

# **EUROGRAPH**

## **GENERAL ASSEMBLY MEETING**

**(Bruxelles, 29 November 2023)**

**Where is the European  
economy going ?**

**More uncertainties than ever ?**

**Andrea Boltho  
Magdalen College  
University of Oxford  
and Oxford Economics**

# **THREE SHOCKS IN TWO YEARS**

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- Covid**
- Inflation**
- War**

**And now a fourth one ?**

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# COVID

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**Deep recession in 2020  
(much worse than the 2008-09  
financial crisis)**

**Are we out of it by now ?  
Perhaps in America and Europe  
But elsewhere ?**

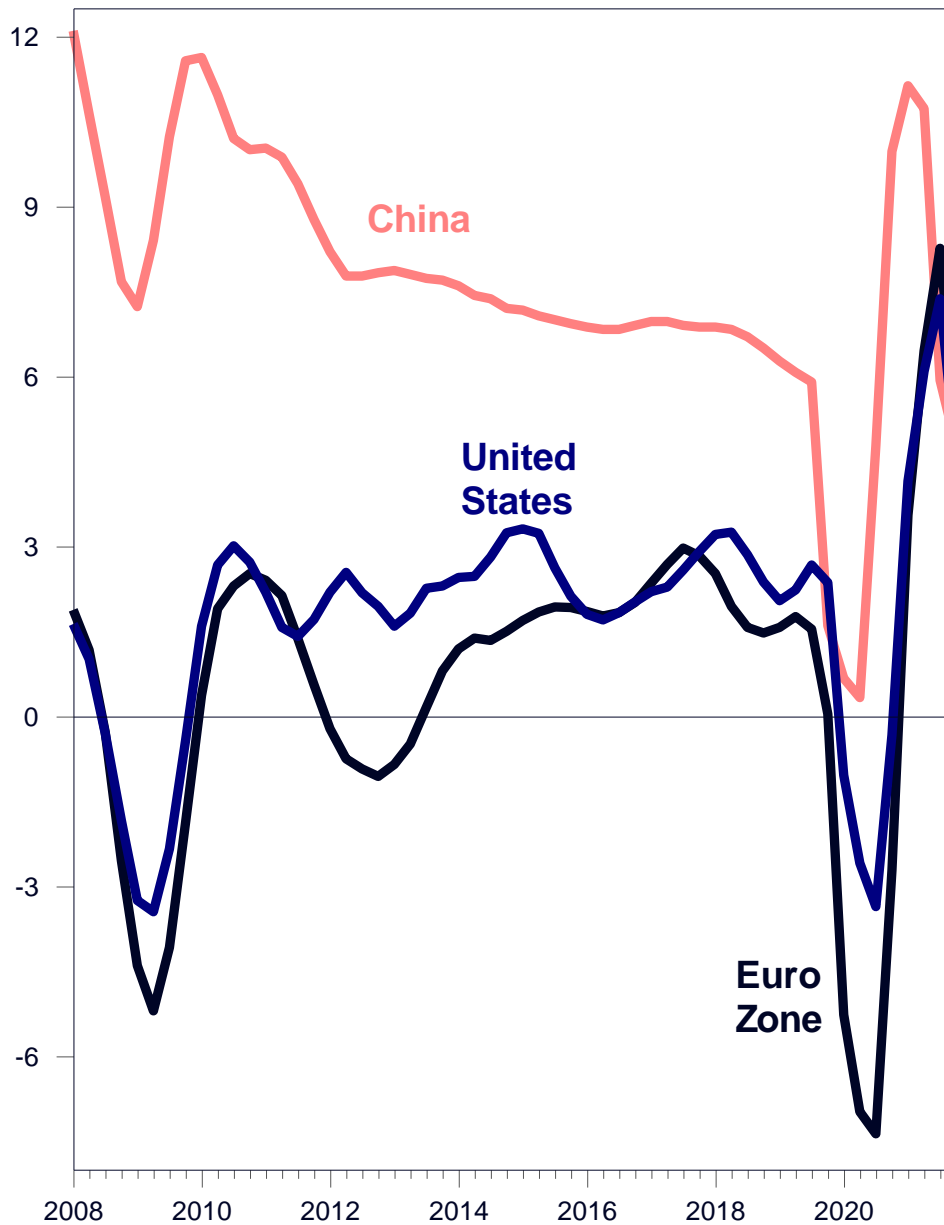
**Danger of new variants  
We have had alpha, delta, omicron  
Between omicron and omega  
there are eight more letters  
in the Greek alphabet**

**There is room !**

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# COVID-19 - GDP GROWTH

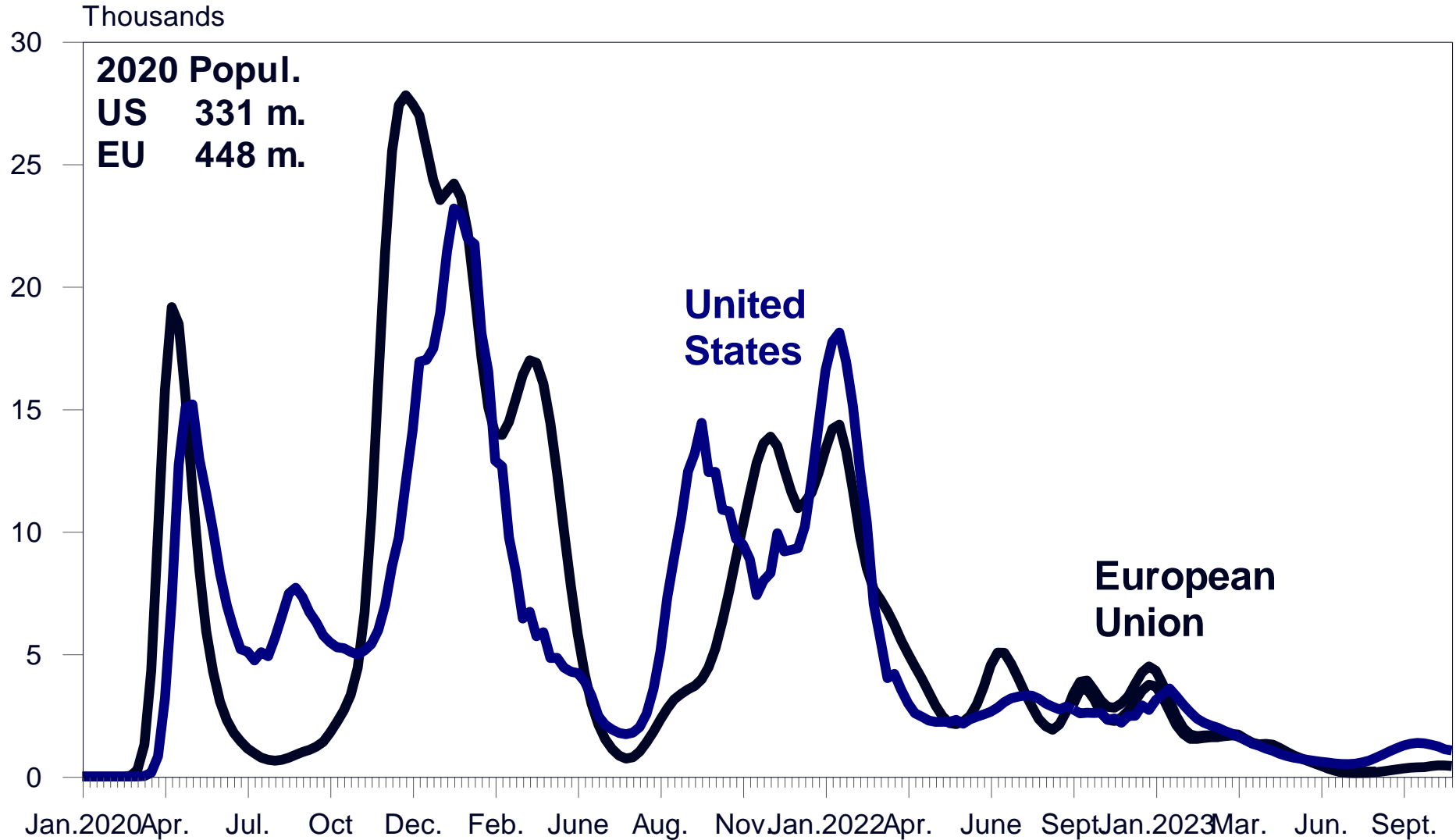
(% changes from previous year; 3qmvav)



Source: Oxford Economics.

# EU AND US - COVID-19 DEATHS

(weekly totals; three weeks moving averages)



Sources: European Centre for Disease Prevention and Control and WHO.

# COVID

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**One helpful precedent:**

**Spanish Flu - 1918-1920**

**It killed between 50 and 100 million people (not a very precise estimate)\***

**But it then stopped abruptly in 1921**

**Why ? The most likely explanation is the achievement of "herd immunity"**

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**\* Covid-19 has so far killed some 7 million people officially (but estimates suggest that the true figure is nearer 25 million)**

# **INFLATION**

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**Initially seen as a reaction to the very low commodity prices of 2020**

**Hence clearly transitory**

**Later made worse by demand/supply imbalances due to expansionary policies and the malfunctioning of global supply chains**

**Longer lasting, but eventually self-repairing**

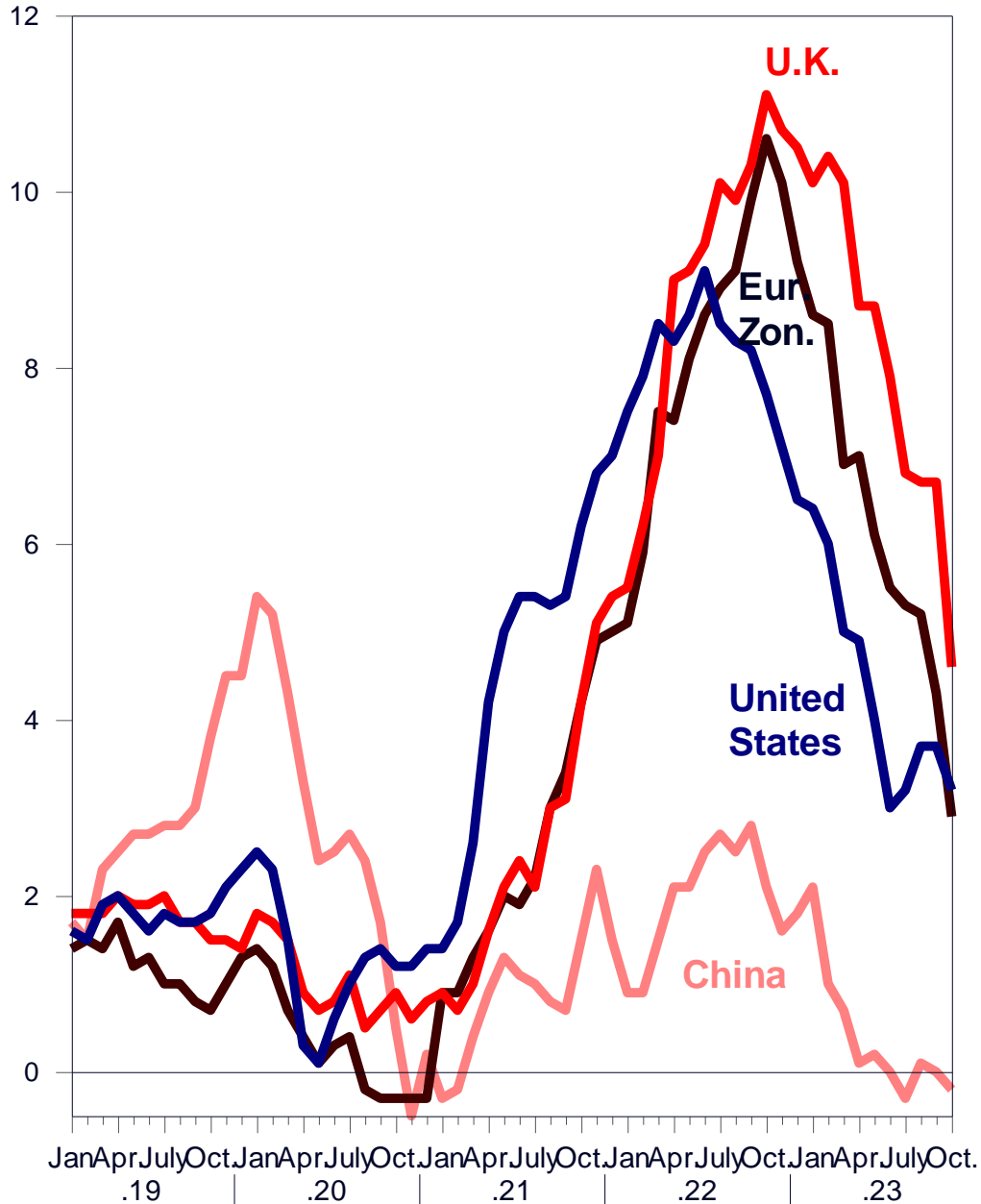
**Then compounded by an energy price shock and a food price shock**

