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The slowing down of vaccination dynamics around the world poses a challenge due to a possible new global wave of infections

On Slovenia's Economy

- According to the latest data from the New York Times, 3.69 billion **doses of vaccines** have already been used in the world (48 per 100 people). For most vaccines, two doses are required for immunity. At the top of the scale are Malta (71% of the population vaccinated with two doses) and Iceland (70%). Among the world's major economies, the United Kingdom (54%), China (53%), Spain (51%), Canada (51%) and the United States (49%) are also at the top. In Slovenia, the share of people already received 2 jabs currently stands at 37%, which is close to France, the Czech Republic and Sweden. More at: https://www.nytimes.com/interactive/2021/world/covid-vaccinations-tracker.html
- At the beginning of July, the traffic of **trucks on Slovenian motorways** was close to the comparable level in 2019, while the lag in **electricity consumption** (-3%) is decreasing with gradually increasing activity in the tourism part of the economy. Compared to the comparable week of 2019, most Slovenia's trading partners recorded lower electricity consumption (Austria by 1%, Croatia by 3%, France and Italy by 6%), except for Germany, which had roughly the same consumption. In June, for the first time since the beginning of the pandemic, **industrial electricity consumption** reached the level of the same period in 2019 (+1.2%, in May -2.1%), while **business consumption** (smaller scale use of services companies) was slightly behind this level (-3.6%), but less than a month earlier (in May: -8.7%). **Household consumption of electricity** was higher by 1.7%. In cultural, entertainment and sports services, **sales** were still much lower than in the same period in 2019 due to the continuation of certain business restrictions (floor area per person, PCT requirements).
- The value of **the consumer confidence indicator** was almost unchanged in July 2021 (1 percentage point lower than in the previous month) and was 3 percentage points higher than the long-term average. The value of this indicator decreased on a monthly basis due to a more pessimistic consumer expectations regarding the future economic situation in the country (by 8 percentage points) and regarding the financial situation in their households (decrease by 2 percentage points). On the other hand, the decline in the indicator was mitigated by a more optimistic opinion of consumers about the current financial situation in the household (4 percentage points higher) and expectations of higher purchases (2 percentage points higher). **Consumer expectations on purchasing a car** (quarterly survey) were 5 percentage points higher in July than in the previous quarter and 3 percentage points higher than in the same quarter of 2020. Compared to April 2021, expectations regarding housing renovation also increased (by 1 percentage point); the level of expectations on purchasing or construction of housing remained the same. The data are based on the Consumer Opinion Questionnaire, which was answered by 864 people between 1 and 18 July 2021.

- At the end of May 2021, there were approximately 897,000 **persons in employment** in Slovenia (or approximately 3,700 more than at the end of April 2021; + 0.4%), of which about 801,500 were employed and about 95,400 were self-employed. The number of persons in employment in May 2021 increased compared to April 2021 in all sectors, except in financial and insurance activities. It increased the most in the hospitality industry, by more than 900 (or 2.9%, to just over 33,500). In catering and accommodation activities, it increased by 2.1% (to just over 9,700). Compared to May 2020, the number of persons in employment was higher by 1.5%. In May 2021, the number of persons in employment increased on a monthly basis (compared to April 2021) in all statistical regions (where jobs are situated), most in Osrednje-slovenska region (by approximately 1,400, to approximately 318,700).
- The Employment Service of the Republic of Slovenia has terminated the release of daily estimate of **registered unemployed persons**, probably due to improving figures. June data show that at the end of June there were 71,200 **unemployed**, which was 5.4% less than in May 2021 (a fifth less than in June 2020). Among those who received a new job, most were salesmen, secretaries, waiters, cleaners, servants in offices, hotels and other establishments, workers for simple work in manufacturing, kitchen helpers, commercial sales agents, drivers of passenger cars, taxis and light vans, storekeepers and purchasing and sales officers, and cooks. Employers, most of whom were in the sectors of education, manufacturing, construction, other miscellaneous business activities, health and social work and catering, reported officially 16,195 **vacancies** in June (this reporting in not mandatory), 23.4% more than in May and 54.0% more as in June 2020. They sought the most new people from the following occupational groups: workers for simple work in manufacturing (1,165), cleaners, servers (666), subject teachers in primary schools (515), workers for simple work in building construction (497), waiters (492), drivers of heavy trucks and trailers (489).
- In May 2021, the **average monthly gross earnings at legal entities** (that is without sole entrepreneurs) stood at EUR 2,007.8, which was 6.1% more than in the same month of the last year (13.4% more in the public sector and 2.4% more in the private sector). It is also necessary to take into account the extraordinary allowance received by many employees in the private sector last year, as well as allowances in the public sector. Compared to the previous month (April 2021), gross earnings in the **public sector** increased by 5.1%, while in the **private sector** they decreased by 2.1%, which was also the result of a shrinking number of employees in the scheme waiting for work. Consequently, one has to be very careful when interpreting this data.
- The **value of construction works** in May 2021 was 7.4% lower than in April 2021 (0.7% higher in the EU-27), which was quite a disappointment. This was the second consecutive month in which the value of construction works was lower than in the previous month (in April 2021 it was 3.4% lower than in March). This time, all types of construction work were lower than in the previous month. The value of construction works on **buildings** decreased by 14.7% (for residential buildings by 5.2% and for non-residential buildings by 19.0%). The value of construction works in **civil engineering** decreased by 1.6% and the value of **specialized construction works** fell by 11.1%. In the first five months (data for 2021 are provisional), the value of construction works decreased by 1.3%. Value of construction works of buildings fell by 13.0%, while the value of works in civil engineering and the value of specialized construction increased by 3.2% and 3.0%, respectively. In the coming months, we expect higher growth in residential buildings, while we no longer expect a decrease in works at non-residential buildings.

