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OF ECONOMIC RESEARCH



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Quarterly Review
of the Estonian Economy
(Summary in English)

Tallinn
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For more information, please contact:

Mrs. Marje Josing
Director
Estonian Institute of Economic Research
19080 Tallinn, R vala 6
Phone +372 646 6439
Fax +372 668 1240
E-mail: eki@ki.ee
<http://www.ki.ee>

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1. General Economic Situation in June 2010 and after 6 months

The general economic situation in June was better than in March. Development outlooks for the next 6 months are still positive, largely thanks to favourable developments in the world, but also growth in Estonia's economic reliability. Economic climate index rose to 5.0 points in June.

1.1. The economic situation in June better than in March

Opinions expressed by the panel of analysts of the Estonian Institute of Economic Research (EKI) in June imply that the general economic situation has improved somewhat compared to the first quarter. This allows assuming that the 2.3% economic decline in the first quarter has been replaced by a small rise. Domestic demand, however, is still weak and economic activity has increased above all in the export sector. Owing to the growing exports, sales of manufactured goods increased sharply and manufacturing is growing to be the main engine to bring the economy out of the crisis. Unemployment has started to decrease in recent months.

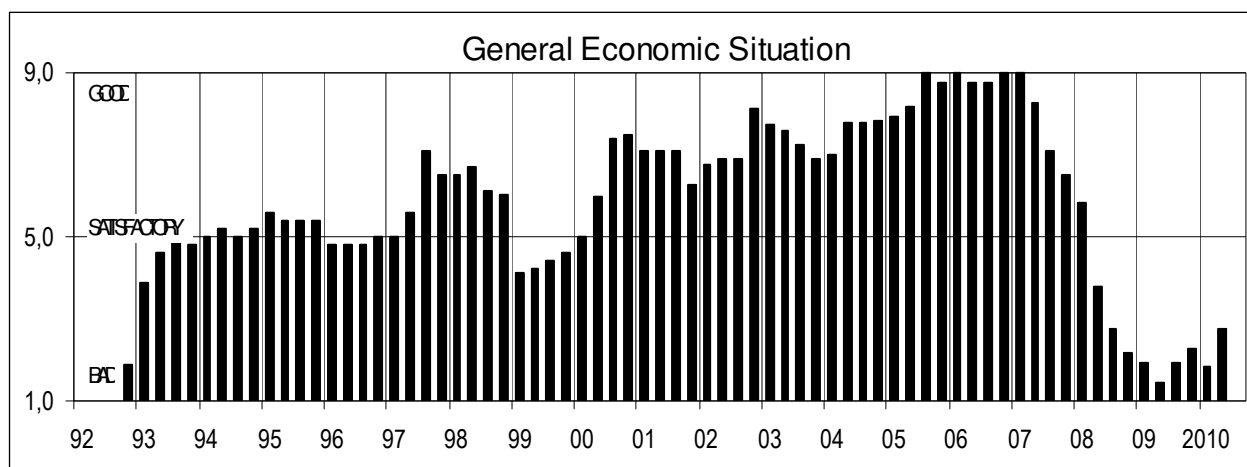
The April issue of the Munich Institute of Economic Research (IFO), *World Economic Survey* No 2 (2010), shows that economic activity in the **world** on the whole continues to recover. The World Economic Climate Index rose to 104.1 points in April, hence higher than in January (99.5 p) and the long-term average.

Average judgement of the current situation in 110 countries which participated in the survey (in a 9 point system) was 4.3 points in April (in January 3.6 p). The following indices characterised the economic situation of important trading partners for Estonia (export destination countries) in April: Finland – 3.4 p (in January 2.5), Sweden – 4.4 p (3.7), Germany – 4.1 p (3.4), Latvia – 1.6 p (2.0), Lithuania – 2.3 p (2.7) and Russia – 4.3 (3.7) (in greater detail see chapter 11).

Experts of the Estonian Institute of Economic Research¹ in June estimated the **general economic situation** in Estonia at 2.8 points², which is 1.0 point less than in the previous survey in March. Experts' judgements divided as follows (in brackets results in March):

The situation is good	0% (0)
The situation is satisfactory	44% (21)
The situation is bad	56% (79)
Arithmetic mean	2.8 points

Hence, more experts than in March value the economic situation in Estonia as satisfactory now. However, still dominant is the opinion



¹ The list of experts and aggregate results of the economic test are given at the end of the chapter.

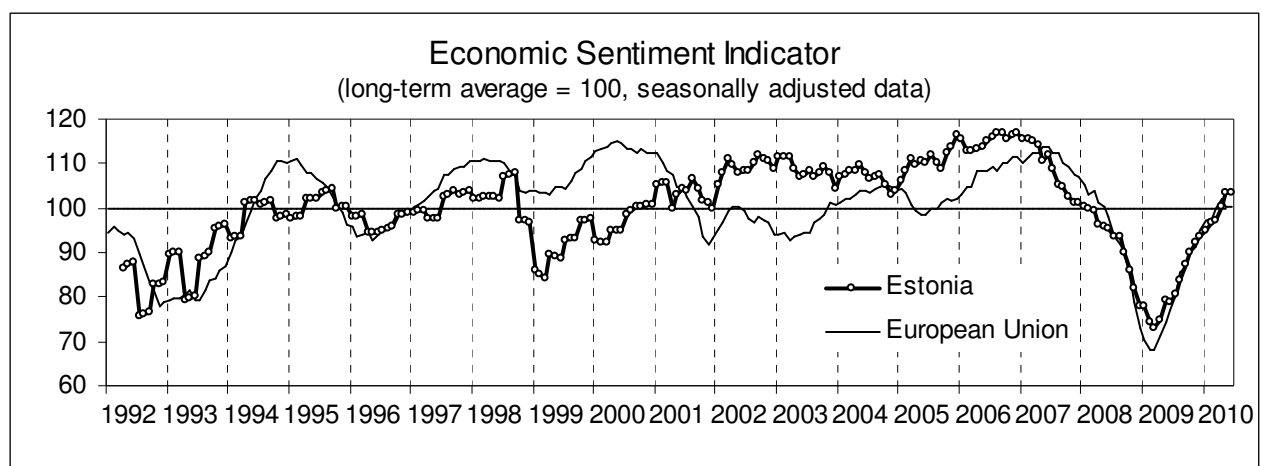
² The points have been derived from the assessments: good – 9 points, satisfactory – 5 points, bad – 1 point

(56% of the experts) that the general economic situation is unsatisfactory. Reasons for this are primarily the low level of GDP, which at best only minimally exceeds the bottom of the crisis level (second quarter 2009), and high rate of unemployment.

At the same time, the situation has changed a lot in a year: many enterprises have adapted to the changed circumstances and found new opportunities to enliven their activity. The general opinion of the panel of EKI experts is that the **general economic situation** is considerably better than **a year ago**. Opinions in this issue divided as follows:

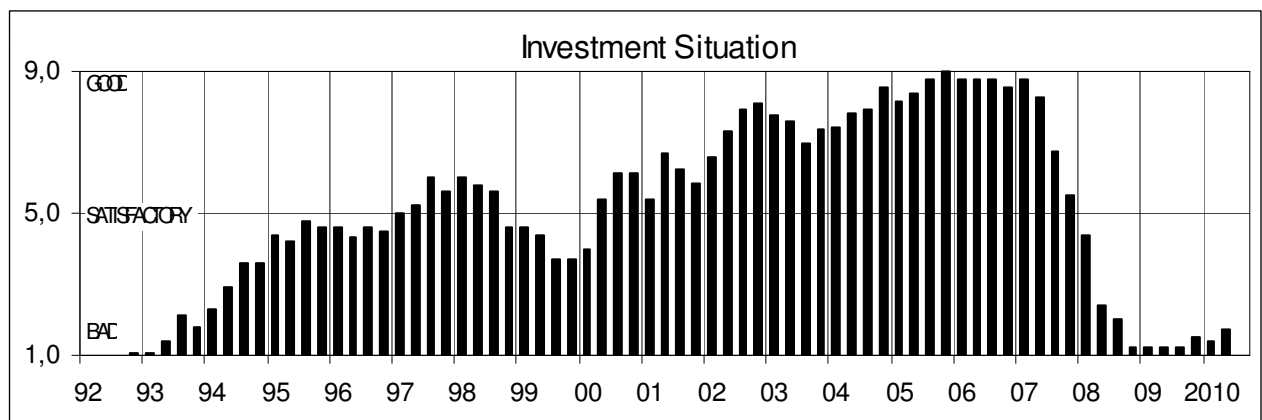
The situation is better now	59%
The situation is about same	29%
The situation is worse now	12%
Arithmetic mean	6.9 points

Vivid indications of positive changes in the economy are also the **conjuncture surveys** made on the basis of enterprise managers' and consumers' opinions. Compared to March, industry, construction, trade and service surveys have all moved upwards. **The economic confidence index**,³ generalising the business climate in these sectors and consumer confidence was 103.3 points in June (in March 97.2 p), see Figure (in greater detail see chapter 2).



The investment situation in June was assessed by EKI experts 1 point worse than the general economic situation, but 0.4 points better than in March. This allows concluding that the investment activity is in general low still, although recovered since the first quarter. Creation of new jobs is limited by the under-

utilisation of existing production capacities (due to demand decline caused by the economic crisis) and low demand for loans caused by severe security requirements by commercial banks.



³ Economic confidence index is an aggregate indicator calculated as a weighted average of the industry (40%), construction (5%), trade (5%), service (30%) and consumer (20%) confidence indices

The investment situation in June was assessed at 1.8 points and the experts' estimates divided as follows (in brackets results in March):

The situation is good	0% (0)
The situation is satisfactory	19% (11)
The situation is bad	81% (89)
Arithmetic mean	1.8 points

The private consumption situation in June was assessed by experts also as moderately better than in March (rise 0.5 points), but still as unsatisfactory. Improvement of private consumption is still limited by high rate of unemployment and continuing decline of average wages. However, trade turnover across months has been growing moderately and consumers' confidence has also risen. This allows assuming that the moderate recovery of private consumption (from low level) is sustainable.

Opinions about private consumption divided as follows (in brackets results in March):

The situation is good	0% (0)
The situation is satisfactory	31% (21)
The situation is bad	69% (79)
Arithmetic mean	2.3 points

1.2. Economic situation will be better after the next 6 months

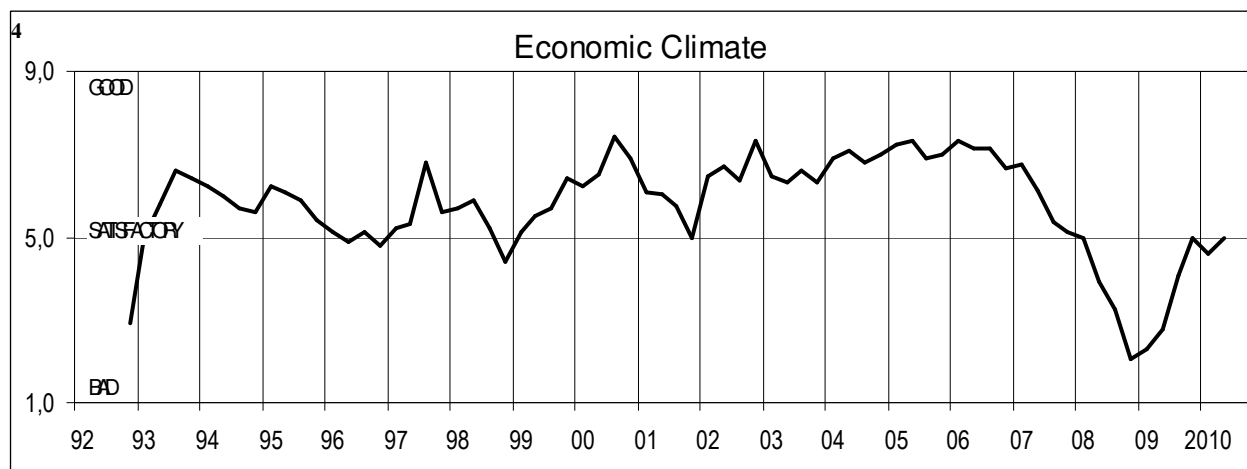
The so far available statistics on 2010 (for the most until April) show that the general eco-

nomical situation in Estonia is growing better from month to month. Merchandise exports, and hence also sales of manufactured goods have increased significantly and also new jobs have been created. In addition to enterprises adaptation to changed conditions, growth has been accelerated by a general rise in Estonia's reliability, largely thanks to the anticipated accession to the euro zone and OECD. Estonia's development in 2010 so far has been in line with the positive expectations expressed by the group of EKI experts in December 2009 and in March 2010.

The June survey indicated that the group of EKI economic analysts as a whole has stayed optimistic. Like in two previous surveys, the balance value of the expectations is higher than 7 points. More specifically, experts in June estimated the **general economic situation after the next 6 months** as follows (division of answers in %, in brackets results in March):

The situation will be better then	56% (58)
The situation will be about same	44% (42)
The situation will be worse then	0% (0)
Balance value of expectations	7.3 points

The **economic climate index**⁴ calculated using the Munich IFO methods, indicates in June 5.0 points, which is 0.4 points higher than in March and corresponds to the satisfactory level (5 points).



⁴ Economic climate index has been calculated as an arithmetic mean of the opinions of experts about the current and future (at the end of the next 6 months) economic situation

Experts' expectations of **investment** and **private consumption** developments are also positive and for investment even more optimistic than in March. The estimates of the situation after the next 6 months were as follows (%):

	Investment	Private consumption
The situation will be better then	69	29
The situation will be about same	25	71
The situation will be worse then	6	0
Balance value of expectations	7.5 p	6.1 p

It should be mentioned that in March experts' expectations of further development of investment were 6.7 points and for private consumption 6.3 points. High rate of unemployment is a strong limit to private consumption recovery, although consumers' faith in the future and monetary savings have considerably increased over the past half a year.

1.3. Positive expectations for export development still strong

As given above, the world economy expectations of rapidly defeating the financial crisis have grown remarkably stronger. Estonia's main trading partners (Finland, Sweden, Germany, Russia) are positive that the second half of the year will be more favourable for their economy. Estonia's outlooks to restore the pre-crisis export volumes are growing increasingly more realistic and in the second quarter this year, these were definitely confirmed (growth of merchandise exports in April in annual comparison 37%).

EKI experts' estimates of **export** and **import** volumes after the next 6 months were as follows in June (% division of estimates):

	export	import
The volume will be bigger then	82	71
The volume will be about same	18	23
The volume will be smaller then	0	6
Balance value of expectations	8.3 p	7.6 p

For comparison, expectations of export and import developments expressed by the group of experts in March were 8.0 and 6.9 points, respectively, showing that the even so positive expectations have grown even more unanimous.

The trade balance throughout 2009 and also in the first months of 2010 was moving clearly toward equilibrium and in February turned positive. The situation changed in March–April when imports exceeded exports again, although the latter increased also. The June survey showed that in a majority is the opinion that the trade balance might continue worsening also in the coming half-year.

Estimates of the foreign trade balance after the next 6 months were as follows (in brackets expectations in March):

The balance will be better then	18% (32)
The balance will be about same	47% (42)
The balance will be worse then	35% (26)
Balance value of expectations	4.3 points

Faster growth of merchandise imports compared to exports will presumably be caused by rise in demand for semi-manufactured goods and materials, and capital goods, as well as potential recovery of private consumption.

1.4. Annual expected inflation 2.2%, loan interests will rise moderately

Inflation accelerated significantly in the second quarter and the annual average will most likely be higher than prognosticated earlier. According to experts' estimates expressed in June, the rate of inflation after the next 6 months will be higher than at the same time a year ago. More precisely, expectations in June of the rate of inflation after the next 6 months were as follows (compared to the same period a year ago, %):

The rate of inflation will be higher then	41%
The rate of inflation will be about same	41%
The rate of inflation will be lower then	18%
Balance value of expectations	5.9 p

The rate of inflation in 2010 was prognosticated by experts at 2.2% (arithmetic mean of estimates).

