACROSS THE EU: DRILLING DOWN ON SUBSECTOR RESULTS

With the outbreak of the coronavirus pandemic in Europe in February and March, confidence in the economy as measured by the European Commission's business surveys plummeted in the three months to May, and has recovered only partially since then. While this broad picture reflects what happened in most EU Member States and across business sectors, the effect of the pandemic and the ensuing containment measures on businesses shows some notable differences across subsectors. This special topic aims at refining the general picture, by looking at detailed data from the harmonised EU BCS programme at the subsector level.

The harmonised EU BCS programme comprises five business surveys, in manufacturing industry, services, building, retail trade, and financial services. Within these broader sectors, the BCS Programme collects information on 66 branches, i.e. divisions (two-digit level) from the NACE Rev. 2 classification (e.g. "Manufacture of chemicals and chemical products" or "Food service activities") for the industry, services, retail trade, and construction surveys. As series at this level can be based on relatively small samples especially in smaller countries, their use and interpretation deserve some caution. However, they provide a wealth of information that allows to dive deep into the business impact of the pandemic and containment measures division by division.

The special topic is organised as follows. The first part looks at the impact on managers' business perceptions of the restrictions to economic activity across the 66 subsectors. The second part zooms in on the date when the individual series hit rock bottom before starting recovering. Finally, the third part focusses on how much of the losses in sentiment have been recovered by the end of September.

Crashing sentiment during the confinement

The first acute phase of the pandemic hit the EU between March and May, as most Member States had to impose severe restrictions on business activity. During this period, some business sectors were almost fully shut down (e.g. food service activities, air travel, etc.), while others could operate at reduced or even full capacity. In most business surveys, this first phase is reflected in a crash in sentiment. Starting with managers' backward-looking assessments of their business situation, Graph 2.1 presents the losses recorded between February and May 2020 (question 1 on past production/situation) for the EU as a whole across all business subsectors, at the NACE rev. 2 division level.⁵ The subsectors are ranked based on the size of the reported losses, from highest (55, Accommodation) to the lowest (21, Manufacture of basic pharmaceutical products and pharmaceutical preparations).

Overall, the services sector (in yellow) was the most affected sector, notwithstanding some disparities across subsectors. The losses from February to May were strongest in:

- Accommodation (55) and Food service activities (56)
- Travel agency, tour operator and other reservation service (79)

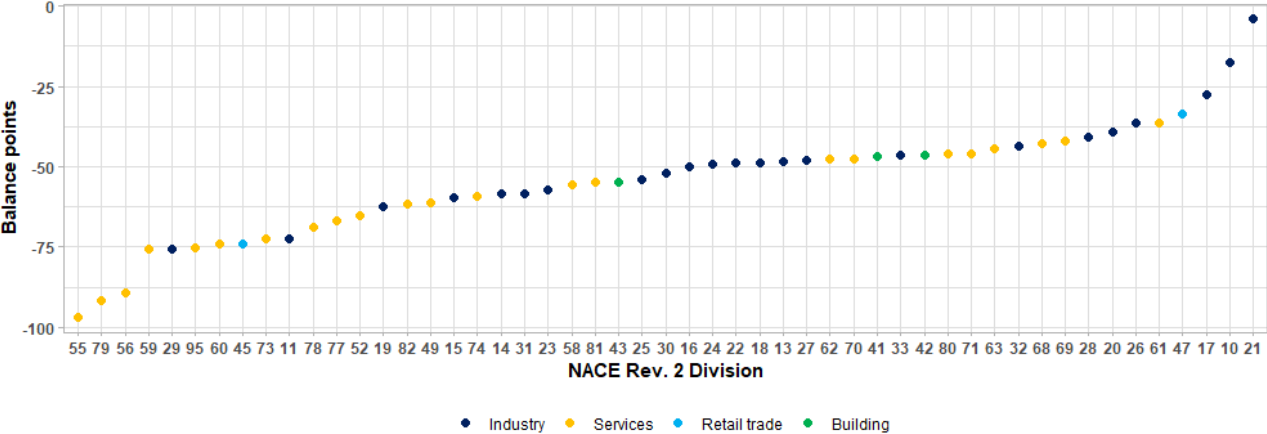
⁵ The results of the business surveys are balances (in percentage points) of positive over negative assessments of surveyed businesses. For details, see the User guide of the EU BCS Programme:
https://ec.europa.eu/economy_finance/db_indicators/surveys/documents/bcs_user_guide_en.pdf.

In industry (dark blue), the most affected subsector was Manufacture of motor vehicles, trailers and semi-trailers (29), while in retail trade (light blue), Wholesale and retail trade and repair of motor vehicles and motorcycles was particularly hard hit.