**Greater uncertainty about its duration**

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# CONSUMER PRICE INFLATION

(per cent changes)





# WAR

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**Unthinkable, yet ...**

**It will end eventually, but how ?**

**Two immediate economic effects**

**A sharp inflationary shock  
(mainly to energy and food prices)**

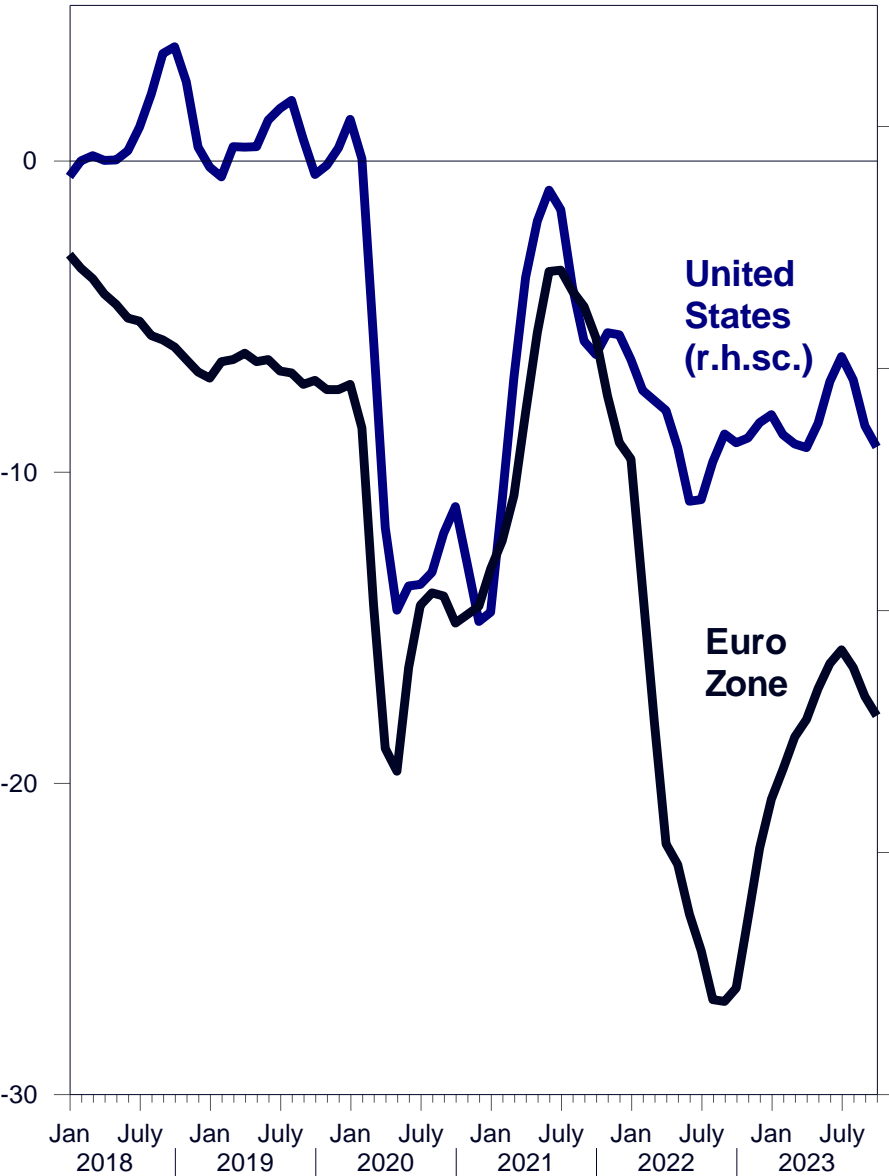
**A massive loss of consumer confidence  
in Europe**

**... but some recovery now**

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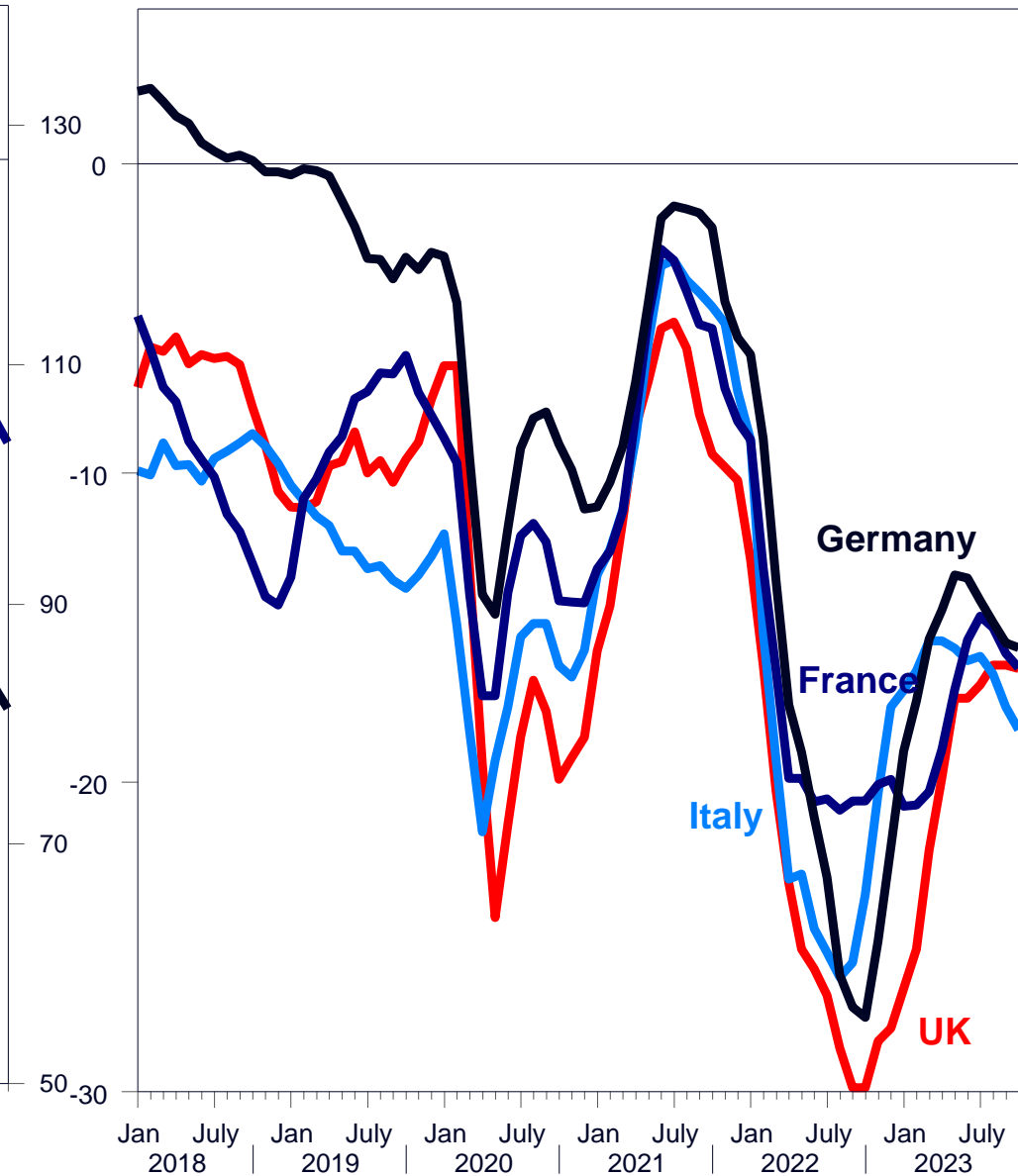
# CONSUMER CONFIDENCE

(3 months moving averages)



# CONSUMER CONFIDENCE

(3 months moving averages)



# WHAT NEXT ?

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**More inflation to come  
... but decelerating**

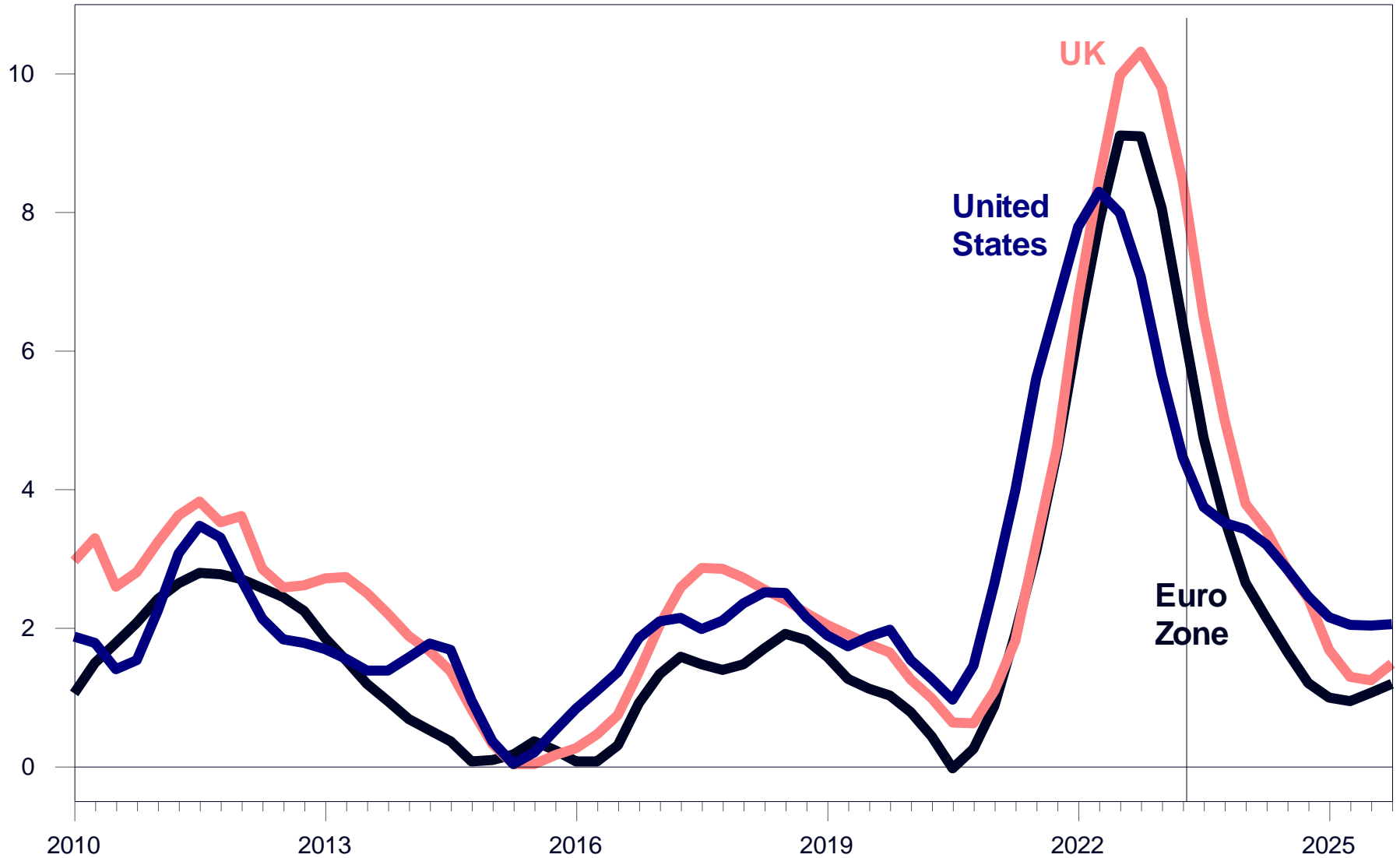
**Some stagnation or even recessions  
... but relatively mild ones**

**And then a modest recovery  
... with a lot of uncertainty**

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# CONSUMER PRICE INFLATION

(per cent changes from previous year; 3 quarter mov. aver.)



Source: Oxford Economics.

