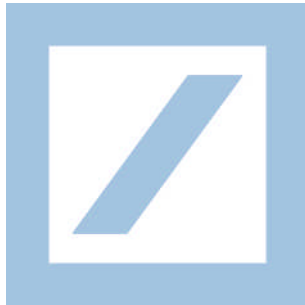


Brussels, January 14, 2010

# Effects of the crisis on the real economy



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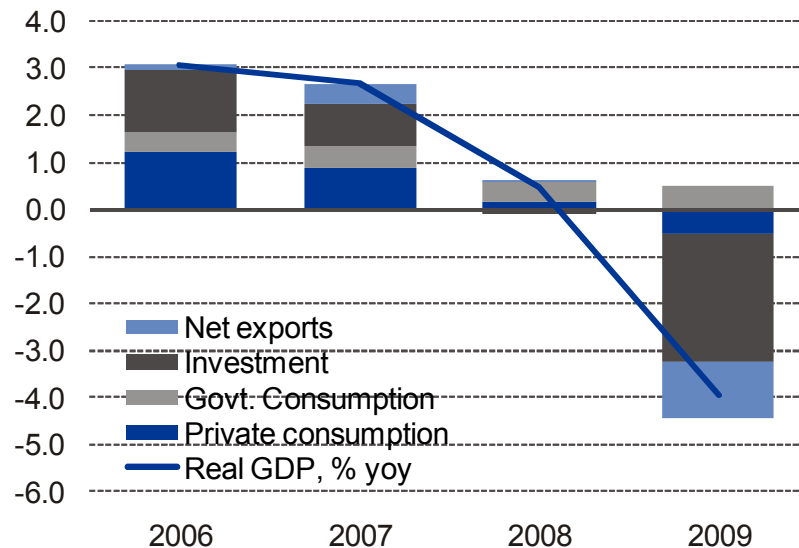
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# Ouch! Worst ever drop in EMU GDP