By contrast, the most resilient subsectors were:

- Manufacture of basic pharmaceutical products and pharmaceutical preparations (21)
- Manufacture of food products (10)
- Manufacture of paper and paper products (17)
- Retail trade, except of motor vehicles and motorcycles (47)
- Telecommunication (61)

Graph 2.1. Assessment of past production/situation, losses from February to May for the EU

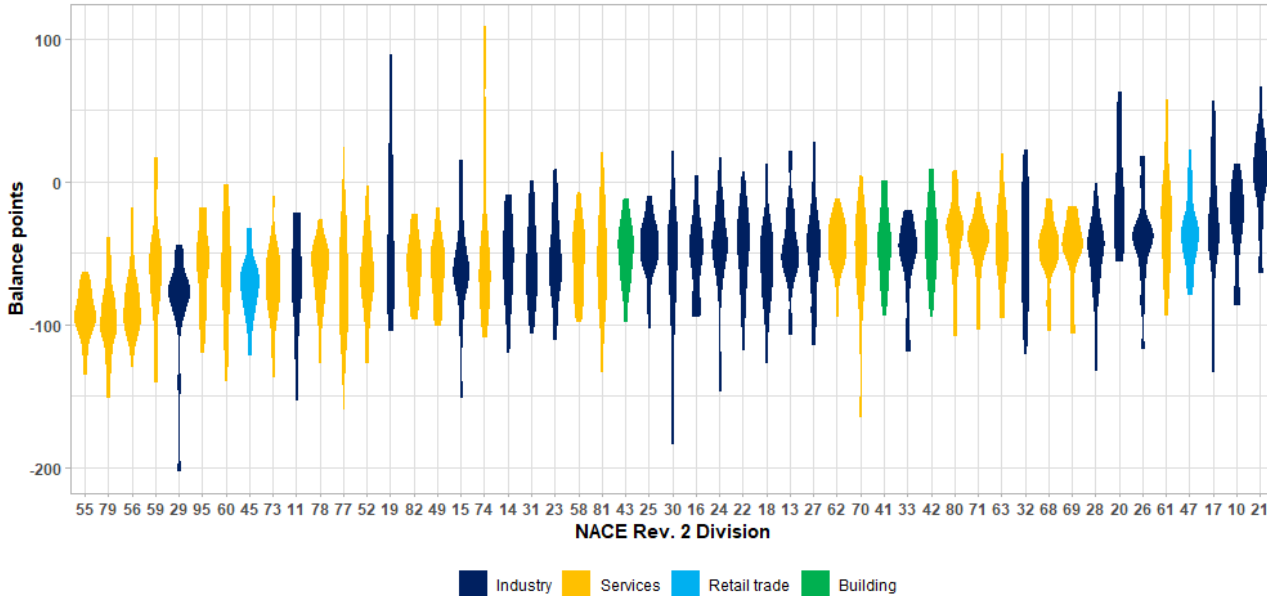


Graph 2.2 presents the losses across subsectors and countries. The shapes of the graph represent the distribution of the losses across countries. The subsectors are ranked in the same order as in the previous graph.

The overall picture confirms that the impact was broad-based across Member States in most subsectors in services, retail trade and building, with only few occurrences of non-negative

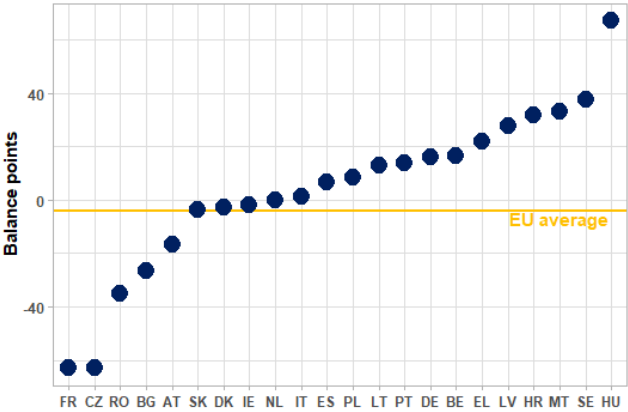
changes. However, Graph 2.2 also points to notable disparities across EU Member States, in particular in industry. In a number of industrial subsectors, the change in managers’ business assessments during the pandemic was limited, or even positive in some countries. This points to differences in the severity of the impact of the restrictions on business activity, in particular in industry.

Graph 2.2. Assessment of past production/situation, losses from February to May across EU Member States



The subsector that stands out is Manufacture of basic pharmaceutical products and pharmaceutical preparations (division 21). Although the balance for the EU as a whole decreased slightly from February to May (-4.1 points), this subsector appears to have increased production in many EU Member States (see Graph 2.3).

