

#### Box 4

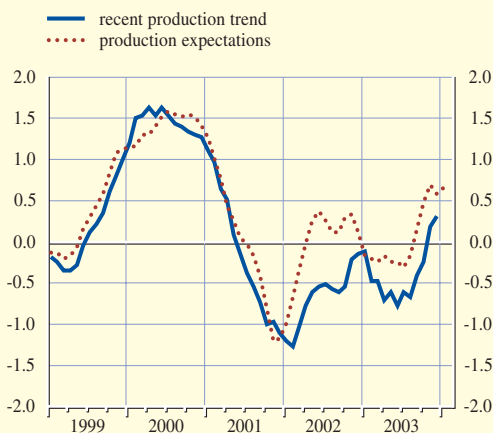
### THE ASSESSMENT OF CURRENT AND EXPECTED ECONOMIC CONDITIONS ACCORDING TO EUROPEAN COMMISSION SURVEYS

Opinion surveys, such as those carried out by the European Commission each month, are useful indicators for analysing key economic variables.<sup>1</sup> For instance, the industrial confidence indicator is closely related to industrial production, and consumer confidence gives some indication of developments in private consumption. Moreover, the surveys gather information on the assessment of future and current developments in manufacturing and the future and current economic situation according to consumers. If the assessments of future and current developments in both the manufacturing and consumer sectors show significant discrepancies, this can provide useful information in terms of monitoring economic developments.

Discrepancies between indicators related to current developments and the future situation can be analysed using various measures. This box looks at two measures in particular. First, by using the historical cross-correlation structure between these two indicators as a benchmark, it is possible to identify discrepancies in specific periods. For the manufacturing sector, production expectations typically lead the assessment of recent production trends by one month. For consumers, expectations with regard to the future economic situation lead the assessment of the current economic situation by around two months. Second, discrepancies can also be identified by comparing the gap between the two indicators with the average gap.

**Chart A Recent and expected production in manufacturing**

(percentage balances; three-month moving averages; series normalised)



Sources: European Commission and ECB calculations.  
Note: Reflecting the average lead, expectations are moved forward by one month.

**Chart B Current and future economic situation according to consumers**

(percentage balances; three-month moving averages; series normalised)



Sources: European Commission and ECB calculations.  
Note: Reflecting the average lead, expectations are moved forward by two months.

<sup>1</sup> For a detailed presentation of the various ways in which opinion surveys available for the euro area can be used for economic analysis, see the article "Opinion surveys on activity, prices and labour market developments in the euro area: features and uses", published in the January 2004 issue of the Monthly Bulletin.

In this respect, it is worth noting that at the end of 2001 and the beginning of 2002 the indicators of future and current developments for both the manufacturing and consumer sectors gave mixed signals. Indeed, a rapid improvement in the expectations of manufacturers and consumers was not reflected in the assessment of current conditions. This eventually led to a downward correction of expectations (see Charts A and B). A similar pattern was also observed in the surveys on services and retail trade.

More specifically, in the manufacturing sector, production expectations started to improve strongly in November 2001, although the assessment of current production was still deteriorating and only started to improve four months later, in March 2002. Compared with the pattern observed in previous periods, there was a significant gap between the two series for most of 2002. For the household sector, although expectations regarding economic conditions improved markedly between December 2001 and May 2002, the assessment of current economic conditions continued to decline throughout this period. In line with this development, the gap between the two series grew substantially between July 2002 and January 2003, and was subsequently closed only by a significant decline in the assessment of expectations.

Recent developments indicate that the situation at present is rather different to that of 2001-02. For manufacturing, the current gap is smaller than that observed in 2001-02. More importantly, production expectations and current developments are moving in line with the usual lag. Indeed, both series started to show an improvement in July 2003, although this was more marked in the case of expectations. As regards consumers' views, recent developments indicate that the assessments of the future and the current economic situation are moving upwards together, although less rapidly than in previous upturns. Furthermore, although expectations are improving considerably more than the assessment of the current economic situation, there is no significant gap between the two series.

Overall, the results of the opinion surveys in 2003 appear to reflect a more balanced view in relation to the assessment of current and future developments than in 2001-02. This may be interpreted as a positive signal as regards prospects for both the manufacturing sector and consumption.