

EU debt crisis odyssey

#visualizingthecrisis

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Warning: deflation in EU

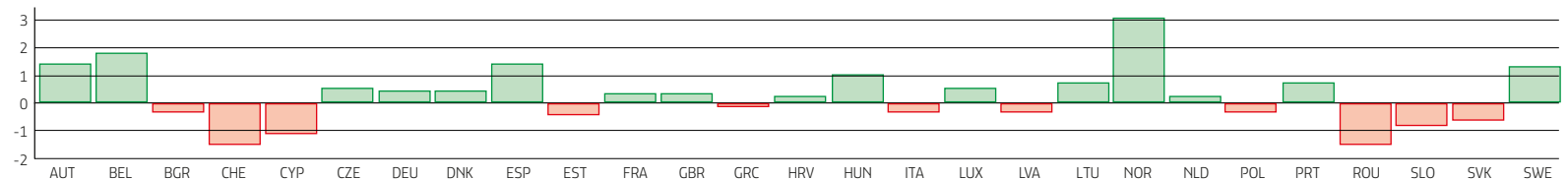
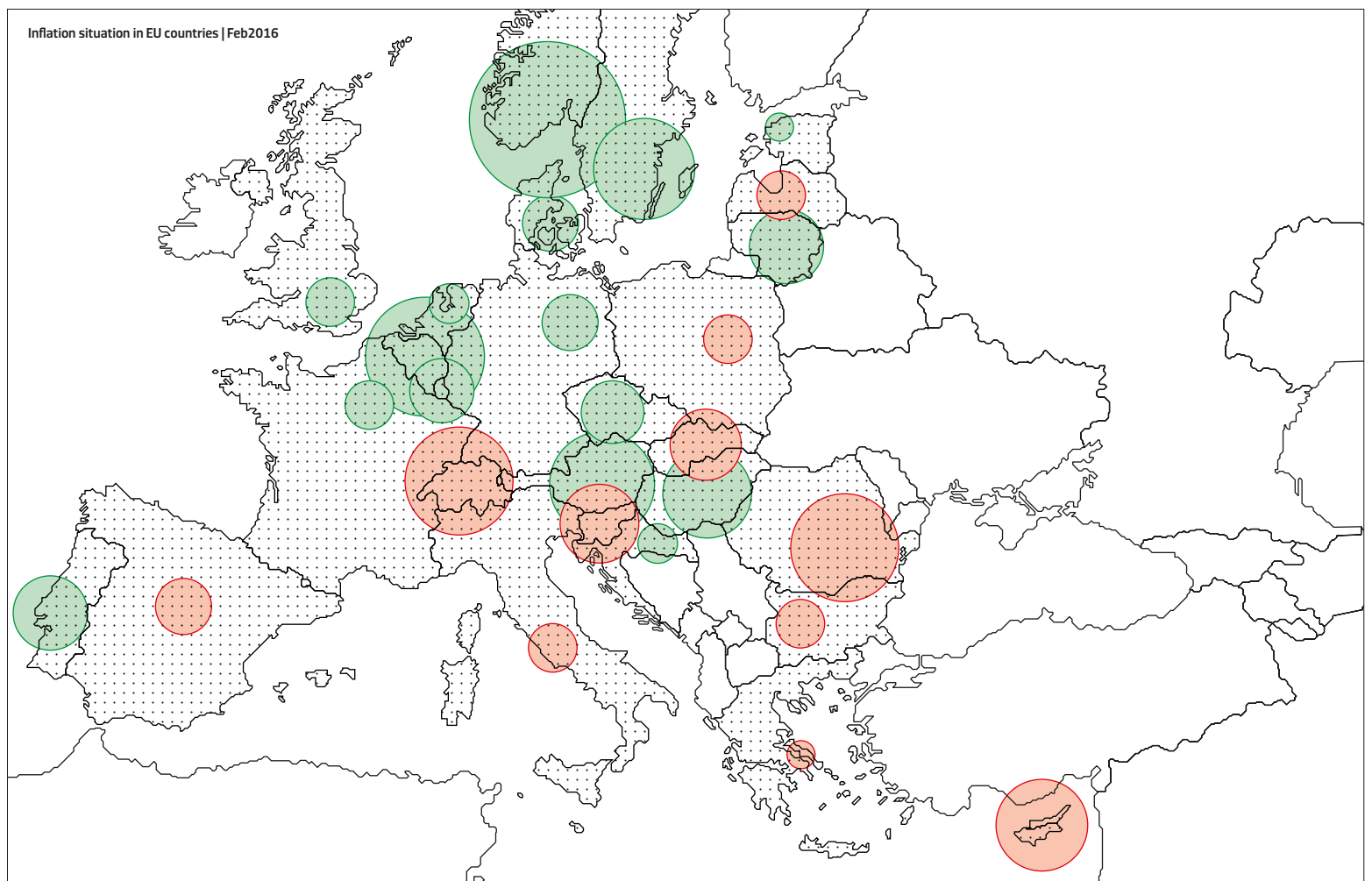
Eurozone consumer prices were lower in February than a year earlier, a setback for the ECB in its struggle to prevent the currency block's slide into chronic deflation. The ECB's governing council is set to meet on March 9 and 10 to decide whether to boost its stimulus programs, amid signs that the Eurozone's modest economic recovery may be faltering. Policy makers will have new economic forecasts in March that are expected to show inflation this year falling far below the 1.0% estimated in December, following another sharp drop in oil prices.

