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Effects of the crisis on the real economy



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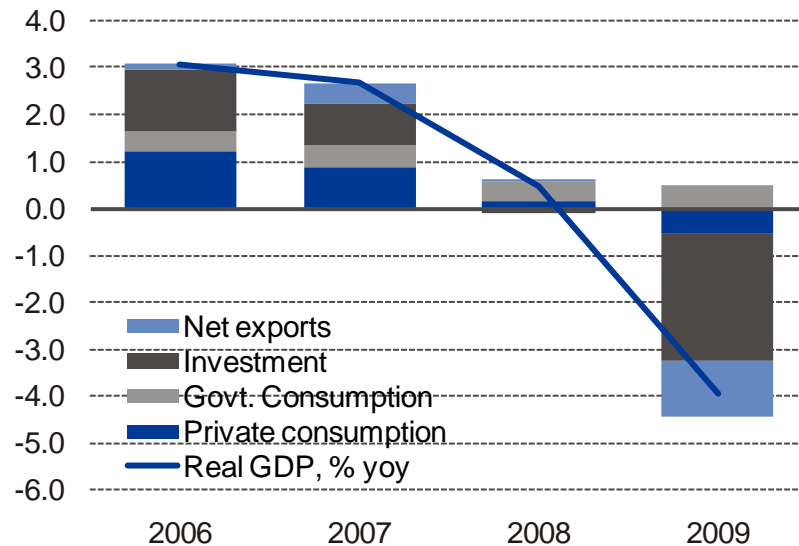
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Ouch! Worst ever drop in EMU GDP

