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## November's growth in industrial production well above expectations

### On Slovenia's Economy

- The total value of **industrial production** in Slovenia in November 2021 was 2.8% higher than in October 2021, which was significantly higher than we expected (no change compared to October). It was higher in manufacturing and mining (by 3.2% and 2.6%, respectively), and lower in energy (by 2.9%), mainly due to poorer rainfalls. Compared to November 2020, it was higher by 10.1% and compared to November 2019 by 8.7%. **Price growth** has accelerated. **Total turnover** (sales) increased by 4.3% in November compared to October (by 4.2% in manufacturing), of which it increased by 7.3% on the domestic market and by 4.3% on the foreign market. At the annual level (compared to November 2020), it was higher by 17.0% and compared to November 2019 by 15.1%. **By sectors**, the growth of industrial production on a monthly basis was highest in the production of beverages (+ 20%; annually: + 42%) and clothing production (+ 14%; annually: + 33%), leather products production (+ 8%), production of electronic and optical products (+ 20%; annually: +34%) as well as in the manufacture of motor vehicles (+ 9%, annually: -10%). Declines were seen in woodworking and processing (-7%; annual: + 18%), food production (-2%; annual: + 10%) and other miscellaneous activities (-9%; + 46% per annum). The growth of industrial production in the first 11 months was also extremely high y-o-y. It was higher than 20% in eight sectors (textiles, chemicals, metal products, electrical appliances, motor vehicles, furniture, other miscellaneous activities, repair and installation of machinery).
- According to the balance of payments data (compiled by Bank of Slovenia), **exports of services** amounted to EUR 752 million in November 2021, which was slightly less than our expectations (EUR 769 million) and 7.9% more than in November 2019 (EUR 697 million). As expected, exports of transport services (by one sixth), travel (by 180%) and other business services (by 72%) were higher than last year. In November, travel exports were still lower by 38% compared to November 2019, and in the first eleven months of 2021 by 49% (EUR 1.3 billion less). **Imports of services** were 29% higher in November 2021 compared to November 2020 (+120 million EUR) and increased less than exports (+211 million EUR). Imports of transport services increased by EUR 43 million, travel by EUR 30 million and other business services by EUR 30 million. Imports of construction services (construction services provided by foreign companies in Slovenia) surprisingly fell by EUR 5 million to EUR 19 million in November.
- **Detailed data on exports of goods** in October 2021 showed that chemical products, machinery and transport equipment and products classified by material contributed 77% (EUR 3.9 billion) to the growth of total exports of goods in the first 10 months of the year 2021 (5.1 billion). Within these, the growth of exports of electrical machinery and equipment (+ EUR 469 million), iron and steel (+ EUR 331 million) and medical and pharmaceutical



products (+ EUR 996 million) stood out. Exports of the latter were relatively higher by 16% compared to the same period last year, and their contribution to the increase was 19%. Within the rise in **imports of goods** (+ EUR 8 billion), the growth of imports of chemical products stood out (36% of the total growth), mainly of organic chemical products. This was followed by the importance of imports of machinery and transport equipment (+ EUR 2 billion; 25% increase) and products classified by material (EUR +1.4 billion; 17% increase). In the latter, the growth of imports of iron and steel, non-ferrous metals and metal products stood out.

- The November data on **construction works** in Slovenia were quite disappointing. After a high drop in October (-9.2% compared to September, according to seasonally adjusted data), we expected a 10% growth in November. The actual growth (according to the first estimate) was meagre 2.2%. The monthly growth in buildings was high and in line with our estimate (+10%, of which in housing growth 7.2% and in business premises growth by 20.8%). Growth in civil engineering was below expectations (+ 2.4%) as well as in specialized construction work (+1.2%). The value of construction put in place in the first eleven months of 2021 was 6.2% lower than in the same period of 2020. The value of buildings construction was lower by 23.5% and value of specialized construction works by 2.3% but the value of civil engineering was higher (by 5.1%). Data on the construction of buildings and specialized construction works are less reliable, for the last 6 months they are temporary in nature.
- In the Q3 2021, **freight motor vehicles registered in Slovenia** carried 8% more goods than in 2020 and made 6% more kilometres. They transported 62% of all goods in domestic transport (7% more than in the same quarter 2020), and 9% more in international transport. Compared to the pre-crisis period (Q3 2019), the growth of goods throughput was higher by 14%, of which 22% higher domestically and 2.6% higher internationally. Extremely high growth in domestic transport compared to this period is due to the growth of industry, construction and trade, which are all sectors that use services of road freight transport.