Regarding further development of loan interests, predominant is the opinion that after the next 6 months interests will be on approximately the same level as now. Estimates were as follows (in %):

	Short-term loans	long-term loans
Interests will be higher then	35	24
Interests will be about same	53	52
Interests will be lower then	12	24
Balance value of expectations	5.9 p	5.0 p

Share prices in the first half-year have been moving steadily upwards and according to the aggregate opinion of experts, will be somewhat higher after the next 6 months. Estimates in June were as follows (in brackets results in March):

Share prices will be higher then	47% (47)
Share prices will be about same	35% (47)
Share prices will be lower then	18% (6)
Balance value of expectations	6.2 p

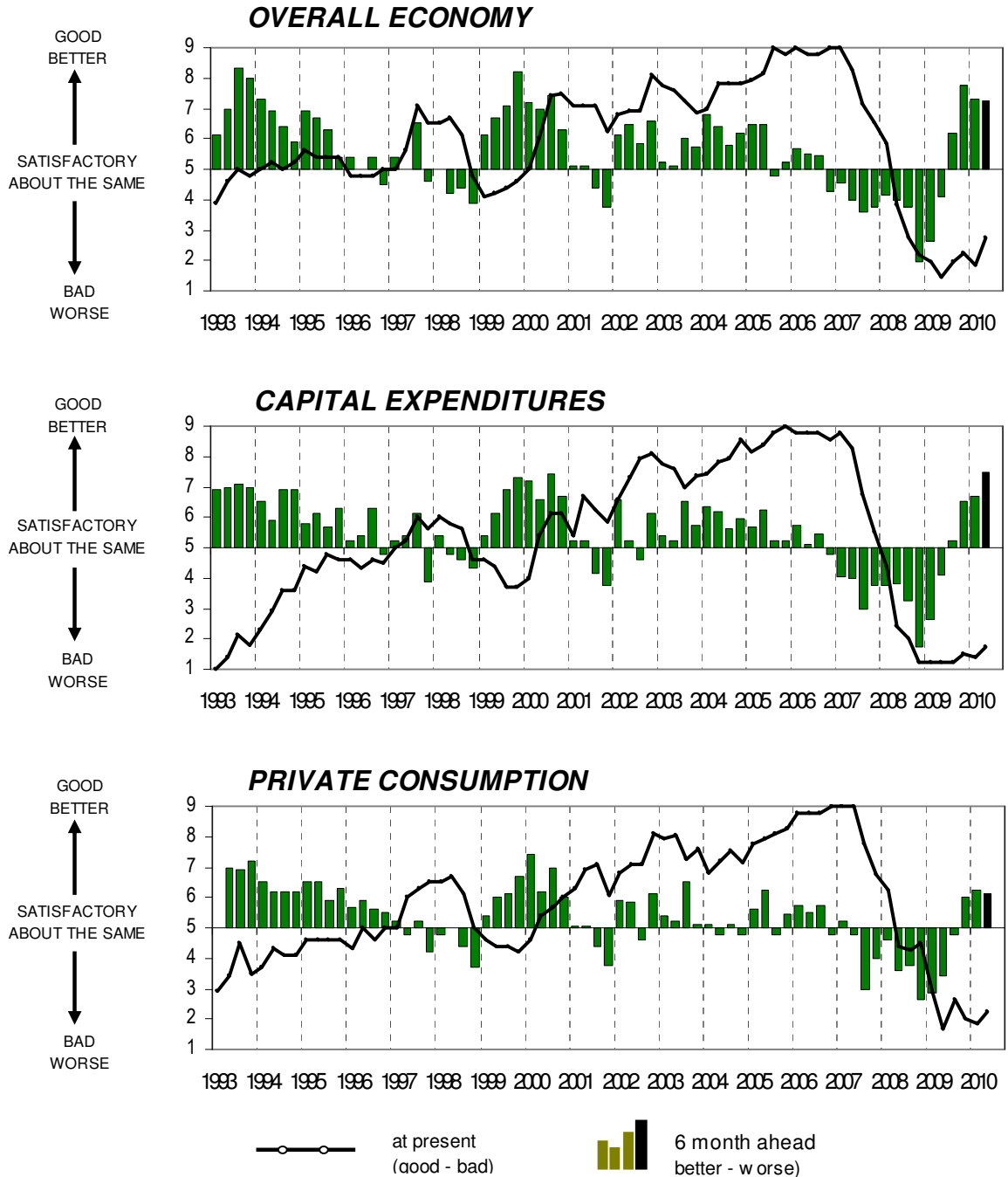
1.5. The main limits to economic growth are still insufficient demand and high rate of unemployment

Experts' judgements expressed in June show that economic growth is still limited most by insufficient demand and high unemployment. Compared to March, the problems related to imperfect economic policy of the government had grown less acute by June, but the limiting effect of inflation on economic growth had increased. Compared to Finland, Estonia's problems are somewhat different.

Problem	Importance of the problem (max=9)	
	Estonia	Finland
Imperfect economic policy of the government	3.0	1.8
Insufficient demand	7.4	7.2
Unemployment	8.1	6.6
Inflation	3.6	1.3
Insufficient international competitiveness	5.3	4.4
Export barriers	2.4	1.8
Shortage of skilled labour	4.1	1.6
Budget deficit	2.4	5.5
Foreign debts	2.6	2.4
Shortage of capital	5.5	1.7
Total	44.3	34.3

Hence, the (total) degree of acuteness of the limits to economic growth in Estonia is much higher than in Finland. The biggest differences (to the detriment of Estonia) are in: shortage of capital, shortage of skilled labour, inflation, imperfect economic policy of the government and unemployment.

Current economic situation and outlook for the next 6 month



EKI ECONOMIC SURVEY

June 2010

(Summarised results of assessments of 19 experts, % and points)

1. Estimate of the present economic situation				
	Good	Satisfactory	Bad	Points*
<i>overall economy</i>	0	44	56	2,8
<i>investments</i>	0	19	81	1,8
<i>consumption</i>	0	31	69	2,3
2. Present economic situation compared to that of a year ago				
	Better	Same	Worse	Points
<i>overall economy</i>	59	29	12	6,9
<i>investments</i>	35	41	24	5,5
<i>consumption</i>	18	47	35	4,3
3. Economic situation in 6 months				
	Better	Same	Worse	Points
<i>overall economy</i>	56	44	0	7,3
<i>investments</i>	69	25	6	7,5
<i>consumption</i>	29	71	0	6,1
4. Expected foreign trade volume in 6 months				
	Bigger	Same	Smaller	Points
<i>export</i>	82	18	0	8,3
<i>import</i>	71	23	6	7,6
5. Expected trade balance in 6 months				
	Better	Same	Worse	Points
	18	47	35	4,3
6. Expected rate of inflation (%) in 6 months				
	Higher	Same	Lower	Points
	41	41	18	5,9
				2,2%

7. Expected interest rates by the end of the next 6 months				
	Higher	Same	Lower	Points
short-term rates	35	53	12	5,9
long-term rates	24	52	24	5,0
8. The level of domestic share prices by the end of the next 6 month				
	Higher	About the same	Lower	Points
	47	35	18	6,2
9. The importance of the problems causing economic difficulties today				
	Most important	Important	Not so important	Points
<i>lack of confidence in government's economic policy</i>	6	38	56	3,0
<i>insufficient demand</i>	59	41	0	7,4
<i>unemployment</i>	76	24	0	8,1
<i>inflation</i>	0	65	35	3,6
<i>lack of international competitiveness</i>	25	56	19	5,3
<i>trade barriers to exports</i>	0	35	65	2,4
<i>shortage of skilled labour</i>	12	53	35	4,1
<i>budget deficit</i>	0	35	65	2,4
<i>foreign debts</i>	0	41	59	2,6
<i>capital shortage</i>	23	65	12	5,5

* Points have been derived from estimates:

9 points = good (better, bigger, most important)

5 points = satisfactory (same, important)

1 points = bad (worse, smaller, not so important)

List of experts:

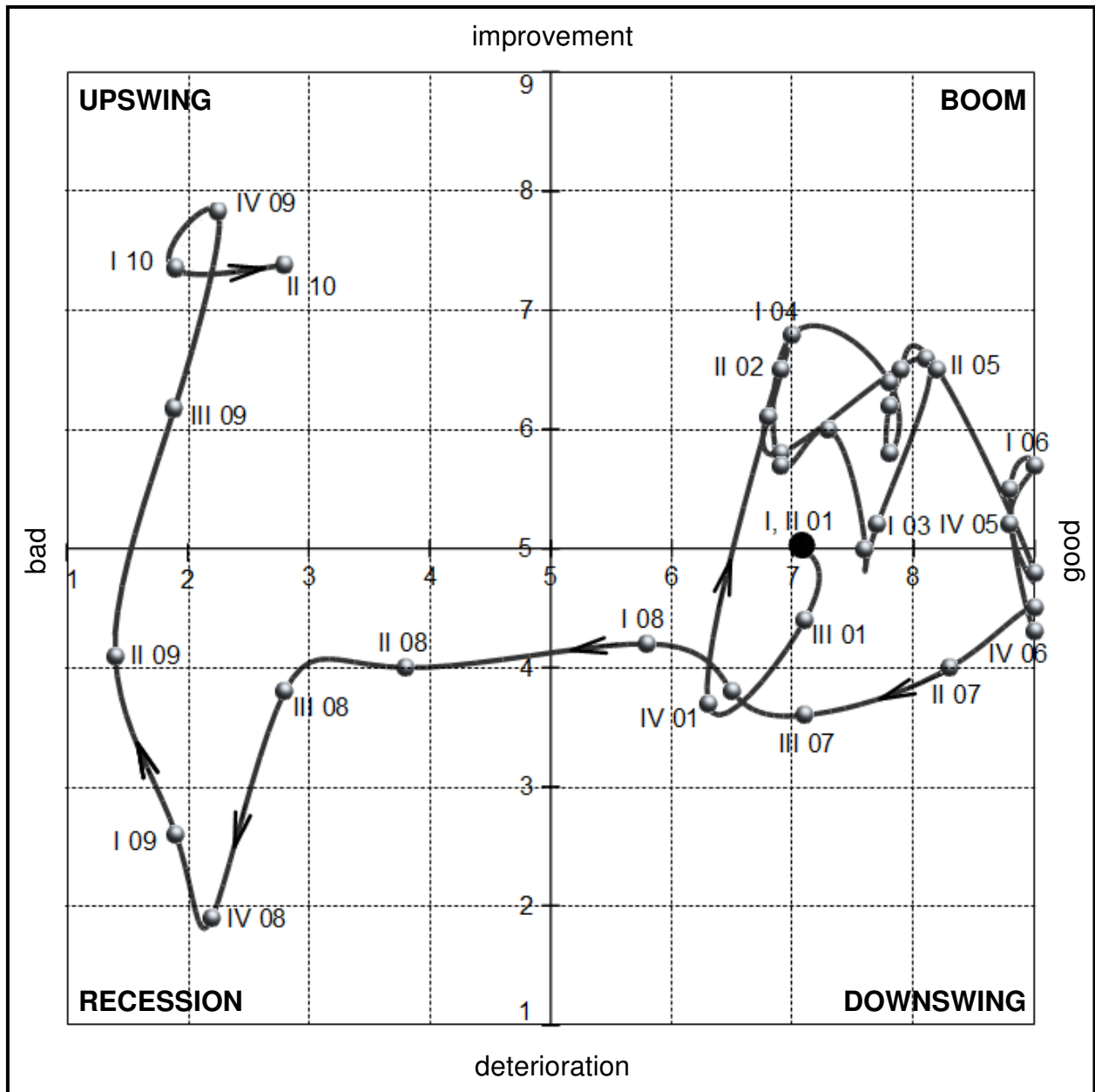
M. Ivask	L. Kuum	A. Purju	A. Säälk
A. Järvan	M. Lauri	A. Rehe	H. Vitsur
J. Järve	H. Meerits	J. Reiljan	
A. Kokk	M. Milder	I. Rõtov	
K. Kukk	H. Pajula	A. Saarniit	

EKI ECONOMIC SURVEY 1997 – 2nd quarter 2010
(summarised results, expressed in points)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008				2009				2010	
												I	II	III	IV	I	II	III	IV	I	II
Estimate of the present economic situation	[good(9) <—> bad(1)]																				
<i>overall economy</i>	6,1	6,0	4,3	6,5	6,9	7,2	7,7	7,6	8,5	8,9	7,7	5,8	3,8	2,8	2,2	1,9	1,4	1,9	2,3	1,8	2,8
<i>investments</i>	5,5	5,5	4,1	5,4	6,0	7,5	7,8	7,9	8,6	8,7	7,3	4,4	2,4	2,0	1,3	1,2	1,2	1,2	1,5	1,4	1,8
<i>consumption</i>	6,0	6,1	4,4	5,4	6,6	7,3	8,2	7,2	8,0	8,8	8,1	6,3	4,4	4,3	4,5	2,9	1,7	2,6	2,0	1,8	2,3
Present economic situation compared to that of a year ago	[good(9) <—> bad(1)]																				
<i>overall economy</i>	7,3	5,0	4,3	8,3	6,2	6,5	6,4	7,8	8,3	8,0	4,8	1,2	1,4	1,5	1,5	1,0	1,0	1,0	2,5	5,2	6,9
<i>investments</i>	6,2	4,5	3,9	7,4	6,2	7,3	6,7	7,3	8,2	7,6	4,8	1,0	1,4	1,3	1,5	1,0	1,0	1,0	2,0	4,4	5,5
<i>consumption</i>	7,3	6,0	3,8	7,1	7,0	7,4	7,3	6,7	8,1	8,0	5,8	2,7	2,4	2,5	2,9	1,5	1,4	1,2	1,8	3,3	4,3
Economic situation in 6 months	[better(9) <—> worse(1)]																				
<i>overall economy</i>	5,4	4,4	7,0	7,0	4,5	6,2	5,5	6,3	5,7	5,2	4,0	4,2	4,0	3,8	1,9	2,6	4,1	6,2	7,8	7,3	7,3
<i>investments</i>	5,2	4,8	6,4	7,0	4,6	5,6	5,7	6,0	5,6	5,2	3,7	3,7	3,8	3,3	1,7	2,6	4,1	5,2	6,5	6,7	7,5
<i>consumption</i>	4,9	4,5	6,1	6,7	4,5	5,6	5,5	4,9	5,5	5,4	4,2	4,6	3,6	3,8	2,6	2,9	3,4	4,8	6,0	6,3	6,1
Expected foreign trade volume in 6 months	[bigger(9) <—> smaller(1)]																				
<i>export</i>	8,6	7,7	6,8	8,1	6,5	7,9	8,2	8,7	8,2	8,2	7,1	5,8	6,8	5,3	3,8	3,1	4,3	7,4	8,0	7,9	8,3
<i>import</i>	8,0	7,3	5,8	8,1	6,5	7,4	7,7	8,0	8,1	8,0	6,6	4,4	4,4	3,5	1,7	1,5	3,7	5,7	7,0	6,9	7,6
Expected trade balance in 6 months	[better(9) <—> worse(1)]																				
	4,3	5,0	5,7	3,6	4,8	5,7	5,4	6,4	6,3	5,8	6,2	7,9	8,4	7,8	7,4	8,5	7,4	5,9	5,0	5,2	4,3
Expected rate of inflation (%) in 6 months	[higher(9) <—> lower(1)]																				
	3,7	3,6	5,3	7,1	4,2	5,2	7,1	6,1	3,7	4,2	6,1	3,2	2,0	1,3	1,3	1,0	1,4	6,0	5,3	7,7	5,9
Expected inflation rate by the end of the next 6 months (%)	[higher(9) <—> lower(1)]																				
	13	10	5	5	5	4	5	4	4	4,1	5,7	7,1	8,9	9,8	9,9	1,3	-0,7	-0,1	-0,2	1%	2,2
Expected short term interest rate by the end of the next 6 months	[higher(9) <—> lower(1)]																				
	4,2	4,9	3,7	5,9	4,5	6,4	5,4	6,3	6,4	8,7	8,3	6,7	7,8	5,5	5,5	4,5	5,9	5,2	6,3	5,7	5,9
Expected level of domestic share prices by the end of the next 6 month	[higher(9) <—> lower(1)]																				
								7	7	5,9	4,9	5,0	4,0	4,0	3,5	4,0	6,1	6,0	6,1	6,7	6,2
The importance of the problems causing economic difficulties today	[most important(9) <—> not so important(1)]																				
<i>lack of confidence in government's economic policy</i>	4,5	4,1	4,7	4,2	3,4	2,7	3,0	3,3	2,5	3,0	3,5	3,9	4,8	4,8	4,8	4,8	5,7	5,7	3,8	3,7	3,0
<i>insufficient demand</i>	3,3	2,7	5,1	4,0	4,2	5,2	4,7	4,2	3,1	1,5	2,4	5,2	6,0	7,0	7,6	8,3	7,9	7,6	8,5	7,3	7,4
<i>unemployment</i>	2,1	2,8	4,1	4,6	5,5	4,5	3,8	3,8	2,8	1,4	1,1	1,4	1,6	1,8	3,1	6,6	6,8	6,6	6,5	7,9	8,1
<i>inflation</i>	3,1	3,2	1,4	1,9	2,7	1,7	1,5	1,5	2,6	4,0	5,6	6,8	7,2	7,0	4,3	2,2	1,4	1,5	1,3	1,2	3,6
<i>lack of international competitiveness</i>	7,1	6,0	7,2	7,0	5,9	6,3	6,6	7,1	6,1	5,7	6,5	6,5	6,4	6,8	6,4	6,4	6,6	5,9	5,5	5,8	5,3
<i>trade barriers to exports</i>	6,0	6,6	5,1	5,2	4,2	4,8	4,0	3,0	2,5	2,1	2,2	1,7	1,6	1,8	1,5	2,9	2,8	2,4	2,8	2,1	2,4
<i>shortage of skilled labour</i>	5,4	6,1	5,5	6,9	7,0	7,2	7,0	7,3	8,0	8,6	7,7	6,3	5,8	4,5	3,8	4,1	3,2	3,6	3,5	3,3	4,1
<i>budget deficit</i>	1,6	1,0	4,0	2,7	1,3	1,3	1,4	1,2	1,1	1,3	1,1	1,6	2,0	2,3	3,8	5,5	6,1	6,6	4,8	2,7	2,4
<i>foreign debts</i>	1,5	1,0	1,1	1,2	1,1	1,2	1,9	1,7	2,1	2,4	2,4	3,1	2,6	2,3	2,9	2,9	3,2	3,8	2,8	2,3	2,6
<i>capital shortage</i>	3,4	5,2	5,0	2,9	2,7	2,7	2,4	2,8	2,1	1,4	1,5	2,3	3,6	4,0	5,9	6,4	5,7	5,9	5,3	4,8	5,5
Economic climate	[good(9) <—> bad(1)]																				
	5,7	5,3	5,7	6,8	5,7	6,7	6,6	6,9	7,1	7,1	5,8	5,0	3,9	3,3	2,1	2,3	2,8	4,1	5,0	4,6	5,0

ESTONIA' ECONOMIC CLOCK

(starting 1st Q 2001)



Compiled on the basis of the Munich IFO methods. Indicates the national economic climate and changes in it four times a year. Economic climate index (points on the clock) is based on experts' opinions on the current situation (horizontal axis) and the situation after 6 months (vertical axis), both in a 9 point system (9 = max).

