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Flexibility in restrictiveness measures as the name of the game

On Slovenia's Economy

- Numbers of infections, hospitalized and deaths in Slovenia is according to our expectations falling and the government delivered, what was expected: reduction in restrictiveness measures. One important change is that all regions are now labelled as “red” instead of “black”, what opened the galleries, museums and libraries in 4 additional regions. In those regions, children will still be able to attend first 3 grades of grammar school and kindergartens. In addition, all stores and servicing activities with max. 400 sq m will be able to operate next week (testing will be needed for employees working there with min. frequency of 1 week). This tells us that government took **very flexible approach on pandemics** and is ready to make adjustments to their model when time is convenient.
- **What to expect next?** Prime minister reiterated that Slovenia looks more “orange” than “red” what means removing additional restrictions. We expect reduction of restrictiveness measures also in next weeks. In addition, government also announced 9th package od support measures (locally known as PKPs). The major item will be prolongation of fixed costs coverage and some tweaks in the criteria. Most importantly: Temporary Framework was prolonged until end of 2021 what opens the door to more policy options.
- **January’s CPI** has fallen by 0.7% y-o-y, due to decrease in prices of goods (-0.2%) and slower growth in services prices (0.4%). **HICP** has fallen even more y-o-y (-0.9%), as goods prices have fallen by 1.9% and services prices have increased by 0.8%.
- COVID-19 has increased the **fall in rate of natural decrease** as number of births (18.4 thousand) was 5 % lower in 2020 (than in 2019) and number of deaths (23.9 thousand) was 16 % higher. Excessive deaths were especially high in November and December last year.
- **Households incomes** has not changed much in 2020 due to pandemic and confirms our projections based on government support measures that were rich in value. Half of all households can reasonably easy or very easy live with their income (46% in 2019), whereas 31% have smaller problems and 20% have serious problems. **Share of households with severe material deprivation** (SILC survey) stood at 3%, what implies that approx. 61 thousand people could not afford a mix of 4 out of 9 spending elements. About 9% of households was at least once in arrears with paying their rent or their loan. About 41% of households were paying at least one type of consumer loan but only 1/10 had a mortgage. One fifth of them was driving car, bought with help of leasing company. The average satisfaction with life dropped slightly (from 7.5 to 7.4), probably reflecting post-COVID worries.
- Fiscal Council **refreshed its estimates for January’s fiscal measures**. They amounted to EUR 470 mio (1% of GDP), of those EUR 300 mio as direct transfers (and EUR 170 m guarantees). 45% of the transfers was attributed to measures to protect the job market. More at: http://www.fs-rs.si/aktualno/

On EU-27

- The latest **European sector PMI data** showed rising output in nine out of 20 monitored sectors in January, the same total as in November and December. Of these, all were located in manufacturing except Banks, which was ranked fifth overall. There were signs of a widespread slowdown in manufacturing output growth by sector, while in services a number of sectors registered faster declines in January. The seven segments registered weaker rates of expansion than in December: Machinery & Equipment, Chemicals, Metals & Mining, Automobiles & Auto Parts, Construction Materials, Forestry & Paper Products and Technology Equipment. Beverages & Food was the sole exception, registering higher output for the first time since last October. Household & Personal Use Products was the only pure manufacturing sector to post lower output in January. The only service-related European sector to record higher activity in January was Banks. Tourism & Recreation posted the fastest rate of decline of all sectors for the fifth successive month. Four service sectors registered faster declines than in December: Healthcare Services, Other Financials, Real Estate and Media. Transportation activity fell for the fourth month running while Industrial Services posted a decline for the second time in three months.
- Weak start for Eurozone construction was confirmed by declining **IHS Markit Eurozone Construction PMI**. New business placed with eurozone construction companies decreased for the eleventh month in a row at the start of 2021. Moreover, the rate of decline quickened from December and was solid. According to anecdotal evidence, restrictions to curb the spread of COVID-19 and relatively weak market conditions had restricted sales and led to delays in the sign-off of projects. Across the three largest economies, France saw by far the steepest reduction in new work, following by Germany. Meanwhile, new business stagnated in Italy, after a 7-nmonth period of expansion.

About Other Markets

- The latest **Global Sector PMI** data from IHS Markit signalled a notable pick-up in financial services activity in January. Overall activity in Financials rose at the fastest rate since August 2014, moving it top of the eight broad categories monitored. At the detailed level, Banks registered the second fastest rate of growth in nearly ten years, closely followed by Real Estate where activity rose the most since January 2016. More at: https://www.markiteconomics.com/Public/Home/PressRelease/af7017968a76486aa4ca712dc3e5f9ab
- Optimism among **global aluminium users** grew in January. Both output and new orders expanded. Firms in the US recorded the sharpest expansion and their strongest since July 2014. Europe and Asia also saw marked growth, although the rates of expansion were substantially slower than seen in the US. Optimism among **copper-using industry** was a bit softer and was similarly driven by increase in US. The rate of expansion in production eased in January to the weakest since July 2020. Firms stated that longer lead times for inputs and the ongoing coronavirus disease 2019 (COVID-19) pandemic weighed on the increase in output.

Chart of the Week

Slovenia's CPI, change	12-month trailing average	Jan. 21/Jan. 20
TOTAL	**-0.3%**	**-0.7%**
Food and non-alcoholic beverages	3.2%	0.1%
Alcoholic beverages and tobacco	1.9%	3.8%
Clothing and footwear	-2.9%	0.9%
Housing, water, electricity, gas and other fuels	-1.6%	-1.6%
Furnishing, household equipment and routine household maintenance	-0.1%	-0.3%
Health	1.5%	2.1%
Transport	-5.7%	-4.5%
Communications	0.2%	1.0%
Recreation and culture	-0.5%	-2.9%
Education	2.3%	0.7%
Restaurants and hotels	1.2%	0.8%
Miscellaneous goods and services	2.7%	0.8%

Source: Statistical Office of RS

Comment: We expected the prices in transportation segment to experience a milder drop y-o-y due to higher prices of gasoline at the petrol stations. Drop in prices of recreation and culture probably also due to lockdowns but does not accurately reflect the changing spending patterns of consumer (min. consumption of services in this category).

Must Read of the Week

- Debt Sustainability Monitor 2020. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip143_en.pdf

Comment: EC acknowledges that EU/EA government debt is expected to broadly stabilise and decline over the next decade, to about **90% of GDP in the EU and 98% of GDP in the EA by 2031**. 11 countries face a short-term risk of fiscal stress (Slovenia is not part of this group). Slovenia faces the risks in the medium term as 7 other countries. Over the long term, Slovenia is part of the high-risk group (together with Belgium, Luxembourg, Romania and Slovakia).

- Ready, steady, go? - Results of the third BIS survey on central bank digital currency. Available at: https://www.bis.org/publ/bppdf/bispap114.htm

Comment: This paper highlights that while most central banks have no plans to issue central bank digital currencies in the foreseeable future, central banks collectively representing a fifth of the world's population are likely to launch retail CBDCs in the next three years. The Covid19 pandemic has added amotivation for doing that.

Forecast of the Week

- Dec. industrial production in Slovenia: +0.0% y-o-y (previous month: -0.8%)

Comment: We expect the recovery of manufacturing to continue as the sentiment is on a relative high level since autumn months.

Things to Keep in Mind for the Upcoming Week

- Exports of goods (Dec. 2020), 9 February, Statistical Office of RS
- Industrial production (Dec. 2020), 10 February, Statistical Office of RS

Quote of the Week

"An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today." *(Evan Esar)*

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