

Euro Challenge Task

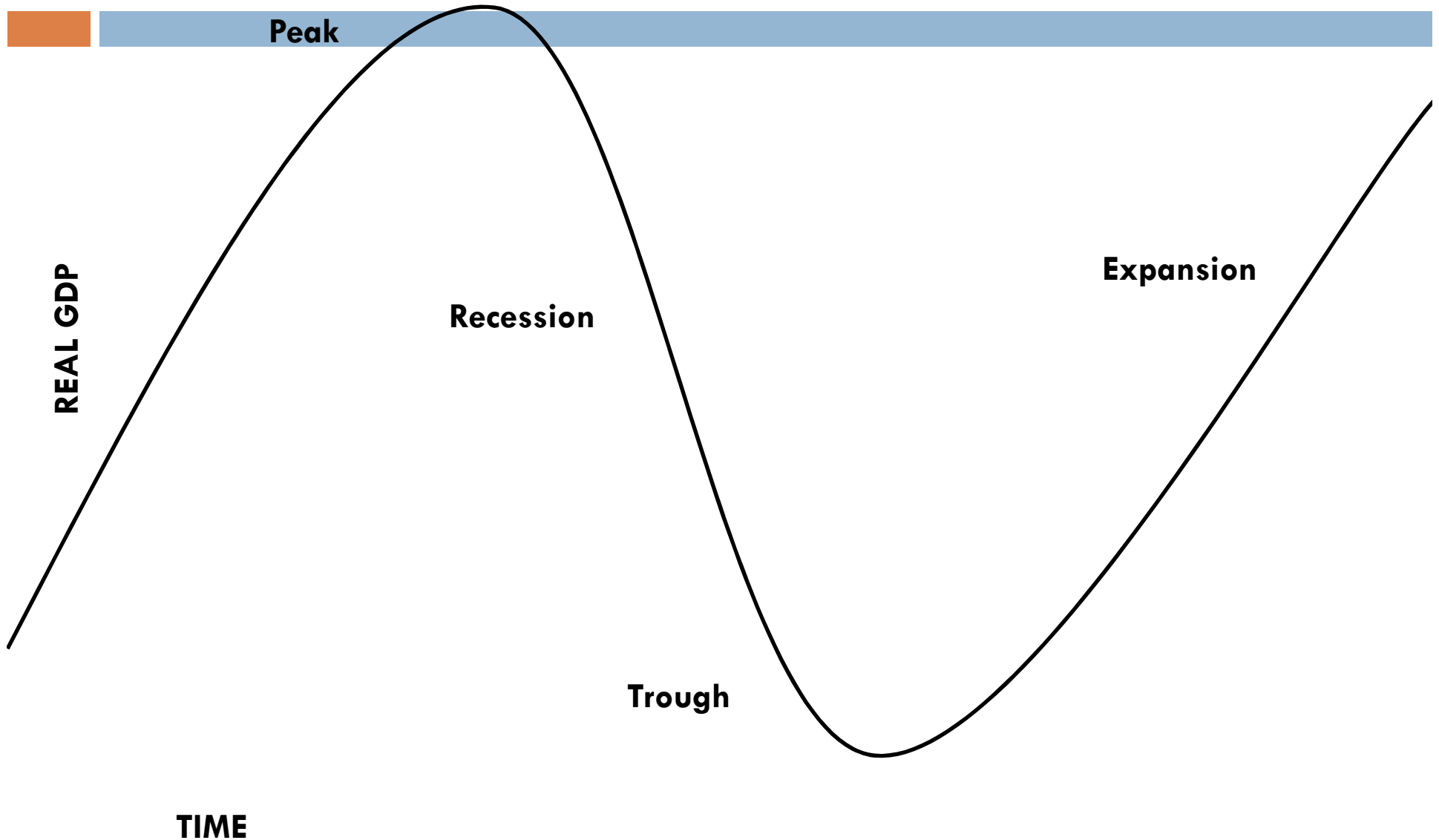


- Describe the current economic situation in the euro area (the economic region consisting of the 18 EU member countries who will have adopted the euro by January 2014).
- Select one economic-related challenge confronting the euro area as a whole (see list below), and pick one of the 17 member countries of the euro area to illustrate that challenge.
- Recommend a policy or policies for addressing the challenge you identified in the country you selected. Be sure to include in your recommendation a discussion of how having a single currency may or may not affect the policy choices for addressing the challenge.

MAKING SENSE OF ECONOMIC INDICATORS

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The Business Cycle



CYCLE vs. FLUNCTUATIONS



- The recurring and fluctuating levels of economic activity that an economy experiences over a long period of time.
- Today they are widely believed to be irregular, varying in frequency, magnitude and duration.
- Business cycles are usually measured by considering the growth rate of real gross domestic product.

WHY



- Business cycles do occur when disturbances to the economy of one sort or another push the economy above or below full employment.
- Inflationary booms can be generated by surges in private or public spending.
- A substantial cut in government spending or a wave of pessimism among consumers and firms may cause the output of all types of goods to fall.