2. Business tendency surveys: June 2010

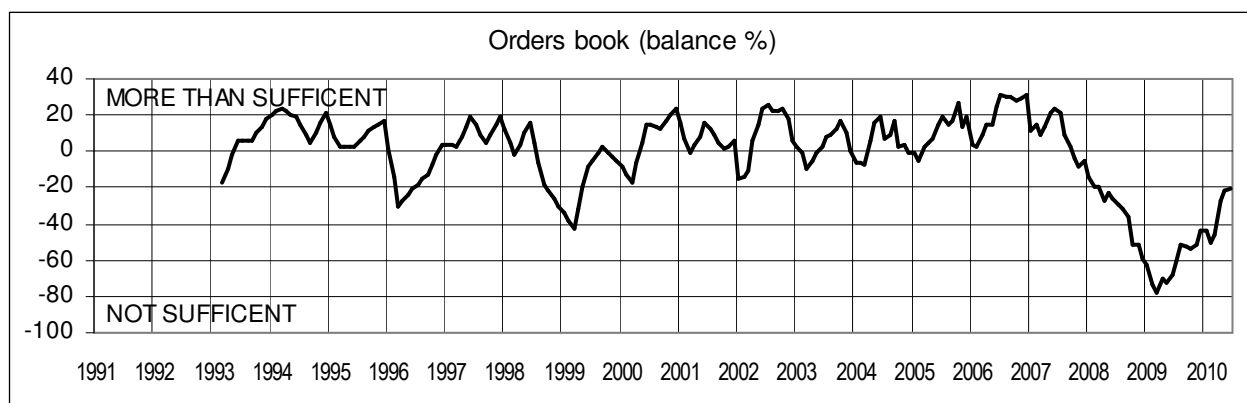
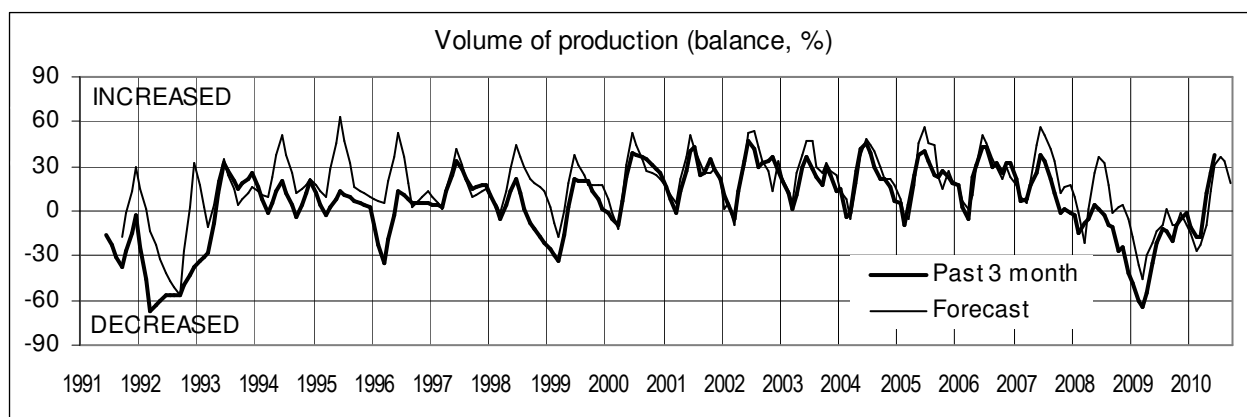
2.1. Industry survey⁵

Manufacturing industry situation in the second quarter improved and production output moved upwards. According to expectations, the positive trend will continue also in the short term, although the production growth rate will slow down.

Domestic and external **demand** in the second quarter were both lower than normally, however considerably less so than before (balance⁶ in June -21, previous 12 months average balance -48). Orders increased and provide production for 4.3 months (in the first quarter for 3.2 months). **Production output** moved upwards during the past 3 months (balance in June +37, in March -18); for the first time since 2008, also **export volume** increased (balance +11). Enterprises' competitiveness improved. The **limits to production growth** that were mentioned more than so far were shortage of materials and equipment (in April

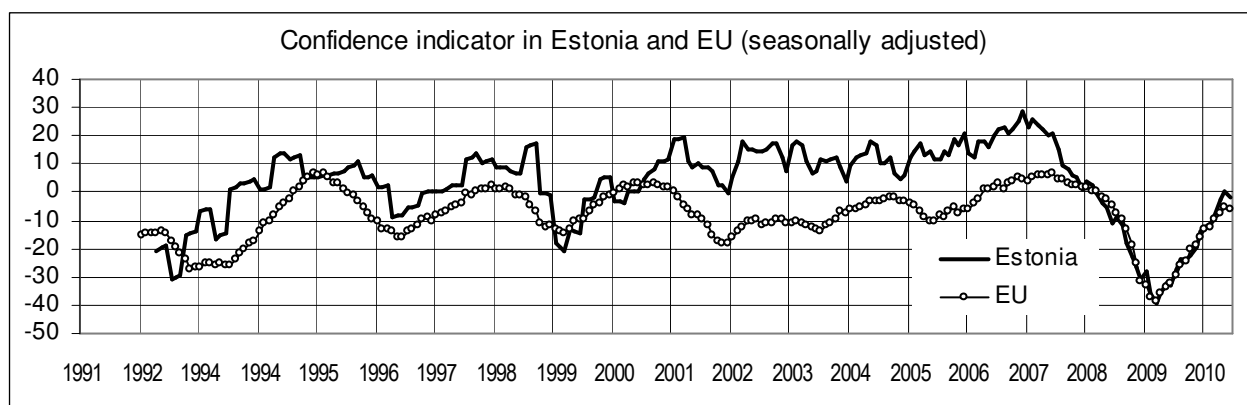
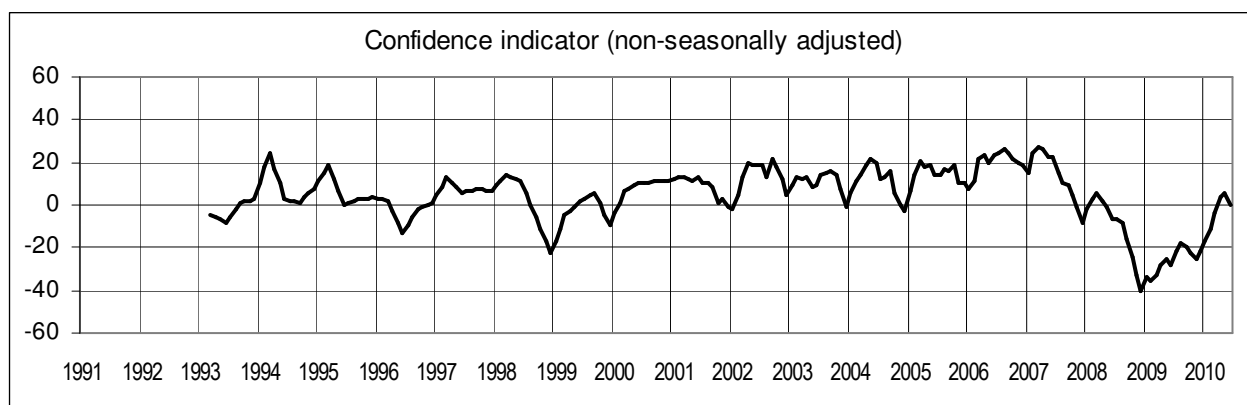
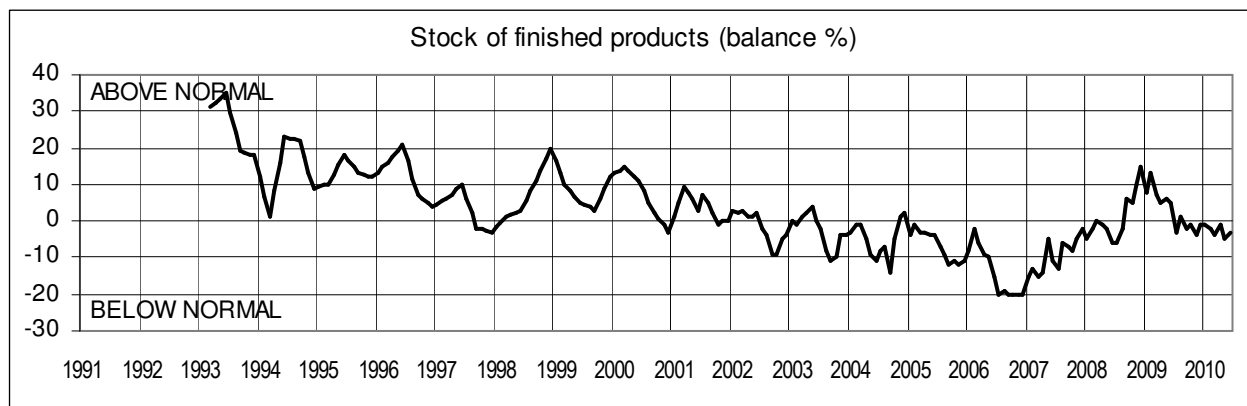
9% of the enterprises, in January 5%) and financial problems (in April 8% of the enterprises, in January 4%). **Utilisation of production capacities** amounted to 67%, which is 7% points higher than in the first quarter.

Expectations for the **coming 3 months** are positive, but less so than previously. Production growth will continue (balance in June +19, previous 3 months balances' average +33). Also export orders are expected to increase. Selling prices of finished products will rise moderately (balance +8). One fifth of the manufacturers intend to increase personnel.



⁵ The industry survey has been prepared by the Estonian Institute of Economic Research by order of the European Commission, Ministry of Economic Affairs and Communications and Statistics Estonia. The June survey was prepared on the basis of assessments of 196 manufacturing enterprises.

⁶ Balance values show the differences of the percentages of the positive and negative responses



Prognoses are more optimistic than elsewhere in the manufacture of radio, television and communication equipment, and in the manufacture of electrical machinery and apparatus, which are orientated to export.

Improved expectations lifted the **confidence indicator**⁷ to 0 (in March -4).

⁷ The manufacturing confidence indicator aggregates enterprises' prognoses of output, estimates of overall demand and of stocks of finished products.

The situation of industries in June and prognosis for the short term:

Manufacture of food and beverages

Demand in June was higher than usually (balance +4). However, the export orders portfolio was smaller than usually (balance in June -4). Existing contracts provide production for the next 6.4 months (in the first quarter for 5.5 months). Production output decreased over the past 3 months (balance in June +29, in March

–24). Enterprises' competitiveness improved. Insufficient demand was mentioned less frequently than before as a limit to production (in April 66% of the enterprises, in January 72%); there are now new enterprises which have financial difficulties (in April 7%, in January 0%). Utilisation of production capacities was good (in the second quarter 65%, in the first quarter 67%).

For the coming 3 months, nearly one third of the enterprises prognosticate production growth; 46% hope to produce as much as previously, 21% will produce a smaller output. There are now more enterprises which expect higher external demand (in April 46%, in January 18%). They are planning to increase personnel (balance +11). Selling prices of products will rise somewhat (balance +4).

Enterprises' confidence in the second quarter did no change much. The confidence indicator in June was +7, in March +6.

Manufacture of textiles

Demand for production in June was bigger than in March, both domestic and external (balance in June –36, in March –50). Existing contracts provide production for more than 5 months (the same as in the first quarter). Production increased over the past 3 months (balance +36). New limits to growth are shortage of workforce, and shortage of materials and equipment (each was mentioned by 9% of the enterprises). Utilisation of production capacities amounted to 69%, which is 5%-points higher than in the first quarter.

Expectations for the **next 3 months** are negative, since more than one third of the enterprises informed of an anticipated decline in production and only 14% expect to increase production (the others won't change). Selling prices of products will rise moderately (balance +7). Nearly one fifth of the producers intend to increase personnel.

Negative prognoses are the reason why the **confidence indicator** in June was lower than in March (in June –17, in March –11).

Manufacture of wearing apparel and furs

Orders are smaller than normally, but still more than in March and a year ago (balance in June –23, in March –30; in June 2009 –71). Existing orders provide production for the next 3.6 months (in January for 2.7 months). Production volume has not changed much over the past 3 months, whereas the volume of exports decreased (balance –17). Production growth was continuingly limited by insufficient demand (mentioned by 67% of the enterprises) and financial problems (mentioned 17% of the enterprises). Utilisation of production capacities amounted to 88%, which is 5%-points higher than in the first quarter.

In the course of the next 3 months, production will decline (balance –8). Selling prices of products won't change (informed 100% of the producers). Most of the producers (92%) will have the same number of personnel; the other 8% intend to increase personnel.

Worsened prognoses were the reason why the **confidence indicator** fell to –16 (in March –10; in June 2009 –46).

Tanning and dressing of leather

Demand for production has improved (balance in June =0, in March –80), although every fifth enterprise informed of a smaller export orders portfolio than normally (in March 80%). Orders increased for half of the producers and provide work for an average of 3.3 months (in January for 1.8 months). Production output increased over the past 3 months (balance in June +40, in March –20). Insufficient demand was the only limit to further development – it was mentioned by 50% of the enterprises (in January 83%); the others did not have any problems. Utilisation of production capacities rose from 64% in January to 80% in April.

According to the survey, production growth will continue in the **next 3 months** (balance +40). Export orders won't change notably. Also selling prices of finished products will remain the same. One fifth of the producers intend to increase personnel.

Positive development in the branch is also revealed in the **confidence indicator**, which rose to +13 (in March -18; in June 2009 -28).

Wood processing and manufacture of wood products

According to the survey, wood processing and manufacture of wood products was continually successful in June. Both domestic and external demand exceed the normal level (balance +8). Orders increased over the past 3 months and provide production for another 3.2 months (in the first quarter for 2.4 months). 77% of the enterprises reported production growth over the past 3 months, 8% produced less than before (the others as much as before). Utilisation of production capacities rose from 67% in the first quarter to 80% in the second quarter. Production enlargement is limited in addition to insufficient demand also by shortage of materials and equipment (each was mentioned by one third of the enterprises). Stocks of finished products are insufficient (balance -8).

For the coming 3 months enterprises prognosticate further growth; 46% of the producers intend to increase production, 46% anticipate production at the present level and 8% will produce less than now. Selling prices of finished products will rise (balance +38). The number of personnel will increase (balance +15).

New orders and improved expectations raised the **confidence indicator** to +18 (in March +13; in June 2009 -5).

Manufacture of furniture and not elsewhere classified production

The orders portfolio in June was smaller than usually (balance -60). Orders decreased over the past 3 months and work is provided for an average of 2.1 months (at the beginning of the year for 2.5 months). Notwithstanding insufficient demand, production increased moderately (balance +10). Utilisation of production capacities also rose from 58% at the beginning of the year to 62% by April. Insufficient demand was still the main limit to growth (men-

tioned 82% of the enterprises), 9% of the enterprises informed of shortage of workforce.

