

Withstanding The Downturn: Examples Of Resilience Across European Economies

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With weak consumer confidence and insecurities related to continuing debt crisis in Greece, and storm clouds gathering over the Spanish banking sector, fears of a double dip recession are looming in Europe.

Entrepreneurs face a serious challenge, as those who survived the 2008-2010 downturn might not survive another setback in such a short period. The question is whether we can learn something from the recent painful experience and identify sectors of the economy that are less threatened if another recession is on its way.

Eurozone countries have been under spotlight ever since the financial crisis unravelled, sending their economies into the red and highlighting long-running shortcomings in economic and social policies. Industries in France, Italy, and Spain were analysed to see if conclusions can be drawn.

Source: Euromonitor International from official statistics, trade associations, trade press, company research

A resilient performer in all three countries was the healthcare sector. Public spending plays a big role in the industry and although painful budget cuts were underway in all three countries, healthcare largely escaped unscathed. This was due both to the fact that healthcare spending cuts are extremely unpopular among the population, making them unlikely and the universal nature of the services provided. This can further be illustrated by industry's positive performance in Spain, a country among the hardest hit by the downturn.

Growth of the education sector was influenced by very similar factors as that of healthcare, as politicians were wary of voter backlash if education programs were scrapped or spending cut. Rising unemployment levels simultaneously increase demand for adult and occupational education, such as retraining of certain skills and acquiring new ones.

Italy was the exception among the three countries reviewed, with its education sector not escaping a slight decline, as the country was dealing with its heavy general government debt burden (113.2% of GDP in 2009, according to IMF), budget deficit (5.3% of GDP in 2009) and persistent weakness of the economy. Although Italy's situation was not as dire as that of Spain, the country took measures to address the problems and ensure long-term sustainability of its economy.

The sporting and gambling industry, including lotteries, also fared well during the downturn, escaping a decline in all three countries under review. Although traditional casino-style gambling is the main sector in the US, lotteries are the dominant revenue-generator in the EU. Indeed, while casinos were faced with falling visitor numbers, alternative forms of gambling, especially online gambling and betting, saw rapidly growing popularity, sustaining the performance of the industry as a whole. Lotteries were also doing well as financial insecurity drove people to risk more of their money in hope of landing a big win. All these factors combined allowed the industry in all three countries to post growth in all years of the downturn.

Social work services also grew, even during the worst of times, largely spared from far-reaching spending cuts by respective governments. However, the growth of this sector placed immense strain on the countries' finances, as the number of unemployed and those in need of social assistance increased significantly, while budget revenues were diminishing and deficits were threatening to spiral out of control. Growth was the highest in France, where cuts to social assistance programs are usually met with fierce resistance and protests.

Some of the other industries that have managed to navigate the turbulence of the recent downturn with relative ease were those involved in renting of land transport or miscellaneous machinery and equipment. Virtual closure of financing lines, as banks were preoccupied with their survival, meant companies found it difficult to finance purchases of capital equipment. This benefited rental services providers as they offered an alternative without the need of additional financing.

Insurance services held out rather well in Spain, as the risk appetite of companies and households was rock bottom, benefitting insurance providers, who could offer a degree of security in the very uncertain times of 2009-2010. It should be noted that insurance companies made a lot of their revenues from fluctuations of the financial markets at the time, whereas insurance activities were often loss-generating.

It will be interesting to see how these industries fare in 2012 amid continuing uncertainty in the Eurozone and the Spanish banking sector. While sectors such as funeral or health services seem immune to fluctuations in the economic climate, it is unlikely many other industries will hold out against a major calamity such as the feared meltdown of the Eurozone. Sporting and gambling industry performed decently in a rather short-term slump of the economy, but its

resilience to persistent sluggishness is yet to be proven.

The education and social work services sectors, which are the most dependent on public financing, are at the same time the ones that are the most sensitive when it comes to budget cuts. However, a prolonged stagnation or even recession in the Eurozone would without doubt not spare even these two segments. The insurance sector's performance has been largely achieved through gains in the financial markets.

However, the insecurity surrounding the global economy and volatility of the financial markets mean that this is unsustainable in the longer term. Rental or operational leasing of equipment is an increasingly popular choice among businesses. However, the rental sector is directly dependent on the general state of a given country's economy and would not hold out against a major slump. It is safe to say that the risk of us seeing the ability of virtually any industry sector to adapt and thrive amid a long-term economic downturn being tested has not been greater in a few decades.

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