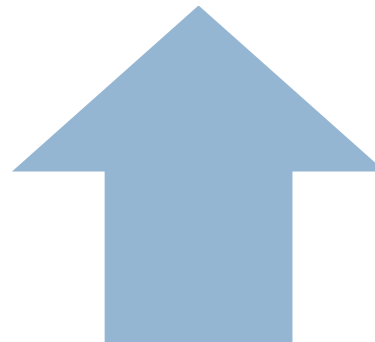
EXPANSION



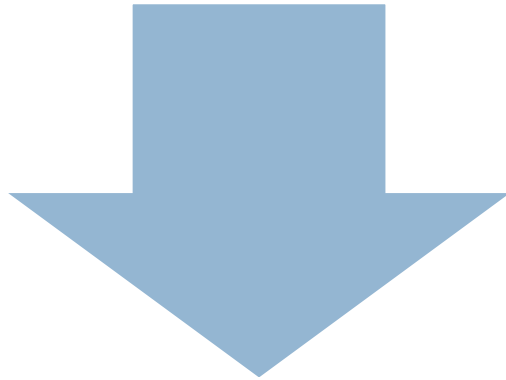
UNEMPLOYMENT



GDP &
INFLATION



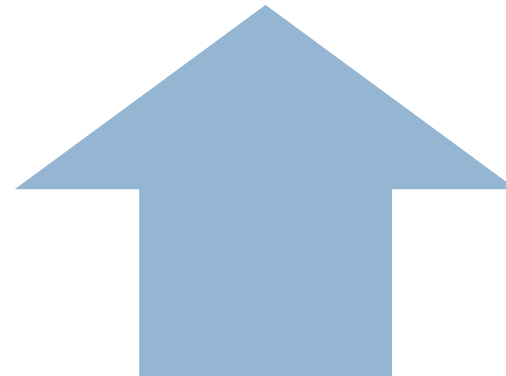
PEAK



UNEMPLOYMENT



INFLATION &
GDP



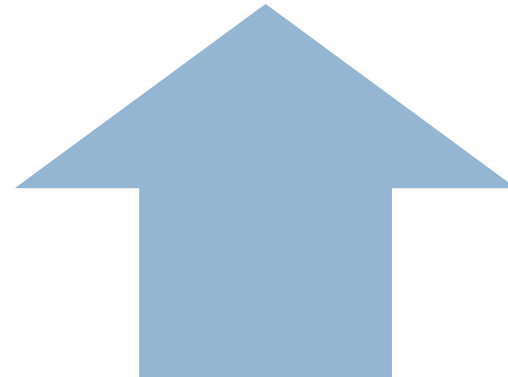
RECESSION



GDP &
INFLATION



UNEMPLOYMENT



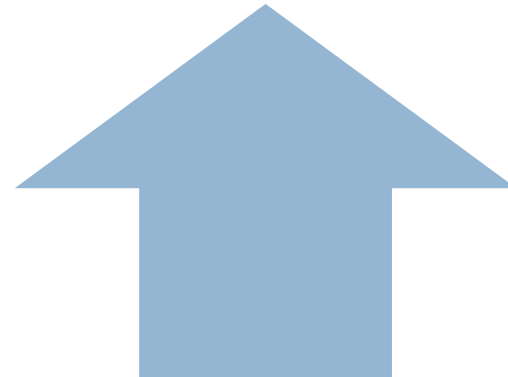
TROUGH




INFLATION &
GDP



UNEMPLOYMENT



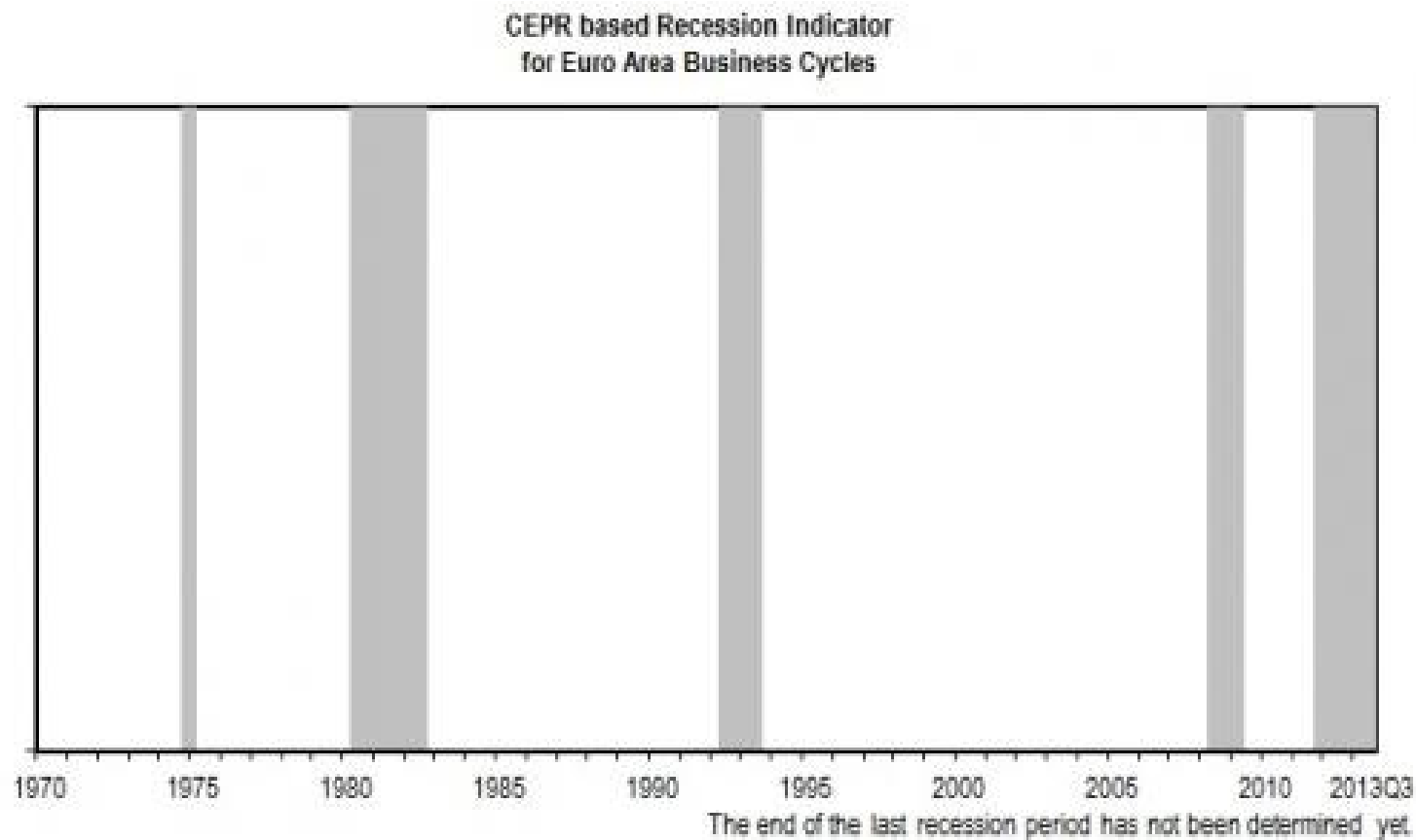
Euro Area Business Cycles



DATE	PEAK/TROUGH
2011Q3	Peak
2009Q2	Trough
2008Q1	Peak
1993Q3	Trough
1992Q1	Peak
1982Q3	Trough
1980Q1	Peak
1975Q1	Trough
1974Q3	Peak

