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2nd Quarter 2019

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European Business Cycle Indicators

2nd Quarter 2019

Special topic

- A closer look at the BCS data from the Balkan candidate countries

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OVERVIEW

Recent developments in survey indicators

- The Economic Sentiment Indicators (ESI) for the euro area (EA) and the EU declined further in the second quarter of 2019, continuing the downward trend that started at the end of 2017. Shedding 2.3 (EA) and 2.8 (EU) points on the quarter, the indicators currently stand at 103.3 (EA) / 102.3 (EU) points, i.e. still above their long-term averages of 100.
- The EA and the EU registered drastic losses in industry confidence, while signals from the consumers and the construction sector remained flat. In the EA, sentiment also stayed virtually flat in services and retail trade. In the EU, by contrast, confidence in services and retail trade edged down.
- Focussing on the seven largest EU economies, 2019-Q2 brought sharp sentiment losses in the UK (-5.7) and Germany (-4.0), as well as declines in the Netherlands (-2.4), Spain (-1.9) and Poland (-1.8). The ESI decreased only slightly in Italy (-0.8), while France stood out with a solid increase (+1.9).
- Capacity utilisation in manufacturing decreased in both the EA and the EU by, respectively, 0.6 and 0.7 percentage points (pp) compared to the last survey wave in January. Currently, capacity utilisation is at 82.8% (EA) and 82.5% (EU), i.e. still above the two regions' respective long-term averages of around 81%. In services, capacity utilisation decreased by 0.1 (EA) / 0.6 (EU) points. At 90.7% (EA) and 89.4% (EU) respectively, capacity utilisation is above its long-term average of just below 89% (calculated from 2011 onwards).

Special topic: A closer look at the BCS data from the Balkan candidate countries

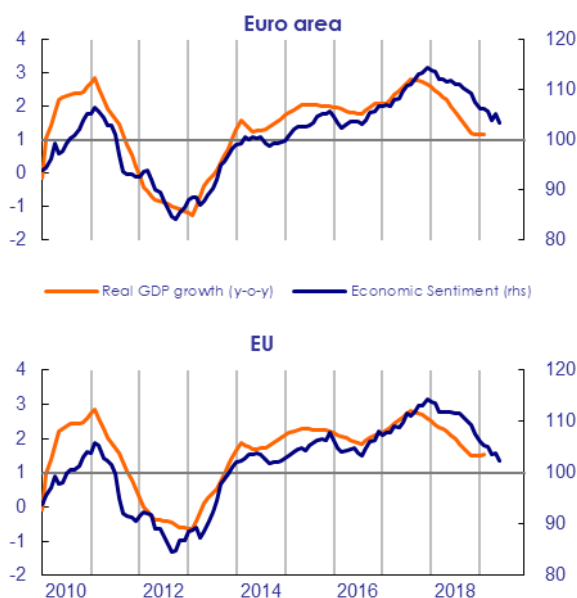
In May 2019, the European Commission (DG ECFIN) published for the first time data series collected under the Joint Harmonised EU Programme of Business and Consumer Surveys (BCS) in Albania, along with the results for the EU and other candidate countries. The occasion of this extension of the BCS coverage provides a good opportunity to explore and review series from the Balkan countries that are not usually in the limelight of the regular monthly and quarterly publications on EU and euro area survey data. This special topic on the Balkan candidate countries covers Montenegro, North Macedonia and Serbia, and puts a particular focus on Albania.

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS

1.1. EU and euro area

The Economic Sentiment Indicators (ESI) for the euro area (EA) and the EU declined further in the second quarter of 2019, continuing the downward trend that had started at the end of 2017. Shedding 2.3 (EA) and 2.8 (EU) points on the quarter, the indicators currently stand at 103.3 (EA) / 102.3 (EU) points, i.e. still above their long-term averages of 100.

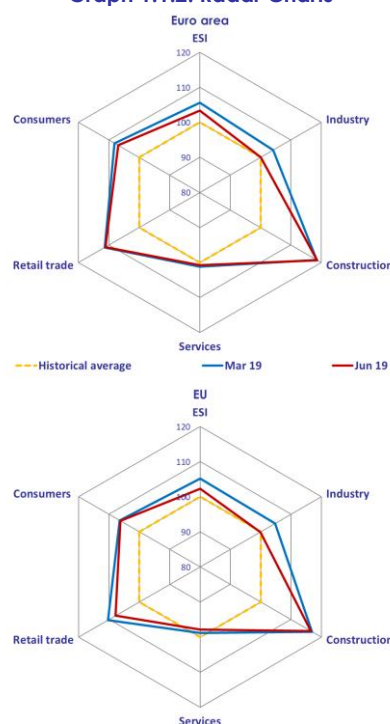
Graph 1.1.1: Economic Sentiment Indicator



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.

In line with the ESI results, the Ifo Business Climate Index (for Germany) reported another quarter of weakening confidence. The signals from Markit Economics' PMI Composite Output Index were more benign, with the indicator edging up by 0.6 points over the second quarter, following the stabilisation seen in 2019-Q1. The slight discrepancy between the ESI and the PMI is attributable to the higher weight of the services sector in the latter, with services proving markedly more resilient than manufacturing in the first half of 2019.

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 1990q1. For more information on the radar charts see the Special Topic in the 2016q1 EBCI.

From a sectoral perspective (see Graph 1.1.2), both the EA and the EU registered drastic losses in industry confidence. In the EA, confidence remained broadly flat in all other sectors, namely services, construction, retail trade and among consumers. In the EU, confidence registered moderate decreases in services and retail trade, while signals from the consumers and the construction sector remained flat.

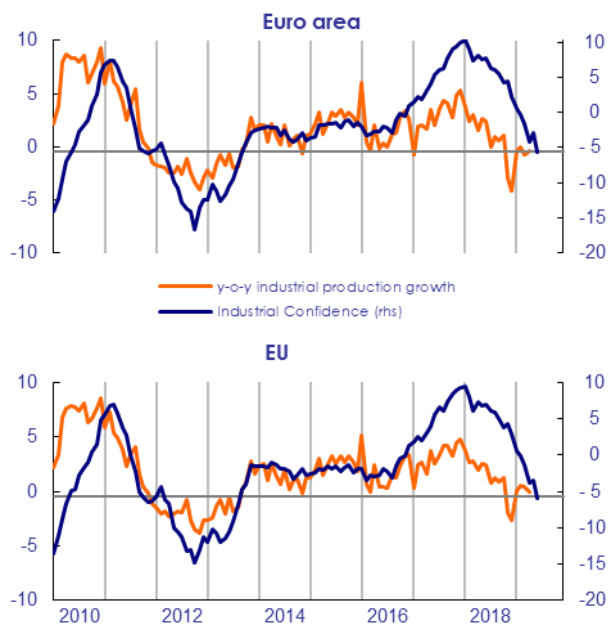
In terms of levels, EA and EU confidence indicators in retail trade, construction and for consumers remain well above their respective long-term averages. Industry and services confidence, by contrast, are currently very close to their long-term averages, and, in the case of EU services, even slightly below.

Focussing on the seven largest EU economies, 2019-Q2 brought sharp sentiment losses in the UK (-5.7) and Germany (-4.0), as well as declines in the Netherlands (-2.4), Spain (-1.9) and Poland (-1.8). The ESI decreased only slightly in Italy (-0.8), while France stood out with a solid increase (+1.9).

Sector developments

Industry confidence registered the sharpest decline in some seven years in both the EA (-4.0) and the EU (-4.5). In line with the indicators' steady losses since the beginning of 2018, both are now broadly at their long-term average levels, as illustrated in Graph 1.1.3. Reflecting the deterioration in industry confidence, the sectoral climate tracer for industry moved to the border between the downswing and the contraction quadrant in the EA and the EU (see Graph 1.1.4).

Graph 1.1.3: Industry Confidence indicator

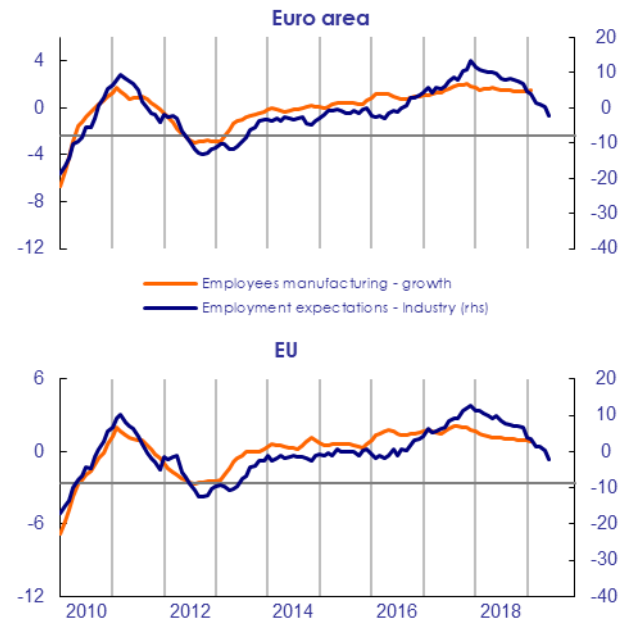


The drop in confidence was propelled by a sharp deterioration of managers' production expectations, appraisals of overall order books and, to a lesser extent, their assessments of the stocks of finished products.

Of the components not included in the confidence indicator, managers' views on past production and, in particular, export order books deteriorated.

During 2019-Q2, EA and EU managers' selling price, as well as employment expectations staged strong declines. Specifically, since the end of 2018, employment expectations displayed a steepening of the downward trend which started a year ago (see Graph 1.1.4).