- In the last few months (March-May), growth of **construction works** across EU-27 was highest in Denmark, Croatia, Germany, France (especially in June), Poland and Finland. Compared to the base year 2015 (as the same starting point for all countries), in May 2021 among 20 EU countries (data for the remaining 7 is missing) construction dynamics were one fifth higher in Slovenia, Hungary, Austria, Poland and Romania. In Bulgaria, Spain and Slovakia, activity was in real terms at least a tenth lower in real terms than in the average month of 2015.
- In June 2021, the **issued building permits** provided for 23% less building area than in June 2020, but this is due to emergency measures in the spring of 2020 (a large drop in April and May). In the first half of 2021, 29% more building areas are planned than last year (25% more in residential areas and 37% more in commercial areas), and 5% more than in the first half of 2019, of which 16% more in residential areas and for non-residents by 2% less). This shows that the growth of construction activities in office buildings will be higher, but the level of work is likely to lag behind 2019.
- In the 1st quarter of 2021, **trucks registered in Slovenia** transported 23.8 million tonnes of goods (+12% compared to the 1st quarter of 2020), performing 5.9 billion tonne-kilometres (+ 4% compared to 1 Quarter 2020). They loaded 372.3 million kilometres (+ 7% compared to the 1st quarter of 2020). As some restrictive measures have already been introduced in the second half of March 2020, it is important to look at and compare with respect to the 1st quarter of 2019. The growth parameters were also strong comparing to this quarter. A fifth more freight was handled (a quarter more in domestic traffic and a sixth in international traffic), while trucks made 6.3% more kilometres. In the 1st quarter of 2021, 1.5% less goods were transported year by year in **rail freight transport**, while compared to the 1st quarter of 2019, the decline was even greater (-9.7%). Of that, it was 11% less tons of goods in domestic transport, 23% less loaded in Slovenia (exports) and 4% less unloaded in Slovenia (imports) compared to the 1st quarter 2019. In our opinion, these trends reflect primarily lower sales of petroleum products (they are shipped mainly by rail) due to containment measures, partly also the shift of part of the goods transfer to trucks. In the first five months of 2021, 8.7 million tons of **goods were handled at the Port of Koper**, which was 4.5% more year on year and 11% less than in the same period of 2019. Compared to 2019, the volume of **general goods throughput** was higher by 3.4% (46% of the total), minerals and rocks by 50% more (17% of the total), petroleum products by 34% less (13% of the total) and coal and crude oil 66% less (6% of the total). The weight of transported vehicles increased by 3% (5% of total), food and beverages by 17% (5% of total).
- The **trade surplus** in the first five months of 2021 amounted to EUR 745 million and was EUR 110 million lower than in the same period in 2020. **Exports of goods** increased by 18.3% year on year and **imports** by 20.7% (nominal figures). Exports to Germany, Italy and France increased the most, accounting for 72% of increased exports to the EU. The increase in imports from Germany stood out, followed by an increase in imports from Italy, Croatia and Austria. The increase in imports from these four countries together represented 89% of the total increase in imports from the EU. The value of imports is growing faster than exports, mainly due to the growth of domestic consumption, partly due to higher prices of energy and other raw materials. The **trade surplus in services** in the first five months of 2021 amounted to EUR 781 million, which is EUR 29 million more than in the same period in 2020. **Exports of services** in the first five months of 2021 increased by 2.2% compared to the same period in 2020, **imports** by 1.6%. Compared to the same period in 2019, exports of services were still lower by 15%, mainly due to a 75% lower revenue from foreign travel spending (EUR 690

million less). Exports of transport services increased by 1.8%, while construction services increased by a fifth compared to the same period.