Prognoses for the **next 3 months** are positive, although less so than in March. Production will increase, although at a slower rate (balance in June +10, in March +22). More than half of the producers (55%) expect larger export orders (in the first quarter 29%). Selling prices of products will rise (balance +10). 30% of the enterprises informed of the intention to increase personnel.

Demand decline and worsened prognoses lowered the **confidence indicator** to -17 (in March -5; in June 2009 -43).

Manufacture of chemical products

Orders portfolio in June was smaller than usually, but export orders were normal. One third of the enterprises informed of a production growth over the past 3 months, 58% produced as much as previously and the others less than previously. Nearly one fourth of the producers could increase exports. Utilisation of production capacities stayed at 61%. Insufficient demand was the main limit to growth (mentioned 88% of the enterprises); additionally, growth in 13% of the enterprises was limited by financial problems.

Expectations for the **next 3 months** are positive; enterprises expect to produce more (balance +8). More than half of the manufacturers prognosticate higher external demand. Selling prices of products will rise (balance +17). The number of personnel won't change in the short term.

Increased orders turned the **confidence indicator** positive and it was +3 (in March -3; in June 2009 -17).

Manufacture of rubber plastic products

The situation in the branch in June was better than 3 months ago. Both domestic and external demand are lower than usually, although much less so than in March (balance in June -33, in March -71). 56% of the enterprises reported

growth of production over the past 3 months, 22% reported a decline. Utilisation of production capacities was 2%-points higher than in the first quarter (51%). The share of enterprises with excessive stock reserves diminished (in June 22%, in March 29%).

According to expectations, production will go upwards also in the **next 3 months**, although the growth rate will slow down (balance +11). At the same time, export orders will decrease – this was reported by 57% of the enterprises. Selling prices of products will rise (balance +44). The number of personnel will decrease.

Increased orders lifted the **confidence indicator** from –33 in March to –15 in June (a year ago –42).

Manufacture of metal products

Conjuncture in the branch grew better in the second quarter. Demand for production, both domestic and external, increased (balance in June –9, in March –64), while export orders were normal. Concluded contracts provide production for 2.3 months (in the first quarter for 2.5 months). Production was moving upwards during the past 3 months – this was reported by 65% of the enterprises; 4% reported a decline. In addition to insufficient demand (mentioned 84% of the producers), production growth was limited by financial problems (mentioned 11% of the producers). Enterprises' competitiveness in the Estonian and European Union markets improved and in other markets did not change. Utilisation of production capacities rose from 56% in the first quarter to 68% by April.

According to the prognoses **for the coming 3 months**, production growth should continue (balance +39). One fourth of the enterprises (in the first quarter 16%) expects also bigger export orders. Selling prices of finished products will rise slightly and the number of personnel will increase (balance of each +4).

The improved situation in the branch is revealed also in the positive **confidence indicator** (+12), which is 17 points higher than in

March and 49 points higher than in the same period last year.

Manufacture of machinery and equipment

The share of enterprises with demand for production lower than usually decreased (in June 38%, in March 57%). The same applies to export orders (balance in June –13, in March –43). Orders increased for one third of the enterprises. Half of the enterprises informed of a growth of production over the past 3 months, 38% reported the same production volume as in previous months. Production is provided by orders for 2.8 months (at the beginning of the year for 2.5 months). In addition to insufficient demand, production was limited also by financial problems (mentioned by 17% of the enterprises). One fourth of the enterprises reported insufficient stocks of finished products.

Prognoses for the **short term (3 months)** are positive and according to them, production growth should continue (balance +29). Every fifth producer expects higher external demand.

Increased orders lifted the **confidence indicator** to +6, which is higher than in March and a year ago (in March =0; in June 2009 –37).

Manufacture of electrical machinery and apparatus

Conjuncture in the branch in the second quarter got better and both domestic and external orders are normal. Concluded contracts guarantee production for 3.6 months (in the first quarter for 1.8 months). 2/3 of the enterprises reported production growth over the past 3 months, 1/3 produced as much as in previous months. Utilisation of production capacities rose from 38% in January to 55% in April. Every fifth producer measured their stocks of finished products to be insufficient.

Prognoses for the **coming 3 months** grew better; enterprises expect growing production and at a faster rate than previously (balance in June +50, average balance of past 3 months +14). Selling prices of products won't change. More

enterprises than in other branches (50%) reported the intention to increase personnel.

The good situation in the branch is revealed also in the **confidence indicator**, which is highest in the period of crisis (in June +23, in March -7; in June 2009 -47).

Manufacture of radio, television and communication equipment

The share of enterprises with demand for production lower than normally, decreased (in June 38%, in March 50%). Orders increased and guarantee production for 7.5 months (in January for 3.7 months). Production continued the upward trend (balance in June +38, average balance of the past 3 months +40). Enterprises' competitiveness improved in Estonia and outside the European Union market. Utilisation of production capacities rose from 62% in the first quarter to 84% in April. Shortage of materials and equipment was mentioned much more frequently than before as a limit to development (in June 43% of the enterprises, in January 17%).

According to enterprises' prognoses, production output should grow faster still over the **next 3 months** (balance in June +63, average balance of the past 3 months +13). Half of the producers expect bigger export orders. One fourth of the enterprises intend to hire more employees.

More optimistic expectations than in other branches lifted the **confidence indicator** to +18, which is 7 points higher than in March and 40 points higher than a year ago.

Manufacture of building materials

The share of enterprises with both domestic and external demand for production lower than normally decreased (balance in June -54, in March -63). Orders increased over the past 3 months (balance +22). Existing orders guarantee production for another half a year (in the first quarter for 2.8 months). More than half of the enterprises informed of a production growth over the past 3 months (54%), 42% produced on previous months' level, and only 4% reduced production. Utilisation of production capacities was 50% (in the first quarter 42%). Enterprises' competitiveness improved. Financial problems have grown more acute among limits to production growth (in April mentioned 14%, in January 0%).

According to expectations, production growth should continue in the **coming summer months (3 months)** (balance +42). Export orders are also expected to increase (balance +35). Selling prices of products will rise moderately (balance +8). Every fifth producer intends to increase personnel.

Bigger orders and improved expectations lifted the **confidence indicator** to -5 (in March -11; in June 2009 -35).

INDUSTRY SURVEY (% of enterprises)

Indicator		2009		2010										
		06	07	08	09	10	11	12	01	02	03	04	05	06
Production over the past 3 months	increased	20,0	23,6	23,8	21,4	26,8	29,0	29,4	24,9	20,8	18,9	34,9	39,9	49,0
	remained unchanged	37,8	41,2	39,8	37,6	37,8	36,9	40,0	39,0	40,4	43,8	41,8	45,9	39,2
	decreased	42,2	35,2	36,5	41,0	35,4	34,1	30,6	36,2	38,8	37,3	23,3	14,2	11,9
	balance	-22	-12	-13	-20	-9	-5	-1	-11	-18	-18	12	26	37
Current overall order books	more than sufficient	5,6	7,2	8,8	7,9	7,9	5,1	8,3	6,8	5,0	8,2	14,5	14,8	13,9
	sufficient	21,1	25,4	30,4	30,9	30,3	37,9	39,6	42,4	40,1	37,7	44,1	48,6	51,0
	not sufficient	73,3	67,4	60,8	61,2	61,8	57,1	52,1	50,9	55,0	54,1	41,4	36,6	35,1
	balance	-68	-60	-52	-53	-54	-52	-44	-44	-50	-46	-27	-22	-21
Current export order books	more than sufficient	6,0	10,1	8,4	5,5	9,2	6,7	7,6	7,3	7,7	10,5	16,4	19,3	18,1
	sufficient	27,7	31,4	31,7	35,2	33,3	45,7	40,8	46,1	42,6	45,6	46,9	49,1	51,7
	not sufficient	66,3	58,6	59,9	59,4	57,5	47,6	51,6	46,7	49,7	43,9	36,7	31,6	30,2
	balance	-60	-49	-52	-54	-48	-41	-44	-39	-42	-33	-20	-12	-12
Current stock of finished products	too large	15,7	9,8	10,4	12,9	12,6	9,5	10,4	11,9	11,4	8,9	10,6	9,1	9,7
	adequate	73,3	77,0	80,4	72,4	73,6	77,5	78,5	75,0	74,9	78,2	77,7	77,3	77,4
	too small	11,1	13,2	9,3	14,7	13,8	13,0	11,0	13,1	13,7	12,9	11,7	13,6	12,9
	balance	5	-3	1	-2	-1	-4	-1	-1	-2	-4	-1	-5	-3
Production will over the next 3 months	increase	19,0	18,6	22,2	24,9	22,4	16,4	16,6	23,0	32,6	43,7	44,3	41,3	34,4
	remain unchanged	52,5	54,1	55,0	41,2	40,6	40,7	43,8	45,4	48,6	43,2	47,0	50,5	50,5
	decrease	28,5	27,3	22,8	33,9	37,0	42,9	39,6	31,6	18,8	13,1	8,7	8,2	15,1
	balance	-10	-9	-1	-9	-15	-27	-23	-9	14	31	36	33	19
Selling prices will over the next 3 months	increase	7,3	8,8	7,8	7,9	4,9	6,8	8,2	8,5	7,7	8,7	18,0	17,4	12,9
	remain unchanged	69,3	73,1	78,3	75,7	74,9	75,7	75,9	76,8	79,1	78,4	72,0	76,1	82,0
	decrease	23,5	18,1	13,9	16,4	20,3	17,5	15,9	14,7	13,2	13,0	10,1	6,5	5,2
	balance	-16	-9	-6	-8	-15	-11	-8	-6	-6	-4	8	11	8
Total employment will over the next 3 months	increase	1,7	3,8	3,9	6,2	5,5	5,7	8,2	8,0	9,3	12,4	18,5	20,2	18,1
	remain unchanged	65,7	62,3	66,3	58,4	62,4	60,2	60,6	67,6	73,2	69,7	70,4	71,0	74,1
	decrease	32,6	33,9	29,8	35,4	32,1	34,1	31,2	24,4	17,5	17,8	11,1	8,7	7,8
	balance	-31	-30	-26	-29	-27	-28	-23	-16	-8	-5	7	11	10
Factors what are currently limiting production														
	none	x	3,5	x	x	4,3	x	x	8,6	x	x	13,2	x	x
	insufficient demand	x	83,6	x	x	84,0	x	x	81,5	x	x	69,0	x	x
	shortage of labour force	x	1,2	x	x	0,6	x	x	0,6	x	x	1,7	x	x
	shortage of material/equipment	x	2,9	x	x	4,3	x	x	4,9	x	x	8,6	x	x
	financial constraints	x	8,8	x	x	4,9	x	x	4,3	x	x	7,5	x	x
	others	x	0,0	x	x	1,9	x	x	0,0	x	x	0,0	x	x
Current production capacity	more than sufficient	x	42,1	x	x	43,2	x	x	39,2	x	x	32,0	x	x
	sufficient	x	44,4	x	x	46,3	x	x	51,8	x	x	57,3	x	x
	not sufficient	x	13,5	x	x	10,5	x	x	9,0	x	x	10,7	x	x
	balance	x	29	x	x	33	x	x	30	x	x	21	x	x
Production is assured by current overall order books	months	x	3,1	x	x	3,2	x	x	3,2	x	x	4,3	x	x
Orders over the past 3 months	increased	x	22,0	x	x	25,0	x	x	21,7	x	x	36,7	x	x
	remained unchanged	x	38,2	x	x	34,8	x	x	41,6	x	x	41,8	x	x
	decreased	x	39,9	x	x	40,2	x	x	36,8	x	x	21,5	x	x
	balance	x	-18	x	x	-15	x	x	-15	x	x	15	x	x
Export orders will over the next 3 months	increase	x	18,8	x	x	22,7	x	x	19,4	x	x	40,1	x	x
	remained unchanged	x	57,5	x	x	45,5	x	x	60,7	x	x	50,3	x	x
	decrease	x	23,8	x	x	31,8	x	x	20,0	x	x	9,6	x	x
	balance	x	-5	x	x	-9	x	x	-1	x	x	31	x	x
Current operating capacity	%	x	58,7	x	x	60,3	x	x	59,9	x	x	66,7	x	x
Competitive position on Estonian market over the past 3 months	improved	x	13,5	x	x	17,6	x	x	12,4	x	x	13,7	x	x
	remained unchanged	x	74,7	x	x	68,6	x	x	77,0	x	x	80,6	x	x
	deteriorated	x	11,8	x	x	13,8	x	x	10,6	x	x	5,7	x	x
	balance	x	2	x	x	4	x	x	2	x	x	8	x	x
Competitive position on foreign markets inside the EU over the past 3 months	improved	x	10,9	x	x	13,9	x	x	16,1	x	x	12,3	x	x
	remained unchanged	x	75,0	x	x	73,5	x	x	72,3	x	x	80,4	x	x
	deteriorated	x	14,1	x	x	12,6	x	x	11,6	x	x	7,4	x	x
	balance	x	-3	x	x	1	x	x	5	x	x	5	x	x
Competitive position on foreign markets outside the EU over the past 3 months	improved	x	10,5	x	x	10,5	x	x	10,8	x	x	12,3	x	x
	remained unchanged	x	77,8	x	x	79,0	x	x	79,1	x	x	82,2	x	x
	deteriorated	x	11,8	x	x	10,5	x	x	10,1	x	x	5,5	x	x
	balance	x	-1	x	x	0	x	x	1	x	x	7	x	x
Export over the past 3 months	increased	x	18,9	x	x	25,7	x	x	24,8	x	x	29,2	x	x
	remained unchanged	x	47,8	x	x	45,4	x	x	46,5	x	x	53,0	x	x
	decreased	x	33,3	x	x	29,0	x	x	28,7	x	x	17,9	x	x
	balance	x	-14	x	x	-3	x	x	-4	x	x	11	x	x
Share of export in production	%	x	54,0	x	x	56,5	x	x	55,6	x	x	58,4	x	x
CONFIDENCE indicator		-28	-22	-18	-20	-23	-25	-22	-17	-11	-4	3	5	0

INDUSTRY SURVEY, JUNE 2010
(% of enterprises)

Indicator	Food industry	Textile industry	Clothing industry	Leather industry	Wood industry	Chemical industry	Rubber and plastic products industry	Plastic products industry	Building materials industry	Metal products industry	Machinery and equipment industry	Electrical machinery and apparatus industry	Radio, TV and communication equipment industry	Furniture industry	Industry TOTAL
Production over the past 3 months	50,0	42,9	23,1	40,0	76,9	33,3	55,6	66,7	53,9	65,2	50,0	66,7	37,5	30,0	49,0
increased	28,6	50,0	53,9	60,0	15,4	58,3	22,2	16,7	42,3	30,4	37,5	33,3	62,5	50,0	39,2
remained unchanged	21,4	7,1	23,1	0,0	7,7	8,3	22,2	16,7	3,9	4,4	12,5	0,0	0,0	20,0	11,9
decreased	29	36	0	40	69	25	33	50	50	61	38	67	38	10	37
Current overall	21,4	7,1	15,4	0,0	23,1	16,7	11,1	0,0	3,9	13,0	12,5	33,3	12,5	0,0	13,9
order books	60,7	50,0	46,2	100,0	61,5	50,0	44,4	50,0	38,5	65,2	50,0	33,3	50,0	40,0	51,0
more than sufficient	17,9	42,9	38,5	0,0	15,4	33,3	44,4	50,0	57,7	21,7	37,5	33,3	37,5	60,0	35,1
sufficient	4	-36	-23	0	8	-17	-33	-50	-54	-9	-25	0	-25	-60	-21
not sufficient	15,4	7,1	15,4	0,0	38,5	25,0	11,1	16,7	10,0	21,7	12,5	40,0	14,3	20,0	18,1
Current export	65,4	57,1	46,2	80,0	46,2	50,0	44,4	33,3	50,0	56,5	62,5	20,0	57,1	50,0	51,7
order books	19,2	35,7	38,5	20,0	15,4	25,0	44,4	50,0	40,0	21,7	25,0	40,0	28,6	30,0	30,2
more than sufficient	-4	-29	-23	-20	23	0	-33	-33	-30	0	-13	0	-14	-10	-12
sufficient	10,7	0,0	16,7	0,0	7,7	0,0	22,2	16,7	15,4	13,6	12,5	0,0	0,0	0,0	9,7
not sufficient	71,4	92,9	83,3	100,0	76,9	83,3	77,8	83,3	73,1	68,2	62,5	80,0	83,3	100,0	77,4
Current stock of finished products	17,9	7,1	0,0	0,0	15,4	16,7	0,0	0,0	11,5	18,2	25,0	20,0	16,7	0,0	12,9
too large	-7	-7	17	0	-8	-17	22	17	4	-5	-13	-20	-17	0	-3
adequate	32,1	14,3	15,4	40,0	46,2	16,7	22,2	33,3	46,2	39,1	42,9	50,0	62,5	40,0	34,4
too small	46,4	50,0	61,5	60,0	46,2	75,0	66,7	50,0	50,0	60,9	42,9	50,0	37,5	30,0	50,5
Production will over the next 3 months	21,4	35,7	23,1	0,0	7,7	8,3	11,1	16,7	3,9	0,0	14,3	0,0	0,0	30,0	15,1
increase	11	-21	-8	40	38	8	11	17	42	39	29	50	63	10	19
remain unchanged	10,7	14,3	0,0	0,0	38,5	16,7	44,4	66,7	11,5	13,0	0,0	0,0	0,0	20,0	12,9
decrease	82,1	78,6	100,0	100,0	61,5	83,3	55,6	33,3	84,6	78,3	87,5	100,0	100,0	70,0	82,0
Selling prices will over the next 3 months	7,1	7,1	0,0	0,0	0,0	0,0	0,0	0,0	3,9	8,7	12,5	0,0	0,0	10,0	5,2
increase	4	7	0	0	38	17	44	67	8	4	-13	0	0	10	8
remain unchanged	21,4	21,4	8,3	20,0	15,4	8,3	11,1	0,0	19,2	13,0	12,5	50,0	25,0	30,0	18,1
decrease	67,9	71,4	91,7	80,0	84,6	83,3	66,7	66,7	76,9	78,3	62,5	50,0	75,0	70,0	74,1
Total employment will over the next 3 months	10,7	7,1	0,0	0,0	0,0	8,3	22,2	33,3	3,9	8,7	25,0	0,0	0,0	0,0	7,8
increase	11	14	8	20	15	0	-11	-33	15	4	-13	50	25	30	10
remain unchanged	7	-17	-16	13	18	3	-15	-17	-5	12	6	23	18	-17	0
decrease															
CONFIDENCE indicator															

