Experian economic foresight

Global to local forecasting, specialist analysis of the credit, retail and construction markets, insight into the impact of economic change on consumers and business.

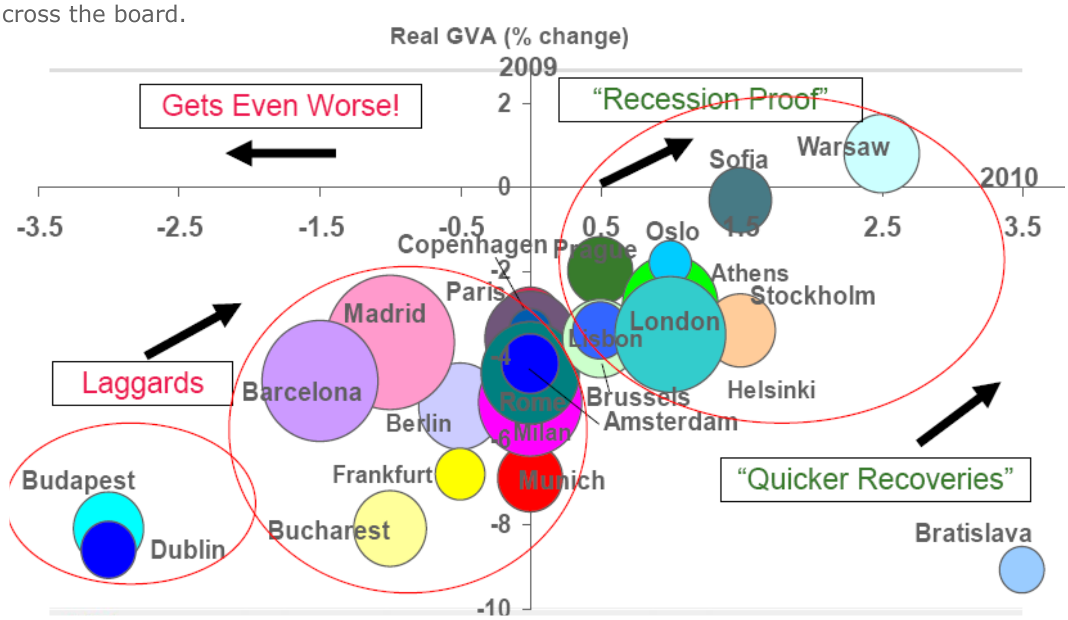
Introduction

Experian's biannual European Economic Conference was recently held in London. The event which combines in-depth understanding of national and macroeconomic analysis in Europe and a pedigree in industry and city forecasts presented a varied agenda around the topic of the 'Green Shoots' of recovery. The speakers at the event sought to answer pertinent questions such as, what we needed for a recovery and when it will happen; what is the post-recession landscape is going to look like; and who the winners and losers were, both from a country perspective and, more importantly to some of our clients, on a city level.

At the conference, Dr William Thomson, Director of Experian Economics, set out our vision of industries and European cities throughout and beyond the recession.

Short-term regional prospects are heavily influenced by the business cycle and sectoral performances. In broad terms, all sectors bar the public sector will haemorrhage in the short term, especially construction, manufacturing and financial services. In the short to medium term public services will reverse, while business services, distribution& retail and manufacturing, spurred by gradual revival of trade, will eventually begin to turn the corner. Construction and financial services will suffer a more lasting adjustment, albeit no death blows.

From a city perspective, London and many Nordic cities rebound faster than most in Western Europe. Key continental cities, especially in Germany and Italy will be hard-hit in the short-term, while more diversified, large and service-oriented centres such as Paris, Brussels, Milan, Amsterdam and Munich should also recover sooner. The bumpiest roads to recovery will be in Dublin, Madrid, Barcelona, Budapest and the Baltic capitals. Polish cities will do better too, particularly Warsaw and Cracow. Prague and Sofia will also prove fairly resilient but at much weaker rates than in the past. Bratislava will crash hardest but bounce back quickly. Finally, office markets will remain weaker in many Tier 1 cities in 2009-10 and retail markets weak across the board.