# INFLATION UNCERTAINTIES

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**Supply bottlenecks have eased**

**... but**

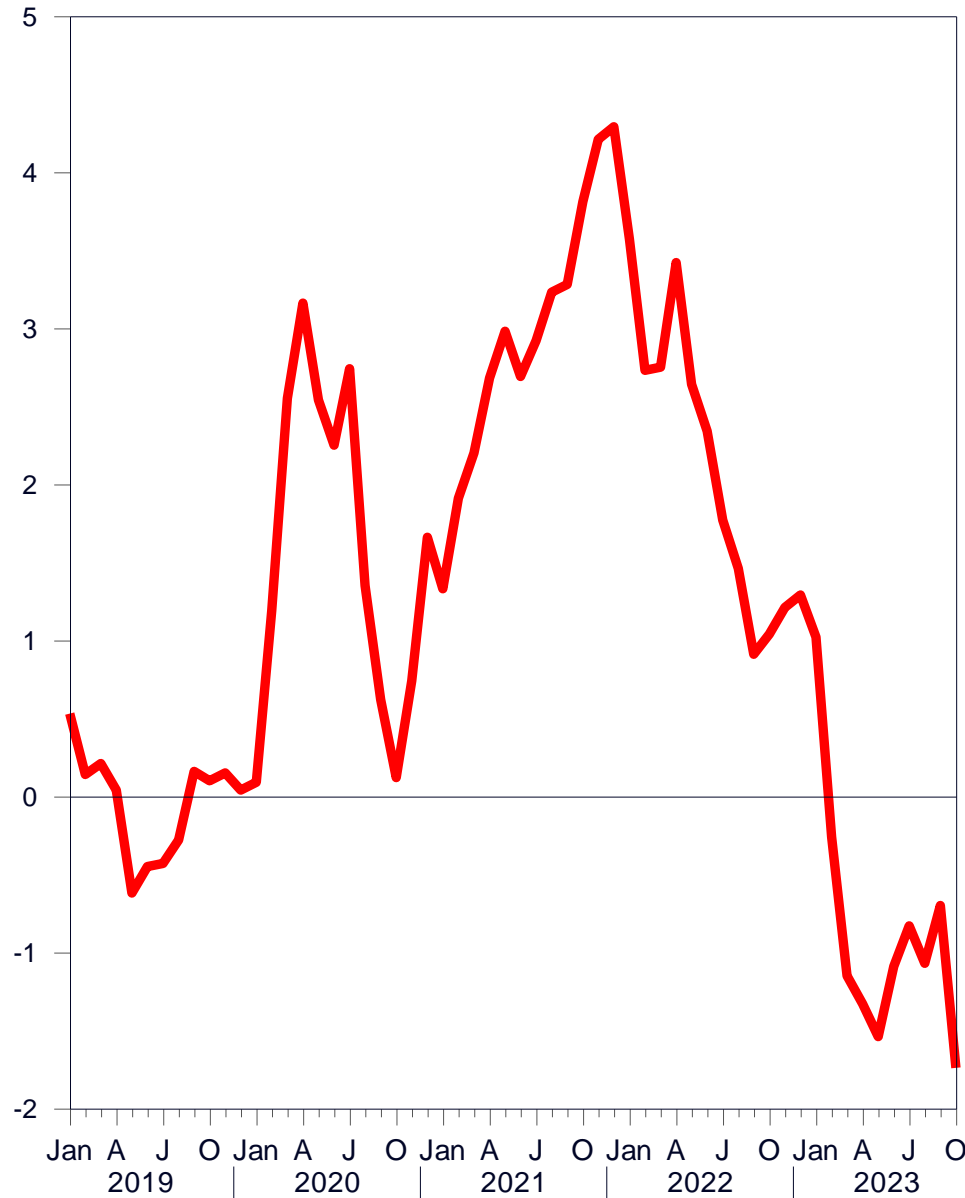
**There could be pressures on  
some commodity prices**

**There are also pressures on  
wages**

**And core inflation remains very  
sticky**

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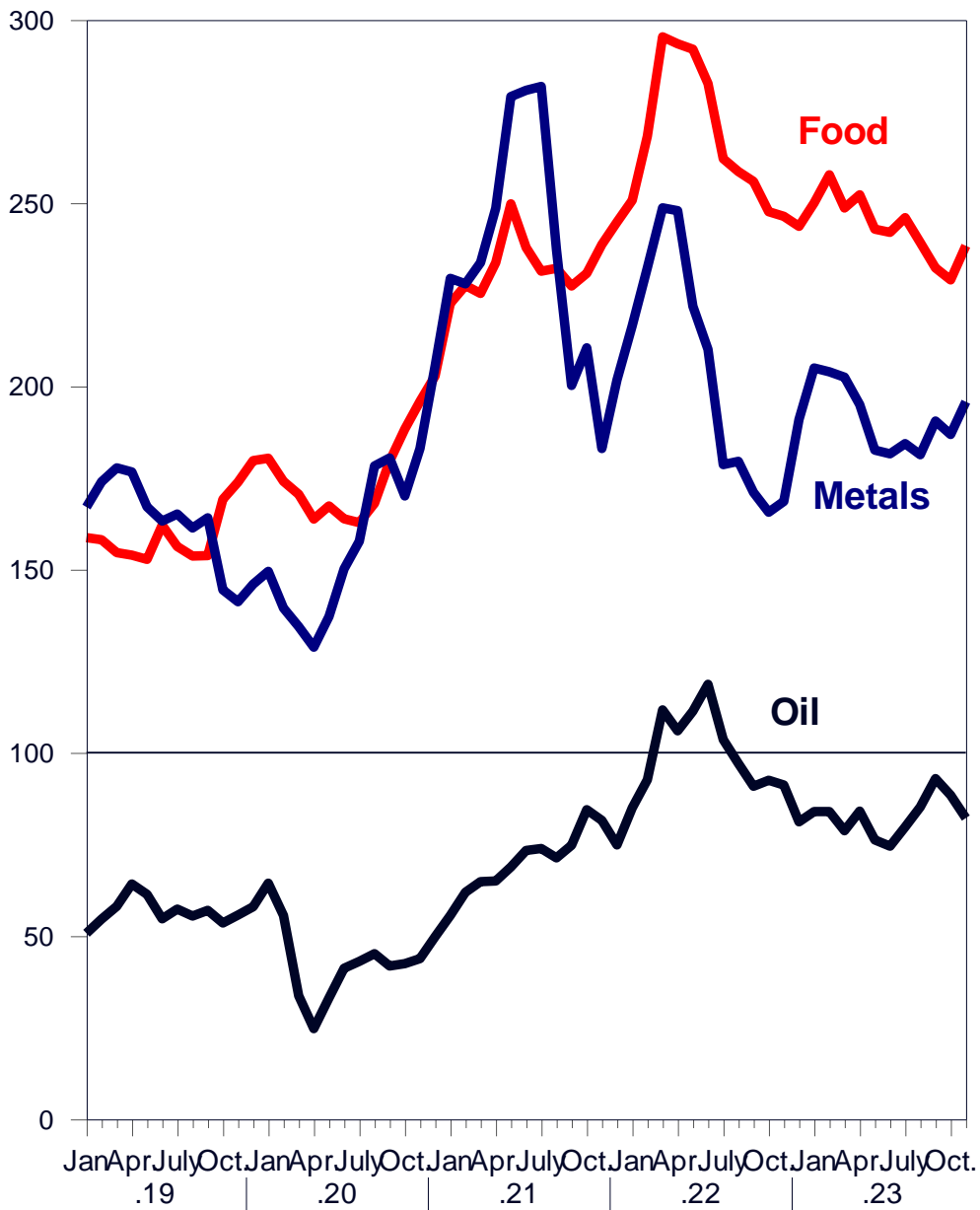
# GLOBAL SUPPLY CHAIN PRESSURES



Source: Federal Reserve Bank of New York.

# COMMODITY PRICES

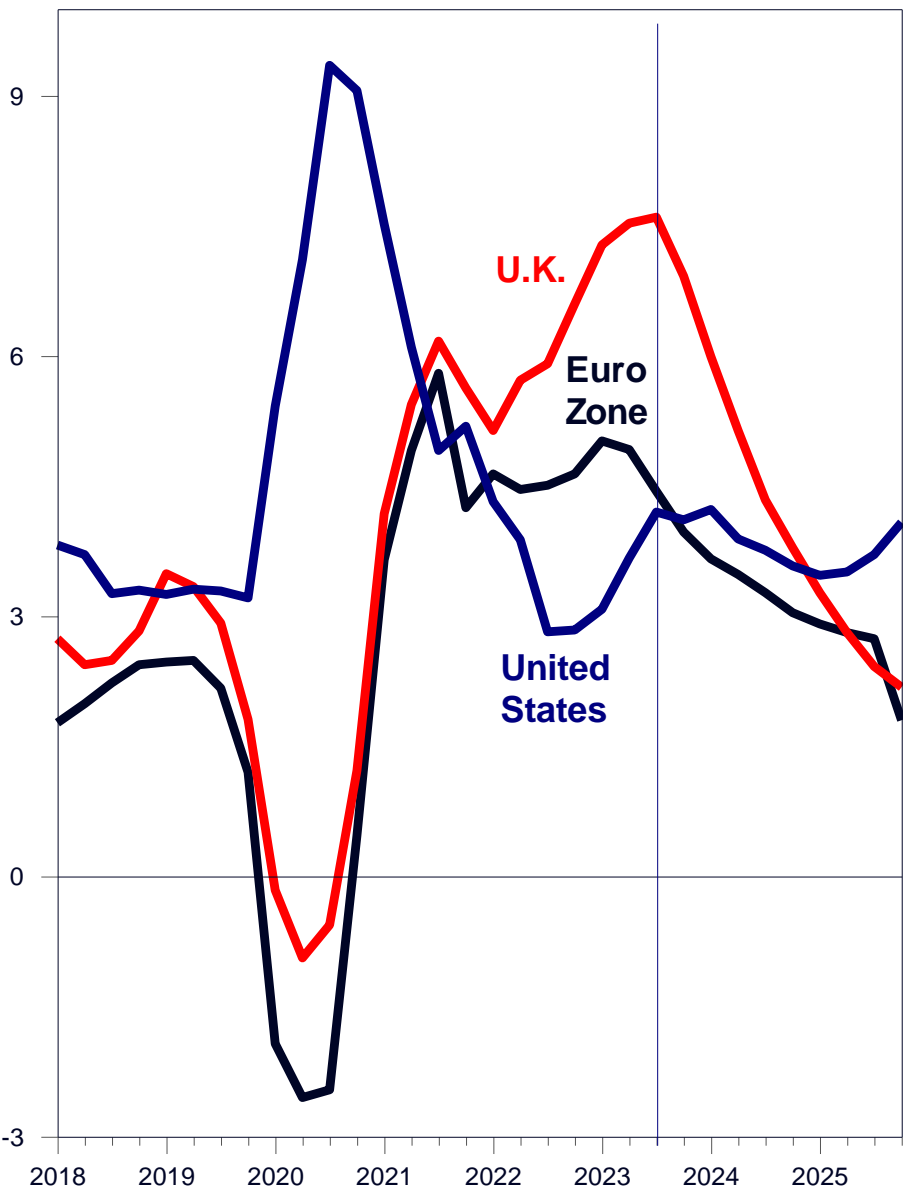
(2015=100)



Source: The Economist.

# NOMINAL WAGES

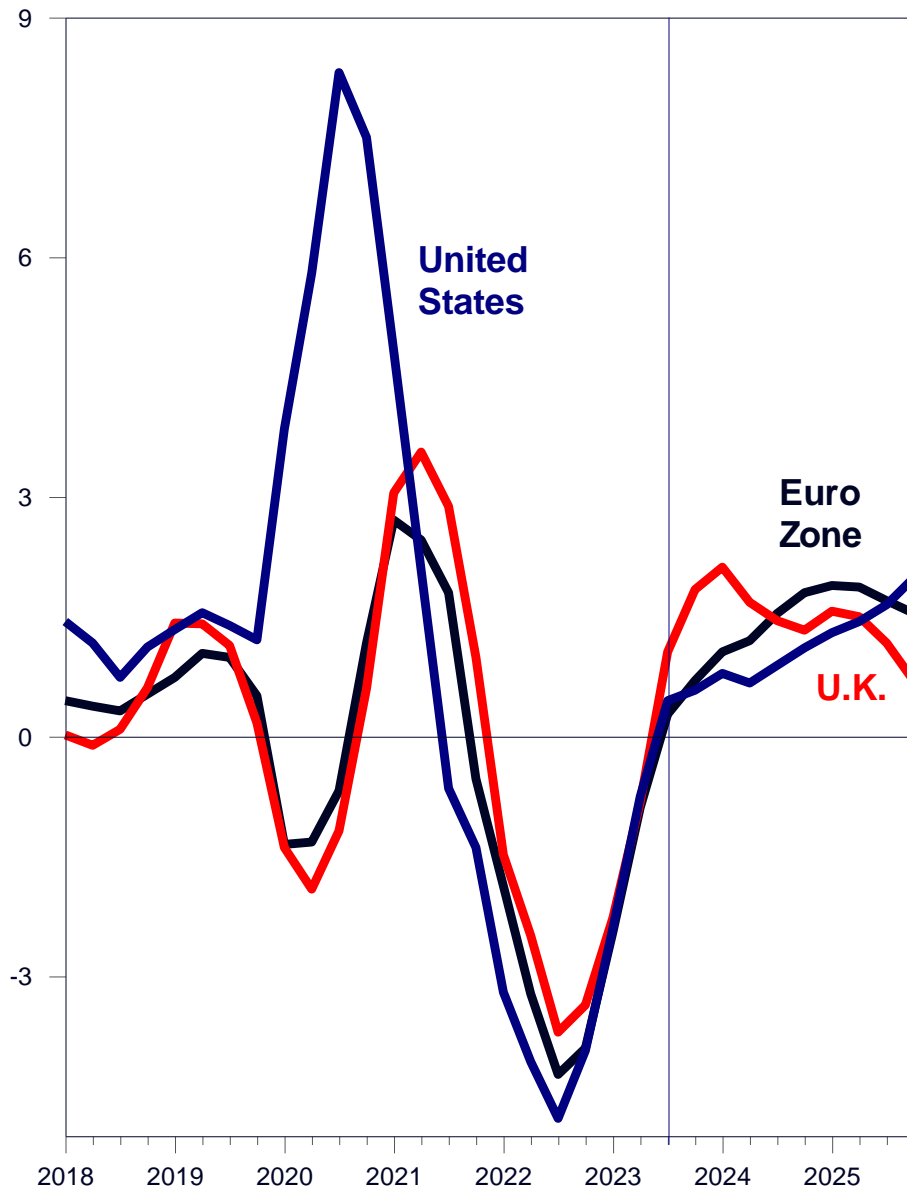
(% changes from previous year; 3qmvav)



Source: Oxford Economics.