INDUSTRY SURVEY
(balance, %)

Indicator	1993 - 2010			2009								2010					
	min	average	max	06	07	08	09	10	11	12	01	02	03	04	05	06	
Production over the past 3 months	balance	-67	9	47	-22	-12	-13	-20	-9	-5	-1	-11	-18	-18	12	26	37
Current overall order books	balance	-78	-4	31	-68	-60	-52	-53	-54	-52	-44	-44	-50	-46	-27	-22	-21
Current export order books	balance	-71	-7	26	-60	-49	-52	-54	-48	-41	-44	-39	-42	-33	-20	-12	-12
Current stock of finished products	balance	-20	0	35	5	-3	1	-2	-1	-4	-1	-1	-2	-4	-1	-5	-3
Production will over the next 3 months	balance	-56	17	63	-10	-9	-1	-9	-15	-27	-23	-9	14	31	36	33	19
Selling prices will over the next 3 months	balance	-35	12	53	-16	-9	-6	-8	-15	-11	-8	-6	-6	-4	8	11	8
Total employment will over the next 3 months	balance	-47	-5	21	-31	-30	-26	-29	-27	-28	-23	-16	-8	-5	7	11	10
Factors what are currently limiting production																	
none		0	8	22	x	4	x	x	4	x	x	9	x	x	13	x	x
insufficient demand		16	56	85	x	84	x	x	84	x	x	81	x	x	69	x	x
shortage of labour force		1	16	44	x	1	x	x	1	x	x	1	x	x	2	x	x
shortage of material/equipment		0	13	29	x	3	x	x	4	x	x	5	x	x	9	x	x
financial constraints		1	15	42	x	9	x	x	5	x	x	4	x	x	7	x	x
others		0	6	18	x	0	x	x	2	x	x	0	x	x	0	x	x
Current production capacity	balance	-22	13	47	x	29	x	x	33	x	x	30	x	x	21	x	x
Production is assured by current overall order books	months	3,1	4,7	8,0	x	3,1	x	x	3,2	x	x	3,2	x	x	4,3	x	x
Orders over the past 3 months	balance	-51	11	48	x	-18	x	x	-15	x	x	-15	x	x	15	x	x
Export orders will over the next 3 months	balance	-71	-7	26	x	-5	x	x	-9	x	x	-1	x	x	31	x	x
Current operating capacity	%	50	67	80	x	59	x	x	60	x	x	60	x	x	67	x	x
Competitive position on Estonian market over the past 3 months	balance	2	15	29	x	2	x	x	4	x	x	2	x	x	8	x	x
Competitive position on foreign markets inside the EU over the past 3 months	balance	-10	7	25	x	-3	x	x	1	x	x	5	x	x	5	x	x
Competitive position on foreign markets outside the EU over the past 3 months	balance	-13	5	33	x	-1	x	x	0	x	x	1	x	x	7	x	x
Export over the past 3 months	balance	-37	10	33	x	-14	x	x	-3	x	x	-4	x	x	11	x	x
Share of export in production	%	44	54	58	x	54	x	x	56	x	x	56	x	x	58	x	x
CONFIDENCE indicator		-40	5	27	-28	-22	-18	-20	-23	-25	-22	-17	-11	-4	3	5	0

2.2. Manufacturing industry investment in 2009 and prognosis for 2010⁸

Investments decreased in 2009, but to a smaller extent than expected. Prognoses for this year have not changed and enterprises still plan to increase investment.

In October 2009 and in April this year, EKI conducted a survey on investment. In autumn, a prognosis was made how investments would change in 2009 in comparison with 2008 and investments expected in 2010 were estimated. This spring, enterprises evaluated the actual situation in **2009** and made a new prognosis for **2010**. The survey indicated that the actual situation in 2009 was better than expected since although the amount of investment decreased it happened at a slower rate than prognosticated (balance in 2010 –19; balance in 2009 –38).

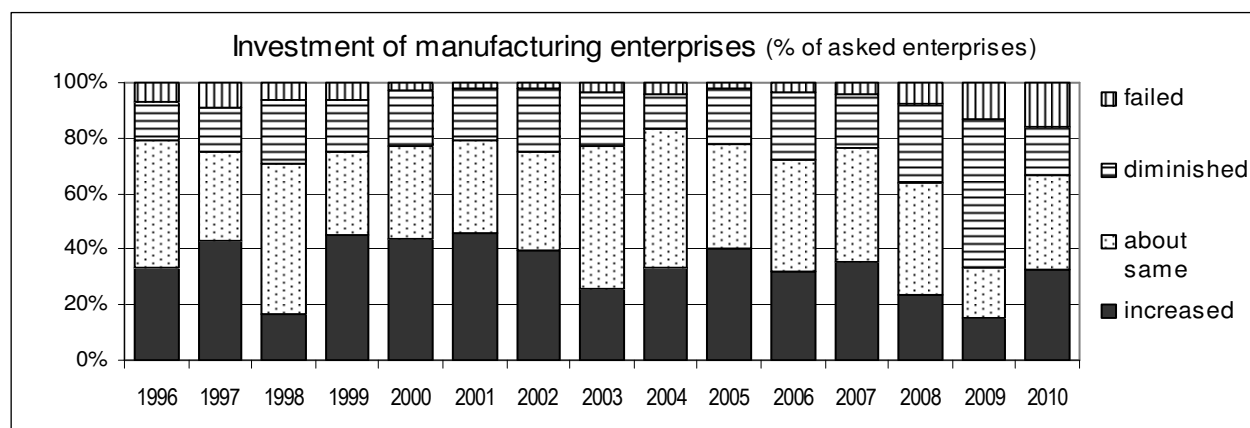
Enterprises' estimates of the changes in investment in **2009** (compared to 2008) were as follows (% of the enterprises):

	Estimates made in	
	April 2010	October 2009
increase	19%	14%
no change	29%	18%
decrease	38%	52%
missing	14%	16%

Regarding individual branches of manufacturing, it can be added that investment decreased in all branches of manufacturing with the exception of manufacture of radio, television and

communication equipment where the volume of investment has not changed over the year. The biggest decline was in tanning and dressing of leather (balance –50), followed by chemical industry (balance –44). In a better situation than others were manufacture of metal products and manufacture of food products, where nearly one third of enterprises increased investment.

Investment prognoses made in spring for **2010** are similar to those made in autumn and enterprises still plan to increase investment (balance in April and in October 2009 +15). 32% of the enterprises prognosticate a growth of investment (compared to 2009), 34% hope to produce as much as last year, 18% of the manufacturers predict a decline in investment and 16% of the producers don't plan any investment. Enterprises which are planning to increase investment are more numerous in the manufacture of rubber and plastic products (57%), in the manufacture of metal products (53%) and in the manufacture of food and beverages (50%). The biggest decline in investment, which was reported by half of the enterprises, will occur in tanning and dressing of leather.



⁸ The manufacturing investment survey was conducted by the Estonian Institute of Economic Research (EKI) by order of the European Commission and the Ministry of Economic Affairs and Communications in October 2010. 181 manufacturing enterprises were interviewed.

INVESTMENTS BY MANUFACTURING ENTERPRISES 2009 - 2010
(weighted answers, %)

Näida	Food Industry	Textile Industry	Clothing Industry	Tanning and dressing of leather	Manufacture of wood and wood products	Chemical industry	Manufacture of rubber and plastic products	Building Materials Industry	Manufacture of metal products	Manufacture of machinery and equipment	Manufacture of electrical machinery and apparatus	Manufacture of radio, TV and communication equipment	Manufacture of furniture and other not classified	Industry TOTAL
	Survey in April 2010													
Investments in 2009 compared with 2008														
bigger	30,0	16,7	23,1	0,0	12,5	0,0	0,0	8,7	33,3	0,0	28,6	28,6	27,3	19,1
about same	30,0	25,0	23,1	50,0	37,5	55,6	71,4	26,1	11,1	50,0	14,3	14,3	27,3	29,2
smaller	36,7	41,7	30,8	50,0	37,5	44,4	14,3	47,8	38,9	33,3	42,9	28,6	36,4	38,2
no investments	3,3	16,7	23,1	0,0	12,5	0,0	14,3	17,4	16,7	16,7	14,3	28,6	9,1	13,5
Balance	-7	-25	-8	-50	-25	-44	-14	-39	-6	-33	-14	0	-9	-19
Expected investments in 2010 compared with 2009														
bigger	50,0	25,0	25,0	25,0	25,0	22,2	57,1	4,4	52,6	16,7	14,3	42,9	36,4	32,4
about same	30,0	41,7	25,0	25,0	43,8	55,6	14,3	39,1	26,3	66,7	42,9	14,3	36,4	34,1
smaller	16,7	16,7	33,3	50,0	18,8	22,2	14,3	26,1	5,3	0,0	14,3	14,3	18,2	17,9
no plans to invest (or cannot answer)	3,3	16,7	16,7	0,0	12,5	0,0	14,3	30,4	15,8	16,7	28,6	28,6	9,1	15,6
Balance	33	8	-8	-25	6	0	43	-22	47	17	0	29	18	15
Survey in October 2009														
Investments in 2009 compared with 2008														
bigger	23,1	8,3	22,2	20,0	7,1	0,0	28,6	10,5	26,3	0,0	0,0	0,0	25,0	14,0
about same	26,9	16,7	11,1	20,0	14,3	27,3	28,6	10,5	21,1	0,0	0,0	33,3	0,0	17,7
smaller	46,2	58,3	33,3	40,0	50,0	54,6	42,9	68,4	47,4	100,0	66,7	33,3	50,0	51,8
no investments	3,9	16,7	33,3	20,0	28,6	18,2	0,0	10,5	5,3	0,0	33,3	33,3	25,0	16,5
Balance	-23	-50	-11	-20	-43	-55	-14	-58	-21	-100	-67	-33	-25	-38
Expected investments in 2010 compared with 2009														
bigger	38,5	25,0	12,5	20,0	42,9	54,6	0,0	15,8	47,4	0,0	50,0	16,7	62,5	32,5
about same	34,6	41,7	25,0	40,0	21,4	27,3	42,9	42,1	31,6	50,0	16,7	50,0	25,0	33,7
smaller	11,5	16,7	25,0	40,0	21,4	0,0	57,1	31,6	15,8	33,3	0,0	0,0	0,0	17,2
no plans to invest (or cannot answer)	15,4	16,7	37,5	0,0	14,3	18,2	0,0	10,5	5,3	16,7	33,3	33,3	12,5	16,6
Balance	27	8	-13	-20	21	55	-57	-16	32	-33	50	17	63	15

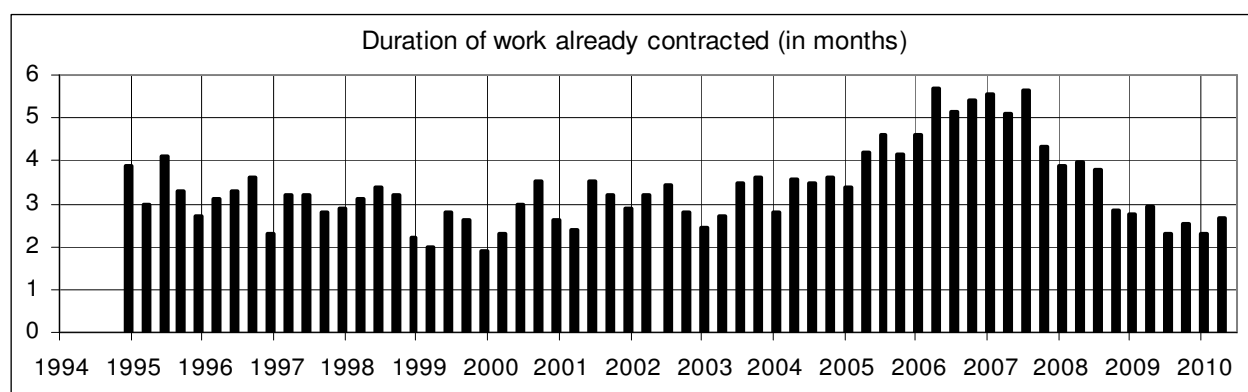
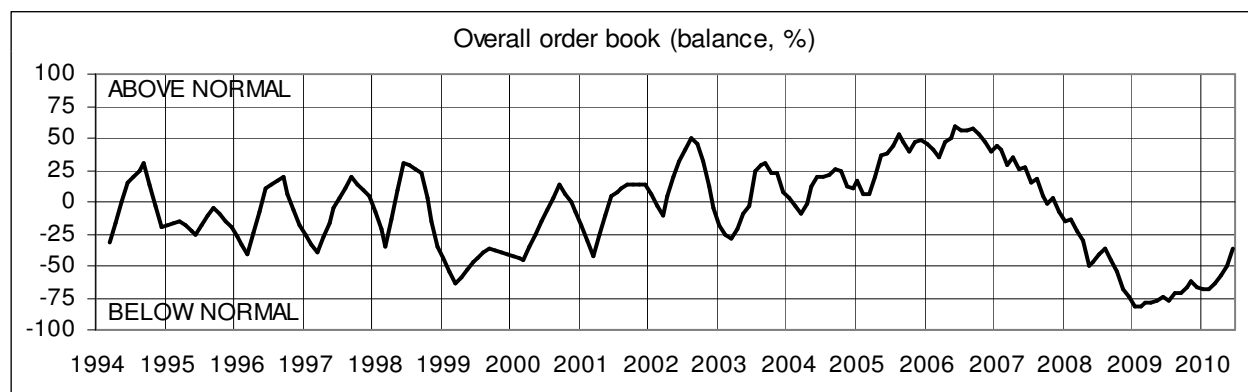
2.3. Construction survey⁹

The situation in the construction market in June was better than in March. In the coming months the seasonal growth will continue although construction activities won't yet surpass the last year's same period level.

Decline in the construction market continued over the past 3 months (in annual comparison), but the situation in June was better than in March because of the seasonal recovery. Early in the quarter, enterprises had orders for an average of 2.7 months, i.e. for a shorter period than a year ago (in April 2009 for 3 months). In recent months, the orders situation improved and in June 47% of the enterprises had orders in a normal amount, 9% more than usually and 44% fewer than usually (balance¹⁰ – 36, in March –63). The share of enterprises with increasing construction production increased to 40% over the past 3 months, the share of enterprises with diminishing production fell to 10% (balance +30). Insufficient demand was still the main limit to develop-

ment (in June for 69% of the enterprises); financial problems were the main limit for 13% of the enterprises.