EMU: Growth contribution

%-points, % yoy

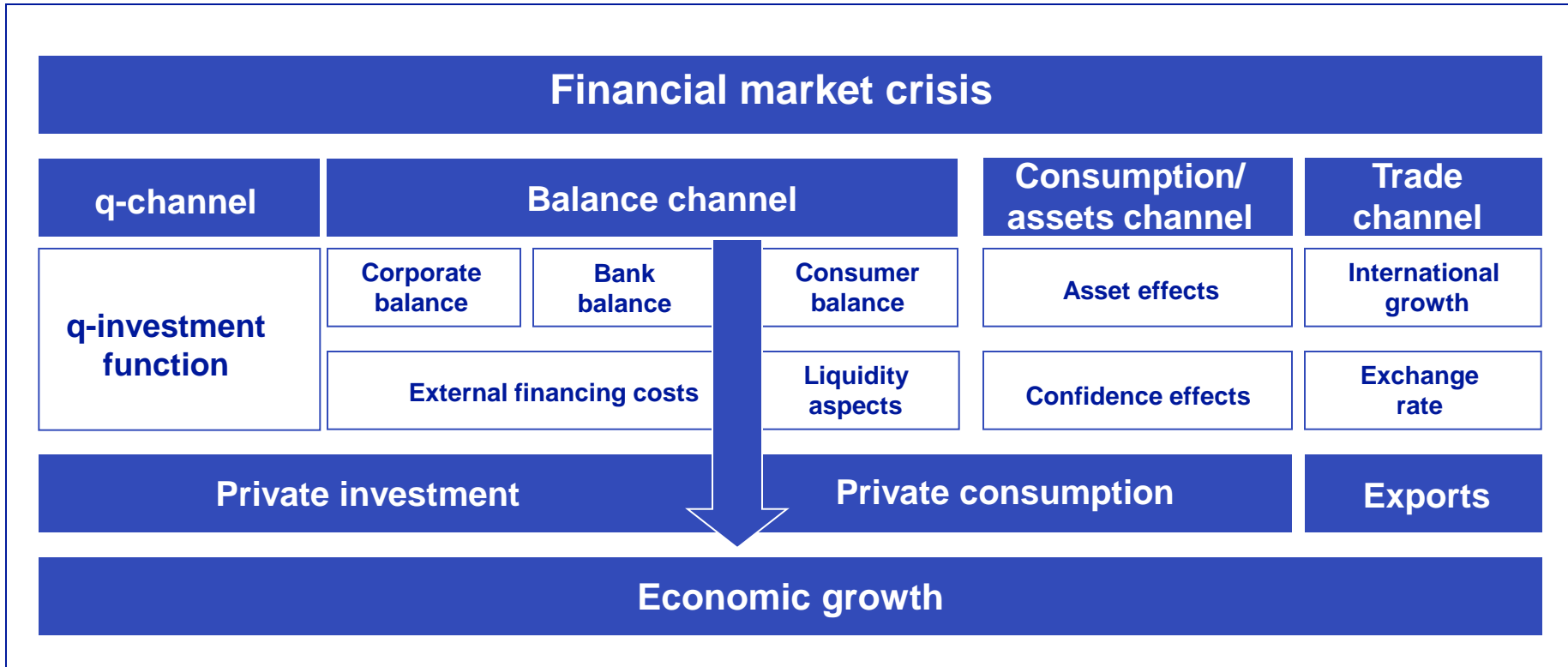


Sources: Eurostat, DB Research

- 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

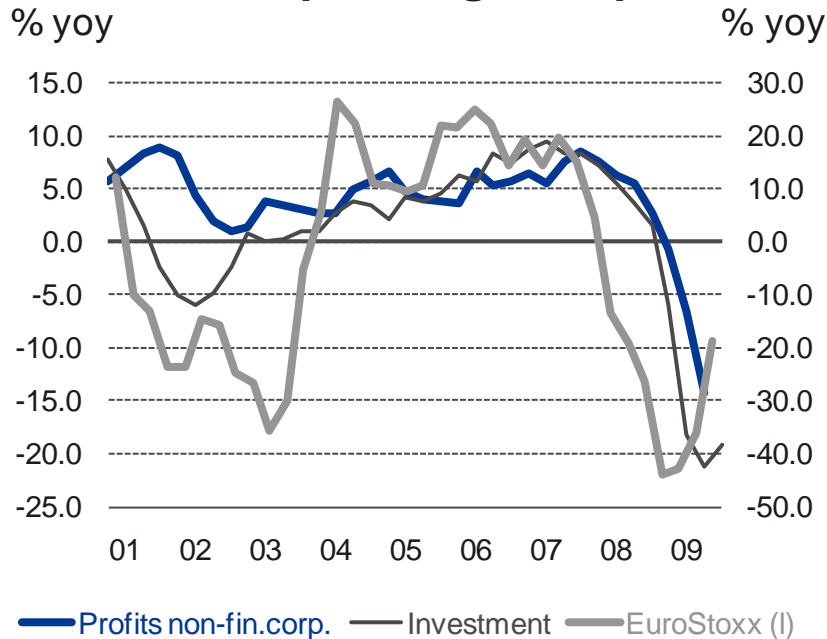


Impact of the financial market crisis on the real economy: Transmission channels



Investment spending following profits and share prices

Investment spending slumped



Sources: ECB, EuroStat, Thomson Financial

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

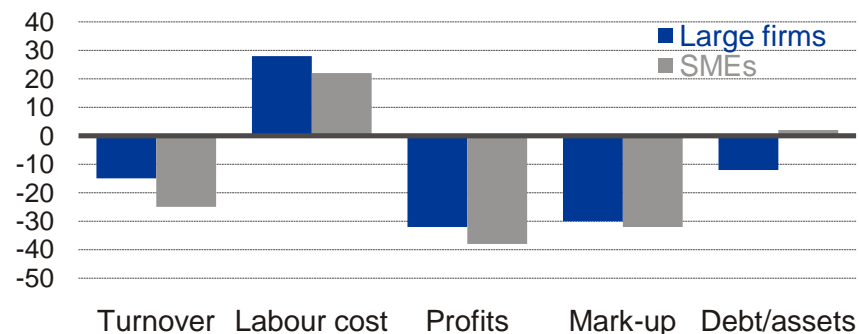
$$q = \frac{\text{equity market value of the capital}}{\text{replacement cost of capital}}$$
- Share prices suffered from a dramatic downgrade of the profit outlook and massive risk aversion
- All in all, investment spending in EMU fell by around 18% in 2009