# REAL WAGES

(% changes from previous year; 3qmvav)

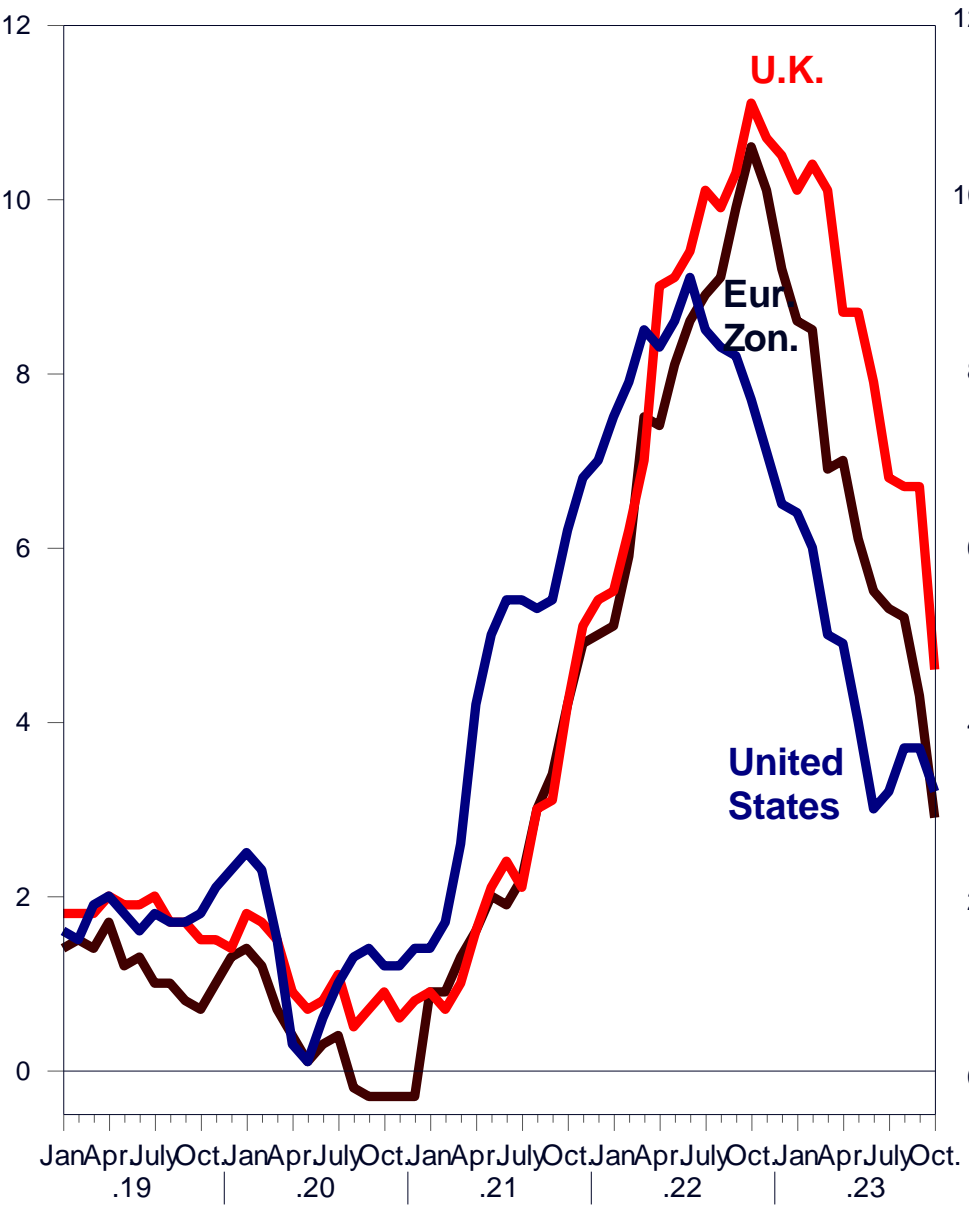


Source: Oxford Economics.



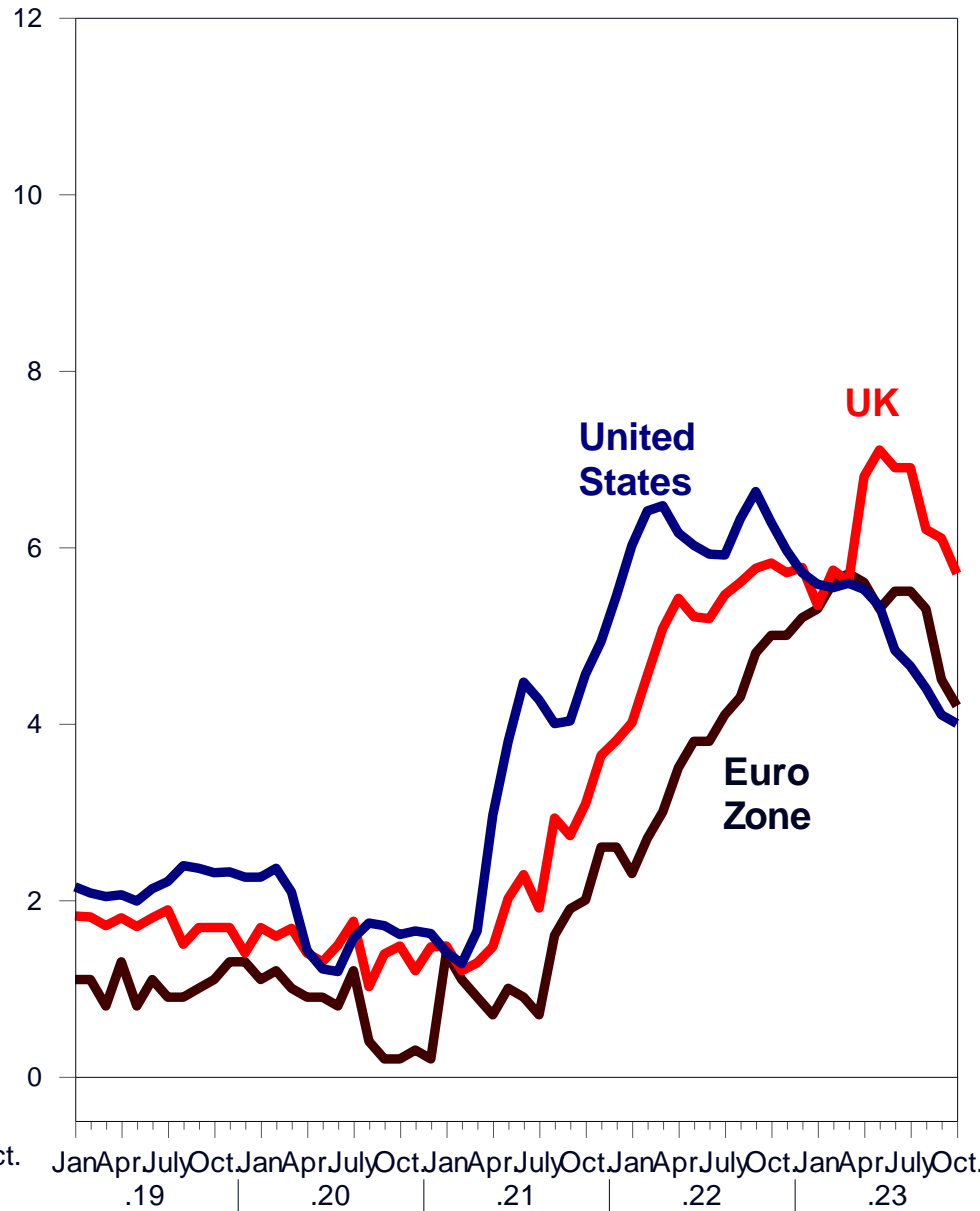
# CONSUMER PRICE INFLATION

(per cent changes)



# CORE\* INFLATION

(per cent changes)



\* Excluding energy and food.

# **GROWTH UNCERTAINTIES**

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**Output growth has been stronger  
than expected in both Europe and  
the United States**