Euro Area

- EU recession from 4Q 2011 through present (double-dip)



Economic Indicators



- CLIs (early signal)
- Real GDP (measured by CEPR)
- Inflation
- Unemployment

OECD CLIs



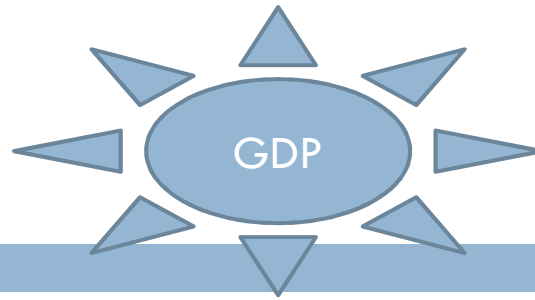
- ❑ Designed to provide early signals of turning points ahead of the Business Cycle by using measures that are highly sensitive to upcoming changes in business conditions.
- ❑ Provides qualitative vs. quantitative info on short-term economic movements
- ❑ Monthly versus quarterly (GDP)

Components of CLI



- ☐ Change from country to country
- ☐ New passenger car registrations
- ☐ Consumer confidence indicator
- ☐ Cost of residential construction retail sales volume
- ☐ CPI
- ☐ Some use export &/or import data

GDP



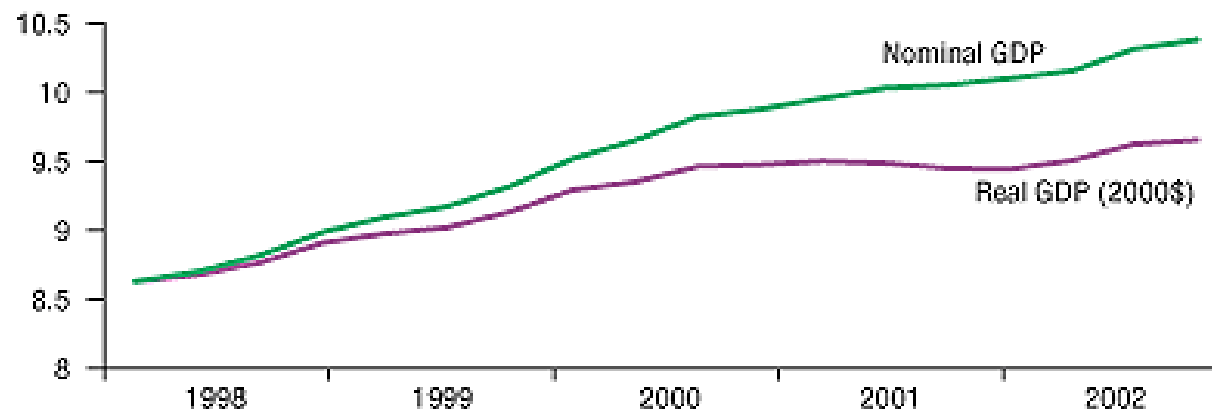
- **G**ross **D**omestic **P**roduct
- Definition- the market value \$\$ of all **final** goods and services **produced** within a country in a given period of time
- GDP is used as an indicator of economic progress, it is not a measure of well-being (for example, it does not account for rates of poverty, crime, or literacy).

Nominal vs. Real

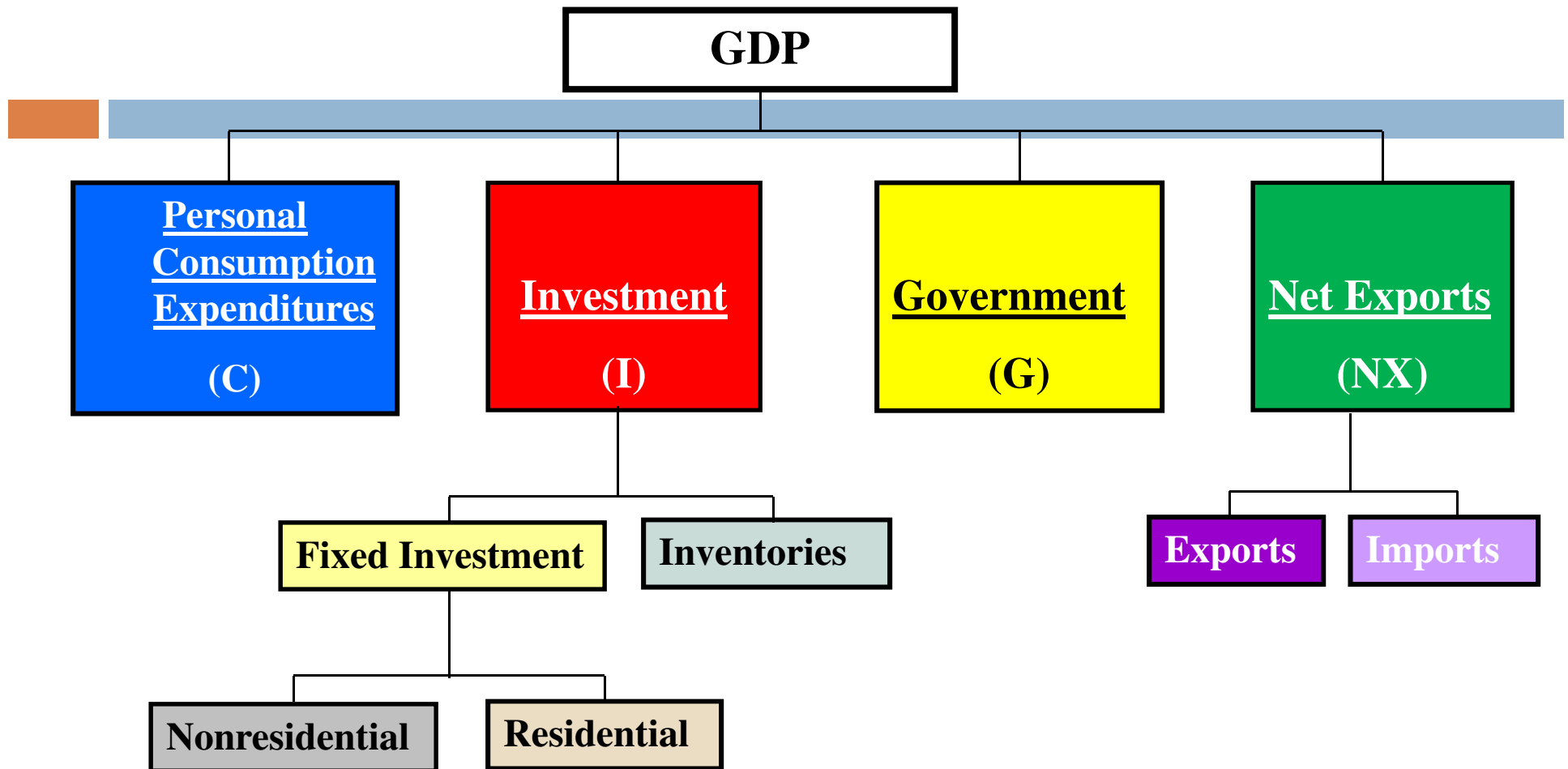
- **Nominal GDP-** production of this year's final goods and services valued at this year's prices
- **Real GDP-** nominal GDP adjusted for inflation