Corporate balance sheets: Feeling the pinch

Effect of the downturn on firms

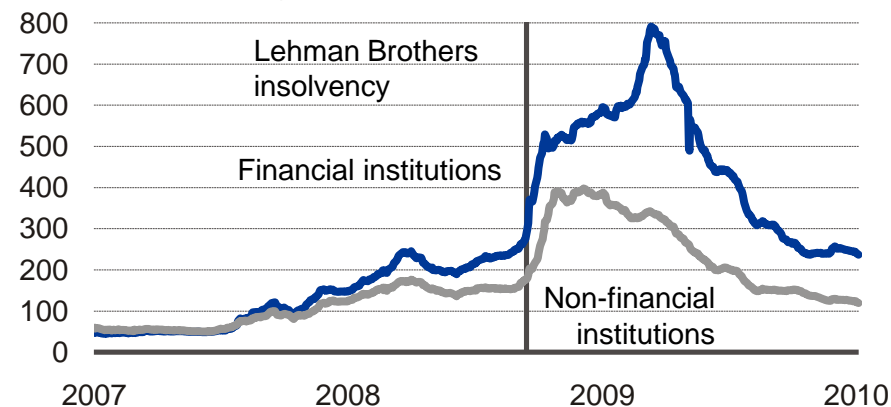
Net percentage of firms reporting an increase (H1 2009)



Source: ECB

EUR Corporate bonds

Yield difference to government bonds, in bp



Source: iBoxx

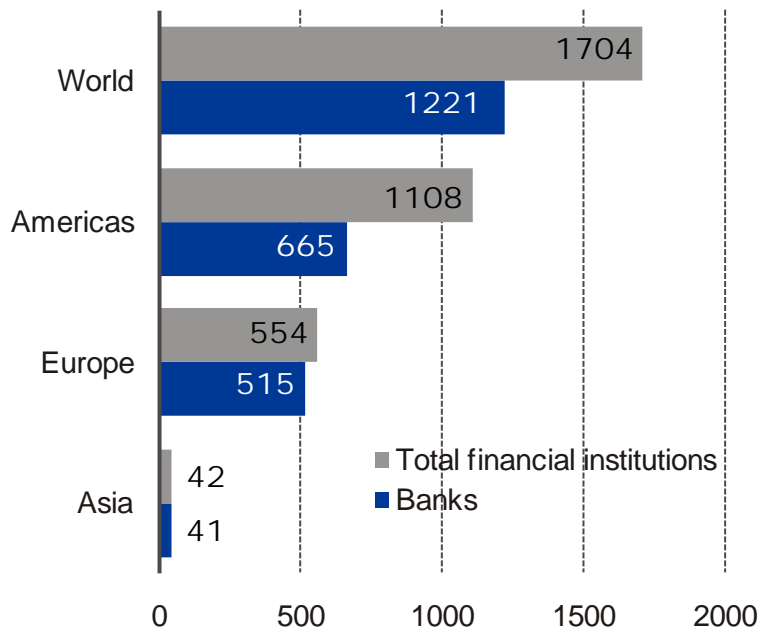
- The P&L hit and the deteriorating quality of corporate balance sheets have restricted corporates' access to capital and credit
- Corporate bond yields have risen strongly for non-financial institutions but even more so for financial institutions