Graph 1.1.4: Employment - Industry Confidence indicator

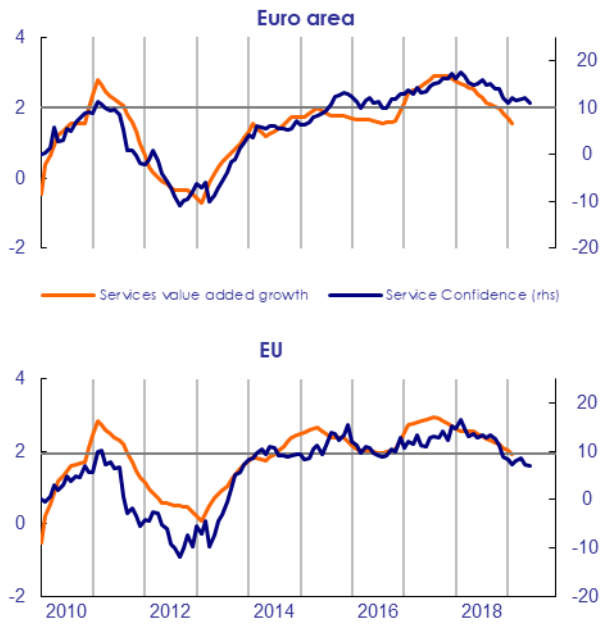


Among the seven largest EU Member States, industry confidence plunged in the UK (-10.4) and Germany (-8.0), while the Netherlands (-3.0), Spain (-2.6) and Poland (-1.6) experienced more moderate decreases. France (-0.1) and Italy (-0.2) bucked the trend, with broadly stable industry sentiment.

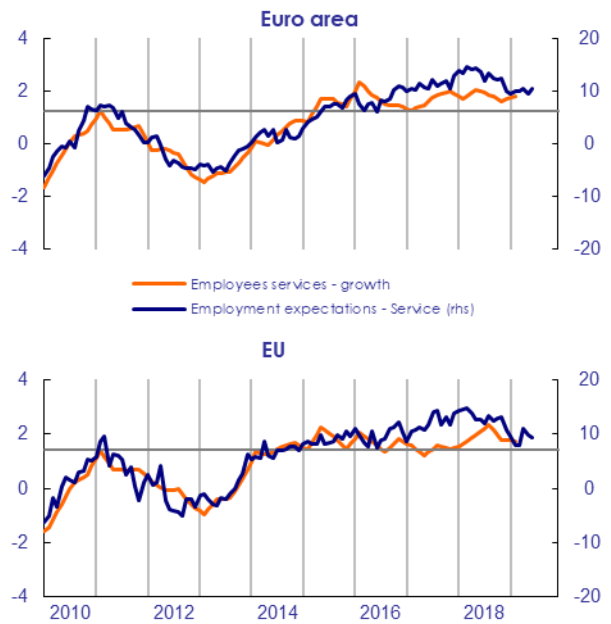
According to the quarterly manufacturing survey (carried out in April), **capacity utilisation in manufacturing** decreased in both the EA and the EU by, respectively, 0.6 and 0.7 percentage points (pp) compared to the last survey wave in January. Currently, capacity utilisation is at 82.8% (EA) and 82.5% (EU), i.e. still above the two regions' respective long-term averages of around 81%.

After some stabilisation in 2019-Q1, the second quarter of 2019 saw a continued stabilisation in EA **services confidence**, as the indicator reduced by only 0.5 points, while it declined moderately in the EU, by 1.1 points. The current confidence levels are just above (EA) / slightly below (EU) their long-term averages (see Graph 1.1.5).

Graph 1.1.5: Services Confidence indicator



Graph 1.1.6: Employment - Services Confidence indicator



In both regions, the slight easing of confidence resulted from managers' more pessimistic views on the past business situation, while demand expectations stayed broadly unchanged. In the EU, the moderate decrease was also caused by downbeat views on past demand, while in the EA, signals from past demand stayed virtually unchanged.

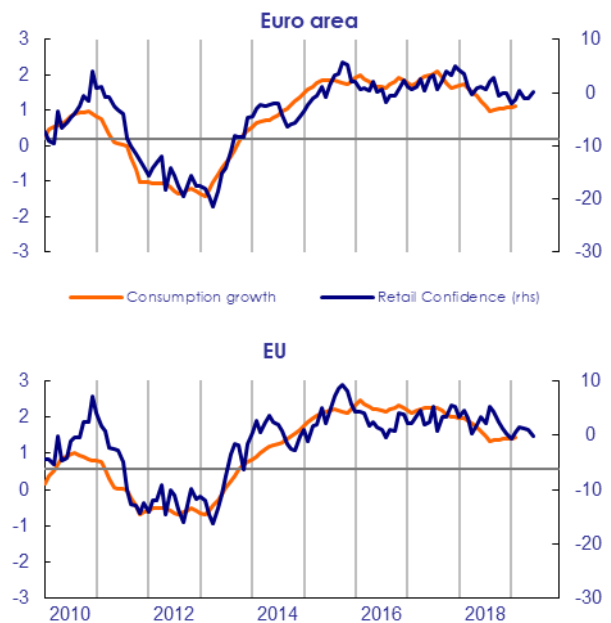
Employment expectations remained flat in the EA for the second quarter in a row. EU-wide expectations, by contrast, picked-up somewhat, partly offsetting the sharp decline observed in 2019-Q1 (see Graph 1.1.6). Selling price expectations mildly reduced in the EA and remained virtually unchanged in the EU.

Focussing on the seven largest EU economies, services confidence decreased strongly in the UK (-3.3) and, to a lesser extent, in Italy (-1.8), the Netherlands (-1.7), Spain (-1.6) and Poland (-1.1). Sentiment in Germany stayed broadly flat (+0.1), while it improved in France (+1.3).

Capacity utilisation in services, as measured by the quarterly survey in April, decreased by 0.1 (EA) / 0.6 (EU) points. At 90.7% (EA) and 89.4% (EU) respectively, capacity utilisation thus is above its long-term average of just below 89% (calculated from 2011 onwards).

Retail trade confidence in the EA stayed virtually flat in 2019-Q1 (-0.2) for the second quarter in a row, while it lost 1.9 points in the EU. In a longer-term context, the latest developments mean a stabilisation well above the indicators' long term average, although slightly below the historically high horizontal trend, which has characterised their evolution between late 2016 and early 2018 (see Graph 1.1.7).

Graph 1.1.7: Retail Trade Confidence indicator



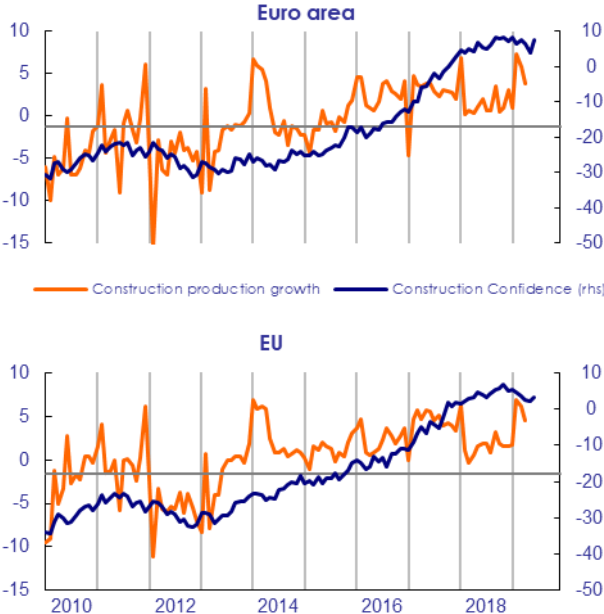
The deterioration in EU confidence was driven by more pessimistic managerial assessments of the past and future business situation, while their appraisals of the level of stocks stayed broadly stable. In the EA, more pessimistic expectations about the business situation were counterbalanced by an equivalent improvement in the assessment of the past business situation, while views on the level of stocks remained broadly unchanged.

For the seven largest EU economies, confidence declined strongly in the UK (-8.0), Spain (-3.7), the Netherlands (-3.0) and, to a lesser extent, Poland (-1.0). By contrast, sentiment stayed virtually stable in Italy (+0.6) and Germany (+0.2) and unchanged in France (0.0).

Construction confidence remained broadly stable in the EA (+0.2) and the EU (-0.5). In conjunction with the slight downward trend since 2018-Q4, the latest figures corroborate the impression that the sector’s forceful recovery since 2013/2014 has reached its peak (see Graph 1.1.8).

At component level, managers' views of order books and employment expectations remained virtually unchanged in both areas.

Graph 1.1.8: Construction Confidence indicator



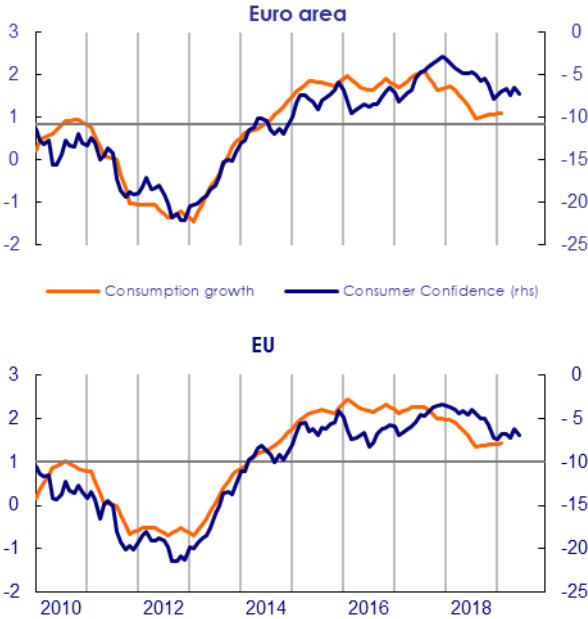
Among the seven largest EU economies, the indicator decreased strongly in the UK (-3.7) and, to a lesser extent, in the Netherlands

(-2.9), Poland (-2.6) and Germany (-2.4). Meanwhile, France (+1.3) and, particularly, Spain (+8.0) saw confidence grow, while sentiment remained virtually stable in Italy (-0.3).

Broadly flat EA (-0.6) and EU (-0.1) **consumer confidence** confirmed the stabilisation of the indicator in the first half of 2019, following the correction witnessed during 2018. Both measures remained comfortably above their respective long-term averages (see Graph 1.1.9).

Looking at the individual components of consumer confidence, consumers were less optimistic about the future general economic situation, while their views on their past and future personal financial situation, as well as their intentions to make major purchases remained broadly unchanged.