Nominal versus Real GDP

Trillions of 2002 dollars



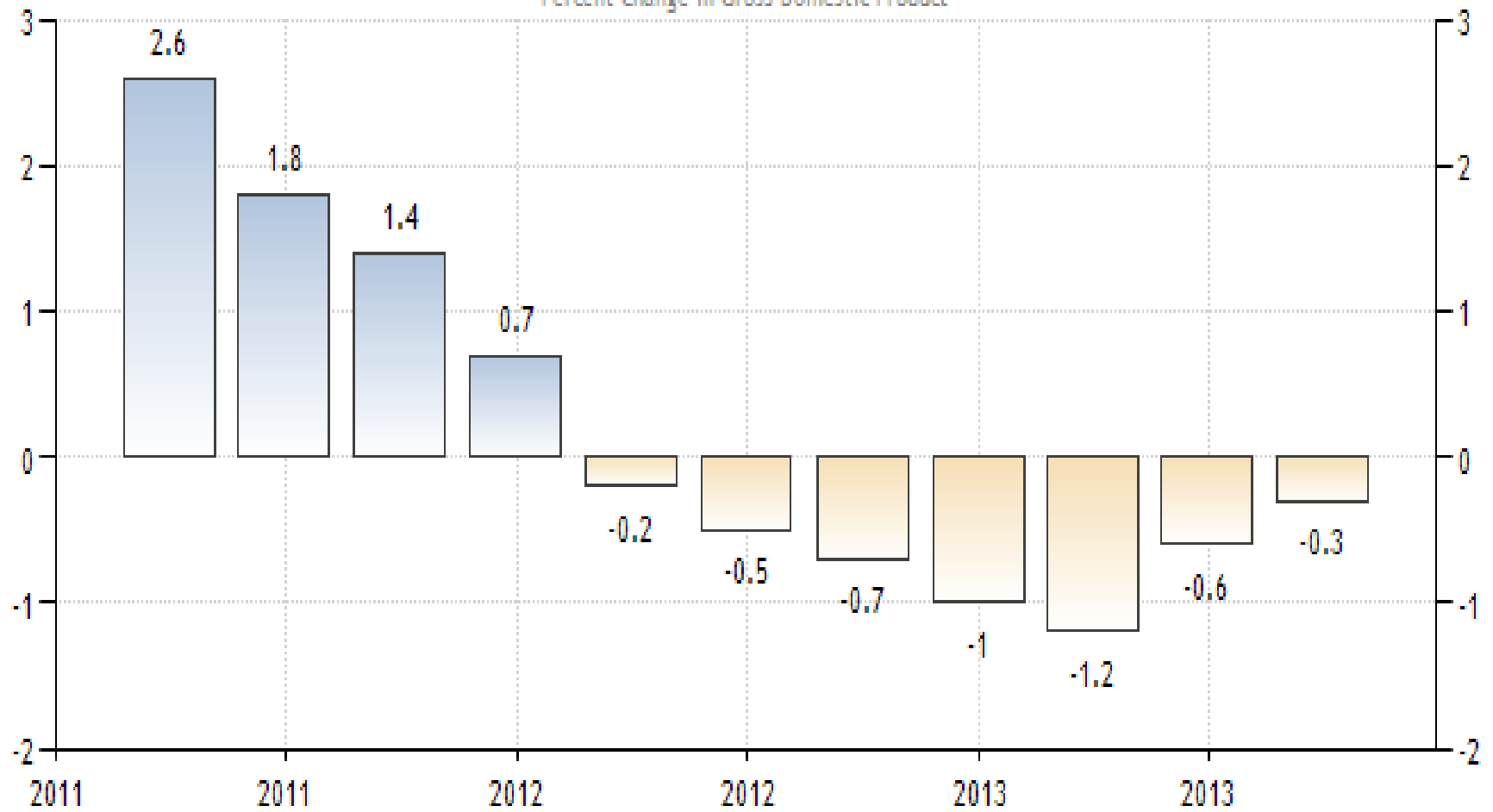
What are the components of GDP?



