

Box 7

CHANGES IN THE ALLOCATION OF GROSS VALUE ADDED IN THE EURO AREA: A SECTORAL PERSPECTIVE

This box analyses the developments in the allocation of gross value added across economic sectors.¹ It examines the changes in the share of value added of industry in real terms for the euro area as a whole as well as for selected countries.² It focuses on developments prior to the onset of the crisis (from the first quarter of 2000 to the first quarter of 2008) and the period thereafter (from the first quarter of 2008 to the third quarter of 2012).

The analysis pools together countries which were subject to heightened financial pressure over the period under review (“stressed economies”) and examines their developments against a selection of countries with more stable economies (“non-stressed economies”). For this purpose, the stressed economies included in the analysis are Greece, Ireland, Italy, Portugal and Spain and the non-stressed economies included are Austria, Belgium, Finland, France, Germany and the Netherlands.

1 The sectoral breakdown is derived from the “Statistical classification of economic activities in the European Community” (NACE Rev. 2), which was revised in 2007.

2 With the entry into force of Commission Decision 98/715/EC, volumes in national accounts have been compiled by using values expressed in the prices of the previous year. As a consequence of this chain-linking approach, national account volume series are no longer additive. This also applies to NACE Rev. 2 sectoral breakdowns. This property of chain-linked volumes has been especially pronounced for those economic activities which experienced significant changes in their price structures. For the purpose of this analysis, significant deviations from additivity have been avoided by adding up sectoral gross value added volumes, thereby creating artificial volume series for total gross value added which differ from the respective chain-linked volumes. The sectoral shares of gross value added shown in this box for Ireland and Greece have been computed using this method.

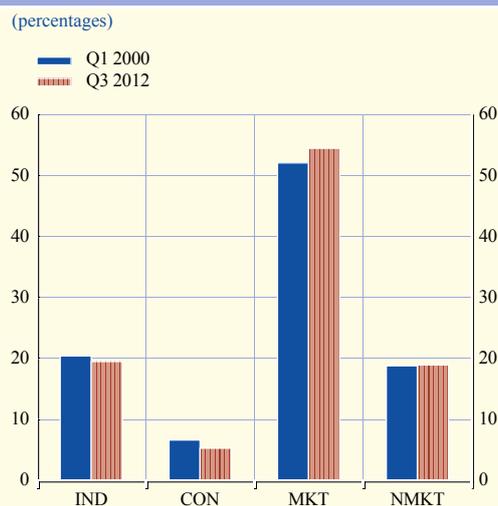
Developments in value added in the euro area as a whole

In line with the ongoing deindustrialisation trend, the sectoral allocation of gross value added in the euro area as a whole saw a shift from the industrial sector to the services sector between the first quarter of 2000 and the third quarter of 2012. The share of gross value added of industry excluding construction and construction decreased from 28% to 25%, while that of total services increased from 70% to 73%. In particular, the share of value added of market services increased from 52% to 55%, largely as a result of developments in information and communication activities as well as in financial and insurance activities. The share of value added of non-market services (which to a large extent include public or government services) remained broadly unchanged (see Chart A).

Throughout the pre-crisis period, declines in the shares of value added of industry excluding construction, construction and non-market services were offset by strong gains in the share of value added of market services (see Chart B). In the period thereafter, the shares of value added of industry excluding construction and, to a greater extent, construction, further declined, while the shares of value added of both non-market services and market services increased.

Thus, in both of the periods under review, the adjustment pattern observed in industry excluding construction and construction was characterised by a decrease in their respective shares of value added, while market services witnessed an increase thereof. By contrast, the adjustment of the share of non-market services deviated from this pattern, as this share decreased in the first period but increased in the second. This behaviour is explained by examining the non-market services sector's performance compared with the other sectors, both prior to and following the crisis. In fact, in the years prior to the first quarter of 2008,

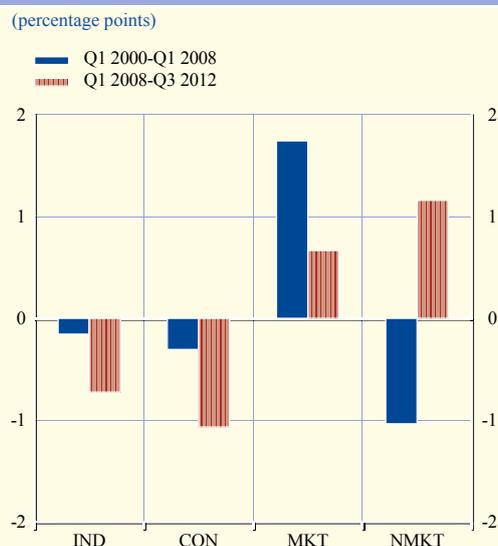
Chart A Share of euro area value added by economic sector



Source: Eurostat.

Notes: In all charts, "IND" refers to industry excluding construction activities; "CON" to construction activities; "MKT" to market services; and "NMKT" to non-market services, including public administration and defence, compulsory social security, education, human health and social work activities. Market services include wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities; information and communication activities; real estate activities; professional, scientific and technical activities; administrative and support service activities; financial and insurance activities; arts, entertainment and recreation; repair of household goods and other services.

