

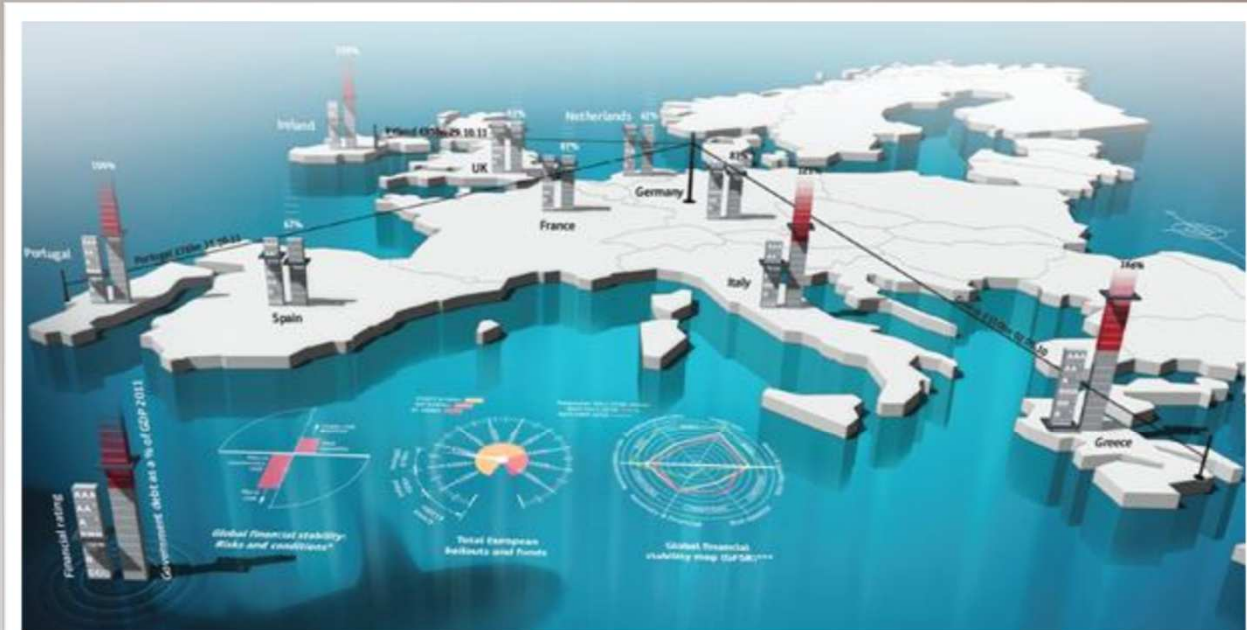
ANDBANK RESEARCH

Global Economics &
Markets

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Working paper - 52

Euro zone – New Andbank Peripheral Risk Indicator (APRI)

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ANDBANK /
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Despite the steady stream of news concerning peripheral countries (commonly known by the unfortunate nickname of PIGS, first, and then GIPSY), I must admit that I have found nobody so far that can give me a clear picture of the real situation of these economies, beyond the obvious pressure to which they are subjected.

No one says for sure whether these countries are stabilizing or in contrast they continue to fall. Nor there is a clear view of the latest developments, although these are questions that must be answered urgently.

*In this Working Paper we are pleased to introduce our in house developed **Andbank Peripheral Risk Indicator (APRI)**. A new tool created specifically to answer those questions as well as to expedite our investment decision making process.*

Andbank Peripheral Risk Indicator (APRI)

Questions & Answers

1. On the need to create our own set of indicators.

The aim of this new tool (*APRI*) is simply to provide answers to some key questions.

Is this group of economies stabilizing? Which of these countries shows higher difficulties and which ones are evolving better? In what areas? How close are them from fiscal targets? Are they really lowering primary deficits?

Without a concrete vision on these aspects it is not feasible to undertake any reasonable investment strategy.

2. How to interpret the results?

In order to facilitate the familiarization with the scores of our indices, and thus make the results easily understandable, we have decided to assimilate them to the results of other widely known indicators. Thus, a reading above 50 means that the factor under analysis is having a favorable performance in relation to previous observations. Similarly, a reading below 50 means the factor under study shows a deterioration.

Since each time series is analyzed in relation to its three previous monthly observations (prior to the last update), *APRI*'s figures should be interpreted as the evolution of the specific time series in the past four months.

Our *APRI* system also helps us to fully understand the nature of the development in one specific economy, providing the necessary clues to determine the consistency of such performance.