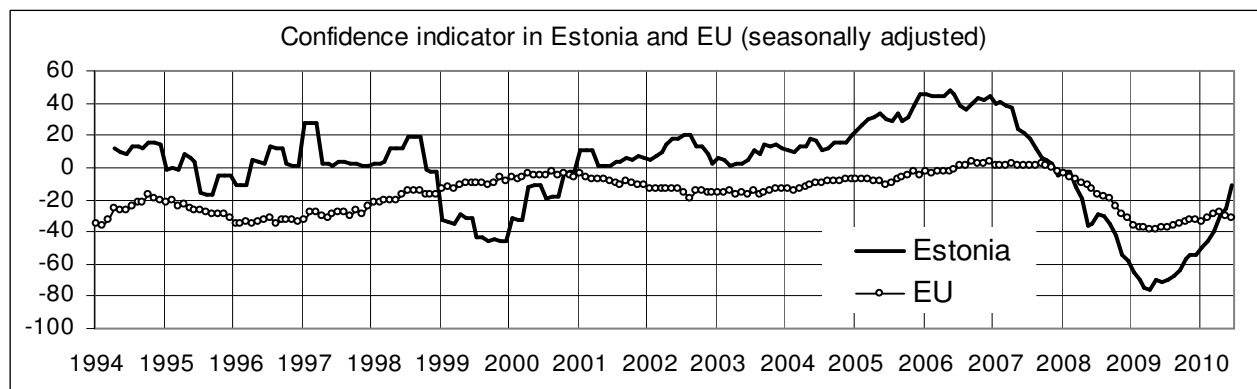
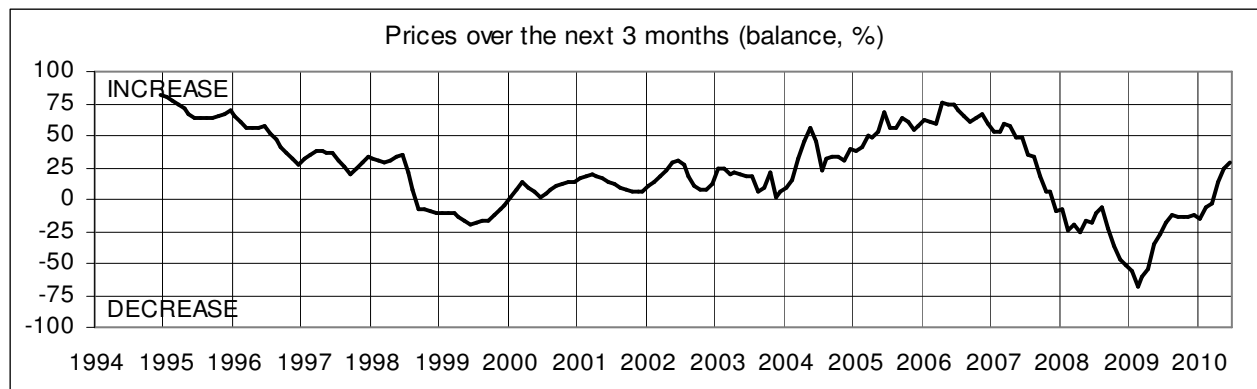
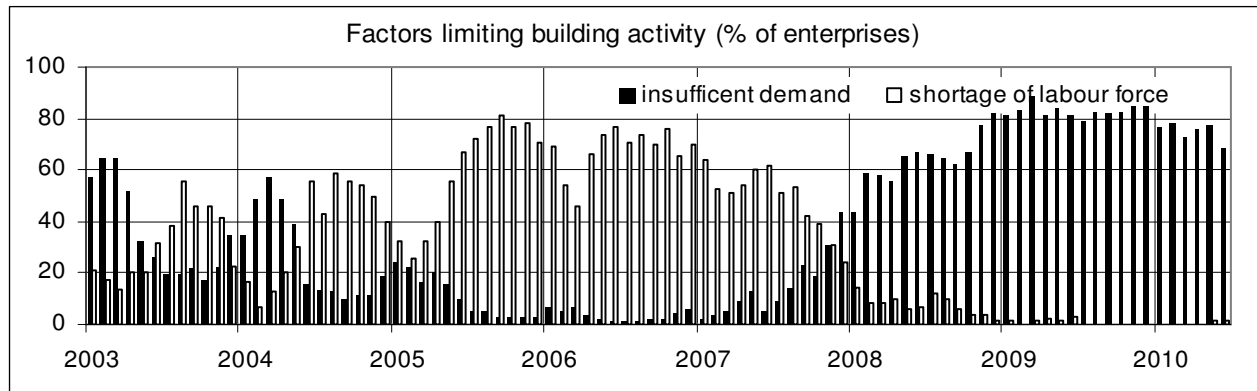
In the next 3 months, a seasonal growth of construction production will continue (balance +44), but in annual comparison, construction production won't turn to growth yet. More than so far, they hope to raise the price level; price rise is prognosticated by one third of the enterprises. The prognosis of the number of employees is for the first time after 2007 positive – nearly one third of the enterprises need more workers. The construction confidence indicator¹¹ rose over the past 3 months 35 points: from –39 to –4. Hence, the construction market is pushing toward the exit from the depression.



⁹ prepared by EKI by order of the European Commission and the Ministry of Economic Affairs and Communications on the basis of opinions of 70 construction enterprises this month.

¹⁰ Balance values show the differences of the percentages of the positive and negative responses

¹¹ aggregate indicator calculated on the basis of orders portfolio and employment growth prognosis.



In the European Union as a whole, the construction confidence indicator has been negative since 2008 (in June 2010 -32, in June 2009 -37).

In residential and non-residential construction, orders increased (balance in March -69, in June -38); the share of enterprises with a normal or bigger than normal orders portfolio

increased over the past 3 months from 30% to 51%; the others had still smaller orders than normally. The share of enterprises with a growing work volume rose to 36%. At the beginning of the quarter, contracts guaranteed work for 2.4 months (in April 2009 for 2.8 months).

During the next 3 months, growth of construction production compared to previous months will continue (balance +40). 30% of the enterprises reported of a possible increase in personnel. The confidence indicator has risen rapidly over the past 3 months (in March -48, in June -6).

The situation in **civil engineering** continued to improve over the past 3 months and more than half of the firms had more work in recent months. The orders situation was better than in residential and non-residential construction: 70% of the enterprises had a normal amount of orders in June, 30% fewer than normally. Contracts guaranteed work for an average of 3.5 months like a year ago.

In the next 3 months, construction production in civil engineering will grow (balance +59) and 35% of the enterprises plan to create new jobs. The civil engineering confidence indicator has risen above zero (+3).

CONSTRUCTION SURVEY (answers of enterprises, %)

Indicator	Answer	2009						2010						
		06	07	08	09	10	11	12	01	02	03	04	05	06
Building activity over the past 3 months	increased	14,7	22,7	30,7	25,6	22,5	10,3	5,6	3,9	3,9	8,1	12,9	32,9	40,0
	remained unchanged	44,0	44,0	34,7	43,6	45,0	59,0	45,1	34,6	34,6	28,4	47,1	45,7	50,0
	decreased	41,3	33,3	34,7	30,8	32,5	30,8	49,3	61,5	61,5	63,5	40,0	21,4	10,0
	balance	-27	-11	-4	-5	-10	-21	-44	-58	-58	-55	-27	11	30
Factors limiting building activity														
	none	1,3	6,7	9,3	5,1	5,0	2,6	2,8	1,3	1,3	0,0	4,3	7,1	11,4
	insufficient demand	81,3	78,7	82,7	82,1	82,5	84,6	84,7	76,9	78,2	73,0	75,7	77,1	68,6
	weather conditions	0,0	0,0	1,3	0,0	1,3	5,1	4,2	9,0	15,4	18,9	10,0	0,0	0,0
	shortage of labour force	2,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,4	1,4
	shortage of material and	1,3	0,0	0,0	1,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	financial constraints	8,0	9,3	4,0	3,8	7,5	6,4	4,2	6,4	2,6	6,8	5,7	7,1	12,9
	other	5,3	5,3	2,7	6,4	3,8	1,3	4,2	6,4	2,6	1,4	4,3	8,6	5,7
Order books	above normal	4,0	1,3	2,7	5,1	2,5	3,9	1,4	2,6	2,6	1,4	5,8	4,3	8,6
	normal for the season	17,3	20,0	24,0	19,2	28,8	29,5	30,6	26,0	26,0	34,3	30,4	41,4	47,1
	below normal	78,7	78,7	73,3	75,6	68,8	66,7	68,1	71,4	71,4	64,4	63,8	54,3	44,3
	balance	-75	-77	-71	-71	-66	-63	-67	-69	-69	-63	-58	-50	-36
Employment over the next 3 months	up	2,7	5,3	1,3	6,4	2,5	0,0	1,4	2,6	9,0	16,2	23,2	26,5	31,4
	remain unchanged	48,0	44,0	48,0	38,5	47,5	42,3	38,9	54,0	60,3	52,7	63,8	60,3	65,7
	down	49,3	50,7	50,7	55,1	50,0	57,7	59,7	43,4	30,8	31,1	13,0	13,2	2,9
	balance	-47	-45	-49	-49	-48	-58	-58	-41	-22	-15	10	13	29
Prices over the next 3 months	increase	2,7	4,1	2,7	1,3	2,5	1,3	1,4	2,6	7,8	8,2	17,1	27,5	30,9
	remain unchanged	67,6	73,0	82,4	83,3	81,3	83,3	84,7	79,2	77,9	80,8	80,0	69,6	67,7
	decrease	29,7	23,0	14,9	15,4	16,3	15,4	13,9	18,2	14,3	11,0	2,9	2,9	1,5
	balance	-27	-19	-12	-14	-14	-14	-13	-16	-7	-3	14	25	29
Building activity in the next 3 months	increase	18,7	13,3	6,7	9,0	5,0	3,9	8,5	10,4	24,4	40,5	45,7	65,7	47,1
	remain unchanged	48,0	40,0	40,0	37,2	41,3	28,2	31,0	44,2	44,9	40,5	48,6	25,7	50,0
	decrease	33,3	46,7	53,3	53,9	53,8	68,0	60,6	45,5	30,8	18,9	5,7	8,6	2,9
	balance	-15	-33	-47	-45	-49	-64	-52	-35	-6	22	40	57	44
Duration of work in hand and work														
	already contracted in months	x	2,3	x	x	2,5	x	x	2,3	x	x	2,7	x	x
	Current level of capacity utilization (%)	x	67,0	x	x	69,0	x	x	56,0	x	x	58,0	x	x
Confidence indicator		-61	-61	-60	-60	-57	-60	-63	-55	-45	-39	-24	-18	-4

CONSTRUCTION SURVEY, June 2010
(answers of enterprises, %)

Indicator	Answer	TOTAL	including			Public works
			Building	including		
				Residential	Non-residential	
Building activity over the past 3 months	increased	40,0	35,9	45,5	33,3	52,9
	remained unchanged	50,0	52,8	45,5	54,8	41,2
	decreased	10,0	11,3	9,1	11,9	5,9
	balance	30	25	36	21	47
Factors limiting building activity						
	none	11,4	7,5	27,3	2,4	23,5
	insufficient demand	68,6	73,6	45,5	81,0	52,9
	weather conditions	0,0	0,0	0,0	0,0	0,0
	shortage of labour force	1,4	1,9	9,1	0,0	0,0
	shortage of material and equipment	0,0	0,0	0,0	0,0	0,0
	financial constraints	12,9	13,2	18,2	11,9	11,8
	other	5,7	3,8	0,0	4,8	11,8
Order books	above normal	8,6	11,3	18,2	9,5	0,0
	normal for the season	47,1	39,6	54,6	35,7	70,6
	below normal	44,3	49,1	27,3	54,8	29,4
	balance	-36	-38	-9	-45	-29
Employment over the next 3 months	up	31,4	30,2	36,4	28,6	35,3
	remain unchanged	65,7	66,0	54,6	69,1	64,7
	down	2,9	3,8	9,1	2,4	0,0
	balance	29	26	27	26	35
Prices over the next 3 months	increase	30,9	30,2	36,4	28,6	33,3
	remain unchanged	67,7	67,9	63,6	69,1	66,7
	decrease	1,5	1,9	0,0	2,4	0,0
	balance	29	28	36	26	33
Building activity in the next 3 months	increase	47,1	43,4	54,6	40,5	58,8
	remain unchanged	50,0	52,8	45,5	54,8	41,2
	decrease	2,9	3,8	0,0	4,8	0,0
	balance	44	40	55	36	59
Confidence indicator		-4	-6	9	-10	3

CONSTRUCTION SURVEY
(balance, %)

	1994 - 2010			2009							2010						
	min	average	max	06	07	08	09	10	11	12	01	02	03	04	05	06	
Building activity over the past 3 months	balance	-69	12	76	-27	-11	-4	-5	-10	-21	-44	-58	-58	-55	-27	11	30
Factors limiting building activity																	
none	%	0	12	33	1	7	9	5	5	3	3	1	1	0	4	7	11
insufficient demand	%	1	46	89	81	79	83	82	83	85	85	77	78	73	76	77	69
weather conditions	%	0	15	65	0	0	1	0	1	5	4	9	15	19	10	0	0
shortage of labour force	%	0	30	81	3	0	0	0	0	0	0	0	0	0	0	1	1
shortage of material and/or equipment	%	0	2	14	1	0	0	1	0	0	0	0	0	0	0	0	0
financial constraints	%	0	3	13	8	9	4	4	8	6	4	6	3	7	6	7	13
other	%	0	5	23	5	5	3	6	4	1	4	6	3	1	4	9	6
Order books	balance	-83	-4	59	-75	-77	-71	-71	-66	-63	-67	-69	-69	-63	-58	-50	-36
Employment over the next 3 months	balance	-68	5	65	-47	-45	-49	-49	-48	-58	-58	-41	-22	-15	10	13	29
Prices over the next 3 months	balance	-68	21	82	-27	-19	-12	-14	-14	-14	-13	-16	-7	-3	14	25	29
Building activity in the next 3 months	balance	-77	16	86	-15	-33	-47	-45	-49	-64	-52	-35	-6	22	40	57	44
Duration of work in hand and work already contracted in months	months	2	3	6	x	2	x	x	3	x	x	2	x	x	3	x	x
Current level of capacity utilization	%	54	77	95	x	67	x	x	69	x	x	56	x	x	58	x	x
CONFIDENCE INDICATOR		-73	1	58	-61	-61	-60	-60	-57	-60	-63	-55	-45	-39	-24	-18	-4

2.4. Trade survey¹²

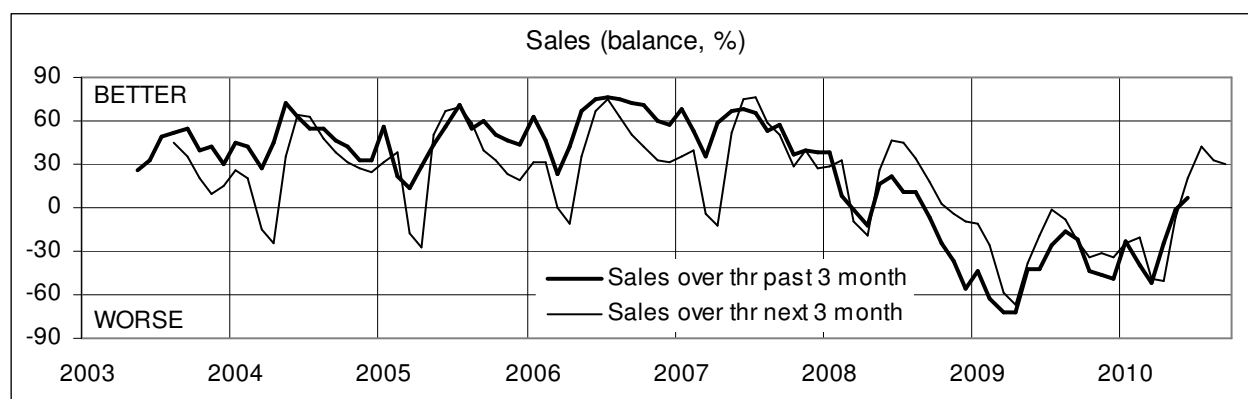
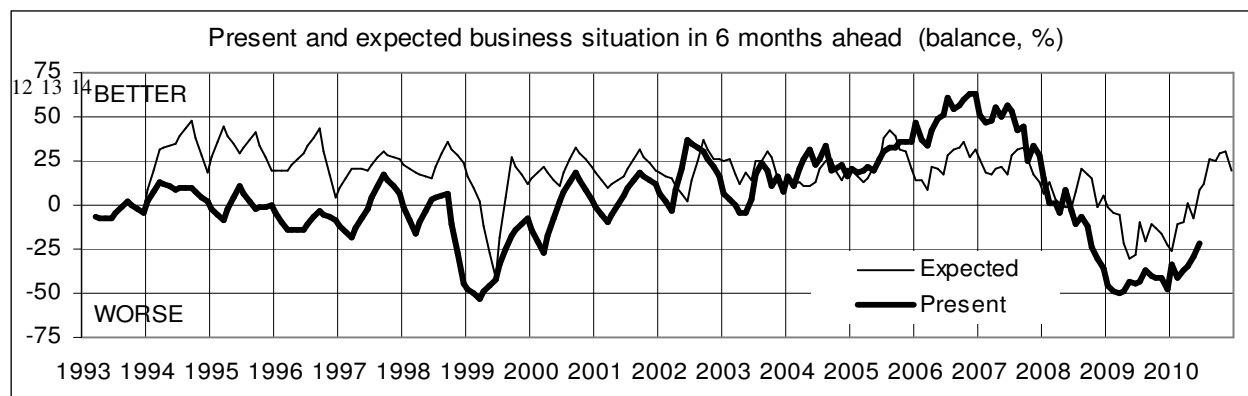
Conjuncture is still in depression, although the confidence indicator has risen and the seasonal growth of sales that started in recent months will continue also in the next 3 months. At the end of the quarter, sales in annual comparison may start turning to growth.