**... but**

**A slowdown is happening**

**Recent indicators are weak**

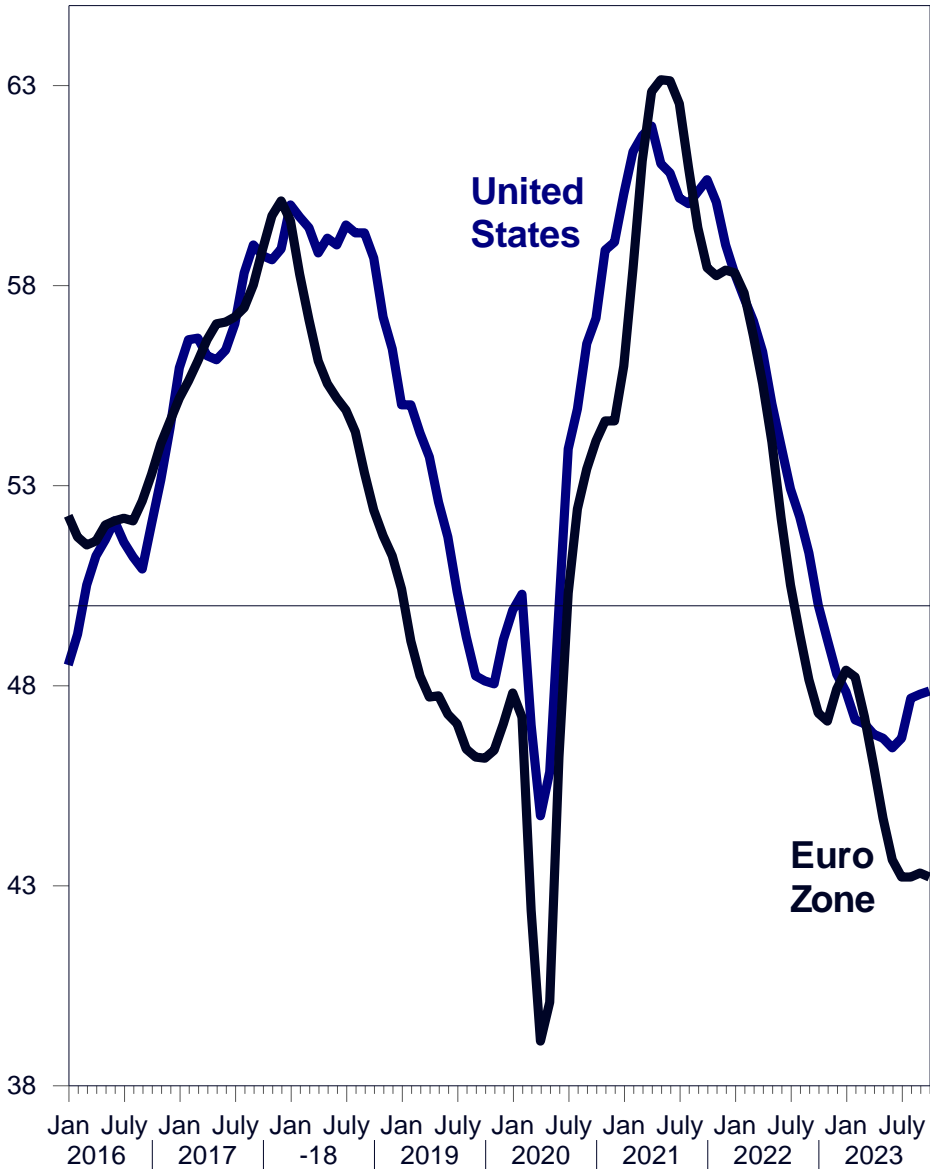
**Bank lending is declining**

**The monetary squeeze is far  
from over**

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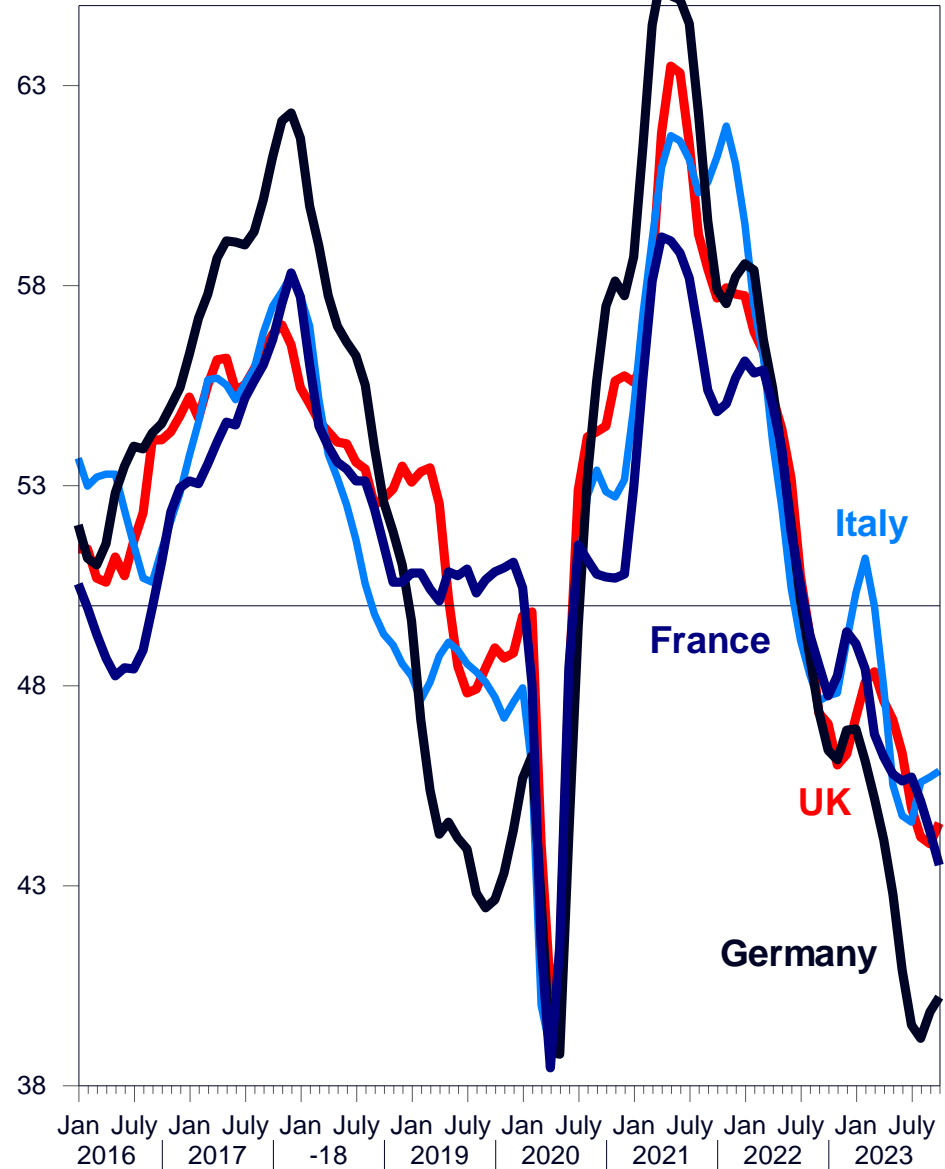
# MANUFACTURING PMI INDICES

(3 months moving averages)



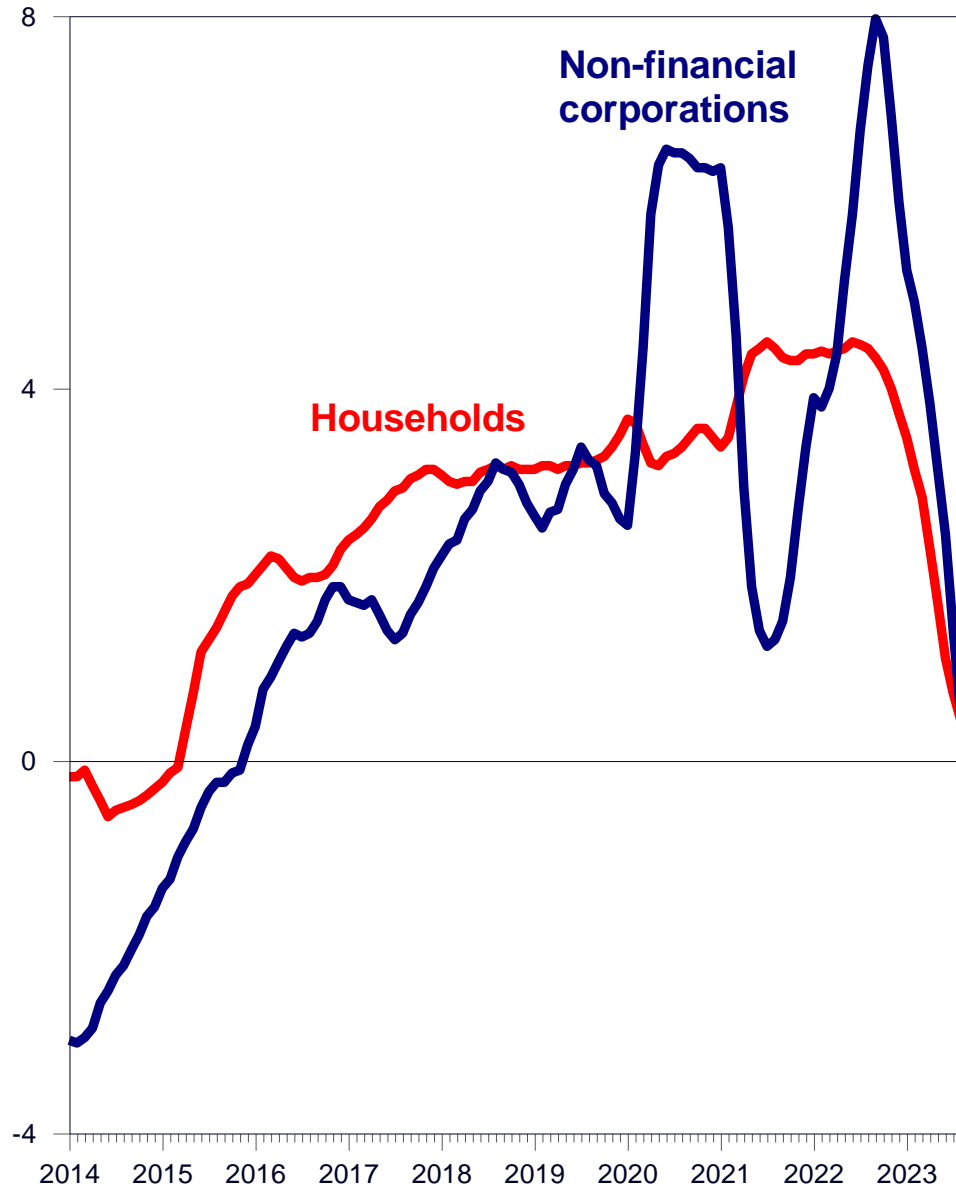
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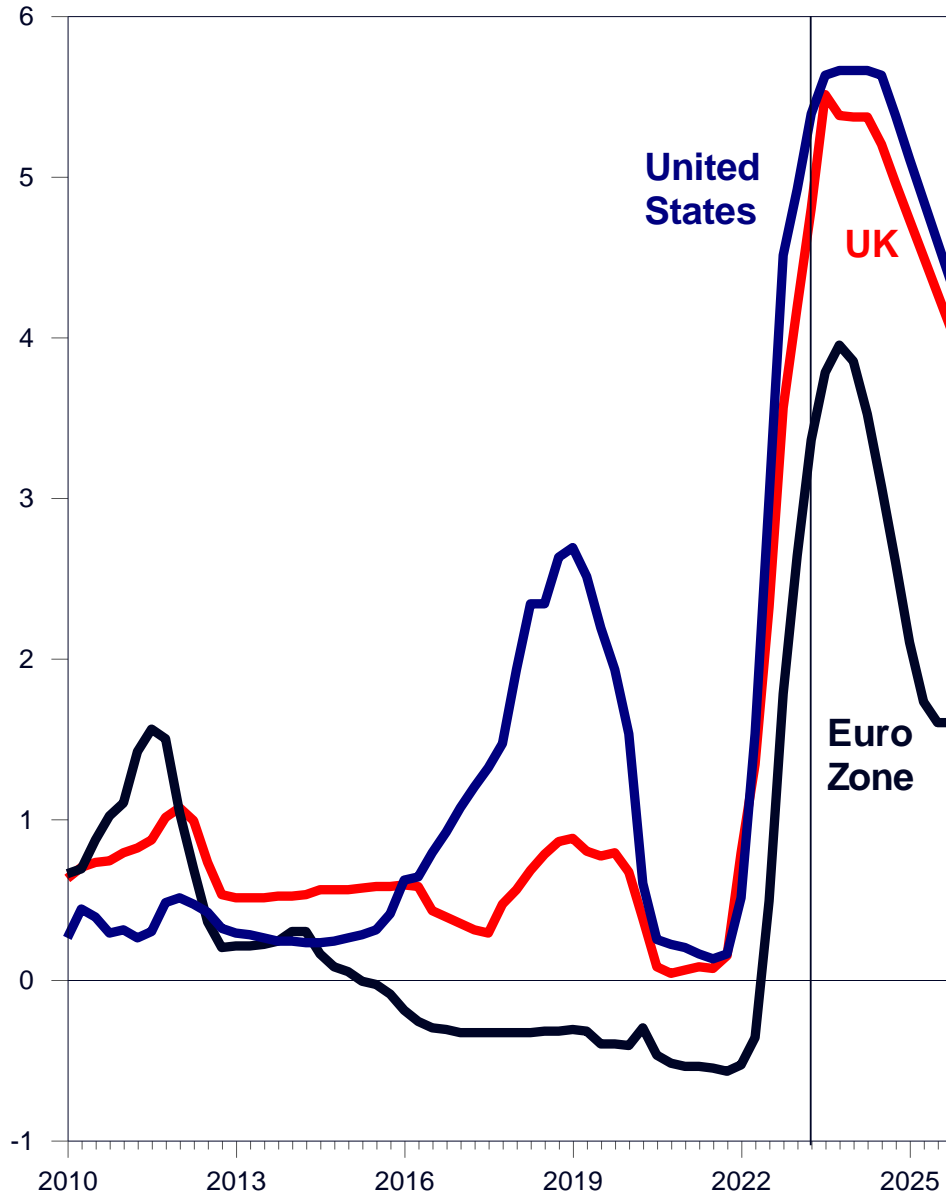


# EURO ZONE - GROWTH IN BANK LENDING

(per cent changes; 3 mnths. mov.avrgs.)