$$\text{GDP} = C + I + G + NX$$

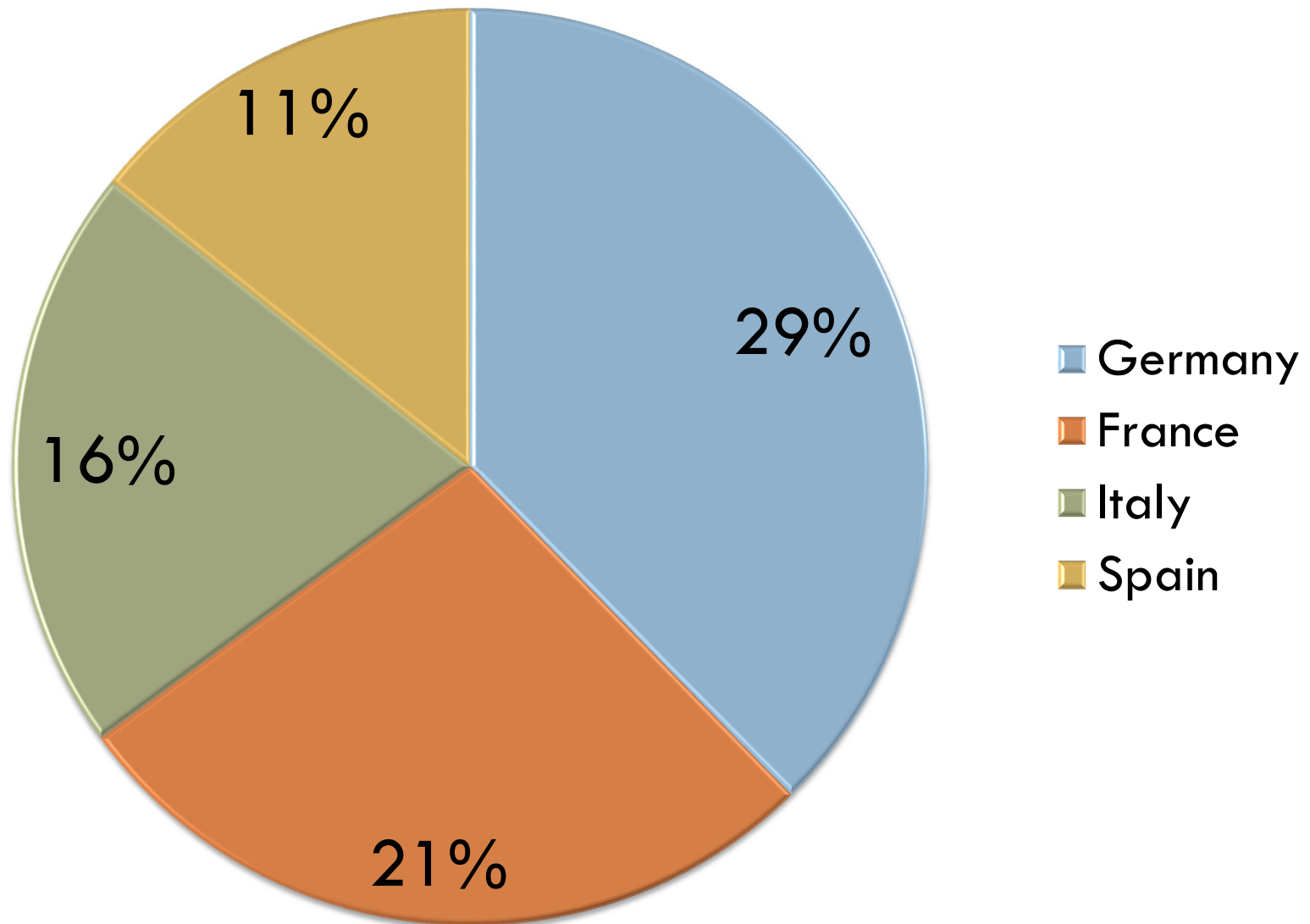
EURO AREA GDP ANNUAL GROWTH RATE

Percent Change in Gross Domestic Product



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

GDP Euro Area largest contributors



EU GDP

- 2014- still in recession.
- Down- Consumption (GIPSI), inventories, investment & h/h consumption.
- UP- Only NX
- Cross-country growth divergences.
- Germany and France in 3rd 1/4 + 0.2% & 0.1%
- Italy and Spain down .2% & .3%

Contribution of Expenditure Components to Euro Area GDP Growth

2011 | 2012 | 2013 | 2014

Contribution to GDP growth in percentage points

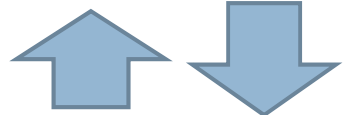
Final consumption expenditure	0.2	-0.9	-0.4	0.4
Household consumption	0.2	-0.8	-0.4	0.3
Government consumption	0	-0.1	0	0.1
Gross capital formation	0.6	-1.2	-0.6	0.4
Gross fixed capital formation	0.3	-0.7	-0.6	0.3
machinery and equipment	x	x	x	x
construction	x	x	x	x
Exports	2.9	1.1	0.6	2
Imports	-1.9	0.4	0.1	-1.7
Net exports	0.9	1.6	0.7	0.3
Statistical discrepancy	-0.1	-0.1	-0.1	0
GDP	1.6	-0.7	-0.4	1.1

Source: Eurostat, OeNB.

1) 2012, 2013: Forecasts of the European Commission (Mai 2012).

last update on 04.12.2013 15:06

LABOR

- • One of the macroeconomic goals for is maximum sustainable employment
- GDP and Unemployment 
- How is unemployment measured?
- $UW / TLF * 100$
- *Eurostat reports*
- 12.1%

Who Is In The Labor Force?