Future growth prospects

Motivated by client requests Matthew Sherwood, Senior Global Economic Adviser, looked at the experiences of Turkey and Russia in this year's summer conference. He evaluated their long-term investment viability by scrutinising the likes of future growth prospects, business environment, demographics and geopolitical factors.

Both markets size up well compared with other key benchmarks: In terms of consumer markets Russia and Turkey will be almost as big as India and larger than or equal in size to Brazil by 2020. Moreover, they will be larger than all of Central and Eastern Europe! With regard to per capita income their attractiveness is even starker: They will easily outrank Brazil, China and India, having residents that are twice or three times wealthier than the average person in the other BRICs countries.

But while both are attractive in terms of their market dynamics, there are important differences. Turkey has a much friendlier business environment that beats most CEE countries, all BRICS, and even advanced economies such as Italy and Taiwan. Turkey also boasts among the most favourable demographics in the world. By 2020 with 86 million people, Turkey will become the most populated country in Europe (excluding Russia). More interesting perhaps to international investors is the fact that employment in financial and business services employment (a key indicator for office demand) will have increased by more than a fifth in 2009-20. At the same time, Turkey's consumer market will treble, offering ample opportunity for retail investors. Finally, there is the lure of EU membership that provides upsides in terms of anchoring stability and reforms and further access to western European markets. Against that, however, Turkey also has its risks: In the past it has been an emerging market bellwether in times of economic crises, suffering three financial crises since 1994. There have also been prominent political risks, with tough and for Turkey painful EU accession negotiations.

Russia, on the other hand, is extraordinarily resource rich, has attracted a good deal of foreign investment and some repatriated wealth. Moreover, it is a large market that is very concentrated, facilitating easy access. Moscow accounted for 1/3 of national growth, something that will be broadly the same going forward. And household spending is expected to more than double. But, regrettably Russia also features horrible demographics, with low life expectancy, strong emigration, and a fast-shrinking population that flatters actual per capita wealth. As a result, service sector employment growth might disappoint during the next decade. Being resource rich also means that has a narrow industrial base and is very vulnerable to large price swings of the sort we have witnessed over the last year, leading to painful boom-and-bust cycles.

On balance, Turkey offers more abundant investment opportunities despite the current recession. Breaking with past tradition it seems to be more emancipated from domestic financial crisis. Russia, on the other hand, is more of a mixed bag, though offers some good potential, especially in Moscow where much economic activity is concentrated, and in a world where renewed commodity price-rises are likely.

Figure 3: How big is your market?

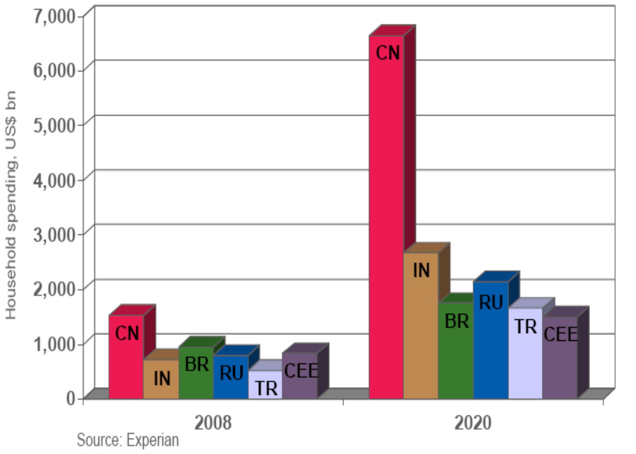
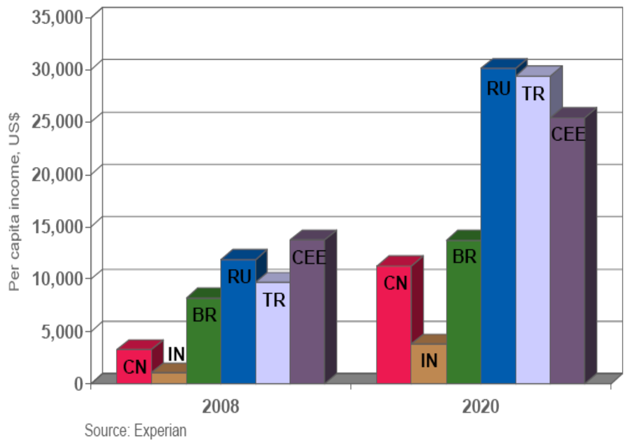


Figure 4: How rich is your market?