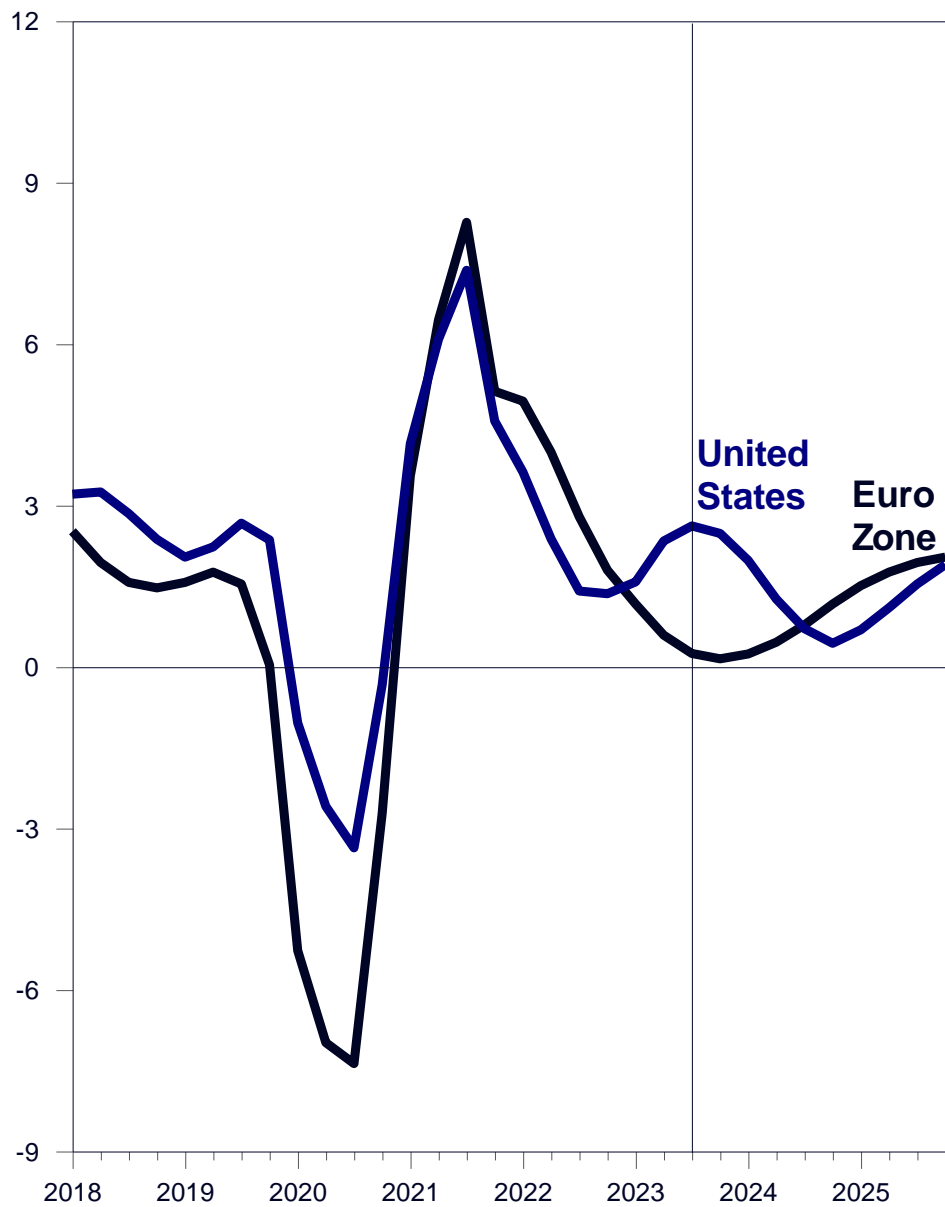
# SHORT-TERM INTEREST RATES



Source: Oxford Economics.

# GDP GROWTH

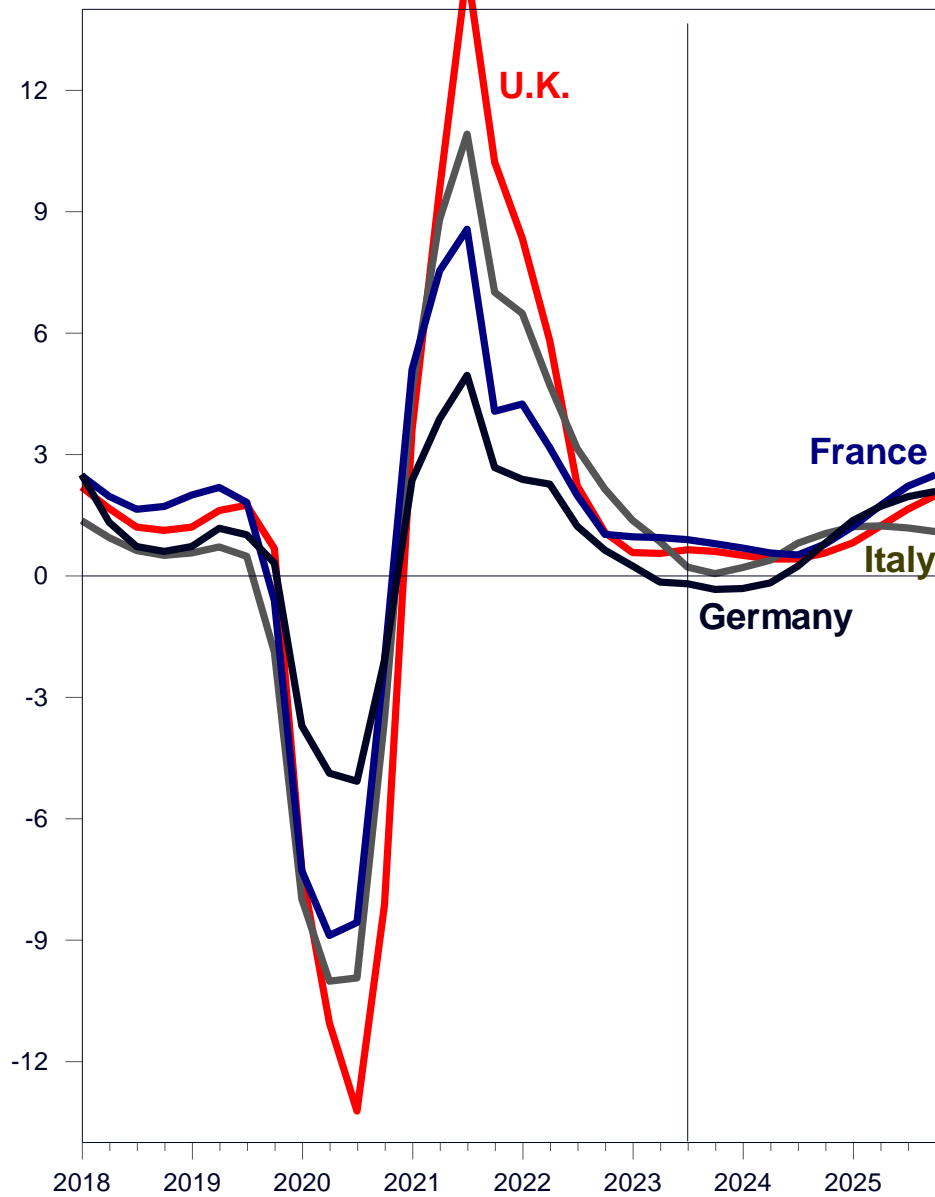
(% changes from previous year; 3qmvav)



Source: Oxford Economics.

# GDP GROWTH

(% changes from previous year; 3qmvav)



Source: Oxford Economics.

# GROWTH RATES

(GDP; percentage changes)

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	2020	2021	2022	2023	2024	2025
<b>USA</b>	<b>-2.2</b>	<b>5.8</b>	<b>1.9</b>	<b>2.4</b>	<b>1.0</b>	<b>1.3</b>
<b>EuroZ.</b>	<b>-6.2</b>	<b>5.9</b>	<b>3.4</b>	<b>0.5</b>	<b>0.6</b>	<b>1.9</b>
<b>China</b>	<b>2.2</b>	<b>8.5</b>	<b>3.0</b>	<b>5.2</b>	<b>4.4</b>	<b>4.0</b>
<b>Germany</b>	<b>-4.2</b>	<b>3.1</b>	<b>1.9</b>	<b>-0.2</b>	<b>0.1</b>	<b>1.8</b>
<b>France</b>	<b>-7.7</b>	<b>6.4</b>	<b>2.5</b>	<b>0.9</b>	<b>0.6</b>	<b>1.9</b>
<b>Italy</b>	<b>-9.0</b>	<b>8.3</b>	<b>3.9</b>	<b>0.7</b>	<b>0.6</b>	<b>1.2</b>
<b>Spain</b>	<b>-11.2</b>	<b>6.4</b>	<b>5.8</b>	<b>2.4</b>	<b>1.2</b>	<b>1.8</b>
<b>UK</b>	<b>-10.4</b>	<b>8.7</b>	<b>4.3</b>	<b>0.6</b>	<b>0.4</b>	<b>1.4</b>

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# THE GERMAN PROBLEM

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**Europe's largest economy is beset by problems**

**Its erstwhile successes depended on:**

**Exports to China**

**Energy from Russia**

**Defence from the US**

**All three are now in question**

**And at home difficulties are mounting:**

**Heavy industry is in retreat**

**High-tech industry is not strong**

**Labour scarcity looms**

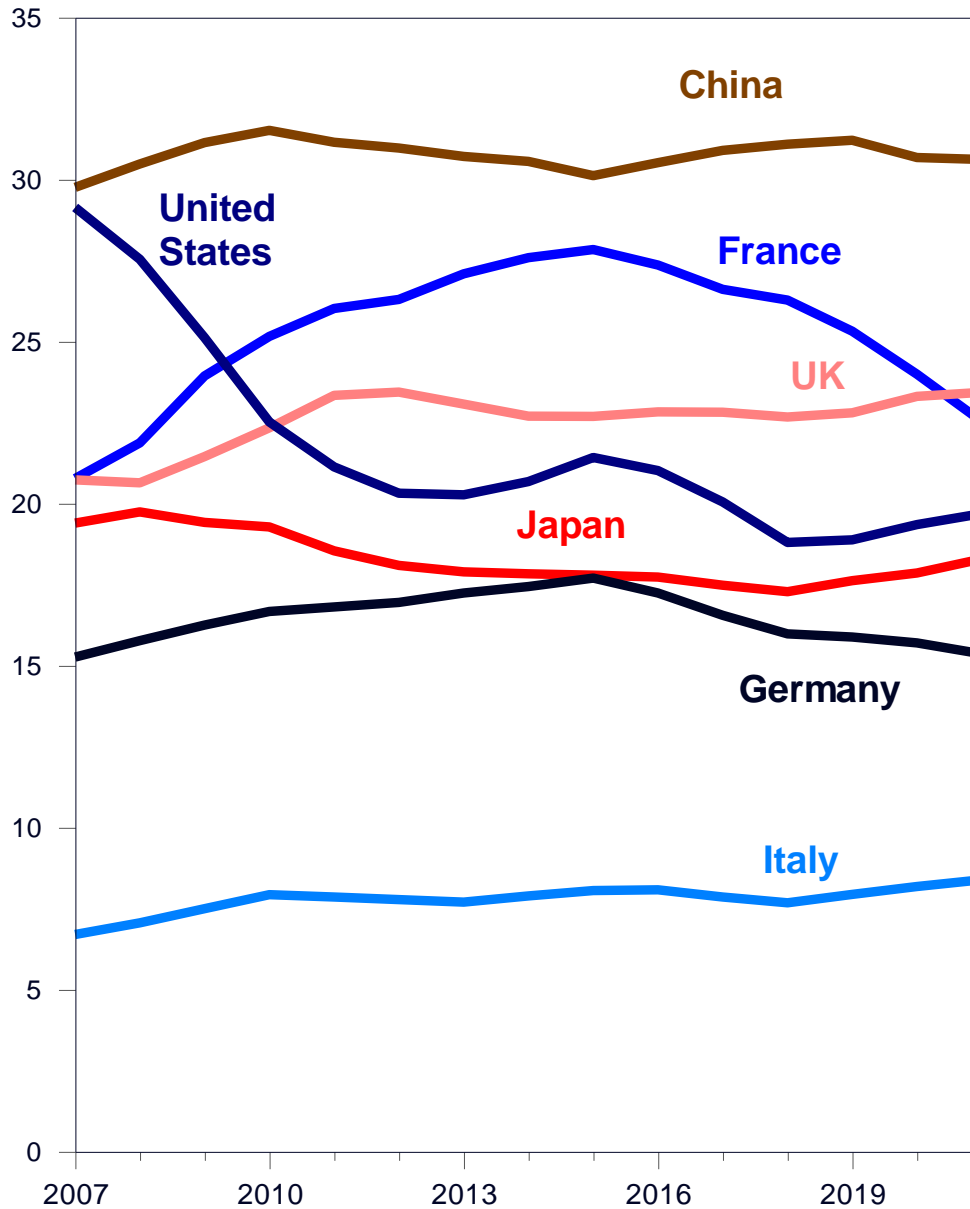
**And fiscal policy is turning very restrictive**

**In addition, the government is weak and populism is gaining ground (e.g. AfD)**

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# HIGH-TECH EXPORTS IN % OF MANUFACTURED EXPORTS



Source: World Bank.