Graph 1.1.9: Consumer Confidence indicator

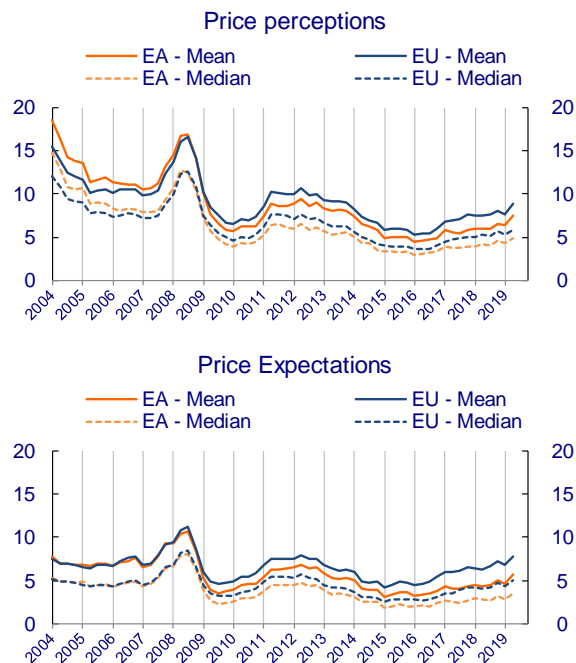


Consumer sentiment improved in three of the seven largest EU economies, namely France (+1.5), the Netherlands (+1.2) and the UK (+1.2), while it eased in Germany (-3.0). Confidence levels stayed virtually flat in Italy (-0.9), Poland (-0.2) and Spain (-0.1).

In both the EU and the euro area, the mean and the median of **consumers' quantitative price perceptions** increased somewhat in 2019Q2 compared to 2019Q1.¹ Consumers also expected prices to increase further over the next 12 months: in both areas, the mean and the median rose slightly in the second quarter of the year (see Graph 1.1.10).^{2 3}

The same image appears when looking at the social-economic breakdown categories. In all categories the mean and the median show a slight increase for both perceptions and expectations (see tables A.1.1 and A.1.2 in the Annex to section 1).

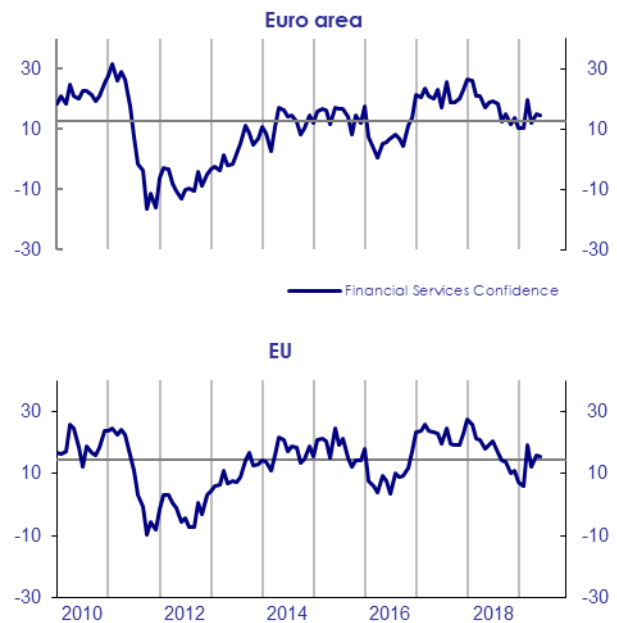
Graph 1.1.10: Euro area and EU quantitative consumer price perceptions and expectations



Following a drop in April, the **financial services** confidence indicator (not included in the ESI) lost 4.3 (EA) / 2.9 (EU) points on the quarter. The indicator stands in both regions just above its long-term average again (see Graph 1.1.11).

EA and EU-managers were less optimistic about the past business situation, expected demand and, in particular, past demand.

Graph 1.1.11: Financial Services Confidence indicator



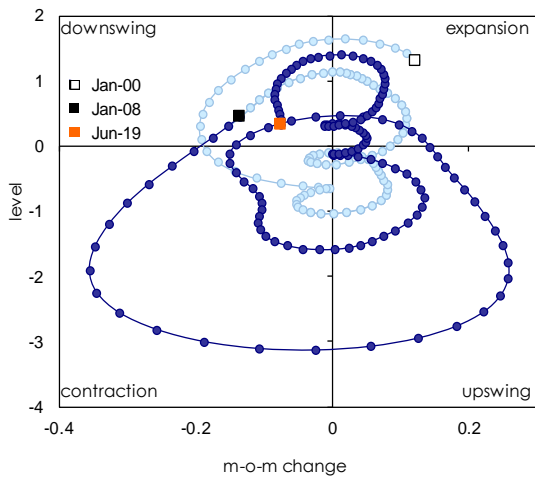
Reflecting the deterioration in overall sentiment in 2019-Q2, both the EA and EU **climate tracers** (see Annex for details) continued to move closer to the contraction quadrant (from the downswing quadrant, see Graphs 1.1.12 and 1.1.13).

¹ This increase must, however, be interpreted with caution because it is partly due to a change in the survey mode in Germany. The change in mode effect on the mean of the quantitative inflation perceptions in 2019Q2 is estimated to be around +0.4 pp in the EU and +0.6 pp in the euro area.

² The effect of the change in mode in Germany on the mean of the quantitative inflation expectations is estimated to be around +0.4 pp in the EU and +0.5 pp in the euro area.

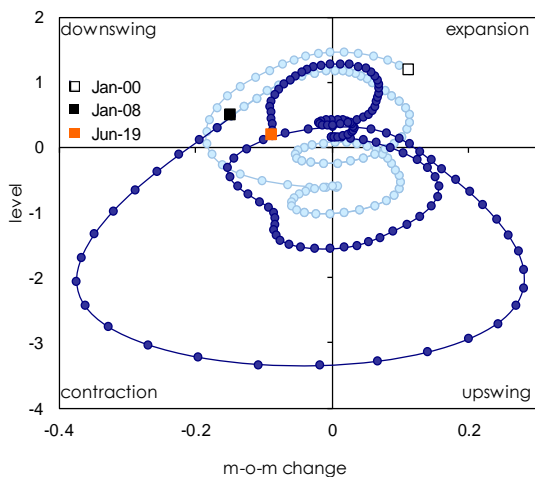
³ For more information on the quantitative inflation perceptions and expectations, see the special topic in the previous [EBCI 2019Q1](#).

Graph 1.1.12: Euro area Climate Tracer

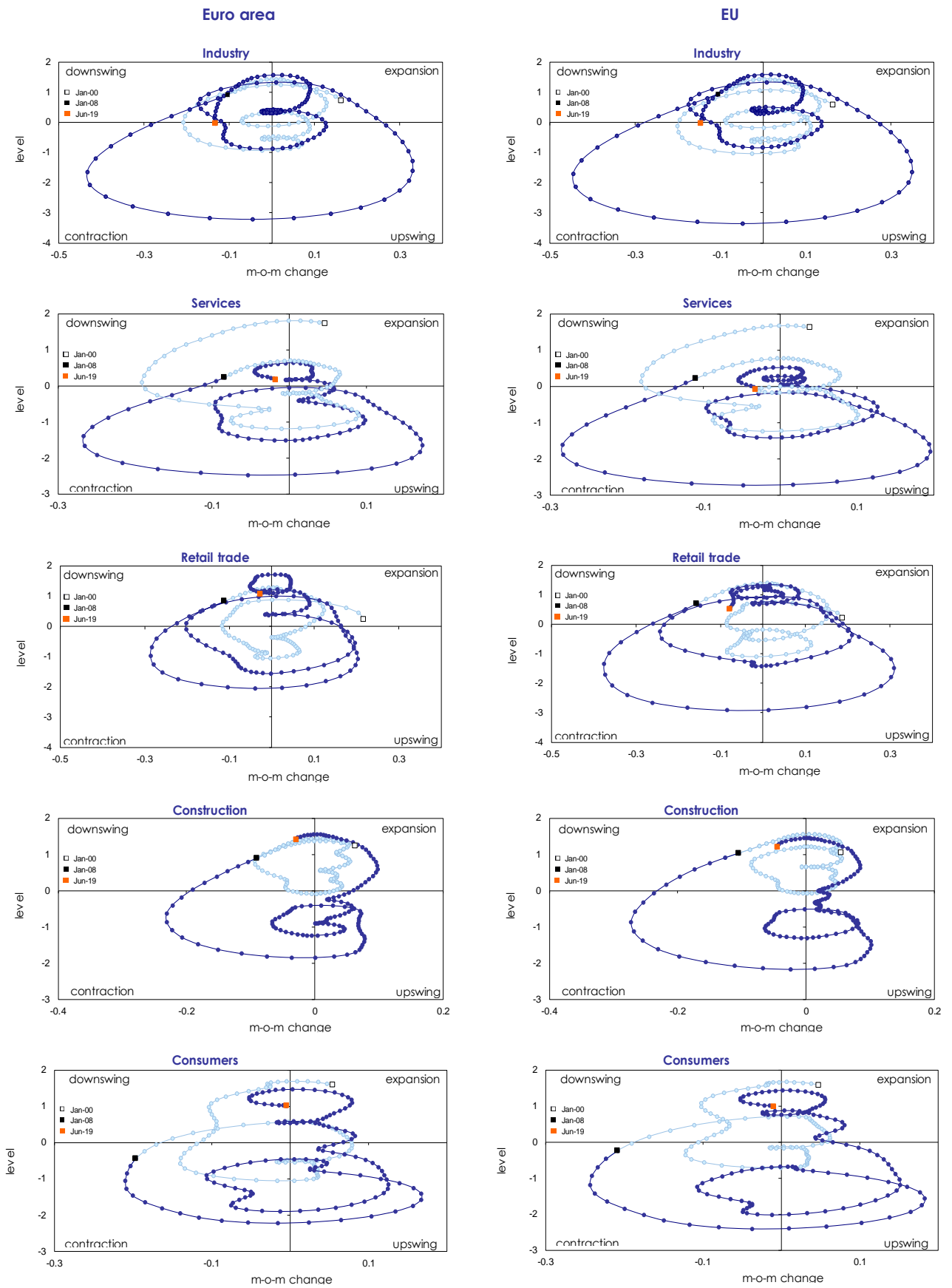


The sectoral climate tracers (see Graph 1.1.14) for industry moved to the downswing/contraction frontier in the EA and the EU. In services the EA climate tracer remained in the downswing quadrant, close to the frontier with contraction, moving towards the frontier with the expansion area. In the EU, by contrast, the services climate tracer moved from the downswing quadrant to the contraction area. The climate tracers for retail trade and construction remained virtually unchanged, in the downswing quadrant, while the consumer tracer moved closer to the expansion quadrant (both in the EA and the EU).