## EMU: Growth contribution

%-points, % yoy

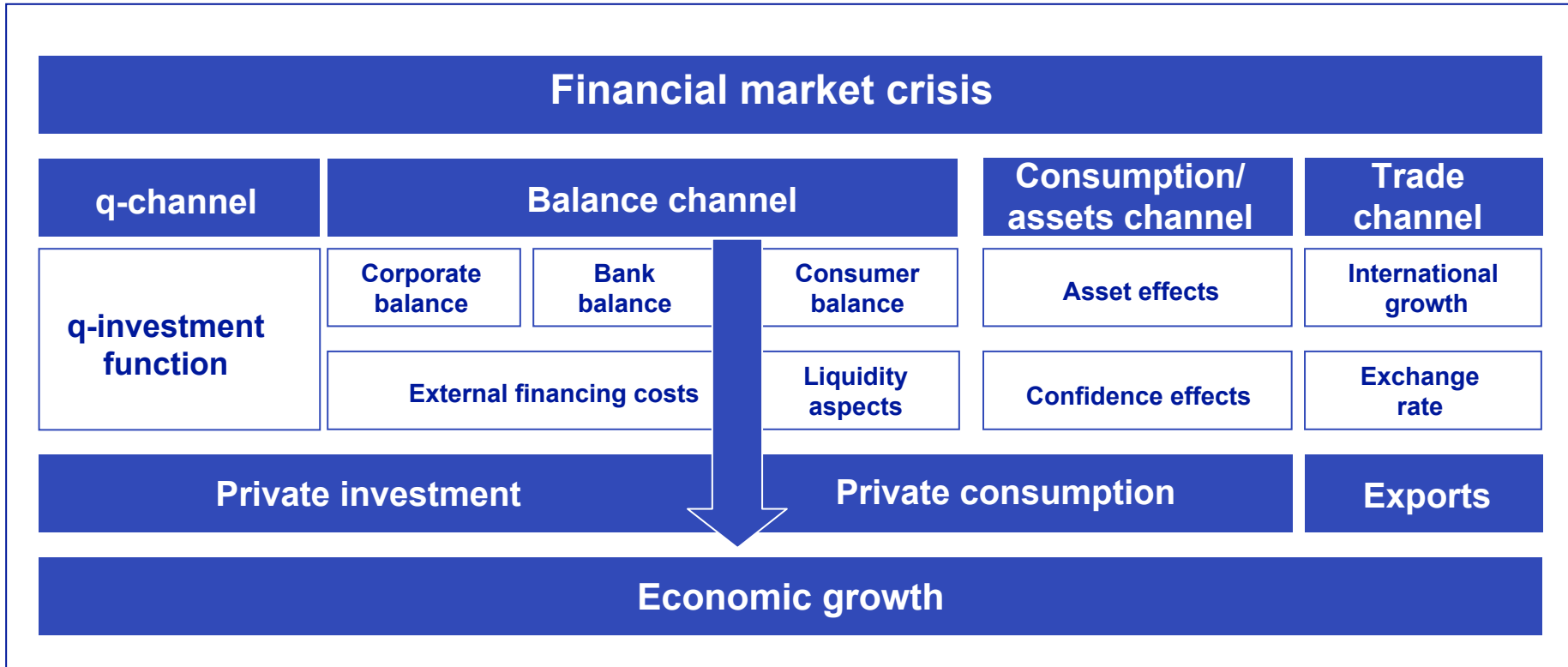


Sources: Eurostat, DB Research

- The crisis hit in particular the “cyclical” components of GDP, i.e. net exports and investment spending
- The relatively small impact on private consumption can be traced to the fiscal stimulus programmes
- All in all EMU GDP has probably dropped by 3.9% in 2009

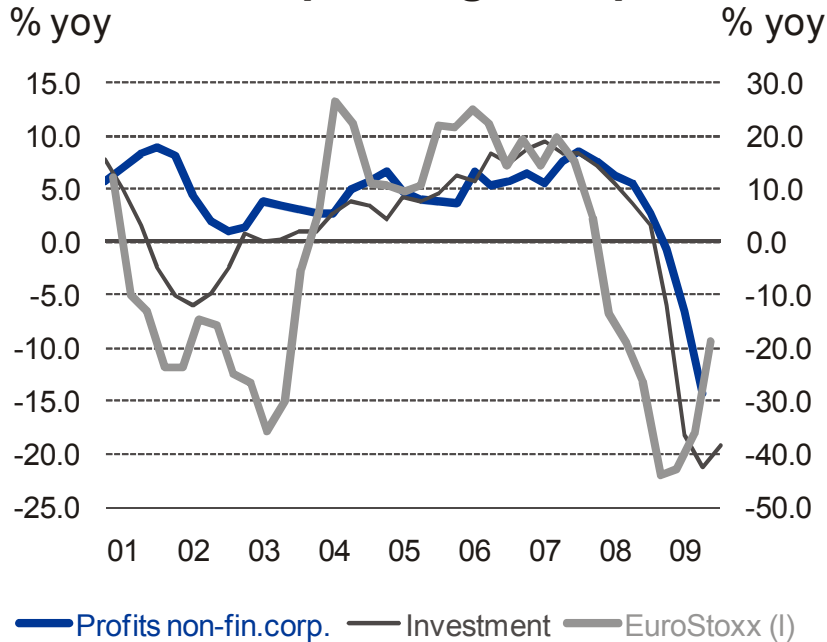


# Impact of the financial market crisis on the real economy: Transmission channels



# Investment spending following profits and share prices

## Investment spending slumped



- Slumping share prices have dramatically lowered Tobin's q:  

$$q = \frac{\text{equity market value of the capital}}{\text{replacement cost of capital}}$$
- Share prices suffered from a dramatic downgrade of the profit outlook and massive risk aversion
- All in all, investment spending in EMU fell by around 18% in 2009