# **TWO MEDIUM-RUN ISSUES**

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**Rising demands on government**

**Ageing**

**Defence**

**Climate change**

**And by boosting debt, this is likely to  
raise the cost of debt servicing**

**A slower growth of productivity ?**

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# AGEING

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**An ageing population raises government expenditure on publicly provided health services and long-term care as well as on state pensions**

**Economies on primary education are very small and probably more than offset by higher spending on increasingly necessary permanent education**

**Rough EU estimates suggest that by 2030 public expenditure in Europe on this account could rise by 0.4 per cent of GDP**

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# DEFENCE

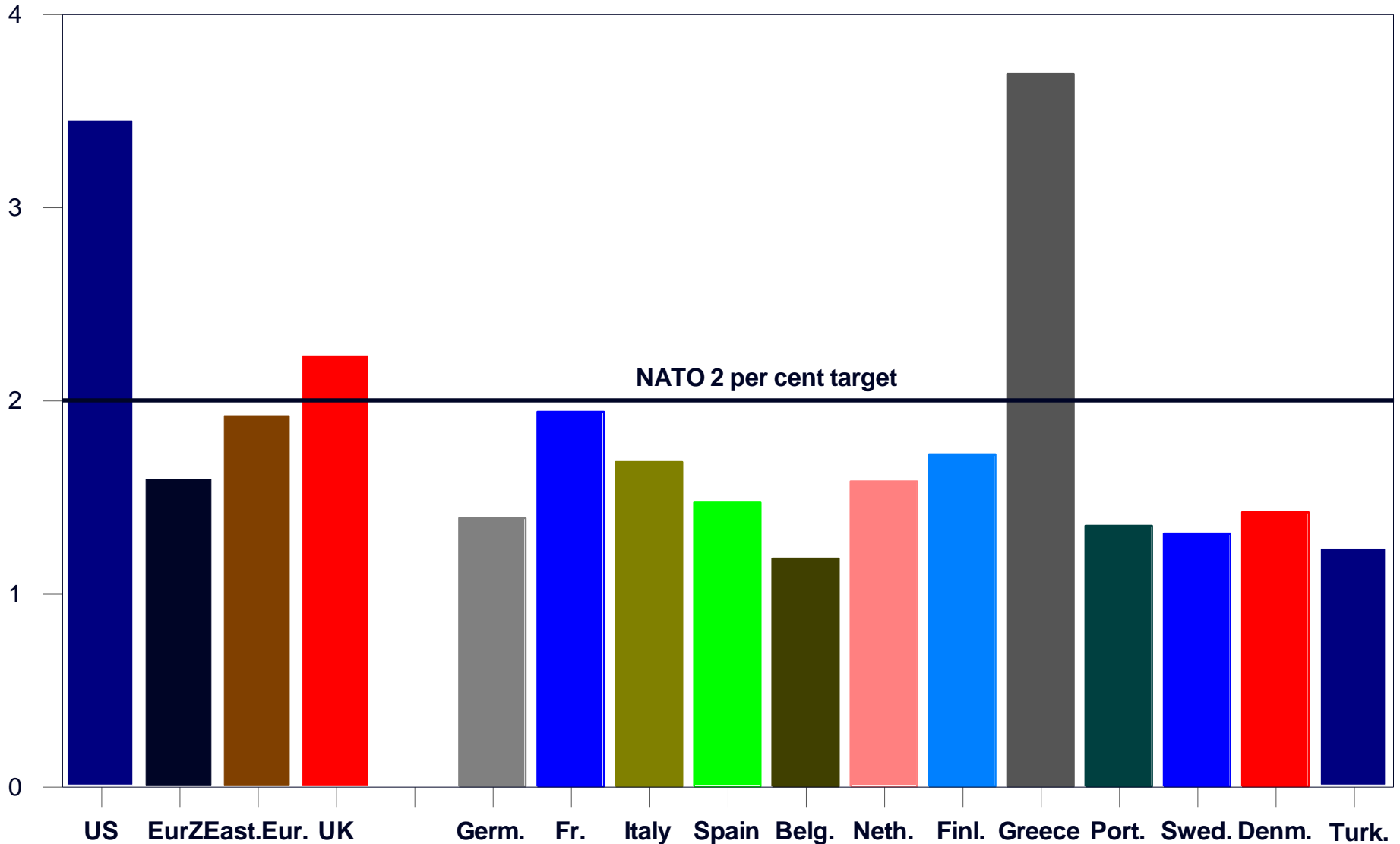
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**The Russia-Ukraine war has shown that in many European countries defence expenditure is significantly below what is needed**

**If all NATO Member Countries were to raise military spending by 2030 to the 2 per cent of GDP target they all subscribe to, public expenditure in Europe on this account could rise by 0.4 per cent of GDP**

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# DEFENCE EXPENDITURE (2022; in per cent of GDP)



Source: SIPRI (Stockholm International Peace Research Institute).

# CLIMATE CHANGE

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**Both governments and public opinion are increasingly worried by global warming and pressures to act are mounting**

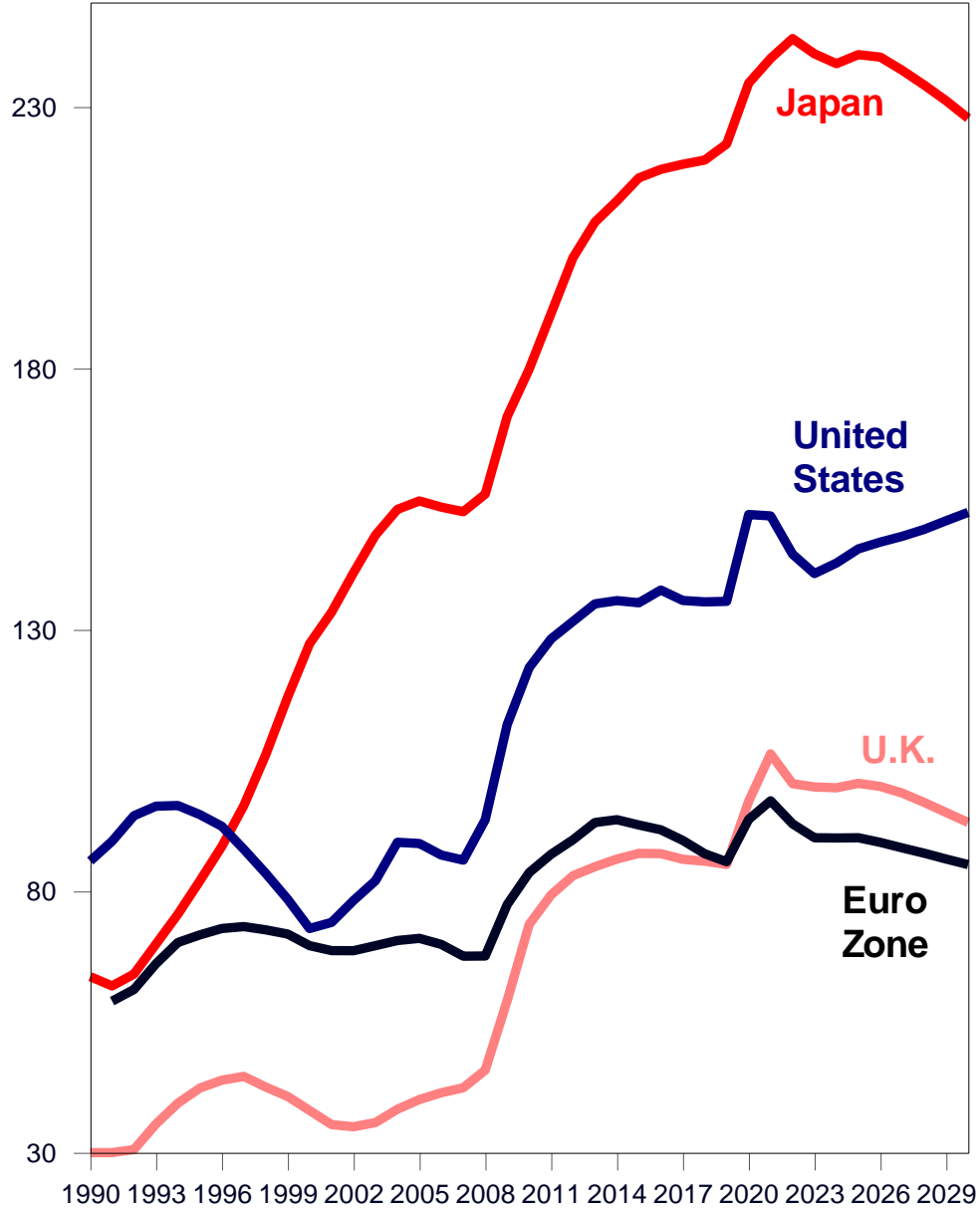
**The costs of tackling it are hugely uncertain. A recent rough estimate by the European Environment Agency puts likely investment costs to 2030 at € 40 to € 120 billion per year, depending on how quickly temperatures rise. An alternative International Energy Agency estimate for the world comes to \$ 4 trillion by 2030**

**Taking a very rough mid-point and assuming that two-thirds of the spending would be incurred by the private sector, public expenditure in Europe on this account could rise by up to 0.7 per cent of GDP**

**And there could well be other demands**

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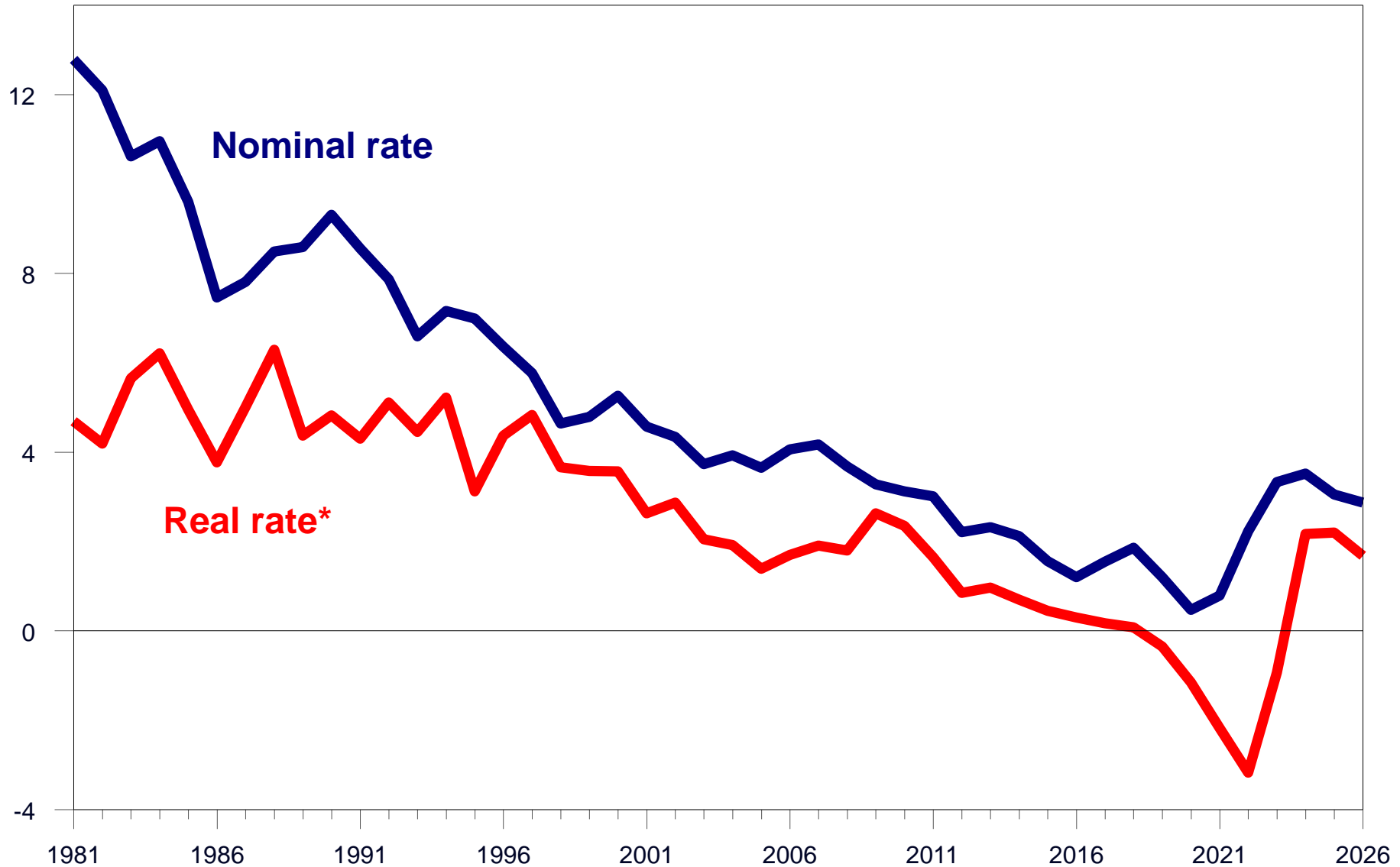
# PUBLIC SECTOR DEBT/GDP RATIOS



Source: Oxford Economics.

# LONG-TERM INTEREST RATE

(in United States, Western Europe and Japan)



\* Nominal rate less growth of GDP deflator.

Source: Oxford Economics.