Graph 1.1.13: EU Climate Tracer



Graph 1.1.14: Economic climate tracers across sectors

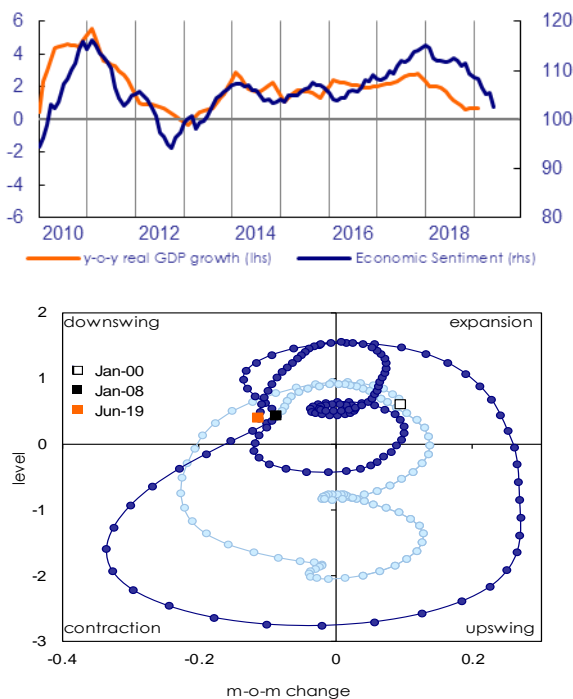


1.2. Selected Member States

2019-Q2 brought sharp sentiment losses in the UK (-5.7) and Germany (-4.0), as well as declines in the Netherlands (-2.4), Spain (-1.9) and Poland (-1.8). The ESI decreased only slightly in Italy (-0.8), while France stood out with a solid increase (+1.9).

Sentiment in **Germany** deteriorated for the third quarter in a row (-4.0), but, at 102.6 points, the current level of the ESI is still above its long-term average of 100. In terms of the climate tracer (see Graph 1.2.1), the German economy advanced deeper into the downswing quadrant, coming closer to the frontier with the contraction quadrant.

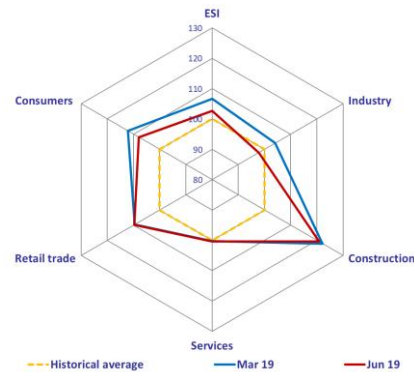
Graph 1.2.1: Economic Sentiment Indicator and Climate Tracer for Germany



From a sectoral perspective, confidence plummeted below its long-term average in industry and eased more moderately among consumers and in construction. Sentiment in services and retail trade remained broadly unchanged. In line with the euro area, all sectoral confidence indicators, except for those covering industry and services, are still at levels well in excess of their respective long-term averages (see Graph 1.2.2). Construction confidence is particularly high, reflecting the

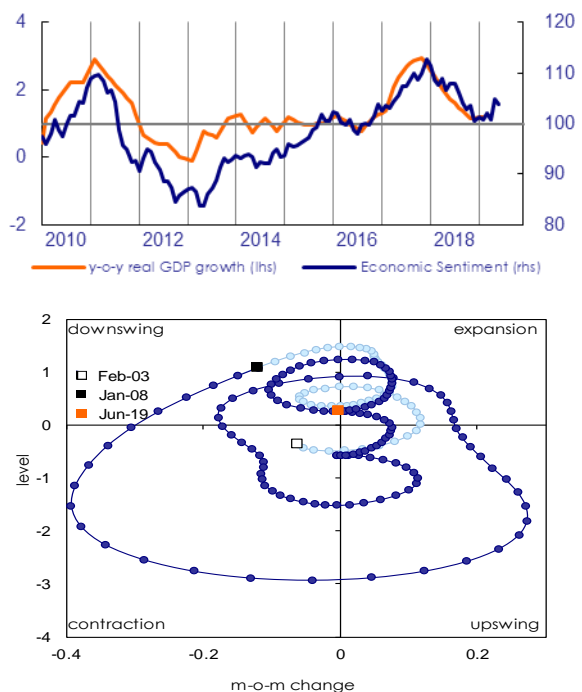
sector's multi-annual recovery which started in 2015.

Graph 1.2.2: Radar Chart for Germany



Defying the downward trend among its peer countries, **France** saw a solid improvement in confidence in 2019-Q2. The ESI increased by 1.9 points after a stabilisation in 2019-Q1, providing some hope of a bottoming-out. At 103.9 points, the indicator is rising further above its long-term average of 100.

Graph 1.2.3: Economic Sentiment Indicator and Climate Tracer for France

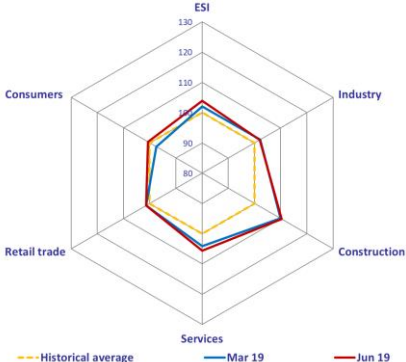


Based on the latest sentiment data, the French climate tracer moved to the intersection of the downswing and the expansion quadrant (see Graph 1.2.3).

A look at the French radar chart (see Graph 1.2.4) reveals upbeat overall sentiment resulting

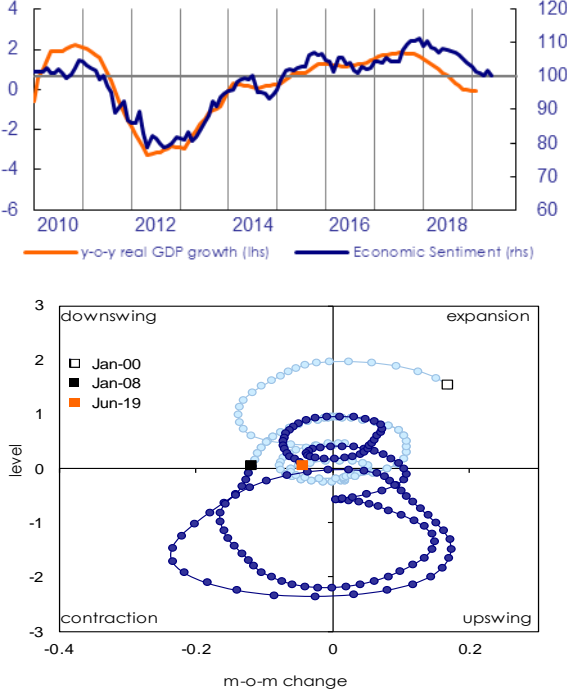
from improving confidence among consumers, in construction and in services, while sentiment stayed broadly unchanged in industry and retail trade. Confidence levels continued to exceed long-term averages in construction and, to a lesser extent, in industry, services and retail trade. Thanks to its improvement in 2019-Q2, consumer confidence moved back above its long-term average.

Graph 1.2.4: Radar Chart for France



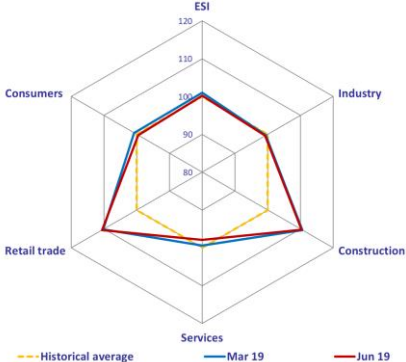
Sentiment in **Italy** stabilised somewhat, with the ESI losing 0.8 points on the quarter. At 100.2 points, the indicator is virtually at its long-term average of 100 and thus down to levels last seen in winter 2015. In line with sentiment, the Italian climate tracer remained broadly stable, just above the intersection of the downswing quadrant and the contraction area (see Graph 1.2.5).

Graph 1.2.5: Economic Sentiment Indicator and Climate Tracer for Italy



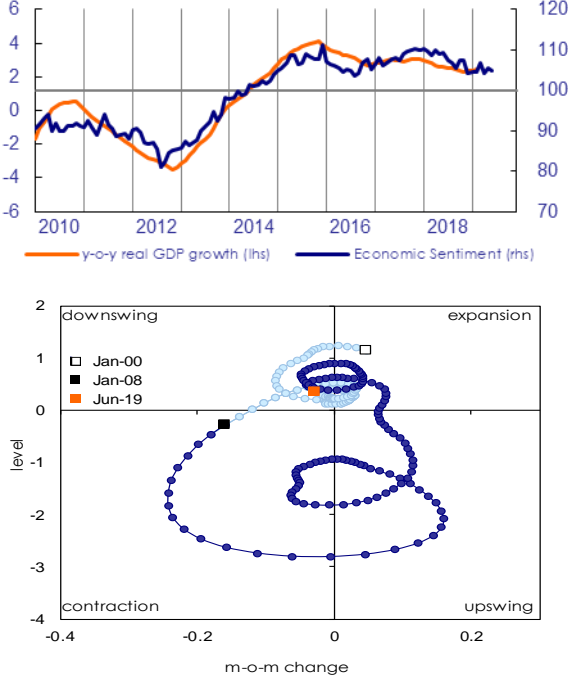
A look at the Italian radar chart (see Graph 1.2.6) shows virtually stable confidence in all sectors except for services, where sentiment worsened somewhat. Confidence levels are generally in line with the long-term average, with the exception of retail trade and construction, where they are particularly high.