Andbank Peripheral Risk Indicator (APRI)

The First Reading

- **APRI Composite for the European peripherals shows an aggregate score of 50.6 in July, suggesting that this group of countries not only have slowed the pace of deterioration, but in aggregate they have stopped falling and even have shown some positive dynamics in certain economic aspects.**
- **Italy and Portugal, the two economies showing better dynamics.** The country shedding the highest APRI Composite in July is Italy, being thus the peripheral economy with the best dynamics in aggregate terms during the last four months. It should be noted, however, that the score for Italy lies primarily in the significant jump in the confidence surveys (54.6), although it is fair to recognize that Italy also accumulates the greater progress in the fiscal front (12 months cumulative budget balance of -3.19% vs -5.24% one year ago, and cumulative primary deficit of just -0.19% vs -2.58% one year ago). We could summarize for Italy that confidence surveys and fiscal figures outweigh the mediocre labor market and activity data. The second economy showing better aggregate figures is Portugal, emphasizing its progress in all areas except one (the labor component), a feature that perhaps makes Portuguese figures even more interesting than Italian ones. Portugal is the peripheral economy experiencing more progress in activity. In fact, its Q1 2013 GDP growth (saar) of -1.4% represents the lowest pace of contraction within these economies so far in 2013, placing Portugal as the country nearest the "desired" zero growth level (a station for which all of them must pass before showing GDP expansion). It should also be noted that the GDP pace recorded in Q1 remains well above the consensus forecast for the full year (-2.65%), paving the way for positive surprises in the case authorities manage to maintain current rates. The volume index of manufacturing production stands at 99.45 (vs the last 3 months average of 94.8), the highest compared to other countries in this group.
- **APRI Activity component** shows an aggregate reading of 50.2 for this group of economies, pointing to a stabilization in this regard. **Portugal and Greece are the countries showing clearest positive changes in this regard** over the last four months (52.2 and 50.9 respectively). Spain shows a reading of 50, staying in the no-contraction & no-growth area, and maybe on the verge of delivering positive readings in the next months.
- **APRI Surveys** of confidence is the component showing the most evident improvement at regional level, with a reading of 51.9, and exerting a significant influence on the final assessment of our APRI composite. By countries, **Italy shows the greatest advance (54.6) followed by Ireland (53)**. The rest of economies remain slightly above the 50 area, suggesting that consumers and producers confidence would not be deteriorating further.
- By contrast, **APRI Labor component at 49.6 suggest that labor conditions are still deteriorating at regional level**, although they are probably doing now at a much lower pace. Nevertheless, and in more detail, it can be seen how **Portugal and Greece now show almost no deterioration**, with just marginal declines in July.
- **APRI Fiscal component reveals that fiscal efforts undertaken by this group of economies has been substantial.** Italy remains as the only country that has arguably reached all fiscal targets set by Brussels. In the case of Greece, despite all the noise coming from this country, authorities have fixed YTD cumulative primary deficit at -0.50% as of May 31st (vs -1.20% one year ago), and would be in a position to shed primary surplus in 2013. Additionally, budget balance stays at 2.10% (YTD cumulative), much better than the -5.6% recorded one year ago, although further efforts must be taken in order to meet the -4.10% target for the year.

Andbank Peripheral Risk Indicator

Summary breakdown

	APRI - ACTIVITY COMPONENT		APRI - SURVEYS COMPONENT		APRI - LABOR COMPONENT		APRI - FISCAL COMPONENT		APRI - COMPOSITE
Italy	49,7		54,6		49,2		51,2		51,2
Spain	50,0	+	50,5	+	49,5	+	50,4	=	50,1
Portugal	52,2		50,8		49,9		50,7		50,9
Ireland	48,4		53,0		49,8				50,4
Greece	50,9		50,7		49,9		50,9		50,6
Aggregate	50,2		51,9		49,6		50,8		50,6

Andbank Peripheral Risk Indicator

APRI Activity Component

	NEAR TERM ACTIVITY FIGURES							PERIPHERAL RISK INDICATOR APRI - ACTIVITY COMPONENT	
	GDP - QoQ (saar) Last	GDP - QoQ (saar) Previous	Assessment	Consensus (for the Year) as of July 2013	(2) Assessment	Volume Idx Prod, Manuf Last Month	Avg last 3m (excl last observ)		Assessment
Italy	-2,6%	-2,4%	49,8	-1,80%	49,3	90,90	91,03	49,9	49,7
Spain	-2,1%	-2,0%	49,9	-1,60%	49,5	92,43	91,55	50,5	50,0
Portugal	-1,4%	-4,9%	53,1	-2,65%	51,1	99,45	94,80	52,5	52,2
Ireland	-2,3%	-0,6%	48,5	0,80%	47,3	95,77	97,01	49,4	48,4
Greece	-1,5% ⁽¹⁾	-1,9%	50,3	-4,20%	52,4	86,87	87,11	49,9	50,9

50,2

(1) For Greece we use the 12m moving average of the QoQ annualized growth rate. (2) In the second assessment, we compare the annualized GDP growth rate recorded in the most recent observation with the consensus estimate for the full year. If current pace falls below full year consensus estimate, the index will yield a negative reading (below 50). By contrast, when current rate is higher than full year estimate, the index reading will be above 50.

