

EUROZONE: UNEMPLOYMENT, CONSUMER CONFIDENCE AND HOUSEHOLD SPENDING

The labour market should play a crucial role in the recovery through its impact on household income and spending. There are reasons to be hopeful considering that recent business surveys show a further increase in hiring intentions whereas unemployment expectations of households have dropped below their pre-pandemic level. Household intentions to make major purchases over the next 12 months have already increased and this trend should continue on the back of an improved financial situation and reduced income uncertainty.

Eurozone real GDP growth, on a quarterly basis, is expected to peak in the third quarter and to slow down thereafter. By then, the mechanistic growth acceleration caused by the lifting of restrictions and the ensuing unleashing of pent-up demand should, to a large degree, have run its course, paving the way for a gradual normalisation of growth¹.

Focusing on consumer spending, the labour market should play a crucial role in the recovery through its impact on household income and spending. In this respect, there are reasons to be hopeful considering that recent business surveys show a further increase in hiring intentions: the Eurozone manufacturing PMI for June saw “overall employment rising at the strongest rate recorded by the survey to date.”² This reinforces the signal coming from the European Commission’s employment expectations index, which, as shown in chart 1, has again moved higher in June, to 111.6. It has surpassed its pre-pandemic level, thereby narrowing the gap with its historical peak of 116.8 reached in May 2000. Importantly, households also feel more confident about the employment prospects. Unemployment expectations for the next 12 months have dropped over the past four months and, for the Eurozone as a whole, are now slightly below the level reached in January 2020. However, in certain countries - France, Italy, Portugal, Greece, amongst others - unemployment expectations are still above those at the start of last year (chart 2). In theory, the labour market should play an important role in shaping consumer confidence and spending decisions. Fluctuations in the rate of unemployment not only have a direct impact on disposable income, they also cause swings in uncertainty about future income, which can lead to precautionary savings when the outlook worsens. Research from the ECB shows that most of the volatility of euro area consumer confidence “is driven by changes in expectations relating to unemployment developments”.³ It also notes a very high correlation between consumer confidence and the yearly change in the unemployment rate. Developments in confidence can shed light on the likely evolution of consumption. According to the ECB, “consumer confidence is closely related to contemporaneous and future quarterly consumption growth”. However, there are asymmetries: “strong decreases in consumer confidence are more important to predict future changes in consumption than strong increases”.

For the Eurozone, consumer confidence can be assessed based on the survey conducted by the European Commission. Its composite index is equal to the average of 4 series: the financial situation over the last 12 months, the financial situation over the next 12 months, the general economic situation over the next 12 months and the intentions to do major purchases over the next 12 months⁴. Interestingly, there

is a higher correlation between consumption growth and the financial position of households than with the European Commission’s composite index⁵. In gauging the outlook for consumer spending, focusing on the intentions to make major purchases over the next 12 months – one of the questions in the European Commission’s survey – is particularly relevant. Durable goods spending has a greater cyclical amplitude and can be easily postponed but it should boost growth when the economy is recovering. Confidence is a key factor in this respect and ECB research shows that durable goods – represented by major purchases over the next 12 months – are more affected by changes in consumer confidence than non-durable spending.

present, savings at present, savings over next 12 months, statement on financial situation of household.