Graph 1.2.6: Radar Chart for Italy



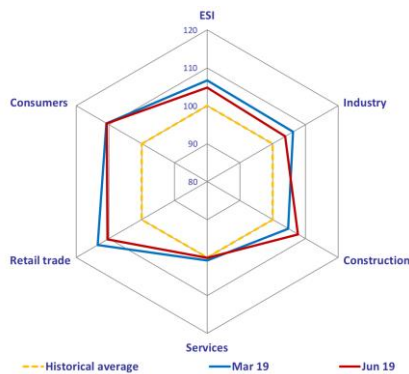
In **Spain**, sentiment deteriorated, offsetting the improvement of 2019-Q1. With a loss of 1.9 points, the ESI is virtually back to its level at the end of 2018, suggesting a stabilisation after one year of decline. The current score (104.8) is comfortably above the indicator's long-term average of 100. In line with the recent stabilisation signals, the Spanish climate tracer remained close to the intersection of the downswing quadrant with the expansion area (see Graph 1.2.7).

Graph 1.2.7: Economic Sentiment Indicator and Climate Tracer for Spain



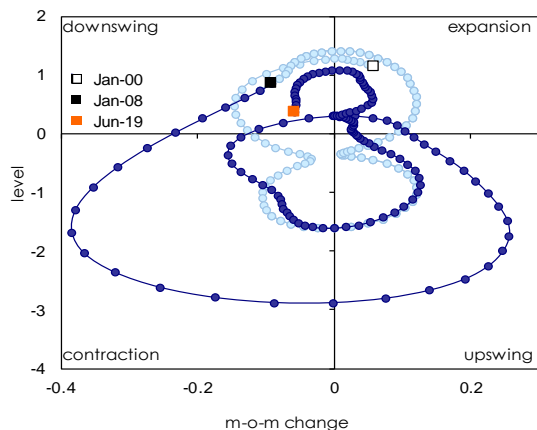
As shown in the radar-chart (see Graph 1.2.8), rising confidence was fuelled by a surge in construction confidence. Meanwhile, sentiment in retail trade, industry and services declined and consumer confidence remained broadly unchanged. Confidence indicators fare above their long-term averages in industry and construction, and are particularly high in retail trade and among consumers. In services, confidence is virtually at its long-term average.

Graph 1.2.8: Radar Chart for Spain



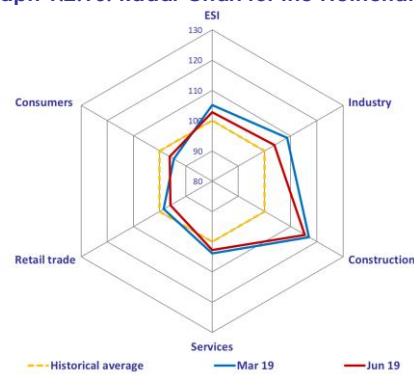
Dutch sentiment continued the downward trend embarked upon at the beginning of 2018, but the ESI remained above its long-term average of 100, shedding 2.4 points on the quarter (to 102.8 points). The latest decline pushed the Dutch climate tracer deeper into the downswing quadrant (see Graph 1.2.9).

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



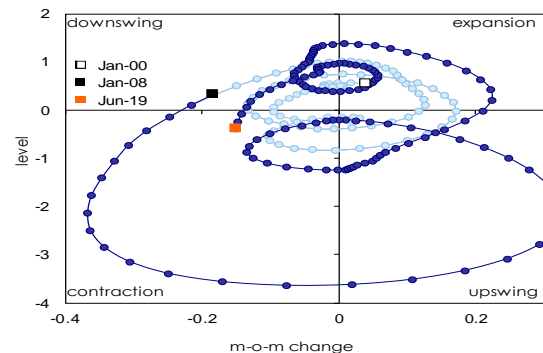
Sentiment deteriorated in all business sectors, namely industry, services, retail trade and construction, while consumer confidence edged up. Compared to long-term averages, confidence is low among consumers and retail trade managers, while high in industry, services and, particularly, construction (see Graph 1.2.10).

Graph 1.2.10: Radar Chart for the Netherlands



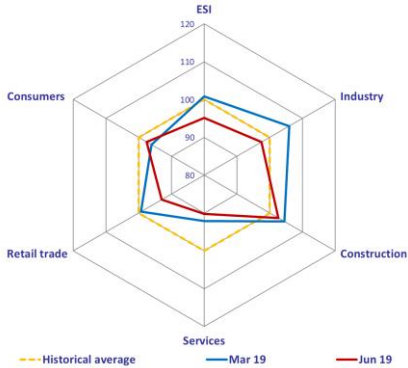
Sentiment in the **United Kingdom** worsened for the third consecutive quarter. Dropping by a significant 5.7 points (to 95.1), the country's ESI is now well below its long-term average of 100. In terms of the UK climate tracer, the faltering confidence translated into a downward move from the downswing quadrant into the contraction area (see Graph 1.2.11).

Graph 1.2.11: Economic Sentiment Indicator and Climate Tracer for the United Kingdom



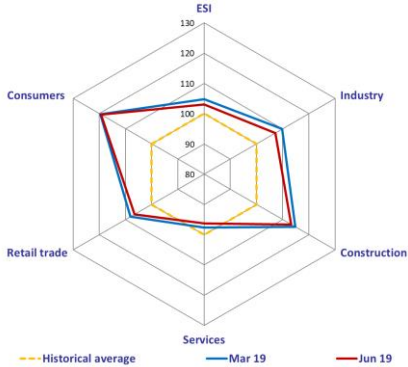
Focussing on sectoral developments (see Graph 1.2.12), confidence dropped in all surveyed business sectors, namely services, construction, and, particularly, retail trade and industry, while consumer confidence improved somewhat. The level of confidence in construction remained high by historical standards, while it was rather low in services, and among consumers. In industry and retail trade, confidence dropped below its long-term average.

Graph 1.2.12: Radar Chart for the UK



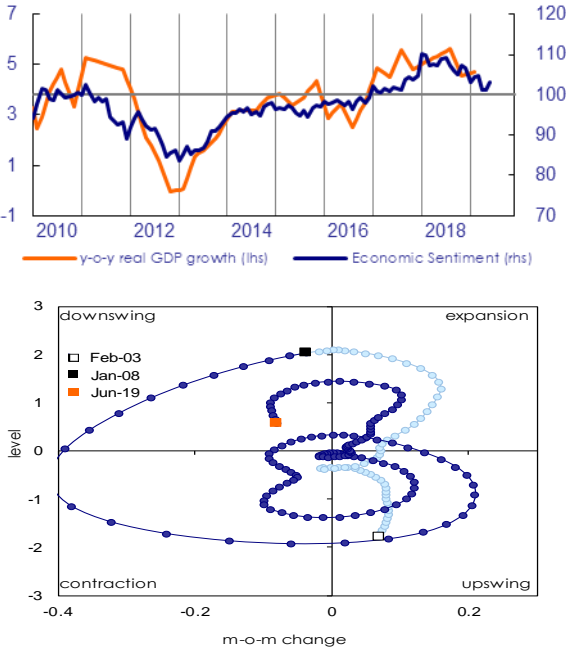
As the Polish radar chart shows (see Graph 1.2.14), confidence weakened in all surveyed business sectors (industry, services, retail trade, and construction), while sentiment among consumers stayed virtually flat. The level of confidence is generally much above long-term averages, with the exception of the services sector.

Graph 1.2.14: Radar Chart for Poland



Sentiment in **Poland** deteriorated, with the ESI shedding 1.8 points on the quarter. At 103.0 points, the indicator nevertheless continues exceeding its long-term average of 100. The slipping confidence sent the Polish climate tracer deeper into the downswing quadrant (see Graph 1.2.13).

Graph 1.2.13: Economic Sentiment Indicator and Climate Tracer for Poland



2. SPECIAL TOPIC: A CLOSER LOOK AT THE BCS DATA FROM THE BALKAN CANDIDATE COUNTRIES

Introduction

The Joint Harmonised EU Programme of Business and Consumer Surveys (BCS) is designed to track business cycle developments in the EU Member States, as a complement to real activity data. The value of the surveys comes first from their early release, at the end of the month to which they refer, and high frequency. Secondly, the EU BCS programme provides value added as it covers areas which are not covered by official statistics, such as managers' and consumers' plans and expectations, providing long and comparable time series across all EU Member States.

What is less known is that countries generally enter the EU BCS programme a long time before they actually join the EU, usually once they are granted the status of candidate countries. This ensures that long and stable survey time series are available already on the day of accession to the EU. In addition, the survey series are more useful when they are seasonally adjusted. To perform the seasonal adjustment properly, it takes a minimum of observations to detect seasonal patterns in the data. In the particular case of the EU BCS programme, the seasonal adjustment requires at least 3 years plus one observation. Among the current candidate countries, the last country, Albania, reached candidate status in June 2014 and was integrated into the BCS programme in May 2016. Its series thus reached the minimum length required for seasonal adjustment in May 2019, and were therefore published for the first time along with the results for the EU and other candidate countries in that month.

The occasion of this extension of the BCS coverage provides a good opportunity to explore and review those series from the EU BCS programme that are not usually in the

limelight of the regular monthly and quarterly publications on EU and euro area survey data⁴. This special topic on the Balkan countries covers Montenegro, North Macedonia and Serbia, and puts a special focus on Albania.

The longer the time series are getting for any given country, the more valuable they become for economic analysis. Table 2.1 presents the starting dates of the EU BCS surveys by country and sector. It shows that business surveys in North Macedonia are now available for 11 years. With 134 monthly observations or 44 quarterly observations, these series are long enough for extensive analysis using econometric techniques. The consumer survey in North Macedonia, as well as all surveys in Montenegro and Serbia are available for between 6 and 7 years, which might not be sufficient for econometric analysis, but has the potential to give valuable information about the relative position in the cycle or identifying new trends ahead of the publication of corresponding quantitative statistics (hard data). While the harmonised series for Albania are still comparably short (3 years),⁵ the publication of seasonally adjusted series gives a good opportunity to measure the correlation of the surveys with the corresponding reference series, discover trends and assess the typical volatility of the surveys.