23

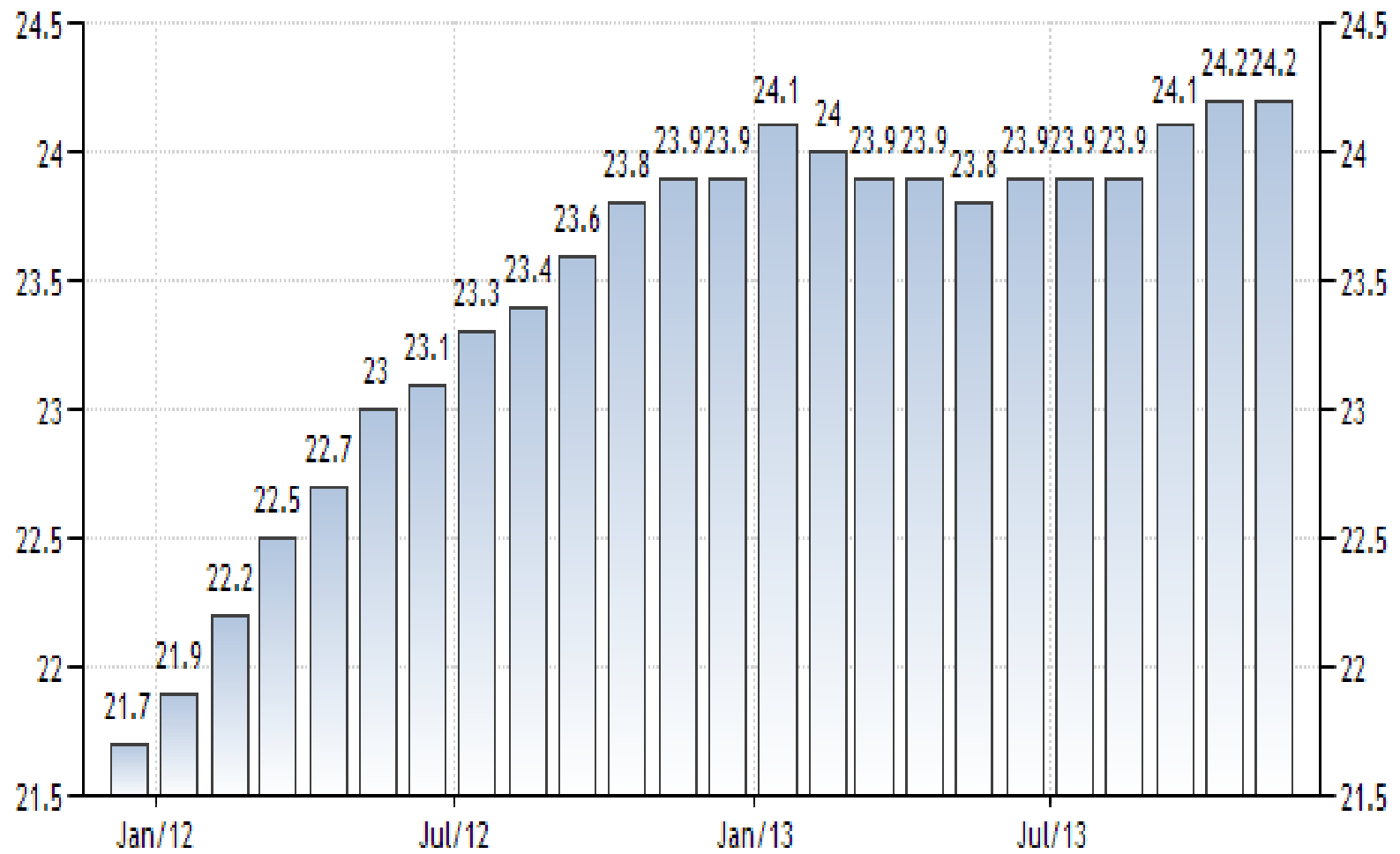
- ❑ **Employed**
- ❑ **Unemployed (those seeking work)**
- ❑ **Involuntarily Part-time**
- ❑ Discouraged (not in labor force)
- ❑ Retired (not in labor force)
- ❑ Prisoners (not in labor force)
- ❑ Military (not in civilian labor force)
- ❑ Full-time students (not in labor force)

TYPES OF UNEMPLOYMENT

- **Frictional:** is the unemployment that arises from normal labor turnover; people entering and leaving the labor force and from the ongoing creation and destruction of jobs.
- **Structural:** is the unemployment that arises when changes in technology or international competition change the skills needed to perform jobs or change the locations of jobs.
- **Seasonal:** is the unemployment that arises because of seasonal weather patterns.
- **Cyclical:** is the fluctuating unemployment over the business cycle that increases during a recession and decreases during an expansion. It includes people who are not working because firms do not need their labor due to a lack of demand or a downturn in the business cycle. For example, if people are not buying many goods and services, w