Graph 2.3. Assessment of past production/situation, losses from February to May across EU Member States - Manufacture of basic pharmaceutical products and pharmaceutical preparations (NACE Rev. 2 division 21)

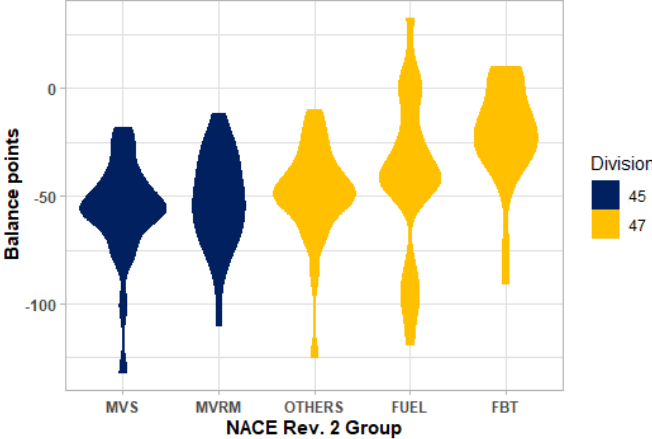


While retail trade was strongly affected by the restrictions imposed against the spread of the pandemic, large disparities across subsectors and countries emerge. While non-essential shops were temporarily closed almost everywhere across the EU, essential distribution services (e.g. providing food) remained operative. Accordingly, division 45 (Wholesale and retail trade and repair of motor vehicles and motorcycles) ranked among the most affected subsectors, while division 47 (Retail trade, except of motor vehicles and motorcycles) ranked among those least affected and, in some cases, even saw improvements in managers’ assessments of the business situation.

Graph 2.4 zooms in on the impact of the containment measures on retail trade. On the one hand, retail sale of Food, Beverages, Tobacco (FBT) saw a smaller impact than the rest of the retail trade sector, probably as essential shops remained opened across the EU. A non-negligible part of retailers across Member States reported an improved or broadly unchanged assessment of the past situation. On the other hand, the assessment of the past situation collapsed across countries in the other retail trade subsectors: Sale of motor

vehicles (MVS), Maintenance of motor vehicles and sale of accessories (MVRM), Retail sale of other goods (OTHERS) and, with only a few exceptions, Retail sale of automotive fuel (FUEL).

Graph 2.4. Assessment of past production/situation, losses from February to May across EU Member States – Retail trade



When sentiment hit rock bottom

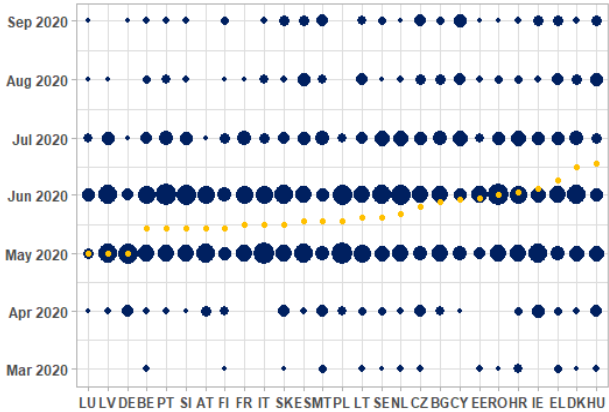
After hitting rock bottom, most survey series show a partial recovery over summer. To better understand the profile of this recovery at the subsector level, Graph 2.5 displays when the minimum was reached in the balance series assessing the past situation across the 66 business subsectors. The yellow dots represent, per country, the average point in time when the economic assessments started to rebound, weighted by sector weights.⁶

Most of the balance series at the subsector level reached their minimum in May and June. Accordingly, this is where almost all cross-sector country averages are positioned. Yet, in a non-negligible number of subsectors across Member States, the trough was reached only in July. What is more, the assessment of the past situation kept deteriorating in several

⁶ The country averages are computed as the weighted average of the series for industry, services, retail trade and building. The weights are the same as in the ESI: 0.4 for industry, 0.3 for services, 0.05 for retail trade and building. As the average does not cover consumers, the weights are rescaled so that the sum is 1.

subsectors beyond July, hitting the local minimum only in September. Finally, the graph shows that the assessment of the past situation started recovering first in Luxembourg, Latvia and Germany (on average with the May survey results). At the other end of the spectrum, the pandemic only started loosening its grip on business sentiment in Greece, Denmark and Hungary in the course of July. The turnaround came relatively late also in a number of other Central and Eastern European countries.

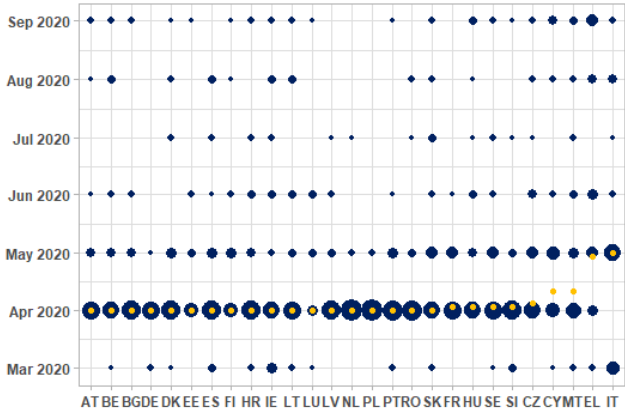
Graph 2.5 Dates of local minima in questions about the past production/situation



While the backward-looking questions accurately reflect managers’ assessment of the actual business situation, forward-looking questions inquiring business managers’ expectations might reflect more closely managers’ sentiment and general economic uncertainty. In the case of the COVID pandemic, the analysis of when managers’ expectations reached their lowest point can indicate when overall economic confidence in getting to grips with the pandemic returned despite a still ailing business situation.