On Global Economy

- **Commodity prices** have fallen in the past week, mainly due to rising prospects for the spread of COVID-19 infections in several countries. The price of **brent oil** dropped below $ 70 a barrel, but then rose again to about $ 74 a barrel. The EIA confirmed that oil stocks in the US increased for the first time since May 2021. The OPEC + countries' agreement to increase production (400,000 barrels per day more from August onwards each month, to 5.8 million) did not significantly contribute to the change in oil prices but would reduce price volatility. Over the next five months, oil supplies are expected to increase by 2 million barrels per day, still 3.8 million less than before the COVID-19 pandemic.
- The **IHS Markit global business survey**, conducted between 10 and 29 June 2021 among 12,000 companies worldwide, shows that optimism has risen to its highest level in seven years (the July survey is likely to be slightly less optimistic). The sentiment was highest in the euro area, the UK and the US. On the other hand, optimism has declined slightly in China, India and Russia. Companies from the United Kingdom, France, Germany and Italy are expected to boost employment the most, similar to those in the US. Significantly more companies in developed economies will increase investment in 2021, while the increase in developing countries will be lower. Companies are expected to spend more on R&D in the United Kingdom, the euro area and Russia, with less funding in India alone.
- **Taiwan's exports** were up 31% year on year in June, increasing for the 16th consecutive month. In the 1st quarter of 2021, exports of goods increased by a tenth compared to the last quarter of 2020, while in the 2nd quarter, growth slowed to 2.7% (compared to the 1st quarter of 2021). The IHS Markit survey shows that **demand for electronic products** from Taiwan still far exceeds production capacities, which is also due to the lack of inputs. The Delta version of COVID-19 is currently raising the number of infected people in many Asian countries (Indonesia, Malaysia, Thailand, Vietnam, Cambodia, Myanmar), forcing countries to introduce containment measures and preventing the rapid movement of goods between Asian countries. In **India**, too, the manufacturing sector is affected as the **manufacturing PMI** fell from 50.8 (May) to 48.1 (June). Progress in vaccination in Asia lags behind the EU-27 and the US on average, which is also leading to faster growth of infections in Asia. Nevertheless, the situation in Asia's largest economy, China, is good. There, GDP is expected to strengthen by 8.5% in 2021.
- On 16 July 2021, the $C0_2$ emissions trading scheme (**ETS scheme**) was launched in China to encourage emissions reductions through a rise in the price of these coupons. Such schemes are already implemented in the EU-27, Iceland, Liechtenstein, Norway, Canada, Mexico, Kazakhstan, Japan and New Zealand. These schemes are tied to one area and currently there is no single global price for a tonne of carbon dioxide (in China the price is 6.3 EUR per tonne of carbon, in the EU 59 EUR). In China, CO_2 emissions have been estimated to increase at least until 2030 and country is expected to become carbon neutral by 2060. This will be a major challenge, as back in 2019, China produced more greenhouse gases than all developed economies combined, mainly due to high dependence on coal. Coupons will be allocated to 4.5 billion tonnes of CO_2 emissions in China, which is a good third of total emissions (14.1 billion tonnes in 2019), while the market in the EU + 3 EFTA countries covers 1.4 billion tonnes. The EU + 3 EFTA countries are expected to adopt a decision on a **carbon border**

adjustment mechanism (CBAM) soon to ensure that imported products also reflect their impact on CO_2 emissions, insofar as they originate from a country that does not have this scheme implemented. The EU has already had experience with this tax in the past when it introduced CBAM in the aviation sector and was opposed by several influential countries. The EU is expected to introduce this taxation on a limited range of products such as cement, iron, steel, aluminium, natural fertilizers and electricity. From 2025, these sectors are expected to receive 10% fewer coupons each year in the EU + 3 EFTA countries, which is expected to increase the market price of these coupons. On the other hand, the import burden on these products would also have to increase. Without this measure, this could encourage the relocation of production capacities in energy-intensive industries outside this area, which would not contribute to a global solution to global warming.