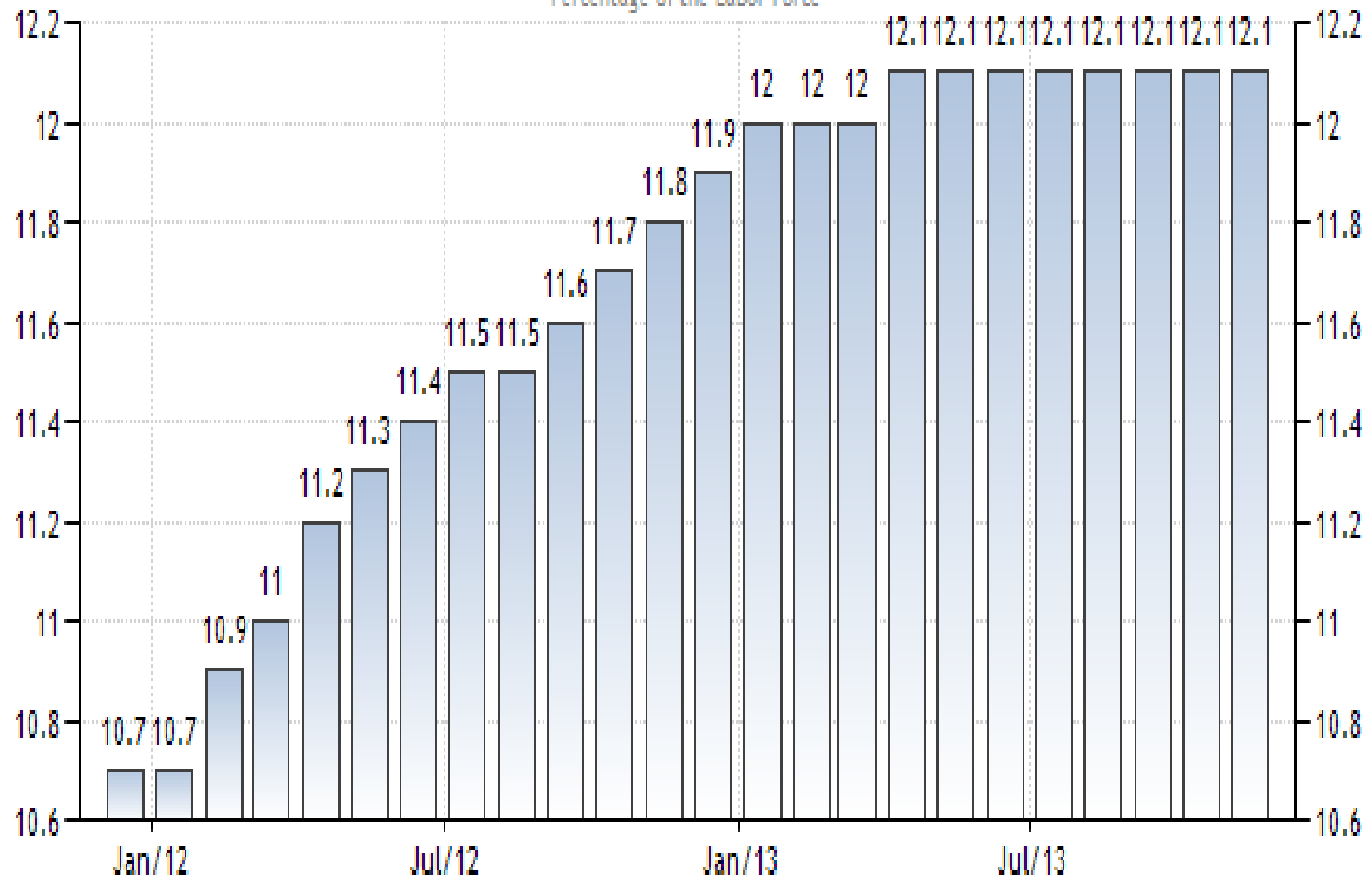
EURO AREA YOUTH UNEMPLOYMENT RATE



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

EURO AREA UNEMPLOYMENT RATE

Percentage of the Labor Force



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

EU Labor Market

- **Unemployment** 11/13- 12.1% (11/12 11.8%)
highest rate since 1995.
- Highest increases: Cyprus, Italy & Greece
- Largest decreases: Ireland, Portugal, Hungary
- Lowest UR: Austria (4.8%), Germany (5.2%)
- Highest UR: Greece (27.4%), Spain (26.7%)
- Under 25....Euro Area 23.7% Spain 57.7% & Greece 54.8%*
- *Youth UR=UW/Population

INFLATION

- **One of the macroeconomic goals is stable price levels.**
- **What is inflation?**
- **How is it measured?**
 - ▣ • HICP- Harmonised Index of Consumer Prices- calculates the average change over time in prices paid by h/h for a basket of goods) (ie. Food, clothing, appliances, services etc) It includes residents & non-residents(tourists)
- **What causes inflation?**



CORE & HEADLINE INFLATION



□ Core

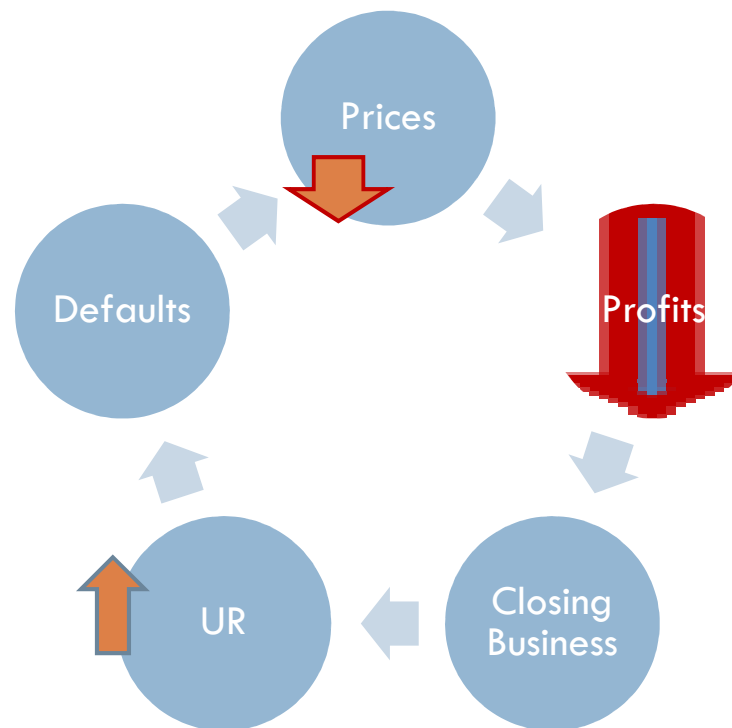
- ▣ • Excludes food, alcohol & tobacco and energy prices
- ▣ • Preferred indicator by Fed
- ▣ • Measured by personal consumption expenditures price index, which includes substitution
- ▣ • Is a better predictor of underlying long-term inflation