Similar to the previous graph, Graph 2.6 presents the dates when expectations (for the next three months) were at their lowest. The lowest point was reached in, or close to the end of, April in almost all EU Member States, with the exception of Greece. In Italy, where no survey data could be collected in April, the real lowest point remains unknown. Also at the subsector level, April was the moment of lowest expectations in the vast majority of subsectors.

Graph 2.6 Dates of local minima in expectations questions



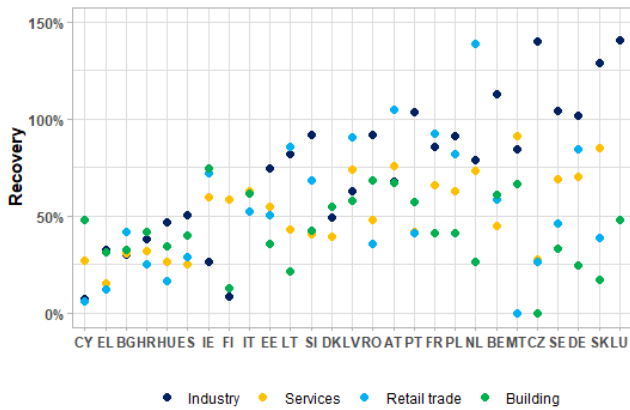
How is the recovery looking?

After a crash in business sentiment, the economy entered a phase of recovery, starting around May/June. However, this recovery has only been partial in most cases so far.

To gauge the extent of the recovery we compute the share of the maximum losses recorded since February that has been recovered by the end of September. Graph 2.7 presents this measure at the level of broader sectors, based on managers’ assessments of the past situation/production. Countries are ordered according to the weighted average of the sectors.

In industry (dark blue), the assessment of the past production broadly recovered to its pre-pandemic level in several EU Member States, and went even beyond in some cases (Czechia, Luxembourg, Slovakia, and Belgium). Only in a few countries has the industry sector not yet recovered at least 50% of the losses recorded since February/March (Cyprus, Finland, Ireland, Bulgaria, Greece, Croatia, and Hungary). In retail trade, the picture is more heterogeneous: business assessments recovered fully or to above 75% of their pre-crisis levels in seven countries, while in many countries the recovery in retail trade did hardly materialise at all or has stayed below 50% so far. In services, the measure of the recovery is low overall and amounts to above 75% only in two Member States (Malta and Slovakia). Finally, the extent of the recovery in the building sector appears even lower and does not amount to above 75% in any EU Member States.

Graph 2.7 Recovery by September – questions about the past production/situation



Graph 2.8 presents the same indicator of recovery, at the subsector level, for the EU aggregate. It confirms that the building sector, and, in particular, Civil engineering (division 42) barely recovered the losses registered since the outbreak of the virus. In the services sector the recovery has also not fully materialised in the vast majority of subsectors. The assessment remains particularly bleak in Travel agency, tour operator and other reservation service (79). Assessments in the hard-hit Accommodation (55) and Food service activities (56) could recover somewhat more than 50% of the initial losses. Only two services subsectors recovered more than 80% of previous sentiment losses:

- Repair of computers and personal and household goods (95)
- Warehousing and support activities for transportation (52).

In industry, most of the subsectors recovered well, and the assessment of past production is now above its pre-crisis level in three subsectors:

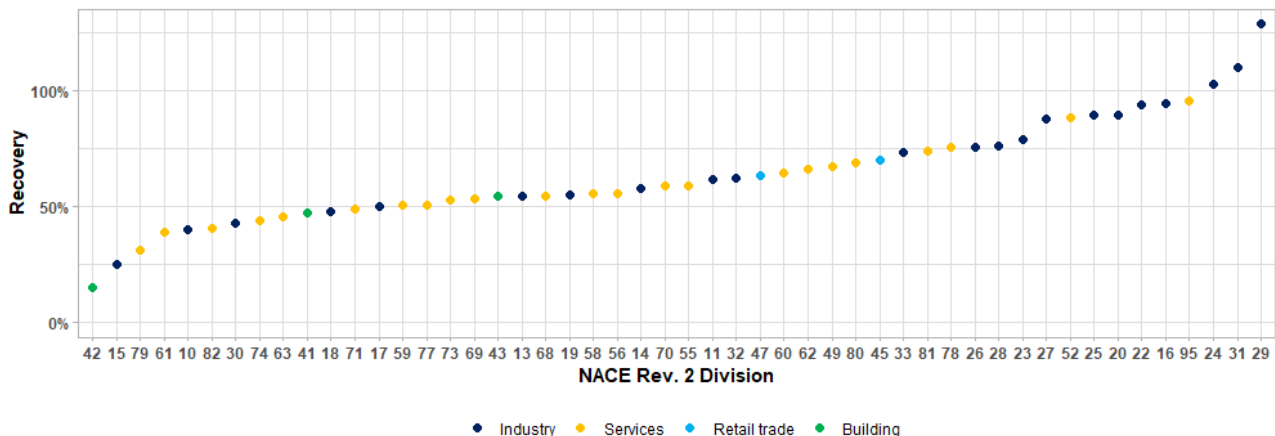
- Manufacture of motor vehicles, trailers and semi-trailers (29)
- Manufacture of furniture (31)
- Manufacture of basic metals (24).