# **THE FUTURE OF PRODUCTIVITY GROWTH**

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**Essential for rising living standards**

**Has decelerated over time**

**Will it be even more sluggish in future ?**

- Slowing globalization ?**
  - The effects of remote working ?**
  - Rapid ageing ?**
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# GROWTH OF LABOUR PRODUCTIVITY\*

(average annual percentage changes)

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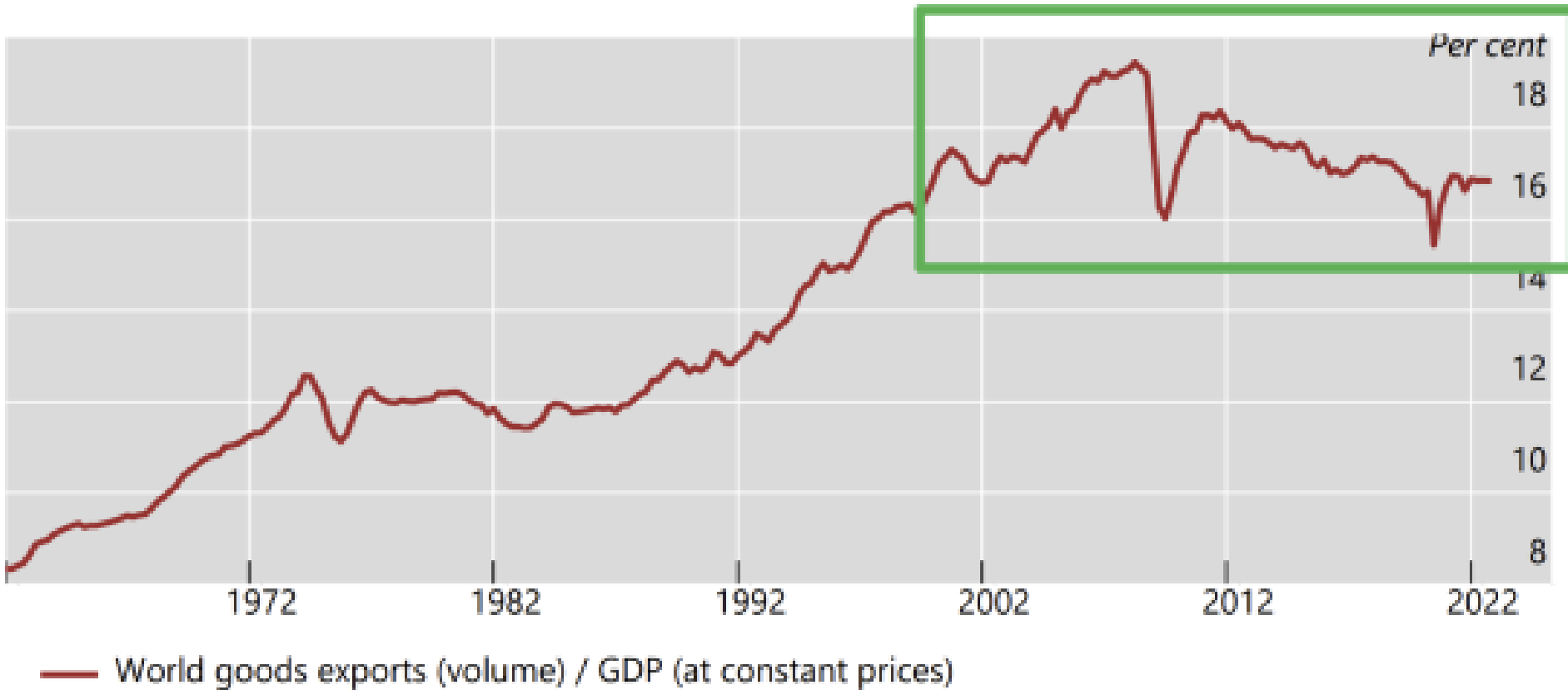
	1950- 1973	1973- 2005	2005- 2022
<b>USA</b>	<b>2.4</b>	<b>1.5</b>	<b>1.0</b>
<b>Eurozone</b>	<b>4.9</b>	<b>1.6</b>	<b>0.3</b>
<b>Germany</b>	<b>4.7</b>	<b>1.5</b>	<b>0.4</b>
<b>France</b>	<b>4.5</b>	<b>1.7</b>	<b>0.3</b>
<b>UK</b>	<b>3.1</b>	<b>1.7</b>	<b>0.4</b>

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\* GDP/Employment.  
Source: Conference Board.

# GLOBALIZATION IN RETREAT

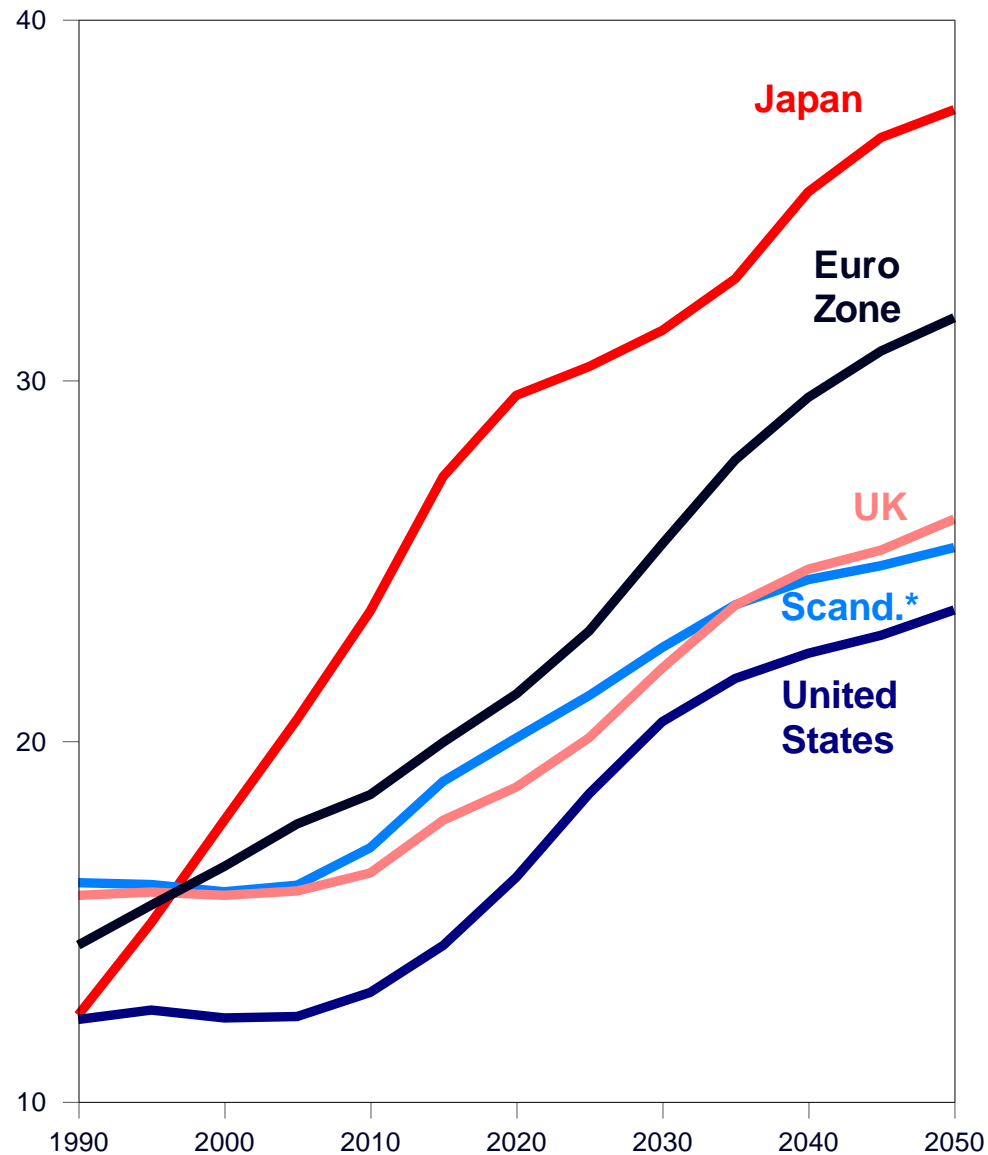
## SHARE OF WORLD EXPORTS IN WORLD GDP



Source: BIS.

# THE AGEING POPULATION

(share of people aged 65 and more in per cent of total population)



Source: UNDP.

\* Denmark, Finland, Norway, Sweden.

# **AGEING AND ECONOMIC GROWTH**

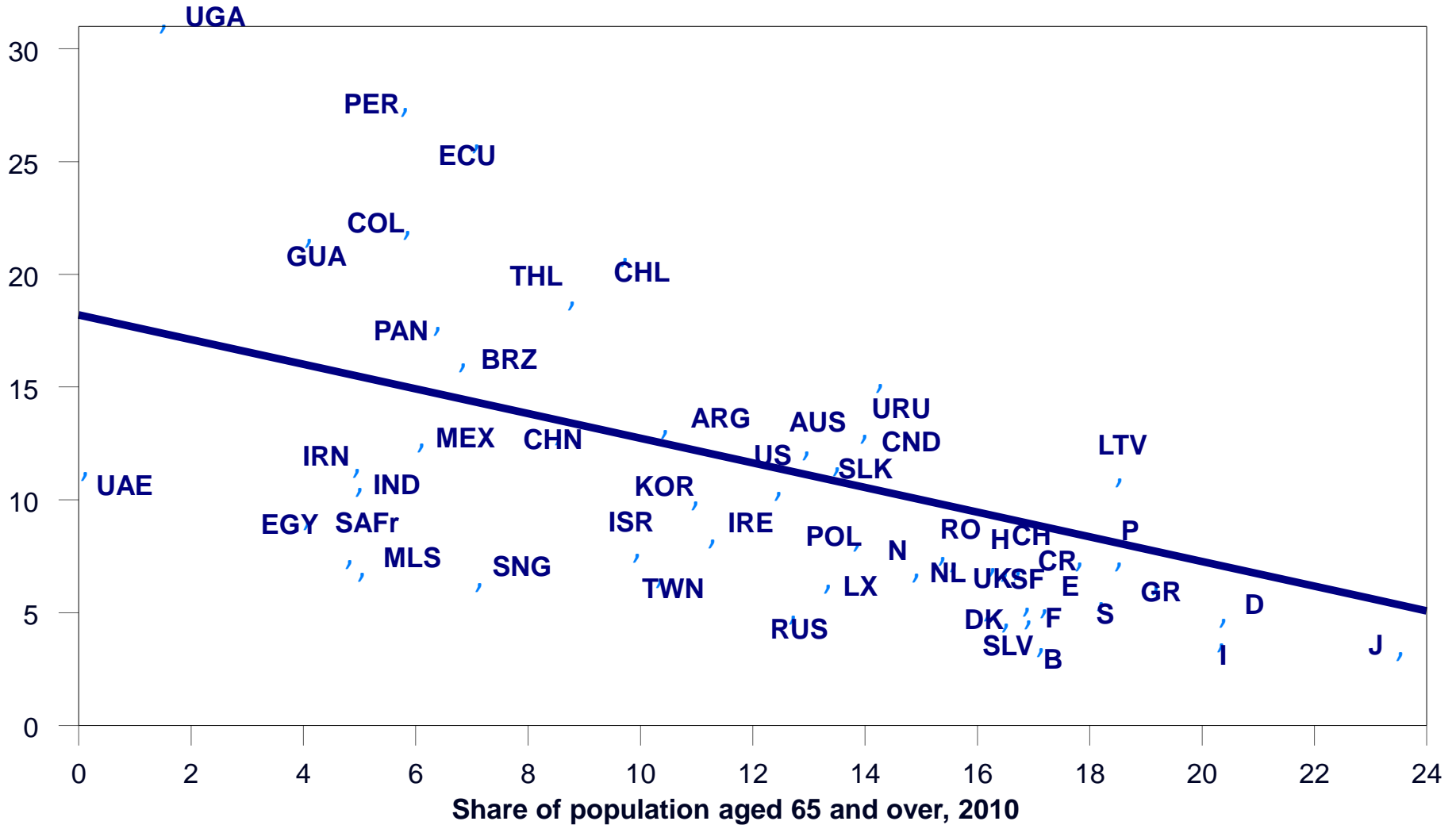
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**An older population is likely to:**

- i) Reduce growth because of lower labour supply**
  - ii) Lead to a rising pension burden and increasing health costs, implying higher taxes or larger budget deficits (and this could also raise inter-generational tensions)**
  - iii) Be less dynamic and entrepreneurial**
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# AGEING AND ENTREPRENEURSHIP

Total entrepreneurial activity, 2000-22\*



\* Share in labour force of people starting a new venture or owning/managing a recent one.

Source: GEM, UNPD.

# SUMMING UP

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**We are not in a happy world**

**Recession and inflation are with us**

**The forecasts suggest that things will modestly improve**

**But they may well be optimistic**

**How long will the war last ?**

**And now Middle-East turmoil !**

**Inflation is coming down, but ...**

**... core inflation remains high**

**Public debt is rising**

**And medium-run prospects are dim**

**Are there any upsides ?**

**Technology perhaps**

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# **NEW TECHNOLOGIES ?**

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**There is more than ICT in the world**

**Think of:**

**Robotics**

**Bio-technology**

**Nano-technology**

**Renewable energy**

**Environmental technology**

**plus Artificial intelligence**

**... and there is bound to be more  
in the pipeline**

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