□ Headline

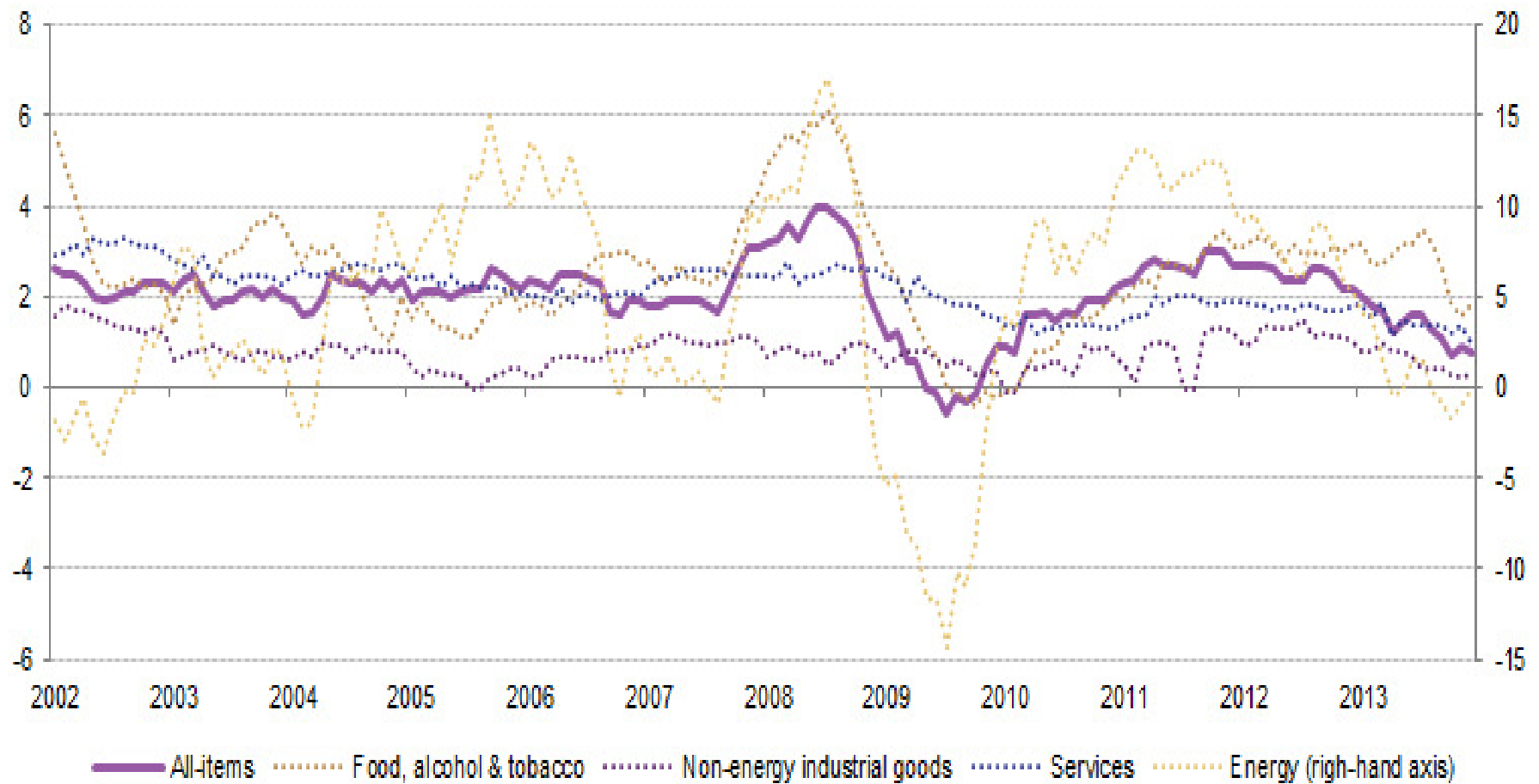
- ▣ • Measure of total inflation, including volatile prices of food and energy

Deflation

- General decline in prices
- Causes: \$ S ↓ , ↓ spending (G,P or I)
- Increases Unemployment.....depression



Euro Area inflation and components



EU Prices



- **Annual core inflation-** 1.3% in 12/13 down from 1.8% in 2012
- 2014 projections of 1.3%
- 2015 projections of 1.4%

Comparison of Economies

	Population	GDP*	GDP Growth Rate*	GDP per Capita*	Unemploy-ment Rate*	Inflation Rate*	Central Bank Discount Rate
EU	509.48 MM	\$16.17 T	-0.30%	\$34,100	10.20%	2.60%	1.50%
United States	316.4 MM	\$16.02 T	2.80%	\$51,700	8.10%	2.10%	0.25%
China	1.3 B	\$8.11 T	7.70%	\$9,100	6.50%	2.60%	2.25%
Japan	127.3 MM	\$5.88 T	2.00%	\$35,900	4.40%	0.00%	0.10%
Germany	81.1MM	\$3.38 T	90.00%	\$38,700	5.50%	2.10%	N/A
Portugal	10.8 MM	\$209.6 B	-3.20%	\$23,000	15.70%	2.80%	N/A
Greece	10.8 MM	\$245.8 B	-6.40%	\$24,300	24.30%	1.50%	N/A
France	66 MM	\$2.58 T	0.00%	\$35,300	9.80%	2.20%	N/A
Ireland	4.8 MM	\$208 B	20.00%	\$40,700	14.70%	1.70%	N/A
Italy	61.5 MM	\$1.99 T	-2.40%	\$29,800	10.70%	3.30%	N/A
Cyprus	1.2 MM	\$22.69 B	-2.40%	\$26,800	11.90%	2.40%	N/A
Spain	47.4 MM	\$1.30 T	-1.60%	\$30,100	25.10%	2.40%	N/A

*2012 estimates

Ref: www.cia.gov

www.tradingeconomics.com/economics/interest-rate.aspx

EU Sources of Indicators



- Eurostat, the Statistical Office of the European Union.
- For monetary and financial statistics – ECB
- www.principalglobalindicators.org
- www.tradingeconomics.com
- www.oecd.org
- www.oecd.org/std/cli
- www.ecb.int
- www.cepr.org

Web Sites



- Eurozone

Epp.eurostat.ec.europa.eu

- France

www.insee.fr

- Greece

www.statistics.gr

- Ireland

www.cso.ie

- Italy

www.istat.it

- Portugal

www.ine.pt

- Spain

www.ine.es