However, there are also several industry subsectors where, after considerable losses between February and May, the recovery is still below 50%:

- Manufacture of leather and related products (15)
- Manufacture of other transport equipment (30)
- Printing and reproduction of recorded media (18).

While Graph 2.8 points to a limited extent of the recovery also in the divisions Manufacture of food products (10) and Manufacture of paper and paper products (17), previous results (Graph 2.1) had shown that the losses in these two branches were very minor from the outset compared to other branches.

Graph 2.8 Recovery by September – questions about the past production/situation



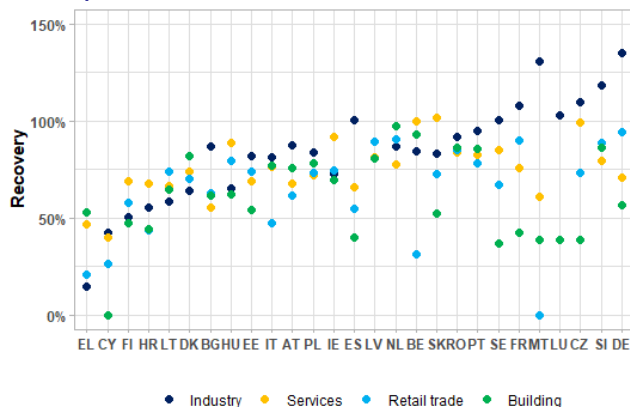
While the previous graphs showed that the recovery in terms of the assessment of actual production/the business situation is only partial, Graph 2.9 presents the same measure of recovery in terms of expectations. By contrast to the questions about the past

situation, expectation questions reflect more closely managers’ sentiment concerning the current situation and perspectives about the near future.

Overall, expectations recovered quicker than the assessment of the past situation. In the

large majority of countries, expectations in industry recovered almost fully, or even went beyond their February levels (Germany, Slovenia, Czechia, France, Malta). In services, the recovery amounts to close to or above 75% in most countries. In retail trade, expectations also recovered a significant share of previous losses, except for Malta, Greece, Cyprus, and Belgium. Finally, (employment) expectations in the building sector recovered much quicker than the assessment of the past situation (with the notable exception of Cyprus).

Graph 2.9 Recovery as of September – expectation questions



Graph 2.10 presents the same indicator of recovery, at the subsector level, for the EU aggregate. In many industry subsectors, expectations recovered virtually fully, and even went beyond their February level. In particular, sentiment is much higher than seven months ago in:

- Manufacture of motor vehicles, trailers and semi-trailers (29)
- Manufacture of coke and refined petroleum products (19)

In services, the picture is broadly similar to that of the measure based on the question about the past situation. The recovery in expectations has been (almost) complete in:

- Repair of computers and personal and household goods (95)
- Land transport and transport via pipelines (49)
- Employment activities (78)
- Warehousing and support activities for transportation (52).

On the other hand, the subsectors Manufacture of leather and related products (15) (in industry) and Travel agency, tour operator and

other reservation service (79) (in services) stand out as the ones where business expectations have barely recovered. In both cases, this chimes with a very limited recovery of assessments of the past business situation. Also Accommodation (55) and Food service activities (56) rank among the branches where business expectations have recovered only slowly.

Conclusion

This special topic offers a granular picture of the impact of the pandemic and related containment measures at subsector level.

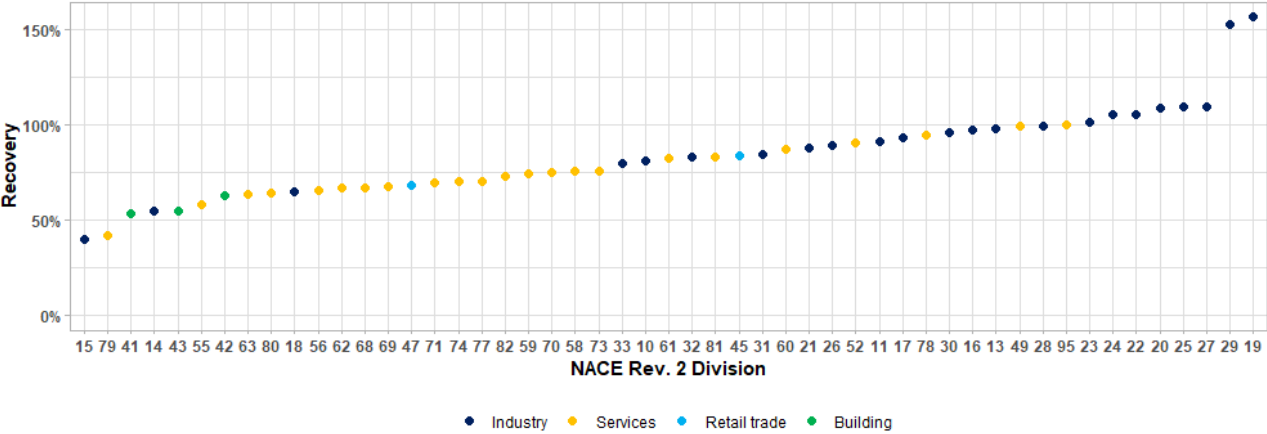
Being both one of the most affected sectors during the confinement and one which hardly recovered since then, the subsector Travel agency, tour operator and other reservation service is overall the most affected activity. This is explicable by the strict travelling restrictions imposed during the first, most stringent phase of containment efforts and the re-emergence of restrictions on travelling both in- and outside of the EU since summer.