⁴ The last special topic on the EU BCS programme in candidate countries dates back to 2014 Q3: 'BCS data from Macedonia, Turkey and Croatia – unearthing a survey treasure' http://ec.europa.eu/economy_finance/publications/cycle_indicators/2014/pdf/ebsci_3_en.pdf

⁵ From 2002 to April 2016, the Central Bank of Albania conducted quarterly surveys, whose questionnaires were not fully harmonised. See: https://www.bankofalbania.org/rc/doc/eng_vbb_k_shpjegim_per_ndryshimet_metodologjike_per_web_2016_07_11328.pdf

Table 2.1. Starting dates of EU business and consumer surveys by country and sector

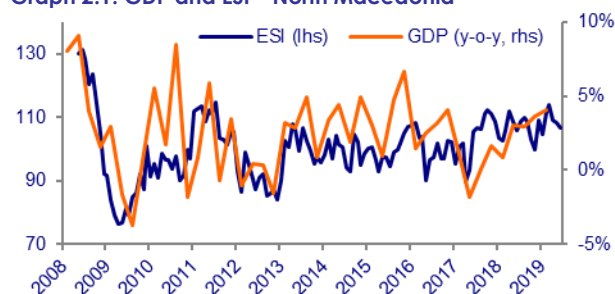
	INDU	SERV	CONS	RETA	BUIL	ESI
Albania	05/16	05/16	05/16	05/16	05/16	05/16
Montenegro	05/12	05/12	05/12	05/12	05/12	05/12
North Macedonia	05/08	05/08	05/12	05/08	05/08	05/08
Serbia	05/13	05/13	05/13	05/13	05/13	05/13

Visual comparison of the ESI and GDP

To get a first impression of the surveys series for the Balkan countries, this section will present graphs of the Economic sentiment indicator (ESI), which is designed to track the whole economy by summarising developments in all five surveyed sectors⁶, together with the year-on-year (yoy) growth rate of GDP in individual countries.

Graph 2.1 compares the ESI and GDP growth in North Macedonia. With more than 11 years of survey data, the ESI enables us to identify clear cyclical patterns. Furthermore, the graph shows that developments in the ESI track developments in GDP growth closely.

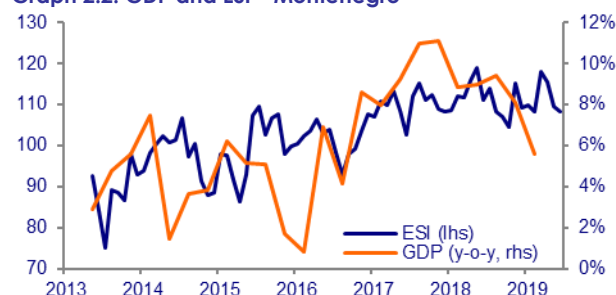
Graph 2.1. GDP and ESI – North Macedonia



Graph 2.2 presents the same series for Montenegro, where the EU BCS programme started in May 2013. With 6 years of data, it is somewhat more difficult to identify cyclical patterns in the ESI for Montenegro than for North Macedonia. However, the broad picture of GDP growth picking up in 2016 is captured

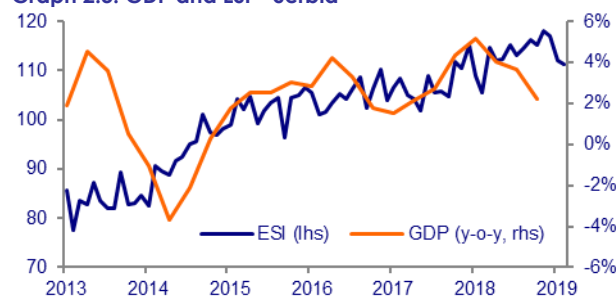
by the ESI, which hovers around 110 since late 2016, a level unseen before.

Graph 2.2. GDP and ESI – Montenegro



Graph 2.3 displays the ESI for Serbia, together with GDP growth, since May 2013. The ESI shows a clear upward trend since 2013, at a level above 110 since mid-2018. However, this trend does not reflect developments in GDP growth closely. In 2013, yoy GDP growth reached 4%, before falling to almost -4% in mid-2014. Since then, GDP growth picked up to rates between 3 and 5%, except for a temporary slowdown in 2017 and a more recent deceleration in 2019. While the recovery and broad upward trend after 2014 is visible in the survey data, accelerations and decelerations in the economy are not discernible from the sentiment series.

Graph 2.3. GDP and ESI – Serbia



Finally, Graph 2.4 shows the only recently published ESI for Albania, together with the GDP growth rate. While three years of data are not enough to draw strong conclusions about the survey series⁷, the ESI shows already a strong cyclical pattern in Albania over this period. It went up from around 80 in May 2016

⁶ See the User Guide to the BCS Programme for details: https://ec.europa.eu/info/files/user-guide-joint-harmonised-eu-programme-business-and-consumer-surveys_en

⁷ This is aggravated by the long publication lags of the hard statistical data, which are currently only available until late 2018 – while survey data have practically no publication lag.

to around 110 one year later and then slowly decreased to reach 80 again in April 2019. At the same time, GDP growth went up from around 3% in 2016 to around 4% in 2017, and then remained broadly stable before a marked slowdown set in in 2018 Q4. More observations will be needed to verify whether the lead in the survey data in identifying the cooling of the economy will prove reliable and stable over time. For 2019, the survey indicator would suggest further deceleration of activity in the Albanian economy following the peak in 2018. This is consistent with the European Commission Spring Forecast for Albania, where GDP growth is forecast to slowly decrease towards its 2016 rate. However, the latest readings in ESI would suggest a rebound around mid-2019.

Graph 2.4. GDP and ESI – Albania

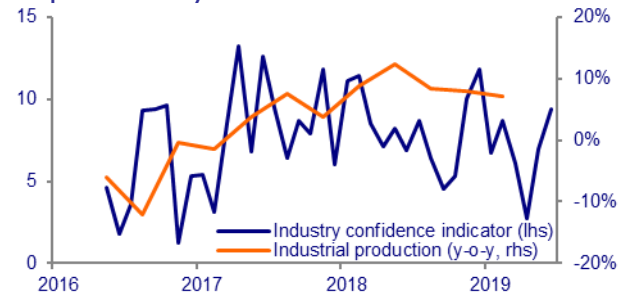


A first glance at sectoral data in Albania

In addition to the ESI, which is an aggregated indicator of the economic activity as a whole, the BCS programme offers sectoral confidence indicators that allow zooming into the developments in individual sectors in Albania.

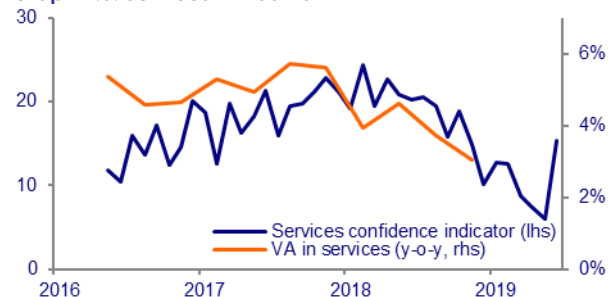
Graph 2.5 presents the Industry confidence indicator, together with the yoy growth rate of industrial production. While industrial production picked up and accelerated quite strongly in the last three years in Albania, from around -10% in 2016 Q3 to close to +15% in 2018Q2, the industry confidence indicator displays a significant amount of month-on-month volatility and, apart from a vaguely hump-shaped trend, hardly signals a clear cyclical pattern over the same period. However, considering that hard statistical data on industrial activity is currently only available until 2019-Q1, the industrial confidence indicator suggests a cooling in 2019.

Graph 2.5. Industry – Albania



Graph 2.6 displays the developments in the services confidence indicator in Albania, together with value-added growth in the services sector. The services confidence indicator increased from around 10 in June 2016 to almost 25 in February 2018, and then decreased steadily to around 6 in May 2019, before strongly picking up in June. At the same time, value-added in the services sector accelerated slightly from around +5% in 2016 Q3 to almost +6% in 2017 H2. Since then, growth slowed down to around +3% in 2018 Q4. Overall, both series show parallel developments, although they are not exactly coincident: the confidence indicator peaked only in February 2018, while value-added in services appears to have peaked around the end of 2017 already.

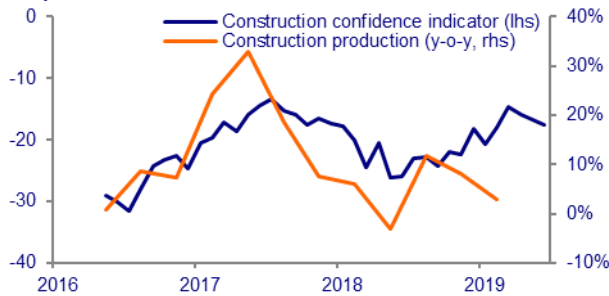
Graph 2.6. Services – Albania



Graph 2.7 shows the construction confidence indicator and the growth rate of construction production in Albania. Although there are only three years of data available, the series already show very similar developments. Both increased from 2016 Q2 to 2017 Q2, then decreased until 2018 Q2 and increased again up until now. As in the services sector, the series appear however not to be exactly coincident. In particular, while the yoy growth rate of construction production peaked in 2017 Q2, the construction confidence indicator only peaked in July 2017. It has to be kept in mind, though, that due to the long publication lags of the hard

statistical data, there is still an information lead of the surveys in real time.

Graph 2.7. Construction – Albania



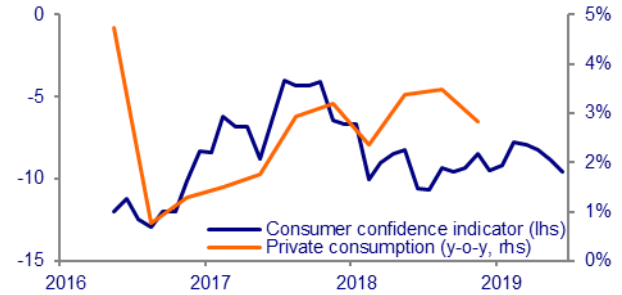
Graph 2.8 presents the retail trade confidence indicator together with the growth rate of the (deflated) turnover in the retail trade sector. In this case, it is quite difficult to find similarities between the two series, because of the combination of a very short sample and a considerable amount of volatility, especially in the turnover series⁸. While not visible in the hard statistical data, the survey series points to a softer patch in retail trade activity after a boom in late 2017/early 2018.