Sources: ECB, EuroStat, Thomson Financial

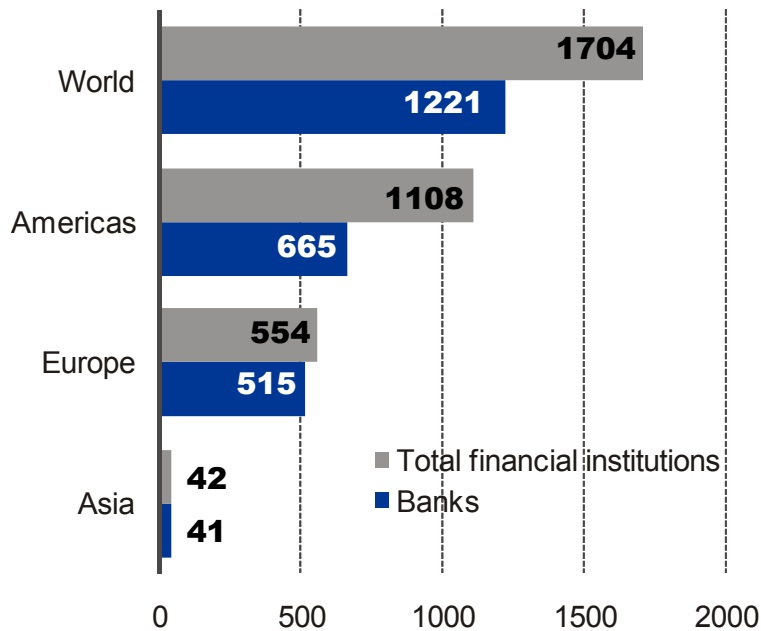




# Banks' balance sheet problems have reduced their propensity to lend

## Writedowns & credit losses

USD bn



Source: Bloomberg

## Bank lending to the private sector

EMU, % yoy



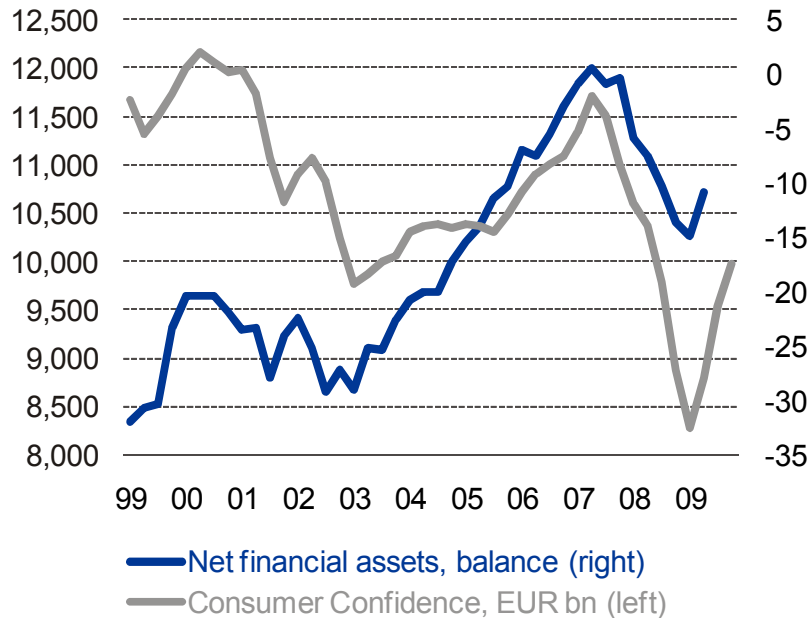
Source: ECB

- Banks have been able to raise new capital (in part with government support) but deleveraging is reducing lending ability. Still, the drop in bank lending is probably the result of the investment slump, rather than its cause.



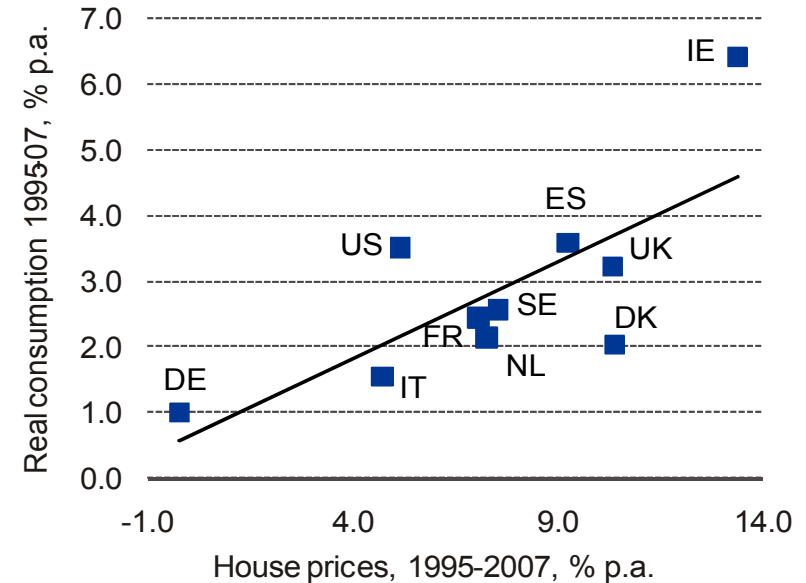
# The consumption/asset channel

## EMU: Private households' net financial assets & confidence



Sources: ECB, European Commission

## House prices & private consumption



Sources: OECD, ECB, Eurostat, National Research Institutes

- Rising unemployment, slumping consumer confidence and a 12% decline in net worth probably led to a 0.8% drop in private consumption, despite the absence of inflation.

