

Release date 8 Jan 2021

Improving exports of goods in final months of 2020 but a reduction of 10% on a yearly level likely

On Slovenia's Economy

- January 2021 delivered the **enactment of similar restrictions that were in place before Christmas**, due to the uptake in new infections. At the end of 2020, some signals were made with regards to opening the kindergartens and schools, but this is unlikely at least until 18th of January 2021. Vaccination is taking place, but the pace is slow, mainly due to lack of supplies. Different ideas are being contemplated on how to encourage the population to accept vaccination: from the restrictive ones (not able to freely move) to a more positive ones (people getting a voucher if deciding to vaccinate). We believe it does make sense to launch an omnichannel promotional campaign as well as accept some measures that restrict the right to those not applying for vaccination (not able to board a plane e. g.).
- **November data on exports** (1 week ahead of Eurostat release) from Slovenian Statistical Office shows that trends have improved in final months, what was expected based on improving sentiment in manufacturing as well as anecdotal data from main companies. Y-o-y change (Nov. 20/Nov. 19) was positive (+0.9%; +EUR 30 m), for both group of markets (exports to EU: +EUR 20 m and exports to non-EU: +EUR 10 m). One must be careful by interpreting the headline figure for 11 months (-2.7% y-o-y) as the change severely **underestimates the reduction of exports** which is due to one-off increase in distribution of drugs of one bigger pharmaceutical group with operations in Slovenia and the region. Specific company's decision on distribution of foreign produced drugs through Slovenia namely led to 93% increase in exports to Switzerland (as well as corresponding increase of imports from several other states). We therefore advise our readers to focus on the export trends to EU-27 markets or to the data from Balance of Payment, that are due to be released next week (13th of January, Bank of Slovenia). The **exports to EU-27 in the first 11 months were down 10%**. The main reduction in value terms can be explained by the fall of exports to the following main trading partners (note: individual country data is available only for 10 months of 2020): Italy (-EUR 800 m; -24%), Germany (-EUR 550 m; -10%) and Croatia (-EUR 250 m; -10%). From the other important trading partners, exports fell relatively a lot to UK (-18%) and Spain (-18%). On the bright side, the exports increased to Netherlands, Denmark, Canada, Saudi Arabia and Australia by EUR 20-30 m to each country individually, although there are more or less one-off trading businesses patterns explaining this trends.
- Ministry of Finance issued a document stating that Slovenian government allocated **fiscal support measures in amount of 5.3% of GDP** in 2020, which would be higher relatively to other countries for which information is available (9 others). Data is based on latest fiscal document, sent to European Commission. For the purpose of comparison, Germany allocated 4.7% of GDP, Italy 5.5% and France 2.9%. This numbers include also the amount of temporary postponed taxes and banking loans as well as guarantees on additional loans to private sectors, mostly channelled through SID banka and SPS.
- In the bgn. of 2021, Slovenian Treasury issued a **10-year bond** (EUR 1.75 bn) with a coupon of 0%. Total subscription stood at EUR 10.6 bn. About 40% of investors were from UK and

Ireland. Only 9% of the issues was bought by domestic buyers. An additional value subscription (EUR 250 m) of 30-year bond brought the YTM to 0.381%.

- **High-frequency indicators** in the last month were above expectations, as the electricity consumption was 3% down y-o-y in December. The reduction is smaller compared to Austria and Italy, although there was no reduction present in Germany and France. Trends in truck transportation of goods ticked up, whereas the value of tax confirmed receipts declined.
- **Demographic figures showed a deterioration** in 2020. In first 11 months, 20.6 thousand people died (+10%) and 16.9 thousand babies were born (-5.3%). Excessive mortality was up by 12%. We still estimate that increased immigration will cushion the effect and the numbers of inhabitants are due to rise in the medium term, mostly due to continuing (structural) needs in construction, manufacturing, transportation and other basic services (health, tourism, retail).

On EU-27

- **German industry's production expectations** for the coming months have deteriorated slightly, falling to 4.5 points in December from 5.6 points in November. The indicator has fallen most in the pharmaceutical industry: having stood at 36 points in November, it dropped to just 6 points in December. The automotive industry plans to curtail production; the indicator fell from minus 1 point to minus 21 points in December. Industries that were most pessimistic in December are manufacturers of leather and related products, at minus 33 points, and the clothing industry, at minus 40 points. These are labour intensive industries where Germany is traditionally losing jobs to Turkey and China. Furniture manufacturers, meanwhile, are expecting to increase production by a significant margin. Their indicator rose from 3 points in November to 24 points. Computer manufacturers' production expectations are still expansive; their production expectations remain at 28 points in December. Beverage producers have put aside planned production cutbacks for the time being. Their indicator jumped to minus 1 point, having stood at minus 21 points in November. Developments were similar among food manufacturers (source: IFO).

About Other Markets

- **Global Manufacturing Sentiment Index**, measured by J. P. Morgan stood at 10-year high in December (53.8), a level similar to November, what implies that manufacturing value chains are retaining optimism with regards to future outlook. This is also due to pent-up effect arising from "lost" months of production between March and May 2020. Nevertheless, several complex industries (automotive and electrical) point out to weak availability of inputs (semiconductors, basic materials). Optimism was highest among industrial groups in Brazil, Taiwan, Germany, Netherlands, Canada and UK. French manufacturing companies were on the other side of the scale (small positive outlook), mainly due to their structure of their export business (more long-term projects). Pessimism was noted in a small number of countries, most notably in Mexico and Greece.

Chart of the Week

Exports of goods from Slovenia to:	I-X 2020	
	EUR, bn	y-o-y
Germany	-0.55	-10%
Switzerland*	+1.70	+93%
Italy	-0.79	-24%
Croatia	-0.25	-10%
Austria	-0.18	-9%
France	-0.10	-7%

Source: Statistical Office of RS, top 6 trading partners accounting to 60% of exports
*see the section on exports

Comment: Improving figures due to uptake of orders in automotive, steel, electrical equipment and other industries. Weakening trends in domestic manufactured exports of generic medicines (fading out of re-stock effect)

Must Read of the Week

- Solvency and liquidity risk of Slovenian corporate sector (https://www.umar.gov.si/fileadmin/user_upload/publikacije/kratke_analize/2021_1_Lusina_Tavcar/Izpostavljenost_podjetniskega_sektorja_placilni_nesposobnosti_v_letu_2020.pdf); available only in SI

Comment: Influence of pandemic on solvency and liquidity of Slovenian corporate sector; risks are tilted to SMEs, holdings, service sector

- ifoCAST – a tool offering dynamic overview of macro trend in Germany. Available at: <https://www.ifo.de/en/ifoCAST>

Comment: More and more institutions are working on developing models that connect new high-frequency data with some hard data to provide better outlook on current GDP trends. We believe the impulse came from the governments which get a better perspective on the current stance of domestic economy

Forecast of the Week

- Nov. industrial production in Slovenia: +0.0% y-o-y (previous month: -1.1%)

Comment: we expect the recovery of manufacturing will continue at least until first quarter 2021

Things to Keep in Mind for the Upcoming Week

- Slovenia's economic relations with foreign countries (Nov. 2020), available only in SI: <https://www.bsi.si/publikacije/statisticna-porocila/ekonomski-odnosi-slovenije-s-tujino>, 13 January
- Value of Construction Output in Slovenia (Nov. 2020), 15 January

Quote of the Week

- "The only function of economic forecasting is to make astrology look respectable." (John Kenneth Galbraith)

More information at: bojan.ivanc@gzs.si. All rights reserved.