Graph 2.8. Retail trade – Albania



Graph 2.9 displays the consumer confidence indicator and the growth rate of private consumption in Albania. Due to the very short available sample, it is difficult to reconcile the accelerating trend of private consumption since 2016 Q3 with the decreasing trend in consumer confidence indicator from 2017 Q3 to 2018 Q2. Since 2018Q3, the consumer confidence indicator suggests a mildly increasing trend again.

Graph 2.9. Consumers – Albania



Tracking performance

While visual inspection is very effective to get a first impression of the survey series and broadly assess their similarities with the corresponding reference series, computing correlations between the two series can help assess the tracking performance of the BCS series more formally. Table 2.2 presents the correlation of sectoral confidence indicators with the yoy growth rates of their corresponding reference series, as well as the correlation of the ESI with GDP yoy growth. For each series, the coincident correlation is presented together with the highest correlation computed with a short lead or lag.

Table 2.2. Correlation between BCS time-series and hard-data reference series

	INDU	SERV	RETA	BUIL	CONS	ESI
AL	0.29	0.34	-0.67	0.49	0.42	0.36
	0.64 (1)	0.65 (-1)	-0.19 (2)	0.69 (-1)	0.56 (2)	0.50 (2)
ME	-0.07	*	-0.06	0.59	0.48	0.62
	-0.02 (-1)		-0.06 (0)	0.70 (1)	0.56 (-1)	0.74 (-1)
MK	0.76	0.07	0.20	0.15	-0.14	0.37
	0.76 (0)	0.49 (1)	0.20 (0)	0.21 (-1)	-0.01 (-1)	0.37 (0)
RS	0.04	0.77	0.50	0.34	0.65	0.44
	0.75 (2)	0.89 (1)	0.54 (-1)	0.46 (-1)	0.74 (-1)	0.80 (2)

Note: For each series, the first value is the coincident correlation between the BCS series and the corresponding hard-data series. The second value is the highest correlation with a short lag or lead, from one-quarter lag to two-quarter lead. The value in brackets is the lead (or lag, with a negative sign) in quarters that corresponds to the maximum correlation. Correlations were computed on quarterly data, over the entire available sample for each country and sector, i.e. from Q3 of the year mentioned in Table 1 to 2019 Q1.

Country abbreviations: AL – Albania, ME – Montenegro, MK – North Macedonia, RS – Serbia.

* Value-added in services is not currently available in ME.

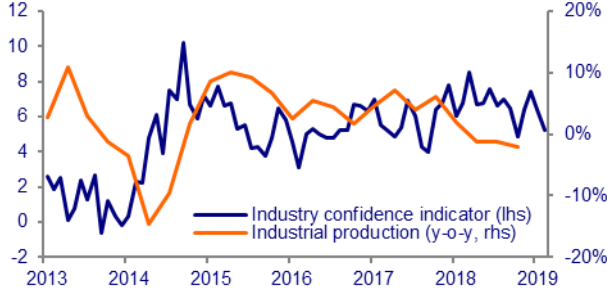
Overall, it confirms the previous assessments that the ESI tracks GDP developments in all four considered countries rather well. Concerning the sectoral confidence indicators in Albania, the results of the previous section are broadly confirmed. Correlation in industry is quite high with a one-quarter lead (0.64), and

⁸ Measurement of retail trade turnover may to some extent be hampered by an elevated level of informality of the economy.

negative in retail trade. On the other hand, correlation in construction is rather high, at 0.69 (with a one-quarter lag), as well as in services (0.65). For the consumer confidence indicator, correlation is satisfactory, at 0.56 with a two-quarter lead.

In the three other Balkan candidate countries, there are several sectors where correlation with the reference series is quite low, or even negative. This often improves when one considers correlations with a short lead or lag. For instance, in the industry sector in Serbia, coincident correlation between the confidence indicator and the growth rate in industrial production is close to zero (0.04), but a look at graph 2.10, displaying both series, shows that the industry confidence indicator appears to be leading industrial production. Taking into account this leading behaviour, correlation actually rises to 0.75. In the case of Montenegro, broadly zero correlation between the industry confidence indicator and industrial production growth can partly be attributable to differences in coverage: while the industrial production index includes the important national electricity production, the BCS programme only covers the manufacturing sector.⁹

Graph 2.10. Industry – Serbia



Volatility

Beyond visual inspection of the survey series and their correlation with the reference series, one of the main characteristics of a time series to be watched is volatility. If it is too high, it is

⁹ Taking into account these differences in coverage, correlation with the production index in the manufacturing sector rises to 0.26 (with a one-quarter lag).

difficult to read the month-on-month changes and distinguish monthly volatility from meaningful changes in the evolution of the indicator.

One way to measure volatility is to calculate the Months for Cyclical Dominance (MCD).¹⁰ Practically, it assesses how many months a user of (survey) data must observe the evolution of a given indicator before he can reasonably safely assume that the observed economy (or sector) is indeed moving up- or downwards. Table 2.3 presents the MCD of all confidence indicators as well as the ESI. It also compares MCDs with the average of all EU Member States.

Table 2.3. MCDs of BCS indicators by country and sector

	INDU	SERV	RETA	BUIL	CONS	ESI
Albania	*	1	3	1	3	1
Montenegro	3	*	6	5	6	5
North Macedonia	3	4	4	5	3	3
Serbia	5	6	*	4	4	5

EU average 3.0 3.1 4.0 3.0 3.1 2.6

Note: MCDs were computed over the entire available sample for each country and sector, i.e. from Q3 of the year mentioned in Table 1 to 2019 Q2. Results are thus not fully comparable across countries.

(*) For short samples, the underlying decomposition does not always work reliably, leading to unreasonable values of MCD, even though the series do not look particularly volatile.

In all cases (where a reasonable time-series decomposition could be carried out) the MCDs are below or equal to 6 months, which can be considered as an upper limit for meaningful monthly series.

In Albania, the volatility for all sectors except industry is below the average across all EU Member States. Although the very short sample makes the results difficult to compare with the longer underlying sample for the EU countries, this would suggest that the Albanian survey series are rather smooth and informative. In North Macedonia, MCDs are broadly in line

¹⁰ The MCD is based on a time-series decomposition into trend-cycle (C), seasonal and irregular (I) components. MCD is defined as the shortest span of months for which the I/C ratio is less than unity, where I and C are the average month-to-month changes without regard to sign of the irregular and trend-cycle component of the series, respectively.

with the EU average. Finally, in Montenegro and Serbia the typical volatility appears to be slightly above the EU average.

Conclusion

The BCS data from the Balkan candidate countries proves to be a rich dataset, which is probably underused. Data series from North Macedonia are now long enough to be used in econometric models. In addition, confidence indicators in many sectors in the four countries analysed proved to have high correlation with the corresponding reference series, without showing excessive volatility. In particular for the countries considered here, the practical advantage of the availability of the survey series at the end of each month, as compared to the long lags of the statistical hard data, can hardly be overestimated for the purpose of monitoring economic activity.