Andbank Peripheral Risk Indicator

APRI Surveys Component

	SURVEYS OF ECONOMIC CONDITIONS & SENTIMENT									PERIPHERAL RISK INDICATOR APRI - SURVEYS COMPONENT
	EC - COSUMER CONF INDICATOR	Avg last 3m (excl last observ)	Assessment	EC - GENERAL ECON SITUATION (12fw)	Avg last 3m (excl last observ)	Assessment	EC - INTENTION TO BUY A CAR (12 fw)	Avg last 3m (excl last observ)	Assessment	
Italy	-19,4	-33,2	56,9	-7,4	-26,1	59,3	-89,8	-84,8	47,5	54,6
Spain	-26,4	-31,4	52,5	-27,8	-31,2	51,7	-91,8	-86,2	47,2	50,5
Portugal	-51,9	-54,2	51,2	-61,3	-62,6	50,6	-91,4	-92,6	50,6	50,8
Ireland	-21,8	-29,9	54,1	-24,1	-33,0	54,4	-75,6	-76,9	50,6	53,0
Greece	-64,8	-68,0	51,6	-59,7	-63,2	51,7	-95,2	-93,0	48,9	50,7

51,9

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APRI Labor Component

	LABOR MARKET DYNAMICS								PERIPHERAL RISK INDICATOR APRI - SURVEYS COMPONENT	
	TOTAL EMPLOYED (MM Persons)	Avg last 3m (excl last observ)	Assessment	Weekly Hours of Work	Avg last 3m (excl last observ)	Assessment	Unemployment Rate	Avg last 3m (excl last observ)		Assessment
Italy	22,58	22,67	49,6	35,95	36,48	49,3	12,2	11,9	48,7	49,2
Spain	16,35	16,22	50,7	36,55	37,23	49,1	26,9	26,6	48,7	49,5
Portugal	78,77 ⁽¹⁾	78,98	49,8	37,55	37,93	49,5	17,6	17,7	50,3	49,9
Ireland	1,846	1,847	49,9	34,60	34,93	49,5	13,6	13,6	50,0	49,8
Greece	3,656	3,586	51,7	40,45	40,97	49,4	26,9	26,6	48,5	49,9

49,6

(1) For Portugal we use an index base time serie, since we do not have the number of total employed in a monthly basis.

Andbank Peripheral Risk Indicator

APRI Fiscal Component

Data as of 31-may

	FISCAL PROGRESS								PERIPHERAL RISK INDICATOR APRI - FISCAL COMPONENT	
	Budg. Balance YTD Cumulative	Budg. Balance YTD Cumulative (1y ago)	Assessment	Budg. Balance YTD Cumulative (saar)	Budg. Balance Target Year (2013)	Assessment	Primary Balance YTD Cumulative	Primary Balance YTD Cumulative (1y ago)		Assessment
Italy	-3,17 ⁽¹⁾	-5,24	51,8	-3,17 ⁽¹⁾	-2,90	49,8	-0,19 ⁽¹⁾	-2,58	52,1	51,2
Spain	-2,39 ⁽²⁾	-1,89	49,6	-5,78	-5,80 ⁽³⁾	50,0	-0,65 ⁽¹⁾	-2,60	51,7	50,4
Portugal	-1,65	-1,95	50,3	-3,36	-5,50	51,9	-0,86	-0,69	49,9	50,7
Ireland ⁽⁴⁾										
Greece	-2,10	-5,60	53,1	-5,08	-4,10	49,1	-0,50	-1,20	50,6	50,9

50,8

(1) We use the cumulative 12months budget balance, and compare it with the cumulative 12months on the same period of last year since we lack the YTD figures. (2) Central Government. (3) EC's 2013 deficit target for Spain is 6,5%. If central gov applies a 0,7% target for Autonomous Communities, the target for the central government could be fixed at 5,8%. (4) We have not got homogeneous fiscal data for Ireland yet.

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