TIPS for economy's beginners

SNB: Swiss National Bank

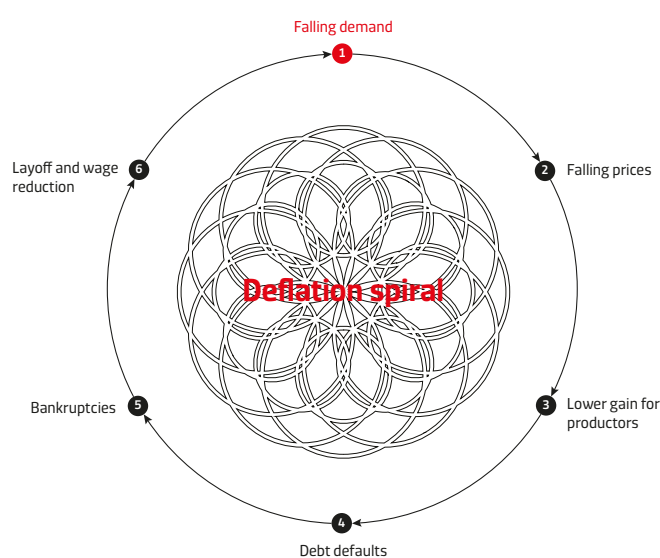
GCEE: Stock Market Index, it is the stock market index

ECB: European Central Banking



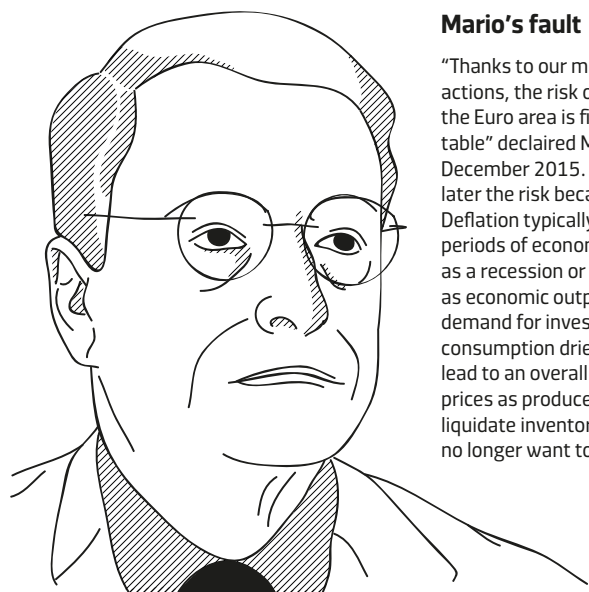
What are the consequences of deflation?