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	2018		2019		Average	2018		2019		Average	2018		2019		Average	2018		2019	
	2004-2019	Q3	Q4	Q1	Q2	2004-2019	Q3	Q4	Q1	Q2	2004-2019	Q3	Q4	Q1	Q2	2004-2019	Q3	Q4	Q1	Q2
EU	9.2	7.7	8.1	7.6	8.8	3.7	2.9	3.1	2.8	3.0	6.6	5.2	5.7	5.3	5.9	11.6	9.4	10.2	9.8	11.2
EA	8.8	6.0	6.6	6.3	7.5	3.7	2.4	2.6	2.5	2.7	6.3	4.1	4.6	4.4	4.9	11.1	7.1	8.0	7.8	9.2
Gender: Male																				
EU	7.9	6.7	7.1	6.7	7.6	3.3	2.6	2.8	2.6	2.7	5.7	4.6	5.0	4.7	5.0	9.9	8.1	8.5	8.1	9.4
EA	7.9	6.7	7.1	6.7	7.6	3.3	2.6	2.8	2.6	2.7	5.7	4.6	5.0	4.7	5.0	9.9	8.1	8.5	8.1	9.4
Gender: Female																				
EU	10.5	8.9	9.3	8.7	10.3	4.2	3.1	3.5	3.0	3.5	7.6	5.9	6.3	5.7	6.7	13.5	11.4	11.6	11.2	13.0
EA	10.5	8.9	9.3	8.7	10.3	4.2	3.1	3.5	3.0	3.5	7.6	5.9	6.3	5.7	6.7	13.5	11.4	11.6	11.2	13.0
Age: 16 to 29																				
EU	9.8	8.8	8.9	10.6	10.6	4.0	2.9	3.6	3.8	3.8	7.3	6.0	6.8	8.1	8.1	12.9	12.1	11.7	14.7	14.7
EA	9.3	5.9	6.1	8.3	8.3	3.9	2.2	2.6	3.0	3.0	7.0	3.9	4.8	5.9	5.9	12.1	7.8	7.6	11.6	11.6
Age: 30 to 49																				
EU	9.4	8.3	8.8	8.2	9.6	3.8	3.0	3.4	3.0	3.1	6.8	5.7	6.2	5.5	6.3	11.9	10.4	11.1	10.9	12.1
EA	9.1	6.1	6.8	6.6	7.9	3.8	2.3	2.7	2.7	2.8	6.5	4.2	4.7	4.5	5.2	11.4	7.4	8.0	8.6	9.7
Age: 50 to 64																				
EU	8.9	7.3	7.5	6.9	8.3	3.7	2.8	3.1	2.8	3.1	6.4	5.0	5.1	4.7	5.7	11.2	9.1	9.4	8.7	10.5
EA	8.6	6.1	6.7	6.1	7.3	3.6	2.5	2.7	2.6	2.7	6.2	4.2	4.6	4.3	5.0	10.8	7.4	8.3	7.6	9.3
Age: 65+																				
EU	8.8	6.2	6.8	6.3	7.0	3.8	2.8	3.1	2.8	3.0	6.4	4.4	5.0	4.5	4.9	11.0	7.3	8.3	7.5	8.6
EA	8.4	5.6	6.2	5.7	6.3	3.7	2.3	2.7	2.5	2.6	6.1	3.9	4.4	4.0	4.5	10.3	6.5	7.5	6.8	7.7
Income: 1st quartile																				
EU	11.5	9.8	10.2	10.3	11.1	4.5	3.5	3.7	3.6	4.0	8.3	6.8	7.0	7.1	7.6	15.0	12.4	13.3	13.6	14.6
EA	11.0	8.1	8.9	8.9	10.0	4.4	3.1	3.1	3.3	3.6	7.9	5.2	5.9	6.1	6.9	14.2	10.0	11.2	11.8	13.1
Income: 2nd quartile																				
EU	9.6	8.0	12.7	8.0	9.7	4.0	3.1	3.4	2.8	3.6	7.0	5.7	5.8	5.5	6.5	12.3	10.0	10.5	10.2	12.1
EA	9.2	6.4	13.3	6.7	8.4	3.9	2.5	2.9	2.8	3.1	6.7	4.6	5.0	4.6	5.5	11.8	7.9	8.5	8.3	10.5
Income: 3rd quartile																				
EU	8.6	7.2	7.6	7.3	8.4	3.6	2.7	3.1	2.9	3.1	6.3	5.0	5.6	5.3	5.7	10.9	8.9	9.7	9.4	10.1
EA	8.3	5.6	6.1	5.8	7.1	3.6	2.3	2.6	2.5	2.6	6.1	4.0	4.5	4.3	4.9	10.4	6.7	7.5	7.2	8.3
Income: 4th quartile																				
EU	7.3	6.4	6.8	6.0	7.1	3.1	2.5	2.7	2.6	2.7	5.4	4.4	4.7	4.4	4.8	9.2	7.9	8.4	7.7	9.2
EA	6.9	4.4	5.0	4.7	5.4	3.0	1.9	2.2	2.1	2.2	5.1	3.3	3.7	3.5	3.9	8.6	5.4	6.2	5.9	6.9
Education: Primary																				
EU	11.0	9.9	11.3	10.2	12.6	4.3	3.5	4.2	3.7	4.3	7.9	6.8	7.7	7.6	9.1	14.4	13.4	15.9	13.5	17.1
EA	10.1	7.3	8.4	7.5	9.4	4.1	2.9	3.1	3.0	2.9	7.1	5.2	5.4	4.9	5.8	12.7	9.1	10.9	9.3	11.7
Education: Secondary																				
EU	9.3	8.1	12.1	8.1	9.3	3.8	3.0	3.1	2.8	3.3	6.8	5.5	5.8	5.5	6.3	11.9	10.0	10.4	10.7	11.8
EA	8.8	6.2	12.6	7.0	8.0	3.7	2.5	2.8	2.7	2.9	6.3	4.3	4.9	4.6	5.4	11.1	7.6	8.7	9.1	10.1
Education: Further																				
EU	7.5	6.7	7.0	6.6	7.4	3.2	2.6	2.9	2.7	2.7	5.5	4.6	5.0	4.7	5.1	9.6	8.3	9.2	8.6	9.5
EA	7.0	4.8	5.3	5.1	5.9	3.1	2.0	2.3	2.3	2.4	5.2	3.4	3.8	3.7	4.1	8.9	5.8	6.7	6.6	7.2

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

	weighted mean adjusted for outliers					25% quartile					median					75% quartile									
	Average		2018		2019		Average		2018		2019		Average		2018		2019		Average		2018		2019		
	2004-2019	Q3	Q4	Q1	Q2	2004-2019	Q3	Q4	Q1	Q2	2004-2019	Q3	Q4	Q1	Q2	2004-2019	Q3	Q4	Q1	Q2	2004-2019	Q3	Q4	Q1	Q2
EU	5.3	5.4	5.9	5.6	6.2	4.4	4.2	4.8	4.4	5.0	8.1	8.4	9.0	8.4	9.8	0.6	0.6	0.6	0.6	0.6					
EA	4.5	3.5	4.0	3.6	4.4	3.8	2.7	3.2	2.9	3.5	6.9	5.2	5.9	5.3	6.8	0.5	0.5	0.5	0.5	0.5					
Gender: Male																									
EU	5.8	5.9	6.4	6.1	6.8	2.2	2.0	2.2	2.1	2.2	3.9	3.6	4.1	3.8	4.0	7.0	7.3	7.6	6.9	7.9					
EA	5.1	4.1	4.5	4.2	5.1	1.9	1.4	1.7	1.5	1.6	3.4	2.6	3.0	2.7	3.1	6.1	4.7	5.3	4.8	5.6					
Gender: Female																									
EU	7.4	7.6	8.2	7.7	8.9	2.7	2.5	2.8	2.5	2.8	5.1	4.9	5.4	5.3	5.8	9.5	9.8	10.4	9.7	11.5					
EA	6.4	5.1	5.8	5.2	6.7	2.3	1.7	2.0	1.8	2.0	4.3	3.2	3.6	3.4	4.2	8.0	6.2	6.8	6.2	8.2					
Age: 16 to 29																									
EU	7.1	8.0	8.0	9.6	9.6	2.5	2.7	3.1	3.0	3.0	5.0	5.8	6.1	6.8	6.8	9.4	10.9	10.9	12.8	12.8					
EA	6.0	4.8	4.4	6.3	6.3	2.1	1.7	1.6	1.6	1.6	4.1	3.0	3.0	4.1	4.1	7.8	6.1	5.4	7.6	7.6					
Age: 30 to 49																									
EU	6.7	7.4	8.0	7.6	8.7	2.4	2.4	2.7	2.5	2.5	4.5	4.8	5.3	5.1	5.7	8.5	9.3	10.1	9.9	11.5					
EA	5.9	4.6	5.2	5.0	6.2	2.1	1.5	1.9	1.6	1.9	3.9	2.8	3.3	3.2	4.0	7.2	5.3	6.4	5.9	7.6					
Age: 50 to 64																									
EU	6.4	6.3	6.6	6.1	7.0	2.4	2.2	2.4	2.1	2.3	4.3	3.9	4.3	3.9	4.3	7.9	7.9	7.7	7.2	8.5					
EA	5.6	4.6	5.2	4.5	5.6	2.1	1.6	1.8	1.7	1.8	3.8	2.8	3.1	2.8	3.3	6.8	5.4	6.0	5.3	6.6					
Age: 65+																									
EU	6.1	5.1	5.9	5.3	5.8	2.5	2.1	2.4	2.2	2.3	4.3	3.6	4.1	3.6	4.0	7.5	6.1	7.2	6.4	7.0					
EA	5.2	4.1	4.8	4.2	4.8	2.1	1.7	1.9	1.7	1.8	3.6	2.8	3.3	2.8	3.2	6.4	4.7	5.6	5.0	5.6					
Income: 1st quartile																									
EU	8.2	8.3	8.7	8.7	9.7	2.8	2.5	2.8	2.7	3.2	5.5	5.5	5.7	5.5	6.3	10.6	10.8	11.0	11.6	13.2					
EA	7.0	5.7	6.5	6.1	7.5	2.4	1.7	2.1	1.8	2.3	4.7	3.6	4.0	3.7	4.6	8.9	6.9	8.0	8.0	10.0					
Income: 2nd quartile																									
EU	6.9	6.9	8.9	7.4	8.5	2.6	2.4	2.5	2.4	2.7	4.8	4.4	5.0	4.7	5.5	8.8	8.8	9.5	9.3	11.3					
EA	5.9	4.9	8.6	5.0	6.3	2.2	1.8	1.9	1.7	1.8	4.1	3.1	3.4	3.2	4.0	7.5	5.9	6.4	6.0	8.0					
Income: 3rd quartile																									
EU	6.2	6.3	6.8	6.6	7.5	2.4	2.2	2.5	2.2	2.4	4.3	4.2	4.7	4.2	4.7	7.7	7.9	8.5	8.5	9.4					
EA	5.4	4.2	4.8	4.4	5.6	2.0	1.6	1.8	1.7	1.8	3.7	2.8	3.2	3.0	3.5	6.7	5.0	5.7	5.2	6.7					
Income: 4th quartile																									
EU	5.3	5.9	6.4	5.5	6.4	2.1	2.0	2.3	2.1	2.2	3.7	3.8	4.2	3.8	4.0	6.7	7.4	7.8	7.0	7.5					
EA	4.6	3.6	4.1	3.5	4.4	1.8	1.4	1.7	1.5	1.7	3.2	2.3	2.8	2.5	2.9	5.6	4.2	5.0	4.3	5.1					
Education: Primary																									
EU	7.9	8.7	9.5	8.7	11.1	2.7	2.9	2.9	2.8	3.5	5.4	6.0	6.8	5.9	7.5	10.3	11.8	13.3	11.1	15.9					
EA	6.3	5.2	6.2	4.9	7.2	2.2	1.9	2.0	1.6	2.0	4.3	3.4	4.0	3.1	4.2	7.9	6.1	7.6	5.7	9.5					
Education: Secondary																									
EU	6.7	6.9	8.2	7.1	8.0	2.4	2.4	2.5	2.2	2.6	4.6	4.7	5.0	4.6	5.3	8.5	8.9	9.1	8.8	10.3					
EA	5.8	4.8	7.8	5.2	6.3	2.1	1.7	2.0	1.7	2.0	3.9	3.1	3.4	3.2	4.0	7.1	5.7	6.5	6.3	7.6					
Education: Further																									
EU	5.6	6.1	6.6	6.3	6.9	2.2	2.1	2.4	2.2	2.3	3.8	3.9	4.3	4.2	4.2	7.0	7.7	8.6	7.5	8.2					
EA	4.8	3.9	4.4	4.1	4.8	1.9	1.5	1.8	1.6	1.6	3.3	2.5	2.9	2.7	3.0	5.9	4.6	5.2	4.7	5.5					

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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