Chart B Relative change in the share of euro area value added across economic sectors



Source: Eurostat.
Note: See Chart A.

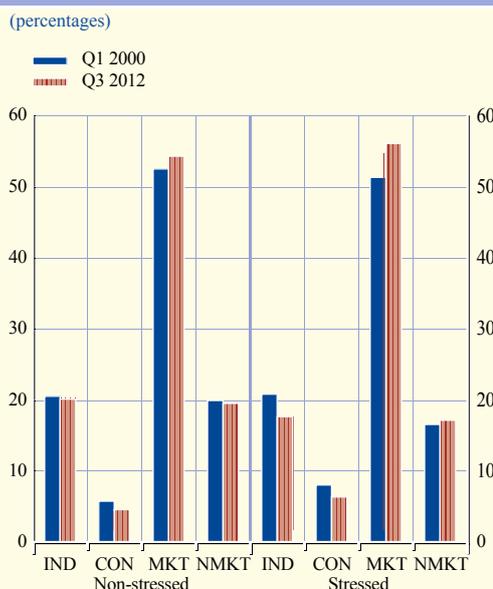
a much stronger growth rate in the market services sector led to a relative decline in the share of value added of the non-market services sector, despite steady increases in the level of value added produced by the latter sector (22.1% growth rate for market services and 11.7% growth rate for non-market services between the first quarter of 2000 and the first quarter of 2008). In subsequent years, the relative increase in the share of value added of non-market services stemmed, however, from the significant decline in the levels of value added produced by industry excluding construction and construction, even though there was a slowdown in the growth rate of value added of non-market services (-5.6%, -18.6% and 4.3% for industry excluding construction, construction, and non-market services, respectively).

Is there any evidence of a rebalancing between stressed and non-stressed economies?

An overview of the sectoral allocation of value added in stressed and non-stressed economies suggests that, in the early 2000s, the share of value added of industry excluding construction was similar in both groups of countries and hovered around 20% (see Chart C). Stressed economies' exposure to the construction sector was slightly greater than that of non-stressed economies (8% in stressed economies as compared with 6% in non-stressed economies). The share of value added of total services was consequently larger in non-stressed economies (73% in non-stressed economies as compared with 68% in stressed economies).

Prior to the crisis, in the stressed economies the shares of value added declined in industry excluding construction and increased in construction (see Chart D). By contrast, in the non-stressed economies the share of value added of industry excluding construction increased, while that of construction declined. When comparing these developments with those observed in the euro area as a whole, it is

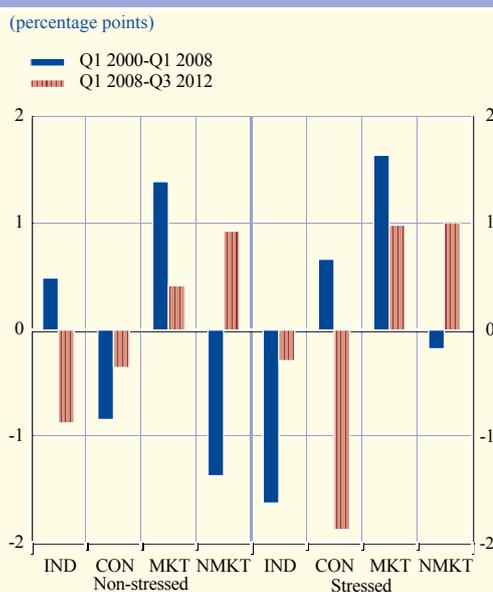
Chart C Share of value added by economic sector in non-stressed and stressed economies



Source: Eurostat.

Notes: The latest observation for non-stressed economies is the third quarter of 2012 and for stressed economies it is the first quarter of 2012. The seasonally adjusted data included for Greece are based on ECB calculations. The available data for the stressed economies pertain to a slightly shorter period, i.e. from the first quarter of 2001 to the first quarter of 2012.

Chart D Relative change in the share of value added across economic sectors



Source: Eurostat.
Note: See Chart C.

clear that the relative decline in the share of value added of industry excluding construction in the stressed economies overcompensated for the increase experienced by the non-stressed economies for the same sector. The opposite was true for developments in the construction sector.

In the following period, the share of value added of industry excluding construction, and, to a much greater extent, that of construction, declined in the stressed economies, whereas the share of value added of market services continued to increase. Adjustment in the non-stressed economies was characterised by a decrease in the share of value added of industry excluding construction, thereby marking a reversal of the pattern observed in the previous period. In both groups of economies, the share of value added of non-market services increased.

As was the case for the euro area as a whole, developments in non-market services in the two groups of economies warrant further explanation. The share of value added of non-market services has indeed increased in both the non-stressed and stressed economies since 2008, by 0.9 and 1 percentage point, respectively. Nonetheless, a comparison of the changes in the share of value added of non-market services with the changes in the share of value added of other sectors shows a significant increase in the level of value added produced by this sector in the non-stressed economies (5.4%), compared with a much smaller increase in the stressed economies (1.4%), reflecting ongoing consolidation efforts.

In sum, there is some evidence that a process of sectoral adjustment within the euro area has been under way since the crisis, and is still ongoing. This rebalancing process is likely to continue in the years to come.