Accommodation and food service activities were also severely hit by containment measures. While managers' assessments of their past activity appear to have partially recovered from their extreme lows, the recovery in business expectations still appears to be lagging behind other sectors. This can be rationalised by the threat of renewed restrictions, reducing restaurants' capacity or forcing bars to close earlier than usual, as is currently the case already in a number of Member States.

By contrast, industry, and in particular heavy industry (20-29), stands out as an activity where managers' assessments of the past appears to have recovered virtually fully since February. Although the automotive industry was one of the most affected industries in spring, both managers' expectations and their assessments of the past production are now clearly above their February level.

Finally, Manufacture of basic pharmaceutical products and pharmaceutical preparations was virtually unaffected by the health crisis, as demand to this sector has arguably increased because of the very pandemic.

Graph 2.10 Recovery as of September – expectation questions



ANNEX TO SECTION 1

Table A.1: Inflation perceptions by socio-demographic category of respondent (in %)

	weighted mean adjusted for outliers					25% quartile					median					75% quartile				
	Average	2019		2020		Average	2019		2020		Average	2019		2020		Average	2019		2020	
	2004-2020	Q4	Q1	Q2	Q3	2004-2020	Q4	Q1	Q2	Q3	2004-2020	Q4	Q1	Q2	Q3	2004-2020	Q4	Q1	Q2	Q3
Total																				
EU	8.8	7.1	7.1	7.9	8.0	3.8	3.0	2.9	3.3	3.5	6.5	5.1	5.0	5.5	5.9	11.0	8.8	8.5	9.7	9.9
EA	8.7	6.5	6.4	7.4	7.5	3.6	2.5	2.4	3.0	3.2	6.2	4.5	4.3	5.0	5.4	10.9	8.2	7.8	9.1	9.4
Gender: Male																				
EU	7.8	6.1	6.0	6.7	6.8	3.4	2.7	2.6	2.9	3.1	5.8	4.5	4.3	4.8	5.0	9.7	7.3	7.4	8.4	8.8
EA	7.6	5.4	5.3	6.3	6.3	3.2	2.2	2.1	2.6	2.8	5.5	3.9	3.6	4.3	4.4	9.4	6.6	6.6	7.9	8.2
Gender: Female																				
EU	10.0	8.4	8.5	9.3	9.5	4.2	3.3	3.3	4.0	4.2	7.3	5.9	5.8	6.7	7.1	12.6	10.5	10.4	12.1	12.1
EA	9.9	7.8	7.8	8.8	9.0	4.1	2.8	2.8	3.7	3.9	7.1	5.4	5.1	6.1	6.6	12.6	10.0	9.8	11.5	11.6
Age: 16 to 29																				
EU	9.1	7.7	7.3	7.2	7.6	3.9	3.1	2.9	2.6	2.9	6.9	5.3	5.2	4.8	5.7	11.9	9.9	9.3	9.6	9.9