On European Economy

- The **floods in Belgium, Germany and the Netherlands** did not significantly affect the operation of industrial companies along the Rhine. Local trade and tourism have suffered a greater economic cost. Damaged property insurance and the economic strength of countries are likely to even contribute to the faster growth of these economies, as destroyed infrastructure does not affect lower GDP and new investments raise it.
- The ECB published a **quarterly survey of 142 major commercial banks** in the euro area, conducted between 14 and 29 June 2021, reflecting banks' willingness to lend. Propensity to lend was similarly high in the 2nd quarter of 2021 as in the 1st quarter, while in 2020 it deteriorated. The improvement is due to the withdrawal of containment measures and monetary and fiscal support (related to government guarantees for part of the new loans). Banks reported a moderate increase in demand for **corporate loans** and a larger increase in **housing loans**. Generally low interest rates have made a key contribution to this. In addition, it is worth mentioning that the growth in demand for corporate loans was also influenced by higher needs for financing the purchase of new fixed assets (for the first time since the 3rd quarter of 2019). The amount of corporate loans also strengthened due to debt refinancing and debt restructuring as a result of the expiry of moratorium schemes and due to takeover activities. **Working capital financing needs** remained unchanged, probably also due to high liquidity in companies. In the case of housing loans, banks reported that strong competition had contributed to lower lending conditions. Detailed data by country are only available for the four largest EA-19 economies. The terms of corporate and consumer credit were relaxed in Germany in the 2nd quarter of 2021, while they remained unchanged in France, Spain and Italy. It was similar for housing loans, with the difference that they tightened in France. In the 3rd quarter of 2021, banks expect slightly stricter lending standards for companies and unchanged ones for households. Nevertheless, they expect increased demand for loans from both businesses and households. 12% more banks expect an increase in housing loans in the 3rd quarter and 31% more in consumer loans. More at: https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2021q2~b868c78ada.en.html

Chart of the Week

Seasonally adjusted data	July 2021	June 2021	July 2020
Sentiment indicator	5.7	7.9	-16.8
Confidence indicator in manufacturing	10	11	-11
Confidence indicator in retail trade	17	27	8
Consumer confidence indicator	-18	-17	-27
Confidence indicator in services	12	16	-23
Confidence indicator in construction	17	18	-7

Comment: Economic sentiment indicator in Slovenia dipped lower in July 2021 from its recent peak what was to expect due to rising concern about future infections and slowing down of vaccination across number of countries. In manufacturing and construction, sentiment was almost unchanged confirming our view that this two sectors will remain resilient going forward.

Must Read of the Week

- How has Covid affected global trade?; published on 23 July 2021 by Bank of England; available at: https://www.bankofengland.co.uk/bank-overground/2021/how-has-covid-affected-global-trade?sf147817534=1

Comment/Abstract: Their analysis of Covid's impact on global trade reveals three key trends. First, the pandemic affected services trade more than goods trade. Second, the impact of the Covid shock on trade was different across countries. In particular, the fall in Chinese trade was much smaller than in other regions. Finally, the pandemic has had a significant impact on shipping costs, which have increased by around 350% since May 2020.

- Global reflation?; BIS Bulletin, Budianto et al.; available at: https://www.bis.org/publ/bisbull43.pdf

Comment: Inflation has risen in many countries. In conjunction with a rebound in GDP growth and evidence of significant bottlenecks in some sectors, this has prompted concerns that the low inflation era of recent decades could be nearing its end. A closer look at the data reveals that the pickup in inflation can be ascribed largely to base effects, increases in the prices of a small number of pandemic-affected items and higher energy prices. A common thread through these causes is that their effect on inflation is likely to be temporary. A more persistent increase in inflation would likely require a **material pickup in labour costs** and an unmooring of inflation expectations. However, wage growth remains contained and the medium-term inflation expectations of professional forecasters and financial markets show little sign of de-anchoring. These developments are consistent with medium-term inflation moving towards central bank targets.

- Analysis of fiscal effects arising from the proposed amendments to tax legislation, Fiscal Council of Slovenia. Available at: https://www.fs-rs.si/analysis-of-fiscal-effects-arising-from-the-proposed-amendments-to-tax-legislation/

Comment: Presented tax reform bill could be the largest tax reform in Slovenia in last decade or so. We expect the bill to be voted in autumn 2021. Our estimate is that there is a 50% chance it could be confirmed.

Forecast of the Week

- GDP, EU-27, Q2 2021/Q1 2021 (Eurostat): +1.4%

Comment: After a 0.3% quarterly drop in Q1 2021 (may be subject to revision), we expect a 1.4% growth in Q2 2021 GDP in EU-27 (current Reuters median stands at +1.5% with low estimate at+0.8% and high at +2.2%)

Things to Keep in Mind for the Upcoming Week

- ILO unemployment rate, June 21, Slovenia, (July 29), Statistical Office of RS
- CPI and HICP, July 21, Slovenia, (July 30), Statistical Office of RS
- GDP, 2Q 2021-flash, EU-27 (July 30), Statistical Office of RS

Quote of the Week

"Who needs theory when you have so much information? But this is categorically the wrong attitude to take toward forecasting, especially in a field like economics where the data is so noisy."

(Nate Silver)

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