

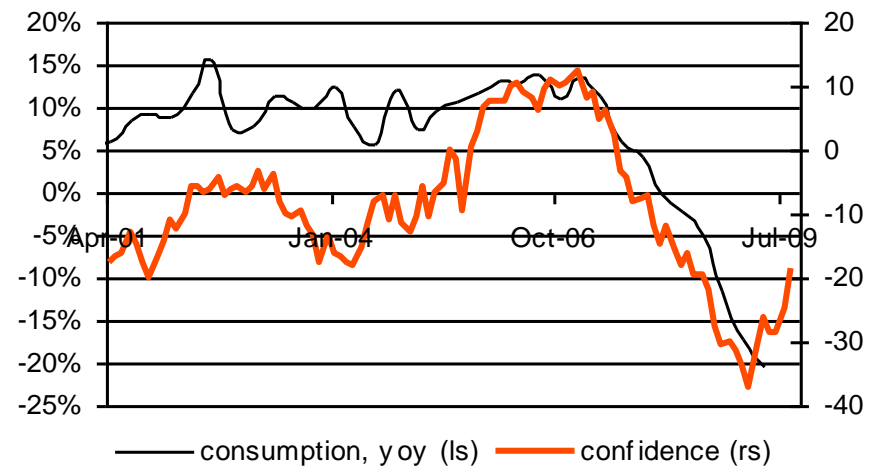
Estonian economy: Recent Trends and Their Impact on Private Consumption

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29th October 2009

Improving confidence – improving consumption?

- Consumer confidence is improving
 - Fears were too big
- Confidence is still weak
- Consumption growth is not just over the corner

Consumption and consumer confidence



Source: Statistics Estonia, EKI

Factors affecting consumption besides confidence

- Incomes
 - Wages the most important factor
- Saving propensity
- Spending preferences

- Income short-term outlook is poor
- Families prefer saving

Labour market – grim situation with signs of hope

Weaknesses

- Production is not growing, except some companies
- Failures are expected to overcome into bankruptcies

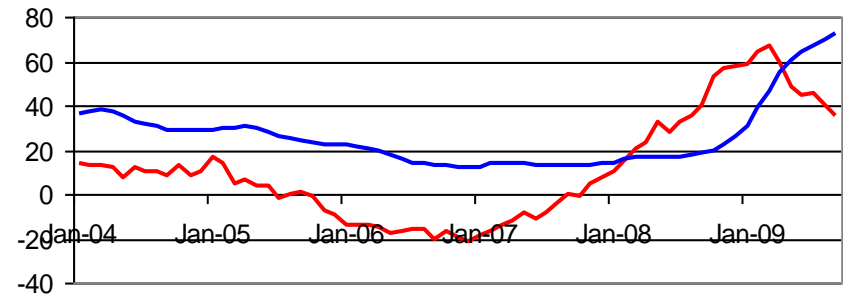
Positive

- The increase of the number of unemployed has slowed
- The number of layoffs declines
- Unemployment fears have diminished

However

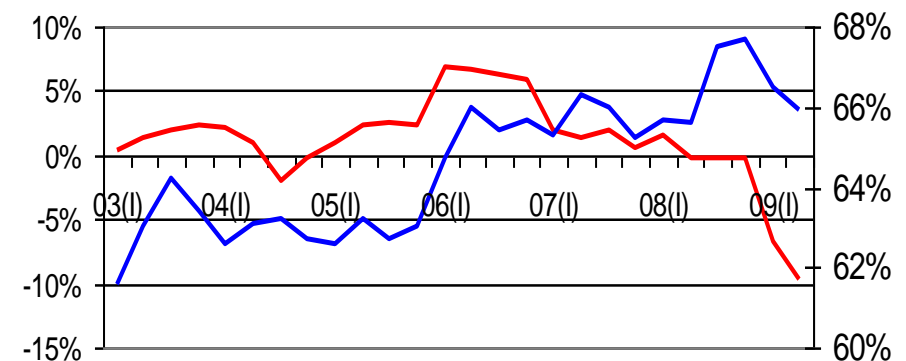
Employment growth starts some time after production growth in a economy