A deflationary spiral is when a period of decreasing prices leads to a situation whereby the economy cannot recover, which compounds over time leading to even lower prices in a vicious cycle.



Mario's fault

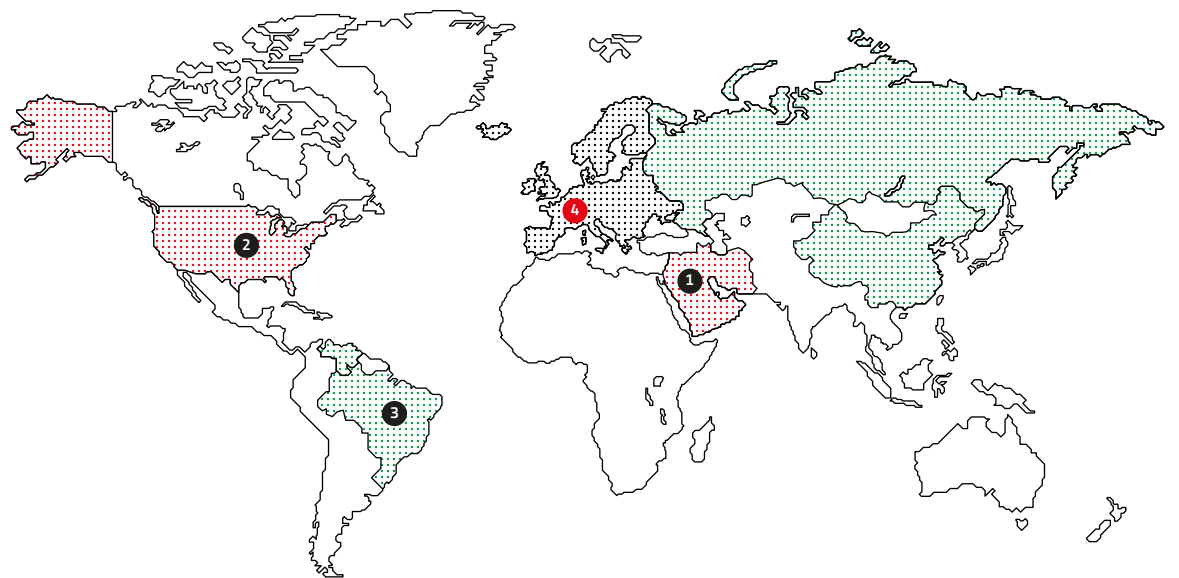
"Thanks to our monetary policy actions, the risk of deflation in the Euro area is firmly off the table" declared Mario Draghi in December 2015. Just 3 months later the risk became real. Deflation typically occurs during periods of economic crisis such as a recession or depression as economic output slows and demand for investment and consumption dries up. This may lead to an overall decline in asset prices as producers are forced to liquidate inventories that people no longer want to buy.



Sources: EuroSTAT, Nasdaq, Bloomberg, Investopedia

European deflation and oil price

Mario Draghi has said the ECB won't hesitate to act if it believes recent financial-market turmoil or lower oil prices will weigh further on inflation in the currency area. Why Europe is so influenced by lower oil price?