5. ECB Economic Bulletin, issue 5, 2015, box 2.

COMPANIES' EMPLOYMENT EXPECTATIONS AND HOUSEHOLDS' UNEMPLOYMENT EXPECTATIONS



CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

UNEMPLOYMENT EXPECTATIONS IN EURO AREA COUNTRIES

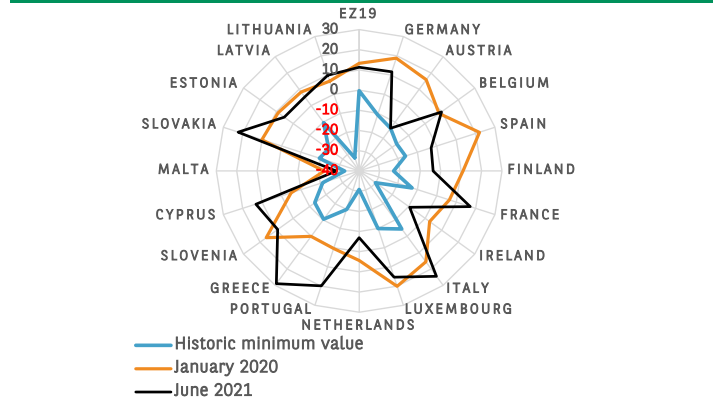


CHART 2 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

1. This normalisation should be very gradual. Eurozone quarterly real GDP growth is expected to be above potential over the forecast horizon, which runs until the end of 2022 (source: Bloomberg consensus).
 2. Source: IHS Markit Eurozone Manufacturing PMI® – final data, news release, 1 July 2021
 3. ECB, Monthly bulletin, January 2013.
 4. The survey also covers questions that are not part of the composite index: general economic situation over last 12 months, price trends over last 12 months, price trends over next 12 months, unemployment expectations over next 12 months, major purchases at

As shown in table 1, major purchases intentions have the highest correlation with the financial situation over the last 12 months, closely followed by its equivalent for the next 12 months. As the economy recovers, people will feel better about the recent past but also about the outlook and increased durable spending should contribute to the acceleration of growth. The correlation between major purchases over the next 12 months and unemployment expectations is, as expected, negative, but it is much lower in absolute value than the correlation between purchases and the financial situation. Nevertheless, in a regression to explain the level of major purchases over the next 12 months, both variables are significant (table 2).

A possible interpretation is that unemployment expectations capture the influence of uncertainty on spending intentions. Recent research based on a new survey of European households shows the key role of uncertainty in spending decisions. *"Higher macroeconomic uncertainty induces households to reduce their spending on non-durable goods and services in subsequent months as well as to engage in fewer purchases of larger items such as package holidays or luxury goods"*⁶.

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6. The effect of macroeconomic uncertainty on household spending, Olivier Coibon, Dimitris Georgarakos, Yuriy Gorodnichenko, Geoff Kenny and Michael Weber, NBER working paper 28624, March 2021.

CORRELATION BETWEEN THE EUROPEAN COMMISSION'S CONSUMER CONFIDENCE SURVEY QUESTIONS

	Confidence Indicator	Financial situation over last 12 months	Financial situation over next 12 months	General economic situation over last 12 months	General economic situation over next 12 months	Price trends over last 12 months	Price trends over next 12 months	Unemployment expectations over next 12 months	Major purchases at present	Major purchases over next 12 months	Savings at present	Savings over next 12 months	Statement on financial situation of household
Confidence Indicator = (Q1 + Q2 + Q4 + Q9) / 4	1.00												
Q1 Financial situation over last 12 months*	0.88	1.00											
Q2 Financial situation over next 12 months*	0.97	0.86	1.00										
Q3 General economic situation over last 12 months	0.87	0.82	0.79	1.00									
Q4 General economic situation over next 12 months*	0.90	0.61	0.83	0.80	1.00								
Q5 Price trends over last 12 months	-0.39	-0.42	-0.41	-0.29	-0.35	1.00							
Q6 Price trends over next 12 months	0.09	0.28	0.02	0.17	-0.11	0.40	1.00						
Q7 Unemployment expectations over next 12 months	-0.76	-0.56	-0.68	-0.84	-0.82	0.12	0.01	1.00					
Q8 Major purchases at present	0.81	0.82	0.77	0.80	0.69	-0.55	0.01	-0.64	1.00				
Q9 Major purchases over next 12 months*	0.81	0.84	0.79	0.64	0.52	-0.19	0.36	-0.44	0.60	1.00			
Q10 Savings at present	0.14	0.17	0.20	-0.06	-0.02	0.16	0.53	0.19	-0.17	0.39	1.00		
Q11 Savings over next 12 months	0.62	0.71	0.67	0.46	0.44	-0.41	0.03	-0.44	0.64	0.50	0.03	1.00	
Q12 Statement on financial situation of household	0.38	0.50	0.40	0.30	0.25	-0.20	-0.07	-0.39	0.48	0.29	-0.29	0.84	1.00

TABLE 1

*QUESTIONS WITH ASTERISK ARE PART OF THE COMPOSITE INDEX

SOURCE: EUROSTAT, BNP PARIBAS.

MAJOR PURCHASES OVER NEXT 12 MONTHS

Dependent variable: Major purchases over next 12 months	Coefficients	t Stat
Intercept	-10.90	-15.87
Financial situation over next the 12 months	1.52	15.69
Unemployment expectations over next the 12 months	-0.13	-5.08
Adjusted R ²		0.62

TABLE 2

SOURCE: BNP PARIBAS BASED ON EUROSTAT DATA