Unemployment: fears and reality



— unemployment expectations (balance) — job-seekers, th

Employment and activity

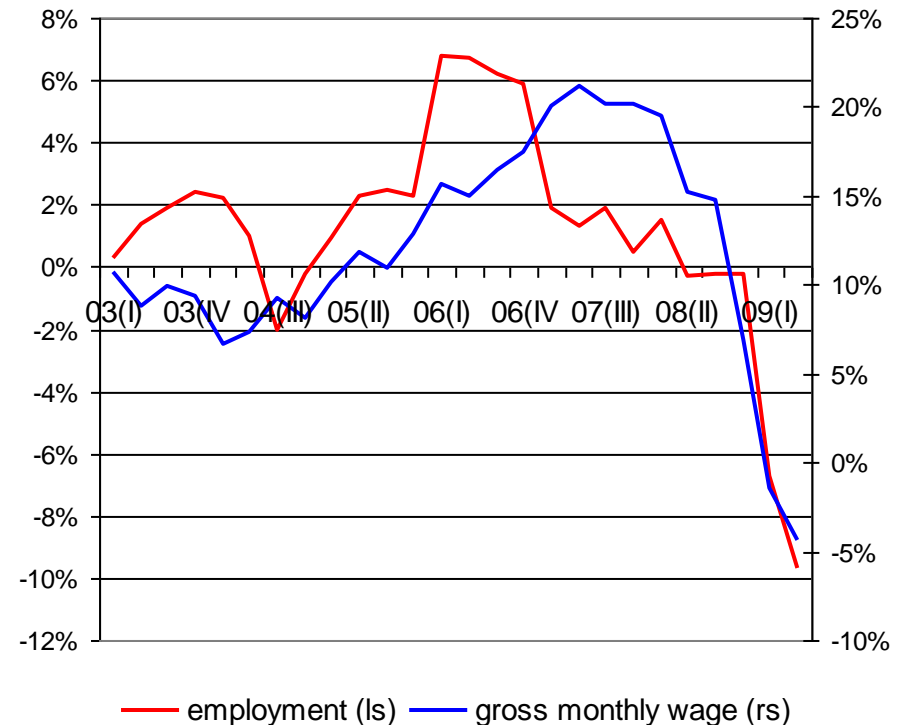


— No of employed, yoy (ls) — activity rate, % (rs)

Wage incomes are strongly down – maybe over 20%

- Companies are cutting spending, that includes wages
 - Wage payments down already in 2008 (bonuses)
 - Less working hours
 - Layoffs
- Companies are now increasing working hours, but public sector spending cuts are yet to come
- Cost cutting has strengthened companies cost advantage, so the production and export is recovering
- After some time growth in employment, then in wages

Annual growth of employment and wages



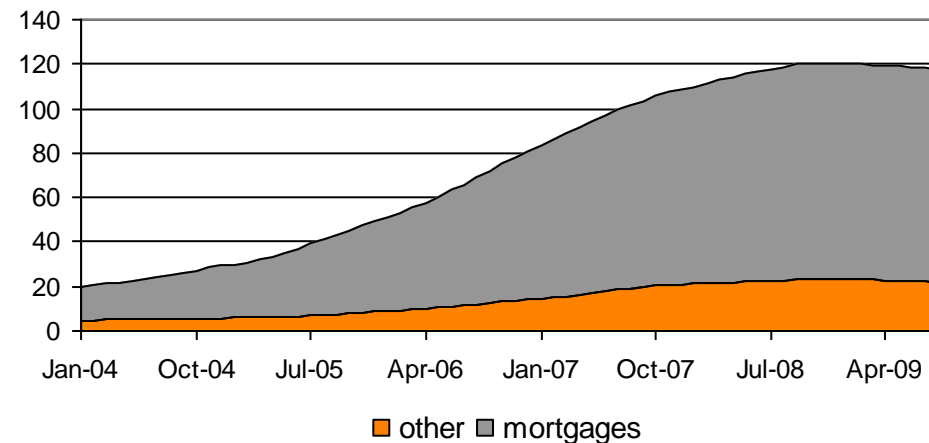
Other incomes

- Social transfers
 - It is decided not to cut pensions
 - Maternity/paternity leave payment increased for 2010
 - More people will apply for social support, but other allowances may be cut
- Income from business etc continues to fall
- Property sale
 - Prices are down, but volumes of sales may increase
 - E.g. residential real estate sales growing

Decision making in families

- Main factor is incomes, which are declining
- Hence spending declines
- Saving propensity has grown
- Other income?

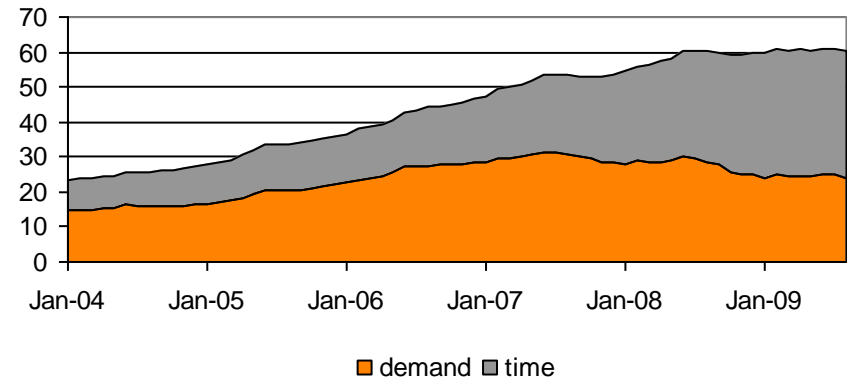
Household loan stock, bln kroons



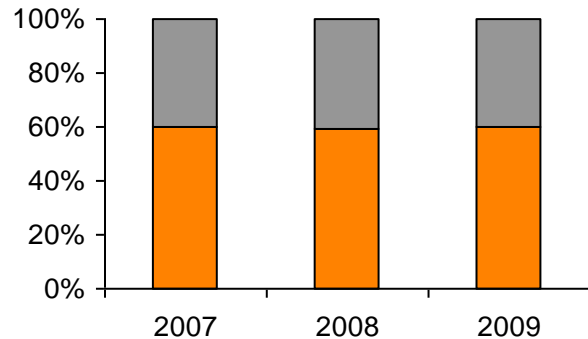
Families try to increase savings

- Demand deposits indicate readiness to spend
- Time deposit is saving
 - Short-term (up to 3 months) – uncertainty
 - Longer terms (up to 1 year) – for bigger purchases, uncertainty