The post-recession landscape

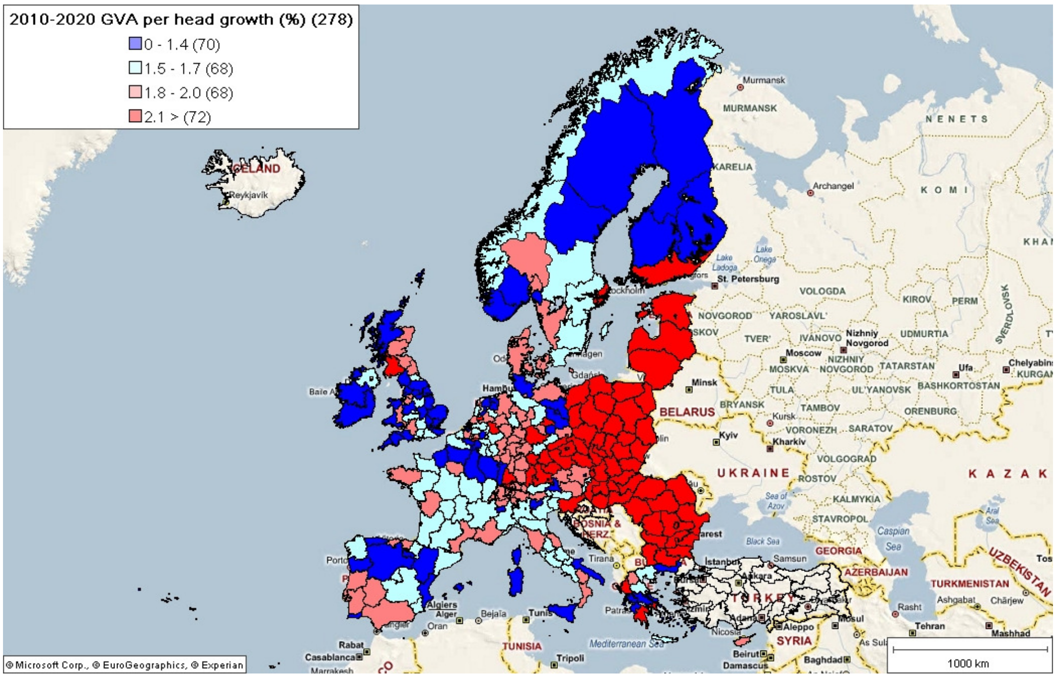
As the final part of our conference, Dr Eric McVittie, Director of Research, contemplated the post-recession landscape, seeking answers to whether past trends are likely to be re-assert themselves following the upturn, how drivers of change would change the canvass and which European cities would have strongest growth potential in the period to 2020.

Growth profiles over the last decade were dominated by catch-up of eastern European and some Mediterranean centres. This resulted in rapid growth of income per head. In the east it also coincided with slow or negative employment growth; while in the Club-Med growth was also spurred on by massive immigration flows. Global hubs in Europe also did well and sustained strong growth, defying the gravity of convergence. Overall, the last decade was marked by catch-up and globalisation.

Beyond the recession the global model will also be the mainstay of the next decade, with global trade and capital flows continuing to flourish and ever-greater interconnectedness and specialisation as a result. Catch-up will continue too following recovery, but with much less force. By implication, affluence will spread yet demand shift towards services and niche products. In Europe, specialisation will evolve further towards higher-value added activities, in for example 'mass customised' products, and servicisation. In such a world, the potential winners from a sectoral perspective will be business and other services, telecommunications & media, niche high value-added manufacturing and services, as well as green technology providers. Potential losers will be mass market manufacturers, reliant on cheap labour and in the firing line of key emerging economies.

Long-term prospects will also depend on drivers that tend to support growth and prosperity of major cities. European locations that will thus thrive during the next decade are those that are cultural centres, major and well-connected hubs, centres of advanced education and innovation, and above all those that manage to attract skills.