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



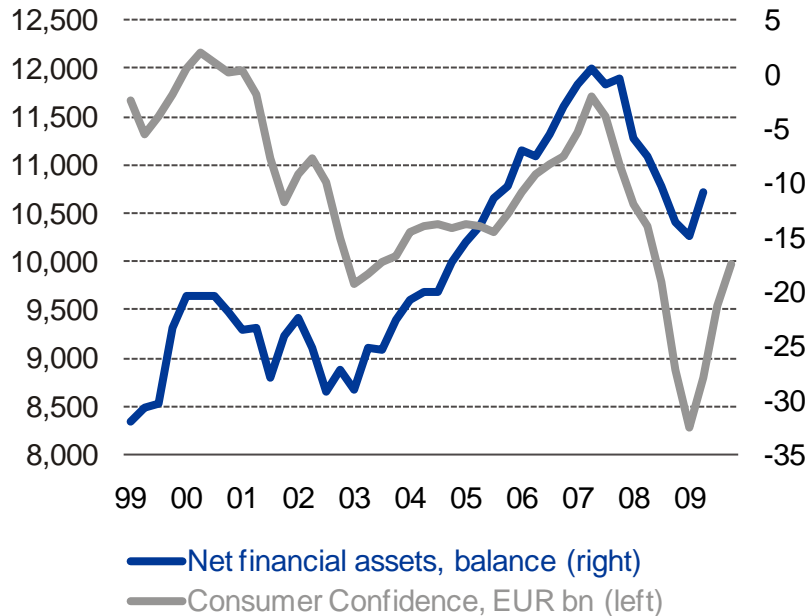
Source: ECB

- 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.



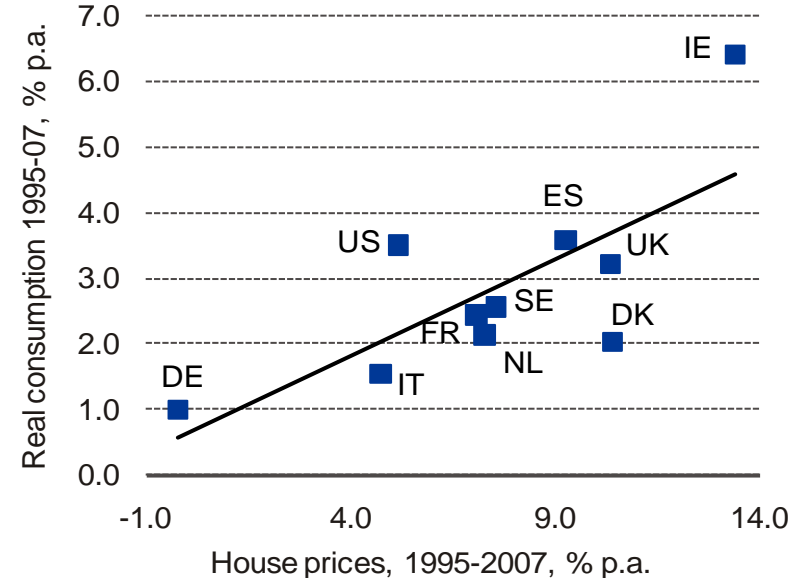
The consumption/asset channel

EMU: Private households' net financial assets & confidence



Sources: ECB, European Commission

House prices & private consumption



Sources: OECD, ECB, Eurostat, National Research Institutes

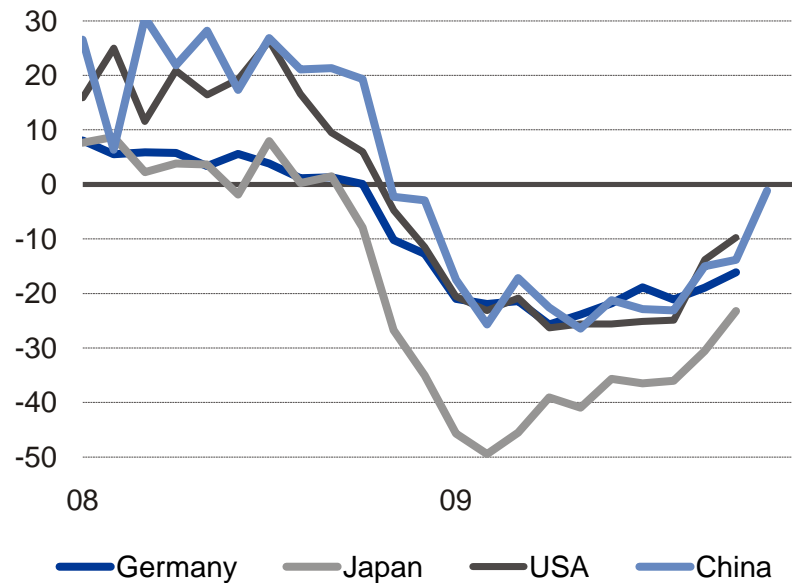
- Rising unemployment, slumping consumer confidence and a 12% decline in net worth probably led to a 0.8% drop in private consumption, despite the absence of inflation.