EA	9.1	7.1	6.7	6.9	7.1	3.8	2.8	2.5	2.4	2.6	6.8	4.7	4.7	4.4	5.2	11.9	9.3	8.8	9.2	9.4
Age: 30 to 49																				
EU	9.0	7.3	7.3	8.3	8.2	3.9	3.0	3.0	3.6	3.7	6.6	5.1	5.2	6.0	5.9	11.3	8.9	8.8	10.4	10.3
EA	8.9	6.7	6.6	7.9	7.7	3.7	2.5	2.5	3.4	3.4	6.4	4.5	4.5	5.5	5.5	11.3	8.4	8.1	9.9	9.8
Age: 50 to 64																				
EU	8.7	6.9	7.4	8.1	8.2	3.8	3.0	3.1	3.8	3.8	6.4	4.9	5.2	6.0	6.3	10.9	8.6	9.1	10.2	10.3
EA	8.5	6.2	6.7	7.5	7.7	3.6	2.4	2.5	3.4	3.4	6.1	4.3	4.5	5.5	5.7	10.6	8.0	8.5	9.6	9.8
Age: 65+																				
EU	8.5	6.7	6.5	7.4	7.8	3.9	3.1	2.8	3.4	3.6	6.4	5.1	4.7	5.5	5.8	10.6	8.1	7.8	9.3	10.0
EA	8.2	5.9	5.6	6.5	7.2	3.6	2.5	2.3	3.0	3.2	6.1	4.3	3.9	4.7	5.2	10.2	7.1	6.8	8.4	9.3
Income: 1st quartile																				
EU	10.9	9.8	9.5	10.0	10.6	4.5	3.8	3.4	4.2	4.6	7.9	6.6	6.3	7.0	7.7	14.1	12.5	12.1	13.2	13.4
EA	10.9	9.3	8.9	9.6	10.1	4.3	3.3	2.9	4.0	4.3	7.8	6.0	5.7	6.6	7.2	14.1	11.8	11.7	12.6	12.8
Income: 2nd quartile																				
EU	9.3	7.4	7.7	8.4	8.9	4.0	3.2	3.2	3.8	4.1	6.9	5.5	5.4	6.4	7.1	11.8	8.8	9.2	10.4	11.7
EA	9.1	6.8	7.0	7.7	8.5	3.8	2.6	2.8	3.4	3.7	6.6	5.0	4.8	5.8	6.6	11.6	8.1	8.5	9.6	11.3
Income: 3rd quartile																				
EU	8.3	6.7	6.4	7.7	7.4	3.7	3.0	2.7	3.4	3.4	6.2	5.0	4.8	5.6	5.6	10.5	8.1	7.8	10.0	9.6
EA	6.8	4.8	4.6	5.5	5.5	3.0	2.0	1.9	2.3	2.4	5.0	3.5	3.2	3.9	4.2	8.5	6.2	5.8	6.8	7.2
Income: 4th quartile																				
EU	7.0	5.5	5.5	6.0	6.1	3.2	2.6	2.5	2.7	2.8	5.3	4.2	4.0	4.4	4.7	8.8	6.9	6.7	7.5	7.9
EA	6.8	4.8	4.6	5.5	5.5	3.0	2.0	1.9	2.3	2.4	5.0	3.5	3.2	3.9	4.2	8.5	6.2	5.8	6.8	7.2
Education: Primary																				
EU	10.1	8.7	8.9	9.4	9.6	4.3	3.2	3.7	4.1	4.2	7.3	5.7	6.0	6.7	6.9	12.8	10.8	11.2	12.4	12.5
EA	10.0	8.1	8.3	8.8	9.1	4.0	2.7	3.3	3.7	3.9	7.0	5.1	5.4	6.1	6.4	12.6	10.0	10.5	11.8	12.0
Education: Secondary																				
EU	8.8	7.6	7.6	8.4	8.5	3.8	3.1	2.9	3.5	3.7	6.5	5.5	5.2	5.9	6.2	11.1	9.1	9.1	10.4	10.8
EA	8.7	7.0	6.9	7.9	8.0	3.6	2.7	2.4	3.2	3.3	6.3	4.9	4.5	5.3	5.7	11.0	8.5	8.5	9.8	10.2
Education: Further																				
EU	7.1	5.8	5.4	6.3	6.5	3.2	2.6	2.5	2.9	3.1	5.3	4.2	4.0	4.7	5.0	9.0	7.3	6.8	7.8	8.4
EA	6.9	5.0	4.6	5.7	6.1	3.0	2.1	1.9	2.6	2.8	5.1	3.5	3.3	4.2	4.5	8.8	6.4	5.9	7.3	7.8

Table A.2: Inflation expectations by socio-demographic category of respondent (in %)