Figure 5: European regions – Income growth prospects



The authors

Dr Eric McVittie

Research Director
BA (Hons) Economics
PhD Economics

Expertise

Eric has extensive experience of regional and local economic modelling and forecasting, gained over 20 years of academic and commercial research. At Experian, he directs the development of regional forecasting models and provides leadership on Experian's various regional and local forecasting services. He also provides technical direction on a broad range of research projects, which apply advanced economic modelling and forecasting techniques to provide insight into issues facing leading businesses and policy institutions. Before joining Experian in 2006, Eric was Head of Economics at the University of Plymouth. He holds a Doctorate in Economics from the University of Strathclyde, a leading centre for regional modelling in the UK, and has published on regional modelling and policy in leading UK and international academic journals.

Dylan Schumacher

Senior European Economist
BA (Hons) International Economics with Spanish
MSc International Economics

Expertise

Dylan heads up our European macroeconomic forecasts and plays an integral role in our regional forecasting products. He has in-depth knowledge of all major eurozone economies, particularly the German and Spanish markets, and a detailed understanding of European polices and institutions. He offers considerable experience in advising international clients and ministers on investment and policy decisions in Europe, and operates from both our London and Düsseldorf offices. Dylan joined Experian from HM Treasury, where he was an Economic Adviser and ran the eurozone branch responsible for formulating the HMT view and forecasts and representing the HMT on European economic matters. He also previously worked in the UK prospects unit at HMT, providing detailed economic analysis and ministerial briefings. Dylan was educated in Germany, the UK and Spain; and earned his economics credentials in Manchester (BA), Nottingham (MSc) and Murcia (Licenciatura).

Dr William Thomson

Director, Economics
BA (Hons) Economics
PhD Economics

Expertise

William is responsible for directing the economics business at Experian. He plays the leading role in developing and maintaining the existing suite of macro, regional and local area forecast products and services. He acts as Experian's chief economist as well as the director of forecasting. William has worked for many years to help some of the world's leading private sector organisations understand how economic change will impact on their business portfolios.

William joined Experian from IHS Global Insight, where he was Managing Director of European Economics. Prior to that, he was Vice-President of European Fixed Income Research at Merrill Lynch. He has worked for a number of years in the economic forecasting industry, and also in the public sector at the Department of Trade and Industry and in the risk-management division of the UK Export Credit Agency (ECGD). He holds economics degrees from the Universities of Essex in the UK and Connecticut in the USA.

Matthew Sherwood

Senior Global Economic Adviser
BA (Hons) Economics
MA Russian and East European Studies

Expertise

Matthew has spent 15 years analysing and addressing economic and financial issues that have an impact on international markets and business planning. At Experian he advises clients on global macroeconomic developments and runs the company's Global Futures service – a survey of economic, financial and business prospects in over 40 countries. He also oversees production of Experian's various regional and city-level forecasting services. Before joining Experian in 2007, Matthew was senior North America and global economist at the Economist Intelligence Unit, the business information arm of The Economist. Prior to that, he was based in the US, where he worked as an economist for Standard and Poor's and PlanEcon. Matthew is often quoted by the press and has appeared on broadcast media across the globe, including the BBC, CNBC and CNN. He holds a bachelor's degree in economics from Duke University in North Carolina and a master's from Georgetown University in Washington DC.

Mark Britton

Managing Economist
BSc (Hons) Economics with Geography, Loughborough University

Expertise

Mark is a key member of our Economics team, responsible for the running of Experian's European Regional Forecasting Service. Through his work on this service, Mark has gained in-depth knowledge of regional and local economic modelling techniques, which he has applied to product developments and a wide variety of consulting projects, including scenario analysis. Mark also contributes to Experian's macroeconomic forecasting services, taking a lead on national-level and regional economic developments in Italy. Mark joined Experian in 2005 after gaining a first class honours degree in Economics with Geography at Loughborough University.

Rebecca Snow

Managing Economist
BA (Hons) Economics

Expertise

Rebecca has been a key member of the European Regional Forecasting Service team since 2001. She is responsible for overseeing data collection, forecasting and the reports that make up the service. Rebecca takes a lead in developing our European regional forecasting capabilities and manages the maintenance of the regional model. She spends a large amount of time aligning European regional data to client defined growth scenarios and is also involved in the economic assessments of local regional economies across Europe. Rebecca joined Experian after gaining a first class degree in Economics at Kingston University.