1 Middle East countries continue to pull out oil even if the price is now very low to put US in a difficult situation.

2 Oil extraction is very expensive for US compared to middle east, so they have economic difficulties.

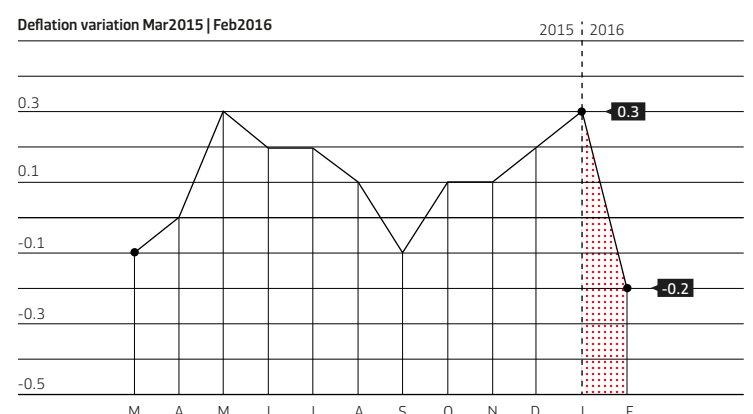
3 Furthermore, other trade partners are now having economic slowdown or crisis. Russia has been banned.

4 There are other countries with financial problems, they can not afford imported products.

Countries with economic difficulties
Countries with oil
Europe

Why is EU so concerned?

The European Union's statistics agency said consumer prices were down 0.2% from February 2016, having been up 0.3% on the year in January, creating panic and concern. That is a quit risky situation that ECB has to solve as soon as possible in order to assure a better economic stability to Europe.

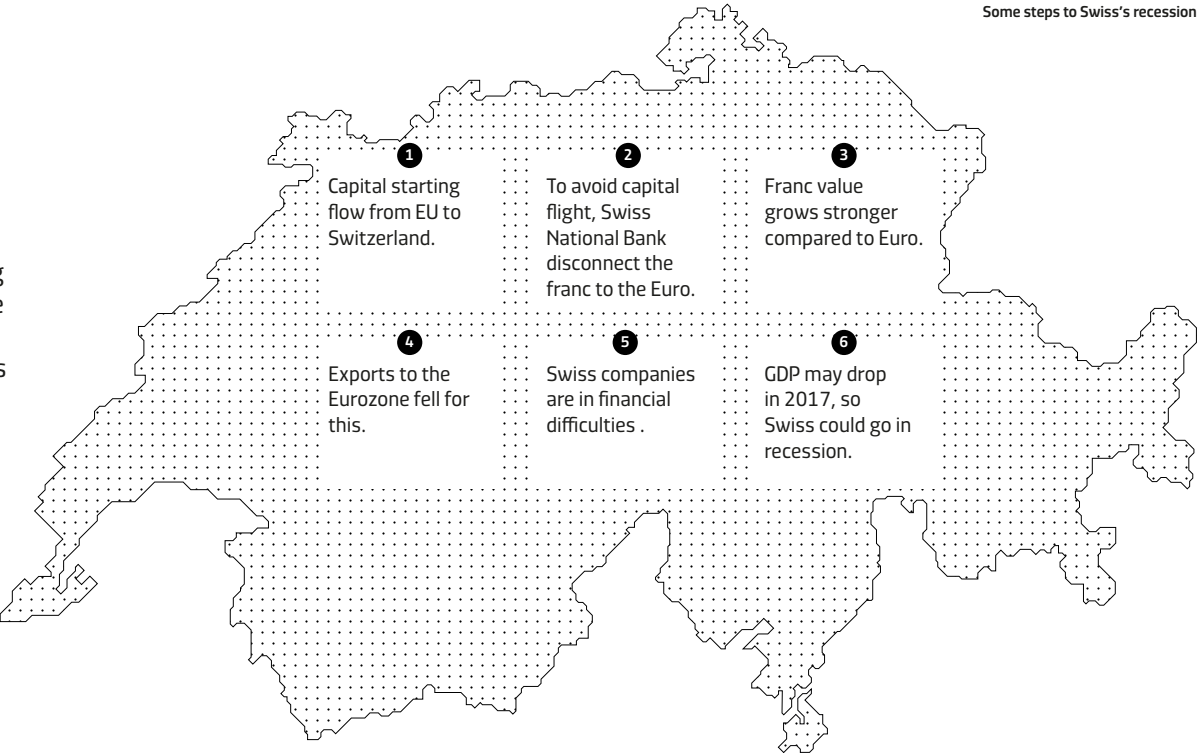


CHE 2017:
Switzerland
goes into
recession?