The trade channel: global synchrony

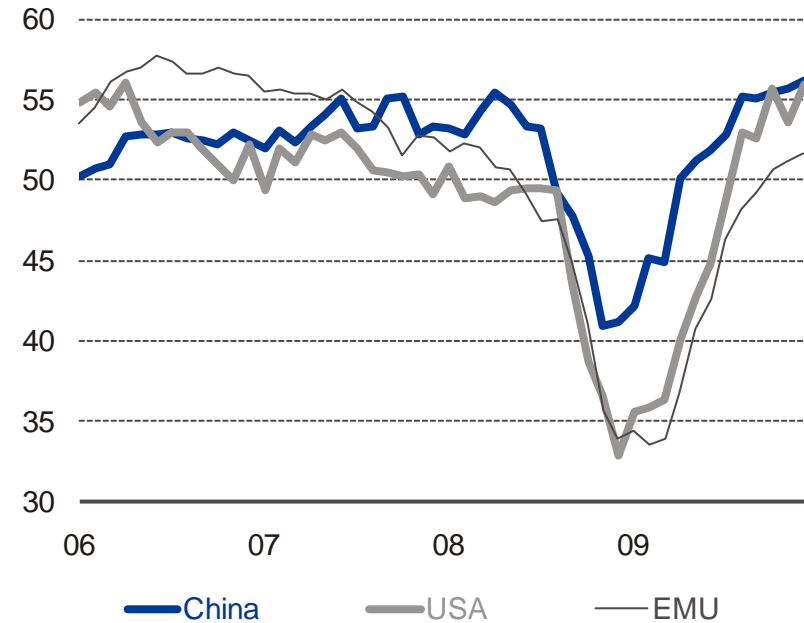
Exports

Nominal exports, % yoy



Sources: National Statistical Offices

Purchasing Managers' Indices



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

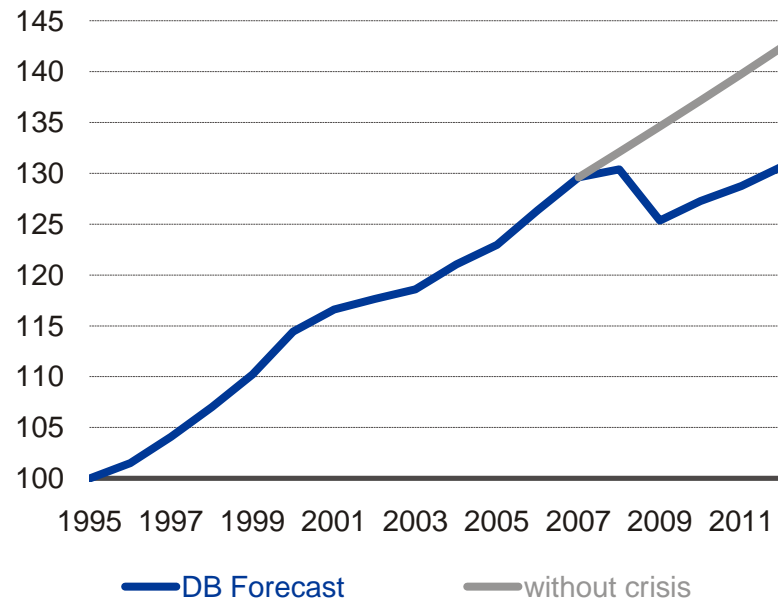
- The synchronous global slump triggering a 12% drop in world trade has – together with a 3% rise in the trade-weighted euro – resulted in a 13 ½% drop in EMU exports



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



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