	weighted mean adjusted for outliers					25% quartile					median					75% quartile						
	Average	2020			Average	2019		2020			Average	2019		2020			Average	2019		2020		
	2004-2020	Q4	Q1	Q2	Q3	2004-2020	Q4	Q1	Q2	Q3	2004-2020	Q4	Q1	Q2	Q3	2004-2020	Q4	Q1	Q2	Q3		
Total																						
EU	6.0	6.2	6.3	7.6	6.2	2.3	2.3	2.3	2.7	2.3	4.2	4.2	4.0	5.1	4.3	7.4	7.3	7.4	9.7	7.9		
EA	5.7	5.5	5.5	6.9	5.6	2.0	1.8	1.8	2.3	1.9	3.8	3.6	3.3	4.5	3.8	6.9	6.5	6.5	8.9	7.2		
Gender: Male																						
EU	5.5	5.4	5.5	6.4	5.2	2.2	2.1	2.1	2.2	2.0	3.8	3.7	3.6	4.4	3.7	6.6	6.2	6.3	8.3	6.4		
EA	5.1	4.8	4.7	5.8	4.7	1.9	1.6	1.5	1.8	1.7	3.4	3.0	2.9	3.9	3.2	6.1	5.4	5.3	7.6	5.7		
Gender: Female																						
EU	6.8	7.3	7.5	9.0	7.5	2.5	2.5	2.5	3.3	2.6	4.7	4.9	4.9	6.2	5.1	8.5	9.5	9.2	11.3	9.5		
EA	6.4	6.6	6.7	8.2	6.8	2.2	2.0	2.0	2.8	2.2	4.3	4.3	4.2	5.5	4.5	8.0	8.7	8.4	10.4	8.7		
Age: 16 to 29																						
EU	6.3	6.9	6.6	7.3	6.4	2.3	2.4	2.3	2.0	2.2	4.4	5.1	4.6	4.9	4.2	8.1	9.4	8.2	10.3	7.6		
EA	6.0	6.2	5.9	6.7	5.7	2.1	1.9	2.0	1.6	1.8	4.1	4.5	4.0	4.5	3.7	7.8	8.7	7.5	9.7	6.8		
Age: 30 to 49																						
EU	6.2	6.5	6.4	7.7	6.4	2.3	2.2	2.3	2.6	2.2	4.2	4.2	4.2	5.4	4.2	7.7	7.9	7.8	9.7	8.0		
EA	5.9	5.9	5.6	7.1	5.9	2.0	1.8	1.7	2.2	1.9	3.9	3.6	3.5	4.8	3.8	7.3	7.4	6.9	9.0	7.4		
Age: 50 to 64																						
EU	6.1	6.1	6.7	7.8	6.3	2.4	2.4	2.4	3.0	2.4	4.2	4.1	4.3	5.5	4.6	7.4	7.4	7.8	10.0	8.1		
EA	5.6	5.4	5.9	7.1	5.7	2.1	1.8	1.9	2.5	2.0	3.8	3.4	3.6	4.8	3.9	6.9	6.5	6.8	9.0	7.5		
Age: 65+																						
EU	5.7	5.7	5.8	7.3	5.8	2.5	2.3	2.3	3.0	2.5	4.2	3.9	3.9	5.3	4.3	7.1	6.7	6.9	9.0	7.2		
EA	5.2	4.8	4.8	6.3	5.1	2.1	1.8	1.7	2.5	2.1	3.6	3.2	3.0	4.5	3.7	6.4	5.7	5.7	7.9	6.4		
Income: 1st quartile																						
EU	7.4	8.6	8.4	9.2	8.2	2.7	3.0	2.8	3.2	2.8	5.1	5.6	5.2	6.2	5.3	9.4	10.9	10.2	12.2	10.1		
EA	7.0	7.9	7.7	8.4	7.6	2.4	2.5	2.2	2.8	2.4	4.7	5.0	4.6	5.7	4.9	9.0	10.2	9.4	11.2	9.3		
Income: 2nd quartile																						
EU	6.4	6.6	6.8	8.3	6.6	2.5	2.4	2.6	2.9	2.4	4.5	4.6	4.5	5.9	4.7	8.1	8.0	8.7	11.0	8.3		
EA	6.0	5.9	6.1	7.6	6.1	2.2	2.0	2.1	2.5	2.0	4.1	3.9	3.7	5.2	4.1	7.6	7.2	7.8	10.1	7.8		
Income: 3rd quartile																						
EU	5.8	5.7	5.7	7.5	5.8	2.3	2.3	2.2	2.8	2.3	4.1	4.0	3.8	5.4	4.2	7.2	6.9	6.9	9.6	7.6		
EA	4.6	4.2	4.2	5.4	4.1	1.8	1.6	1.5	1.7	1.5	3.1	2.8	2.6	3.8	3.0	5.6	5.0	5.0	7.2	5.1		
Income: 4th quartile																						
EU	5.0	5.0	5.1	6.0	4.8	2.1	2.1	2.0	2.1	1.9	3.5	3.5	3.4	4.3	3.5	6.1	6.0	6.2	8.0	5.9		
EA	4.6	4.2	4.2	5.4	4.1	1.8	1.6	1.5	1.7	1.5	3.1	2.8	2.6	3.8	3.0	5.6	5.0	5.0	7.2	5.1		
Education: Primary																						
EU	6.8	7.8	7.2	8.9	7.6	2.6	2.6	2.4	3.2	2.6	4.7	5.9	4.5	6.2	5.1	8.6	10.3	9.0	11.3	10.4		
EA	6.4	7.1	6.5	8.1	7.2	2.2	2.1	2.0	2.8	2.3	4.3	5.5	3.9	5.7	4.6	8.0	9.5	8.2	10.3	9.9		
Education: Secondary																						
EU	6.2	6.5	7.0	8.2	6.6	2.3	2.4	2.5	2.9	2.4	4.3	4.5	4.5	5.5	4.5	7.6	8.2	8.5	10.3	8.3		
EA	5.8	5.9	6.3	7.5	5.9	2.0	1.9	2.0	2.5	2.0	3.9	3.9	3.8	4.9	3.9	7.2	7.5	7.6	9.6	7.5		
Education: Further																						
EU	5.1	5.3	5.2	6.1	5.1	2.1	2.1	2.1	2.3	2.0	3.6	3.6	3.5	4.3	3.8	6.3	6.2	6.5	8.0	6.3		
EA	4.8	4.5	4.2	5.4	4.6	1.8	1.6	1.5	1.9	1.7	3.3	2.9	2.8	3.7	3.3	5.9	5.3	5.2	7.2	5.7		

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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