Business conjuncture on the whole is still unfavourable (balance¹³ -22), although improvement of the conjuncture accelerated compared to the previous quarter. The share of shops with a satisfactory conjuncture increased over the past 3 months to 70%, 30% had still bad conjuncture. The share of shops which reported a sales growth rose to nearly 40%; sales continued to decline in 31%. The share of shops with excessive stocks in trade fell to 13%.

During the next 3 months, seasonal growth of sales should continue (balance +31); growth is prognosticated by 45% of the shops. They

increase orders for new goods (balance +18). Turnover will be increased also by price rise (balance +25). The number of personnel, which increased in the summer season, will start gradually decreasing again (balance -6). The trade **confidence indicator**¹⁴ in June rose to +10 (in March -15, in June 2009 -34).

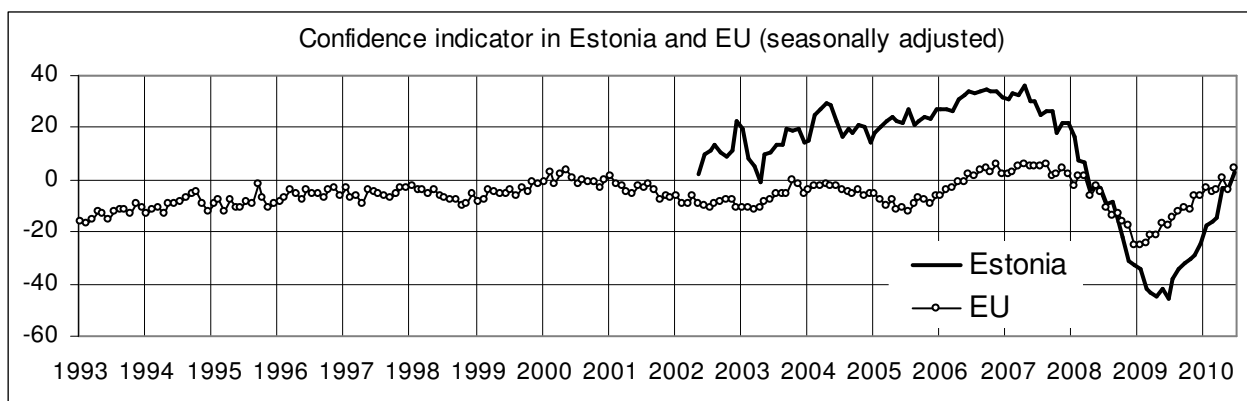
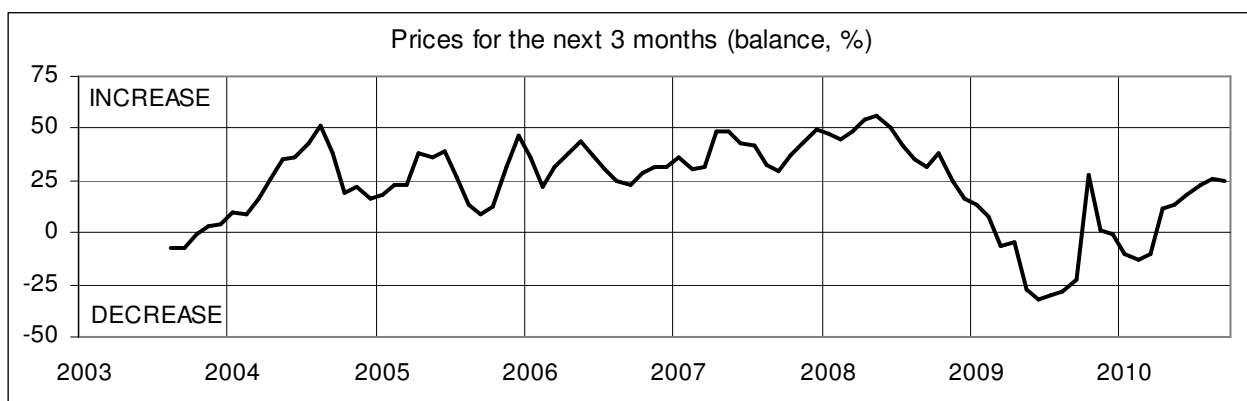
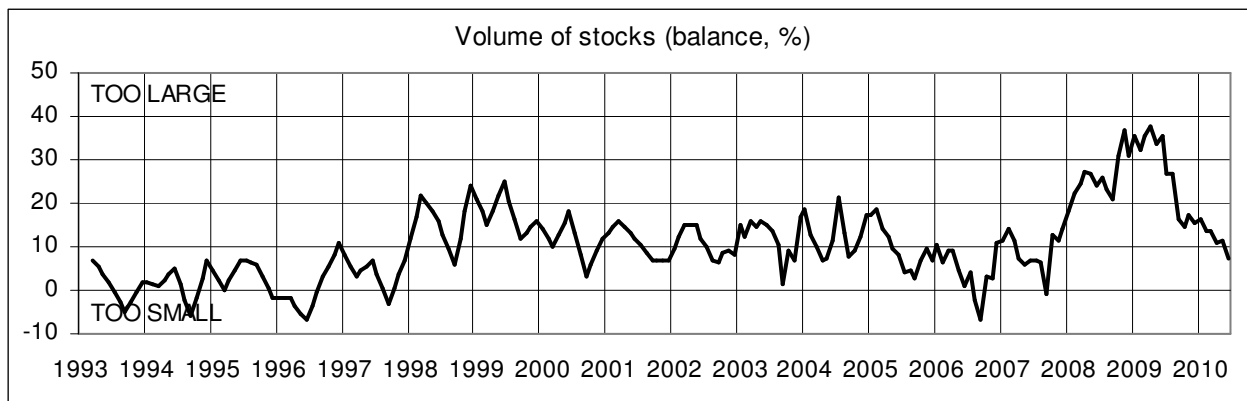
In the European Union as a whole, also the trade confidence indicator rose significantly over a year (in June 2009 -17, in June 2010 -5). In several countries such as Italy, Finland, Denmark, Latvia, Czech, Slovenia etc. the indicator has risen above zero.



¹² Prepared by EKI by order of the European Commission and the Ministry of Economic Affairs and Communications on the basis of opinions of 136 shops and trade firms this month.

¹³ Balance values show the differences of the percentages of the positive and negative responses

¹⁴ Calculated on the basis of the last three months' sales and stocks in trade, and sales prognosis for the next 3 months



The situation in different groups of shops varies:

The situation for food shops was satisfactory: conjuncture was estimated to be positive again over a long time (balance +3) and 90% of the shops had a satisfactory or good conjuncture. 53% of the shops informed of a sales growth, in 30% sales continued to decline.

The situation will continue growing better during the next 3 months – nearly 70% of the shops prognosticate a sales growth (balance +55). The price level in most of the shops will rise moderately. Extra workforce will be used in the summer season. Food shops' confidence indicator rose in June to +25 (in March –13).

Wardrobe goods shops report that their conjuncture is growing better. In June it was satisfactory for 60% of the shops, and still bad for the others. Sales increased in more than one third of the shops, and continued to decrease in one third (balance +4).

Sales will rather decrease over the next 3 months (balance –9). Also the number of personnel might be reduced slightly. The confidence indicator rose from –13 to –5, staying still negative.

In household goods shops, slow-down of sales decline continued (balance =0, in March –63). While shops selling electronic goods and other household appliances had mostly a satisfactory conjuncture, then shops selling construction goods, furniture etc still had a bad conjuncture (balance –43). One fifth of the shops had excessive stocks in trade.

Sales expectations for the next 3 months are positive (balance +33), but rise in purchasing activity may be seasonal. Prices will rise slightly (balance +13). The number of personnel will not be reduced any more. The confidence indicator rose over the past 3 months from –21 to +9.

Car sales turned to slow growth. 40% of the shops in June reported growth of sales over the recent months. Supply was somewhat limited by too small stocks in trade. Movement out of depression is slow and estimate of the conjuncture in June on the whole remained negative (balance –10).

Sales growth is expected to continue during the next 3 months – over 30% of the firms prognosticate a growth. Some shops plan to raise prices (balance +20). The confidence indicator was positive for fifth month (+23).

In the group of department stores and hypermarkets, conjuncture was satisfactory for most of the shops (balance =0). The share of shops with a growing turnover increased over the past 3 months from 5% to 33%; turnover continued to decrease in 17% of the shops.

According to prognoses, sales growth should continue in the next 3 months (balance +56); growth is prognosticated by 2/3 of the shops. Prices will continue rising (balance +50). The number of personnel will decrease rather than increase. The confidence indicator rose over the last 3 months from –15 to +22.

In other shops,¹⁵ sales continued to decline over the past months (balance –17). Conjuncture did not grow much better and was bad for half of the shops.

For the next 3 months, 30% of the shops prognosticate a growth of sales, 58% presume sales won't change and for 12% may decrease. The confidence indicator is still negative (–6), however, higher than 3 months ago (–13).

¹⁵ incl. stationery, books, sports, recreational goods etc. shops, kiosks

RETAIL TRADE SURVEY
(% of enterprises)

Indicator	Answer	2010													
		06	07	08	09	10	11	12	01	02	03	04	05	06	
Sales over the past 3 months	increased	17,7	23,7	31,0	23,9	12,9	11,6	8,5	24,4	16,0	10,0	19,4	33,1	38,5	
	remained unchanged	21,8	26,7	21,4	30,0	31,1	30,2	33,9	27,4	29,0	28,5	37,2	32,3	30,4	
	decreased	60,5	49,6	47,6	46,2	56,1	58,1	57,7	48,2	55,0	61,5	43,4	34,6	31,1	
	balance	-43	-26	-17	-22	-43	-47	-49	-24	-39	-52	-24	-2	7	
Stocks	too large	36,3	28,2	27,0	16,9	16,7	18,6	19,2	19,4	17,7	16,9	14,6	15,4	12,6	
	adequate	62,9	70,4	73,0	82,3	81,1	79,9	76,9	77,6	78,5	80,0	81,5	80,8	82,2	
	too small	0,8	1,5	0,0	0,8	2,3	1,6	3,9	3,0	3,9	3,1	3,9	3,9	5,2	
	balance	36	27	27	16	14	17	15	16	14	14	11	12	7	
Orders placed with suppliers over the next 3 months	increase	13,6	11,2	13,5	10,0	11,5	17,2	9,2	11,1	22,3	30,0	36,9	38,5	33,3	
	remain unchanged	37,6	44,0	37,3	42,3	43,1	40,6	32,3	37,8	46,9	49,2	49,2	43,9	51,1	
	decrease	48,8	44,8	49,2	47,7	45,4	42,2	58,5	51,1	30,8	20,8	13,9	17,7	15,6	
	balance	-35	-34	-36	-38	-34	-25	-49	-40	-9	9	23	21	18	
Sales over the next 3 months	increase	21,0	13,4	11,9	13,1	16,8	20,5	10,1	6,7	22,1	37,7	53,9	48,8	44,8	
	remain unchanged	34,7	38,8	44,5	40,0	42,0	38,6	31,0	35,6	48,9	44,6	34,6	34,9	41,0	
	decrease	44,4	47,8	43,7	46,9	41,2	40,9	58,9	57,8	29,0	17,7	11,5	16,3	14,2	
	balance	-23	-34	-32	-34	-24	-21	-49	-51	-7	20	42	33	31	
Employment over the next 3 months	increase	4,8	1,5	0,8	1,6	0,8	0,8	3,1	2,2	3,1	3,9	9,4	14,1	10,5	
	remain unchanged	56,5	62,2	62,4	55,8	70,5	62,8	61,2	70,4	80,2	85,0	82,8	74,2	73,1	
	decrease	38,7	36,3	36,8	42,6	28,8	36,4	35,7	27,4	16,8	11,0	7,8	11,7	16,4	
	balance	-34	-35	-36	-41	-28	-36	-33	-25	-14	-7	2	2	-6	
Prices over the next 3 months	increase	5,7	40,0	12,7	15,4	5,3	7,0	13,2	18,8	20,0	24,0	26,4	31,5	36,3	
	remain unchanged	66,1	47,4	75,4	68,5	79,6	72,9	63,6	73,7	73,9	70,5	69,8	63,1	52,6	
	decrease	28,2	12,6	11,9	16,2	15,2	20,2	23,3	7,5	6,2	5,4	3,9	5,4	11,1	
	balance	-23	27	1	-1	-10	-13	-10	11	14	19	23	26	25	
Present business situation	good	4,8	3,0	3,2	4,7	3,0	2,4	3,1	3,7	6,2	6,2	4,7	5,4	8,2	
	satisfactory	46,0	51,1	56,4	50,4	52,3	53,6	46,5	59,3	46,9	50,4	55,8	59,7	61,9	
	bad	49,2	45,9	40,5	45,0	44,7	44,1	50,4	37,0	46,9	43,4	39,5	34,9	29,9	
	balance	-44	-43	-37	-40	-42	-42	-47	-33	-41	-37	-35	-30	-22	
Expected business situation 6 months ahead	better	7,2	6,7	9,6	14,0	15,2	13,5	21,1	22,4	33,6	30,8	33,9	33,9	24,4	
	same	63,2	60,7	69,6	62,8	70,5	65,1	66,4	67,2	58,8	63,9	61,5	62,3	70,4	
	worse	29,6	32,6	20,8	23,3	14,4	21,4	12,5	10,5	7,6	5,4	4,6	3,9	5,2	
	balance	-22	-26	-11	-9	1	-8	9	12	26	25	29	30	19	
Confidence indicator		-34	-29	-25	-24	-27	-28	-38	-30	-20	-15	2	6	10	

RETAIL TRADE SURVEY, June 2010
(% of enterprises)

Indicator		TOTAL by branches								
		Food	Ward- robe goods	Household goods		Motor vehic- les	Large multiple shops	Remai- ning		
				including Electrical	Other					
Sales over the past 3 months	increased	38,5	53,3	34,8	33,3	22,2	38,1	40,0	33,3	33,3
	remained unchanged	30,4	16,7	34,8	33,3	33,3	33,3	50,0	50,0	16,7
	decreased	31,1	30,0	30,4	33,3	44,4	28,6	10,0	16,7	50,0
	balance	7	23	4	0	-22	10	30	17	-17
Stocks	too large	12,6	10,0	8,7	13,3	0,0	19,1	10,0	11,1	20,8
	adequate	82,2	83,3	91,3	83,3	100,0	76,2	70,0	83,3	75,0
	too small	5,2	6,7	0,0	3,3	0,0	4,8	20,0	5,6	4,2
	balance	7	3	9	10	0	14	-10	6	17
Orders placed with suppliers over the next 3 months	increase	33,3	60,0	17,4	26,7	22,2	28,6	30,0	44,4	16,7
	remain unchanged	51,1	26,7	47,8	66,7	66,7	66,7	60,0	44,5	66,7
	decrease	15,6	13,3	34,8	6,7	11,1	4,8	10,0	11,1	16,7
	balance	18	47	-17	20	11	24	20	33	0
Sales over the next 3 months	increase	44,8	69,0	21,7	43,3	55,6	38,1	30,0	66,7	29,2
	remain unchanged	41,0	17,2	47,8	46,7	33,3	52,4	70,0	22,2	58,3
	decrease	14,2	13,8	30,4	10,0	11,1	9,5	0,0	11,1	12,5
	balance	31	55	-9	33	45	29	30	56	17
Employment over the next 3 months	increase	10,5	20,7	0,0	13,3	22,2	9,5	0,0	5,6	12,5
	remain unchanged	73,1	62,1	91,3	73,3	55,6	81,0	90,0	66,7	66,7
	decrease	16,4	17,2	8,7	13,3	22,2	9,5	10,0	27,8	20,8
	balance	-6	4	-9	0	0	0	-10	-22	-8
Prices over the next 3 months	increase	36	60,0	17,4	26,7	22,2	28,6	20,0	50,0	33,3
	remain unchanged	53	36,7	52,2	60,0	55,6	61,9	80,0	50,0	54,2
	decrease	11	3,3	30,4	13,3	22,2	9,5	0,0	0,0	12,5
	balance	25	57	-13	13	0	19	20	50	21
Present business situation	good	8	13,3	0,0	3,5	0,0	4,8	10,0	16,7	8,3
	satisfactory	62	76,7	60,9	58,6	87,5	47,6	70,0	66,7	41,7
	bad	30	10,0	39,1	37,9	12,5	47,6	20,0	16,7	50,0
	balance	-22	3	-39	-35	-13	-43	-10	0	-42
Expected business situation 6 months ahead	better	24	30,0	17,4	30,0	77,8	9,5	30,0	22,2	16,7
	same	70	60,0	82,6	63,3	22,2	81,0	70,0	77,8	75,0
	worse	5	10,0	0,0	6,7	0,0	9,5	0,0	0,0	8,3
	balance	19	20	17	23	78	0	30	22	8
Confidence indicator		10	25	-5	8	7	8	23	22	-6