## On World Economy

- **CPI growth in USA** was the highest since 1982, reaching 7% year on year in December (**core inflation** 5.5%). Surprisingly, clothing prices rose (by 1.7% compared to November). Prices of vehicles, accommodation costs and food were also higher. Recreation and fuel prices have fallen. A survey by the Association of Independent Businesses showed that the share of companies that will raise prices is the highest in the last 40 years. There is also a record high share of companies that will raise prices in the next three months. Year-on-year price growth should slow in the coming months but is unlikely to fall below 3% in 2022. This estimate includes the expectation that raw material supply will improve from the summer onwards, and that price should fall in some categories (e.g. used vehicles). Risks to sustaining high price growth are associated with rising labour costs, corporate price strength and restrictive measures in Asia, which weaken the production of industrial and consumer goods destined for world markets.

## On European Economy

- November's industrial production in the euro area was 2.3% higher than in the previous month, which is high growth. Moderate growth was expected, however, as in October it declined by 1.3%. It is also worth noting the statistical anomaly related to Ireland, where



industrial production officially fell by 32% in October and rose consequently by 37% in November. In Germany and France, it fell slightly in November, rising in Spain and the Netherlands. Despite the decline in Germany, other CEE recorded overall strong growth. Growth stood at 5.9% in Poland, 4.8% in the Czech Republic, 3.5% in Slovakia, 2.9% in Hungary and 2.8% in Slovenia. At the EU-27 level, the growth of production of capital goods (+ 2.3%), consumer goods (+3%, after a 3.4% drop in October) and intermediate goods (1.4%) strengthened in November while it was unchanged for durable goods (vehicles, etc.). All indications are that all product categories will grow in the last quarter of 2021. The order book remains strong and expectations of future growth in industrial production are favourable. Most constraints in current growth are still related to the lack of materials (raw materials, semi-finished products) and employees. Growing infections in Europe are having a negative impact on labour availability.

- The **ILO (survey) unemployment rate in the euro area** was expected to fall slightly in November (from 7.3% in October to 7.2%). In the EU-27, the decline was larger (from 6.7% to 6.5%). In Slovenia, it remained unchanged compared to October, at around 4.8% (4.6% in August). The **youth unemployment rate** in the EU-27 was 15.4% (15.5% in the euro area). In Slovenia it amounted to 12.8% (latest figure for September 2021).
- According to seasonally adjusted data, the **household saving rate in euro area** decreased to 15% in the Q3 2021 (19% in the Q2), which is the lowest share since the last quarter of 2019 (before the outbreak of COVID-19). Nevertheless, in 2016-2019 it averaged between 12 and 13%. On the other hand, the **investment rate of households** increased to 9.6%, which is a historically high share (between 2016 and 2020 it was mostly between 8 and 9%). **Gross disposable income of households** increased by 0.8% compared to the Q2 2021, which is a significant slowdown (2.2% in the Q1 2021 and 1.4% in the Q2 2021).
- November data on **trade in goods by the EU-27's** main trading partners showed that following countries made key contributions to the growth of EU-27 exports (+ 12.8% in the first 11 months of 2021): USA (+ EUR 40 billion), China (+ EUR 21 billion), Switzerland (EUR +12 billion) and Russia (EUR +9 billion). The United Kingdom is still the second most important export market, but export growth was weak at EUR 7 billion (+ 2.6%). **Imports** from China (+ EUR 70 billion) and Russia (+ EUR 56 billion) stood out withing the growth in imports of goods, due to growth in imports of raw materials and other semi-finished products. Imports from the USA increased by EUR 22 billion and decreased from the United Kingdom by EUR 20 billion.
- **Residential property prices in the euro area** increased by 3.3% in the Q3 2021 (compared to the previous quarter), which is a significant increase compared to the growth in the Q2 (+ 2.6%) or Q1 (+1.3 %). At the annual level, they were 8.8% higher (9.2% in the EU-27). In half of the countries, growth was higher than 10% on an annual basis. The Netherlands (+ 17%), Estonia (+ 17%), Lithuania (+ 19%) and the Czech Republic (+ 22%) are countries where growth was highest. Growth was lowest in Cyprus, Spain and Italy (between 2.2% and 4.2%), which can be attributed to the impact of the pandemic on lower interest in tourist property purchases.