Switzerland is a great example of how it doesn't matter all that much whether a country is a member of the EU or not, even when it deeply depends on trading with it. It is also shows that under such a scenario, it doesn't really matter whether or not the country chooses to keep its own currency and central bank or to adopt the union's own.

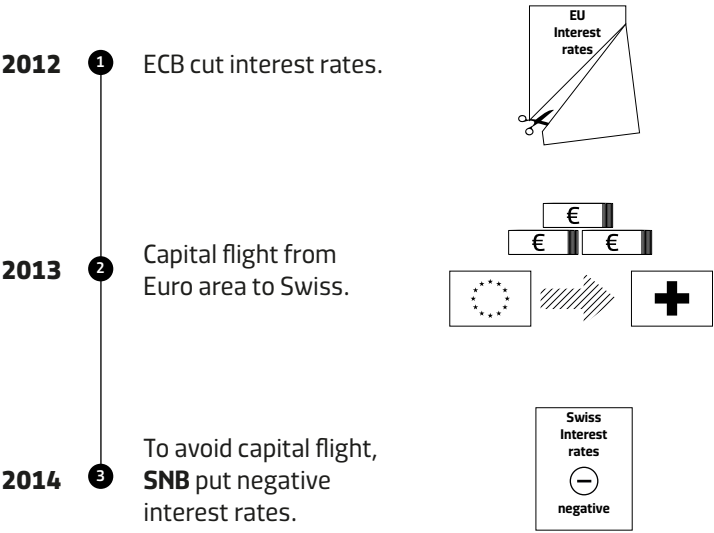
The beginning of everything

In 2000 Switzerland opted out of the Euro to keep his own monetary policy while routing 50% of his exports to the European bloc at the same time, it was somewhat deceiving themselves. It may not share the Euro, but it do share the same kind of monetary policy, as it was pushed by the ECB into negative interest rates.