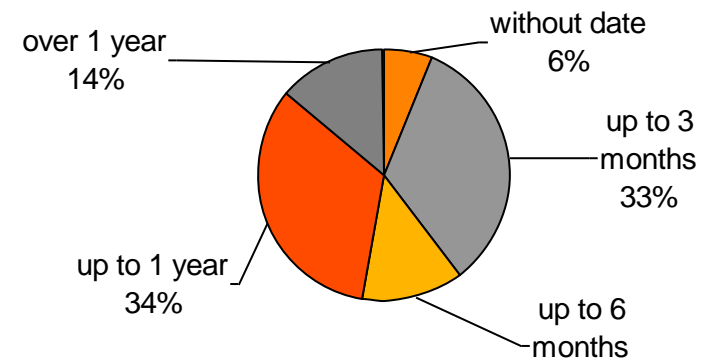
Household deposit stock, bln kroons



Kroon and foreign currency deposits



Structure of time deposits



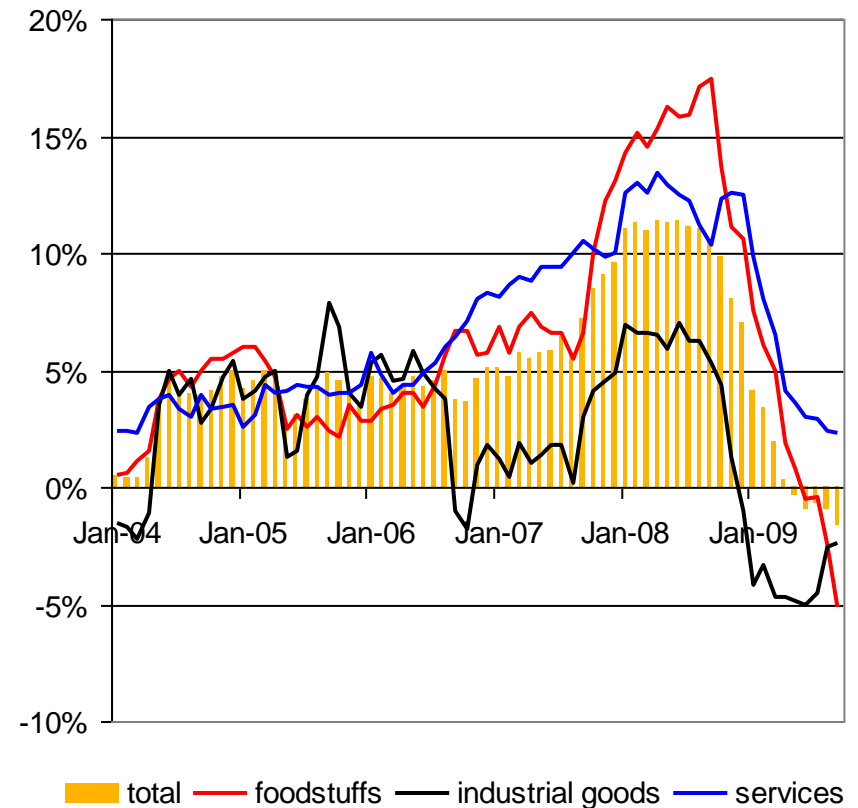
Household consumption continues to decrease

- Spending is cut according to importance
 - Capital goods – housing, cars etc – very big cuts
 - Big purchases – very big cuts, “emergency” purchases
 - Leisure time, cultural spending etc – substantial cuts in low and medium income families, choices depending on preferences etc
 - Clothing, footwear, every-day services – big cuts, only for clear purpose, cheaper products
 - Food, heating, electricity, transport (work/school), medicine – small cuts, substitution, lower quality
- If demand starts to grow again, then the consumption will resume in opposite direction

Price decline helps consumption

- Declining prices is reaction to weaker demand
- Estonian consumer expects deflation to continue
- Price decline is also affected
 - Competition
 - External prices (import, export)
 - Administrative decision (taxes)

Annual growth of CPI



When demand will recover?

- Seasonal factors makes situation worse in winter
 - Increase of unemployment after seasonal works end
 - Growing heating bills
 - Less unemployed persons to receive unemployment insurance payment (period ends)
- Global economic situation has stabilised, some growth => exporting sector improving slowly
- In Estonia investments – mostly on support of EU funds (more work, more income)
- Spring might bring better developments

Thank you!