## Chart of the Week

Sectors within industrial production*, Slovenia	m-o-m	y-o-y	I-XI 2021 /I-XI 2019
Other mining and quarrying	+4.8%	-5.0%	-2.3%
Manufacture of food products	-2.1%	+10.2%	+2.7%
Manufacture of beverages	+19.7%	+41.6%	+1.9%
Manufacture of textiles	+5.9%	+11.5%	+2.9%
Manufacture of wearing apparel	+14.4%	+33.3%	+8.4%
Manufacture of leather and related products	+8.2%	-17.5%	-41.6%
Manufacture of wood and of products of wood	-7.1%	+18.3%	+18.2%
Manufacture of paper and paper products	+0.9%	+0.1%	-0.4%
Printing and reproduction of recorded media	-1.5%	+6.0%	+3.7%
Manufacture of chemicals and chemical products	-1.5%	+27.2%	+16.6%
Manufacture of rubber and plastic products	+2.0%	+2.9%	+6.8%
Manufacture of other non-metallic mineral products	-1.9%	+6.6%	-6.0%
Manufacture of basic metals	-1.5%	+6.7%	+1.6%
Manufacture of fabricated metal products	+5.6%	+20.6%	+12.4%
Manufacture of computer, electronic and optical products	+19.5%	+33.8%	+16.9%
Manufacture of electrical equipment	+3.3%	+2.3%	+8.0%
Manufacture of machinery and equipment n.e.c.	+0.5%	+21.8%	+16.9%
Manufacture of motor vehicles, trailers and semi-trailers	+8.6%	-9.5%	-14.5%
Manufacture of other transport equipment	+1.7%	+20.3%	+5.5%
Manufacture of furniture	+5.5%	+23.0%	+17.7%
Other manufacturing	-8.6%	+45.7%	+9.2%
Repair and installation of machinery and equipment	+2.5%	+0.7%	+4.2%
Electricity, gas, steam and air conditioning supply	-4.7%	-2.5%	-14.8%

\*For some sectors, data are hidden (pharmaceuticals as very important) and are not mentioned here or there are no companies within (tobacco production). Comment: most of the industrial sectors are above pre-crisis level, with exception of energy (poor rainfalls), production of motor vehicles (lack of semiconductors), production of leather products (one bigger company closed and the other moved significant part of its production outside Slovenia).

## Must Read of the Week

- Zombies on the brink: Evidence from Japan on the reversal of monetary policy effectiveness; Gee Hee Hong, Deniz Igan and Do Lee; BIS Working Papers No 987; 11 January 2022, free download at: <https://www.bis.org/publ/work987.htm>

Comment/Abstract: Authors found out that Japanese firms increase investment in response to lower term premia. But this response comes primarily from healthy firms. By contrast, zombies seem to respond to monetary easing by financial restructuring. They basically replace short-term debt with long-term debt. That way, they take advantage of lower long-term yields without increasing investment. Unconventional monetary policy might have a diminishing effect on firm investment in an economy with many zombies.



- Isabel Schnabel: Looking through higher energy prices? Monetary policy and the green transition; Speech by Ms Isabel Schnabel, Member of the Executive Board of the European Central Bank, at a panel on "Climate and the Financial System" at the American Finance Association 2022 Virtual Annual Meeting, Frankfurt am Main, 8 January 2022, free download of speech and slides at: <https://www.bis.org/review/r220111a.htm>

Comment/Abstract: In 2021 the global economy was shaken by a major energy crisis. Prices for oil, gas and electricity surged as our economies reopened after the shutdowns imposed in response to the coronavirus (COVID-19) outbreak. Though last year's events were extraordinary on many levels, spikes in energy prices are a common phenomenon. Since the 1970s, sharp movements in energy prices have been a recurring source of economic dislocations and volatility. And yet, the roots of today's shock are likely to go deeper. While in the past energy prices often fell as quickly as they rose, the need to step up the fight against climate change may imply that fossil fuel prices will now not only have to stay elevated, but even have to keep rising if we are to meet the goals of the Paris climate agreement.

- Short-Time Work Rises in Germany; ifo; press release; 12 January 2022; free download at: <https://www.ifo.de/en/node/67329>, detailed branch data available only on German

Comment/Abstract: The number of short-time workers in Germany has risen sharply. In December, it increased to 879,000 people, up from 712,000\* the previous month. That now represents 2.6 percent of the workforce, after 2.1 percent in November. These figures are ifo Institute estimates based on its surveys as well as on data from the German Federal Employment Agency.

### Forecast of the Week

- Number of working persons, Slovenia, November 21 (Statistical Office of RS); 914,000

Comment: We expect number of jobs to reach new high in November 21, rising by 2,200 compared to October 21.

### Things to Keep in Mind in the Following Week

- Construction permits for buildings, Slovenia, December 21, (20 January), Statistical Office of RS
- Industrial producer prices, Slovenia, December 21, (21 January), Statistical Office of RS
- Consumer sentiment, Slovenia, January 2022 (21 January), Statistical Office of RS

### Quote of the Week

"Learn from the past if you want to predict the future." (*Confucius*)

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