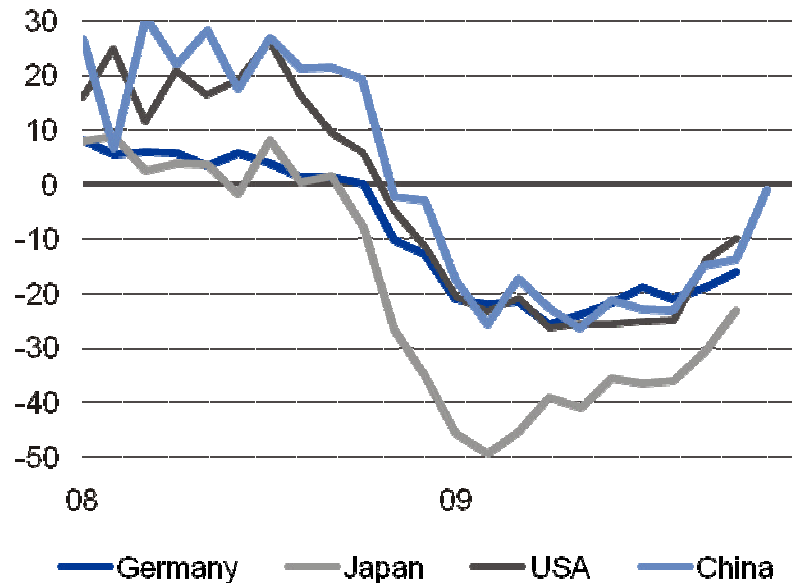


# The trade channel: global synchrony

FP Chart 1:110:Excel

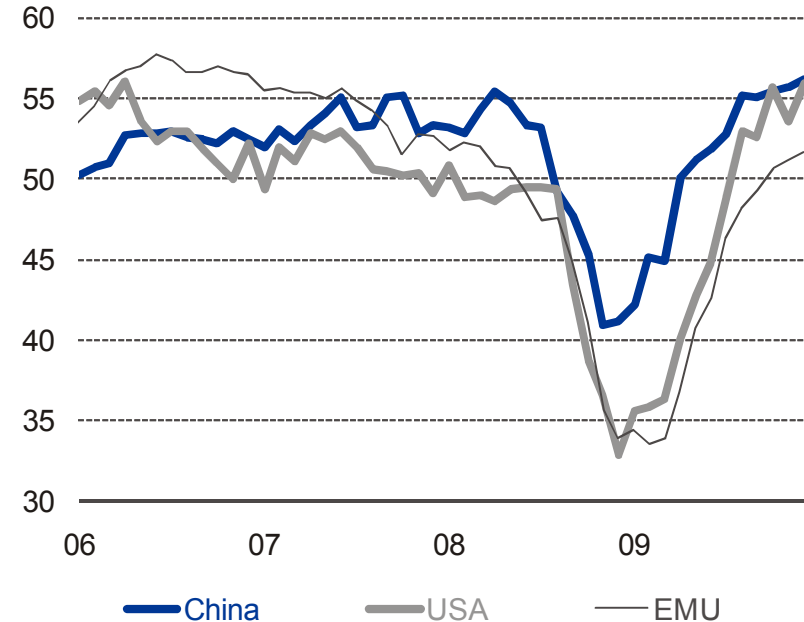
## Exports

Nominal exports, % yoy



Sources: National Statistical Offices

## Purchasing Managers' Indices



Sources: Reuters, ISM, China Federation of Logistics and Purchasing

- The synchronous global slump triggering a 12% drop in world trade has – together with a 3% rise in the trade-weighted euro – resulted in a 13 ½% drop in EMU exports

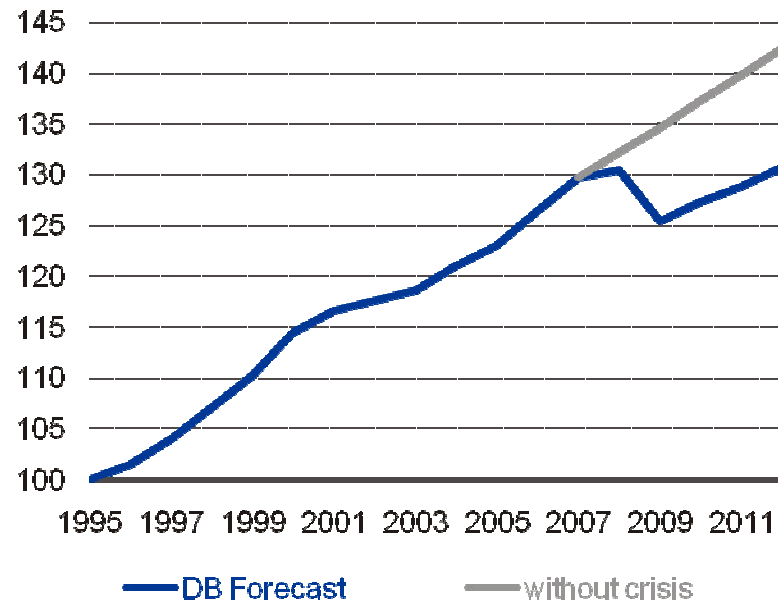




# EMU GDP: Back to pre-crisis level by 2012

## Real GDP growth: How big a loss?

1995=100



Sources: Eurostat, DB Research

- By 2012 EMU GDP should have climbed back to the 2008 level
- But the level of GDP will be some 9% lower than it would have been in a “no crisis” scenario
- Medium-term welfare losses will linger, if unaddressed fiscal problems lead to higher inflation and interest rates



# Warning: This crisis is uncharted territory!

SIX CHIX

BY RINA PICCOLO



# Thank You! Questions?

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