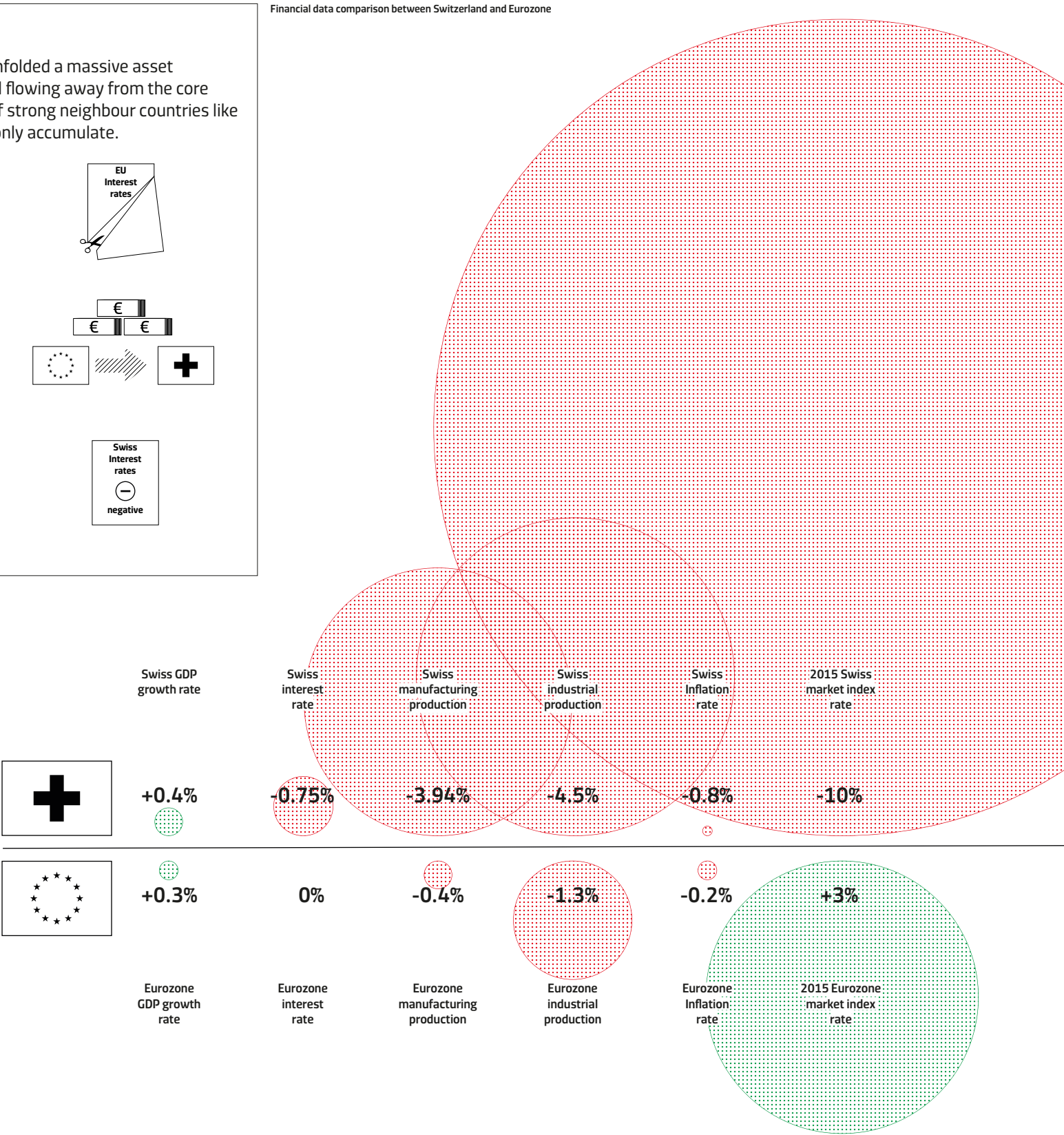
Consequential actions

When the ECB cut its key rates and unfolded a massive asset purchase programme, capital started flowing away from the core Eurozone members in the direction of strong neighbour countries like Switzerland. Foreign reserves could only accumulate.



Stats are too bad

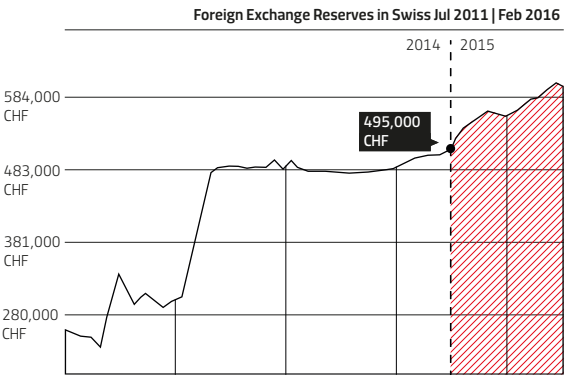
All the SNB has achieved is to import deflation from the Eurozone. Prices are currently decreasing at an annual pace of -1.3%. The higher franc is causing a contraction in manufacturing due to the negative impact on external demand. GDP is still growing but at ever lower rates. If the ECB expands its bond buying, the Swiss problem will aggravate and the country will most likely enter recession.



An overvalued index

In 2015, the **SMI** index is down 10%, underperforming wider European markets. According to data collected by Star Capital, Switzerland ranks at the 37th of 40 positions in terms of valuation, which means that financial markets in Switzerland are largely overvalued.

Sources: iEconomics



Export, we have a problem

Exports to the Eurozone account for around 50% of Switzerland's total exports. With the franc rising against the Euro, it comes as no surprise that exports to the Eurozone fell 7% last year. So far, Swiss companies have been playing with margins, cutting costs and improve efficiency.

Sources: iEconomics