RETAIL TRADE SURVEY
(balance, %)

Indicator	1993 - 2010			2009						2010						
	min	average	max	06	07	08	09	10	11	12	01	02	03	04	05	06
Sales over the past 3 months	-73	24	76	-43	-26	-17	-22	-43	-47	-49	-24	-39	-52	-24	-2	7
Stocks	-7	12	38	36	27	27	16	14	17	15	16	14	14	11	12	7
Orders placed with suppliers during the next 3 months	-62	11	57	-35	-34	-36	-38	-34	-25	-49	-40	-9	9	23	21	18
Sales over the next 3 months	-67	18	77	-23	-34	-32	-34	-24	-21	-49	-51	-7	20	42	33	31
Employment over the next 3 months	-50	-2	34	-34	-35	-36	-41	-28	-36	-33	-25	-14	-7	2	2	-6
Prices over the next 3 months	-	-	-	-23	27	1	-1	-10	-13	-10	11	14	19	23	26	25
Present business situation	-53	8	63	-44	-43	-37	-40	-42	-42	-47	-33	-41	-37	-35	-30	-22
Expected business situation 6 months ahead	-41	16	48	-22	-26	-11	-9	1	-8	9	12	26	25	29	30	19
Confidence indicator	-49	8	43	-34	-29	-25	-24	-27	-28	-38	-30	-20	-15	2	6	10

2.5. Service survey¹⁶

In the second quarter, service sector conjuncture improved further. Demand growth will slow down in the short term.

The service sector confidence indicator¹⁷ rose from -2 in March to +30 in June, thanks to increased sales over the past 3 months (balance +36). The confidence indicator was last so high four years ago, in June 2006. The situation in the sector compared to that a year ago (confidence indicator -14) is now remarkably better.

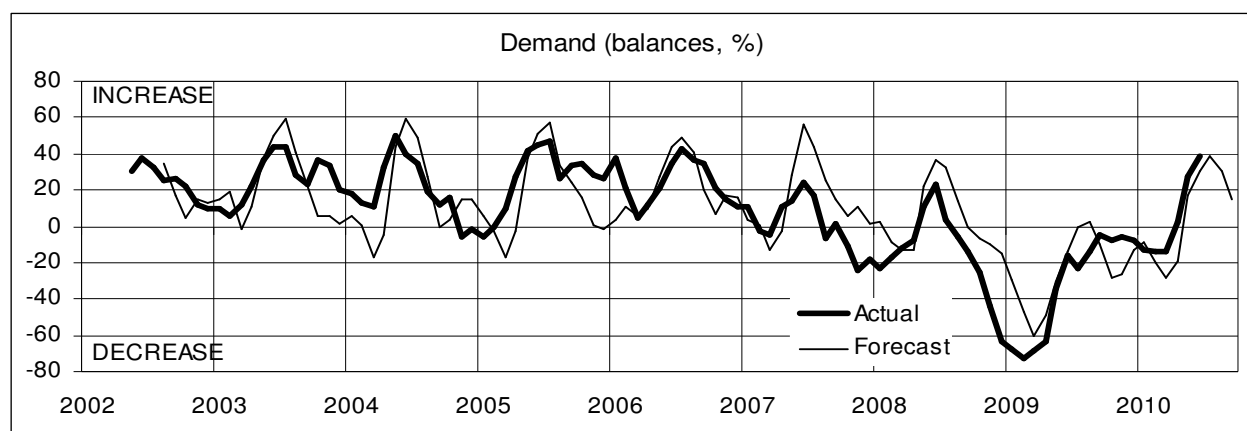
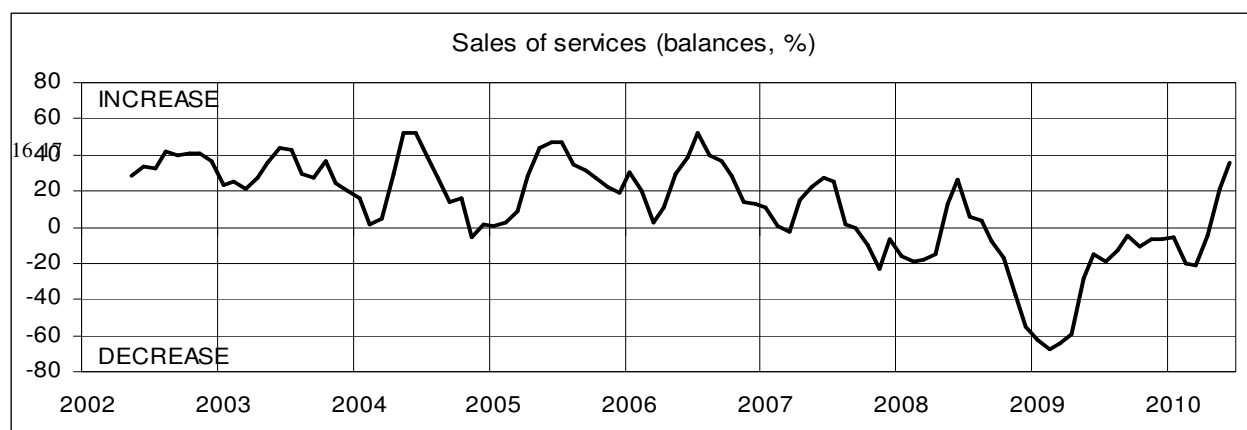
Every second service enterprise reported increase in sales of services and higher demand in the second quarter 2010. Every tenth enterprise had smaller sales. Hotels were the best off. The market situation for restaurants, transportation and car rental firms, and for real estate firms improved moderately. In a worse situation were tourist and information technology firms.

The following can be added about individual branches of services:

Information technology

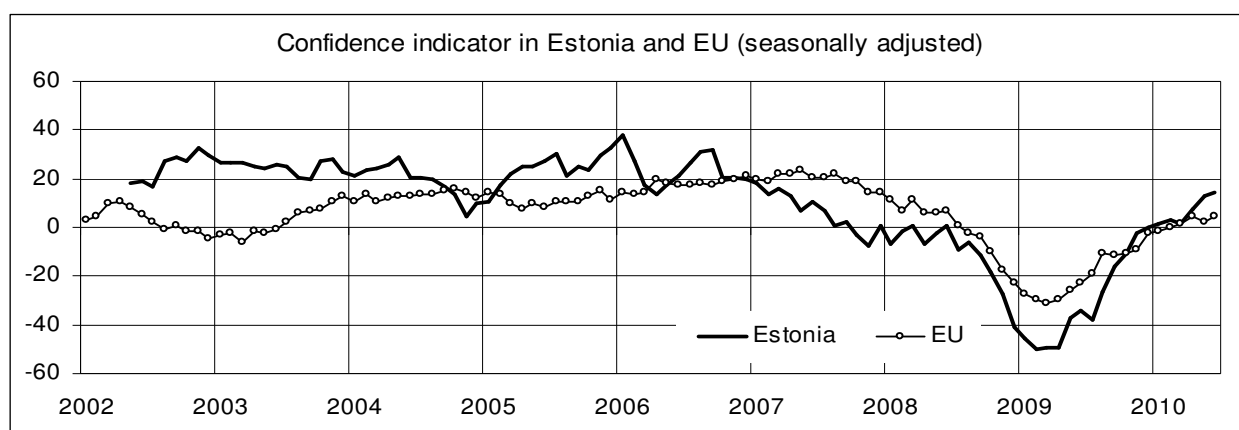
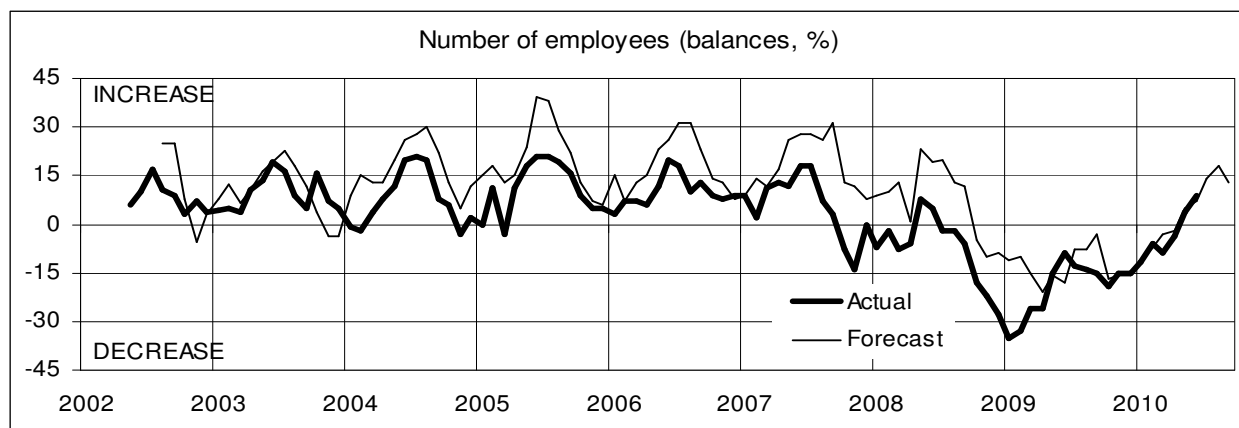
The market situation is better now, the confidence indicator rose from -6 in March to +5 in June. Compared to June 2009 (confidence indicator -33), conjuncture is now much better. In the second quarter, the number of firms which reported increase in sales of services increased (1/4 of the enterprises) (balance in June +7, in March -18). However, sales decreased in every fifth enterprise.

25% of the enterprises inform that demand will decline in the next 3 months (balance -6).



¹⁶ The service survey was prepared on the basis of opinions of 289 service enterprises.

¹⁷ The confidence indicator is the arithmetic mean of sales, demand and prognosis of demand balances.



Hotels

The market situation for the hotels improved from month to month in the second quarter. The confidence indicator rose from -7 in March to $+60$ in June and is much better than in June 2009 (confidence indicator $+25$). $\frac{3}{4}$ of the accommodation enterprises in June reported increase in sales of services over the past 3 months, both to domestic and foreign tourists (balance $+69$). Every fifth hotel increased personnel.

More than half of the hotels estimate that demand will increase in the next 3 months (balance $+42$). One third of the hotels will raise prices (balance $+30$).

Restaurants

The restaurants market conjuncture is favourable now. The confidence indicator has been positive throughout the second quarter and has been moving upwards (in March -21 , in April

$+4$, in May $+35$, in June $+47$). Sales increased in nearly 60% of the restaurants (balance in June $+44$, in March -48).

63% of the restaurants informed of a demand growth during the next 3 months (balance in June $+51$, in March $+33$). One fourth of the restaurants will hire new workforce and plan a price rise in the short term (balance $+20$).

Tourism

In the second quarter, the situation in tourism turned somewhat better, but is still bad. The confidence indicator in June rose to $+4$ from -26 in March. One third of the tourist firms reported increased sales and one fourth informed of a decrease in sales over the past 3 months (balance $+7$).

Nearly one third of the enterprises will have lower demand during the next 3 months (balance -3).

Transport

The situation in the transport sector improved significantly over the past 3 months. The confidence indicator in June was +32 (in March -11). 53% of the enterprises enjoyed increased sales over the past 3 months (balance in June +45, in March -28).

Enterprises estimate that demand will decrease slightly over the next 3 months (balance in June -3).

Car rent

Conjuncture improved in the second quarter. The confidence indicator in June rose to +42 from -7 in March. Sales increased in 53% of the enterprises, decreased in 20% over the past 3 months (balance +33).

During the next 3 months, demand will increase for 2/3 of the rental firms (balance +60). Nearly half of the enterprises will raise prices (balance +47).

Real estate

Enterprises' confidence is above zero for tenth month in succession. The confidence indicator rose from +26 in March to +37 in June. Compared to June 2009 (confidence indicator -20), the market situation is much better now. 46% of the enterprises in June informed of a growth of sales of services over the past 3 months (balance +42). Every fourth enterprise hired new workforce.

Demand growth in the real estate market will continue in the short term (balance of demand in June +24).

Advertising

Advertising market conjuncture improved in the second quarter. The confidence indicator in June was +18 (in March -16). Sales increased in half of the advertising enterprises over the past 3 months (balance in June +40).

43% of the enterprises informed that demand for advertising services will decrease in the short term (balance in June -30).

Waste treatment

The market situation for waste treatment enterprises has improved. The confidence indicator rose from -25 in March to +24 in June. Nearly half of the waste treatment firms informed of an increase in sales of services over the past 3 months (balance in June +27, in March -50).

Every fifth enterprise estimates that demand for waste treatment services will grow during the next 3 months (balance +13).

SERVICE SURVEY
(% of enterprises)

		2009						2010						
		06	07	08	09	10	11	12	01	02	03	04	05	06
Evolution of sales of services over the past 3 months	increased	23,4	20,9	26,4	30,6	25,9	26,1	30,6	28,1	20,2	19,9	23,9	37,7	47,4
	remained unchanged	37,9	39,3	34,3	33,4	37,2	41,3	31,5	38,0	39,5	38,9	46,7	45,7	41,6
	decreased	38,8	39,8	39,3	36	36,9	32,6	37,9	33,9	40,3	41,3	29,3	16,7	11,0
	balance	-15	-19	-13	-5	-11	-7	-7	-6	-20	-21	-5	21	36
Evolution of demand over the past 3 months	increased	22,3	22,3	27,6	30,1	28,1	28,4	29,1	22,2	20,7	21,9	28,9	40,4	48,3
	remained unchanged	39	32,8	30,6	34,5	35,9	37,0	34,4	42,6	44,8	41,9	45,0	46,4	42,9
	decreased	38,7	44,9	41,8	35,5	36,1	34,6	36,6	35,2	34,6	36,2	26,1	13,2	8,8
	balance	-16	-23	-14	-5	-8	-6	-8	-13	-14	-14	3	27	39
Evolution of demand expected over the next 3 months	increase	20,5	12,9	16,8	22,7	23	11,5	11,9	15,1	33,5	41,1	47,2	40,3	30,2
	remain unchanged	48,7	46	40,1	41,9	45,2	57,1	47,9	50,4	50,2	48,2	44,2	49,6	54,8
	decrease	30,8	41,1	43,2	35,4	31,8	31,4	40,2	34,5	16,3	10,7	8,6	10,1	15,1
	balance	-10	-28	-26	-13	-9	-20	-28	-19	17	30	39	30	15
Evolution of employment over the past 3 months	increased	17	13,6	10,1	9,46	8,79	8,9	7,9	7,1	10,3	6,4	7,6	13,0	20,2
	remained unchanged	56,7	60,2	65,6	66,2	63,6	67,5	68,7	74,0	73,3	78,4	80,4	78,4	68,4
	decreased	26,3	26,2	24,3	24,3	27,6	23,6	23,3	18,9	16,4	15,2	12,0	8,6	11,4
	balance	-9	-13	-14	-15	-19	-15	-15	-12	-6	-9	-4	4	9
Evolution of employment expected over the next 3 months	increase	11,6	4,65	5	7,98	8,9	6,6	8,8	7,5	10,8	15,1	20,5	21,9	18,7
	remain unchanged	74,1	73,6	74,3	68,2	71,3	80,2	79,0	83,3	83,1	76,8	72,9	73,8	75,7
	decrease	14,4	21,8	20,7	23,8	19,8	13,3	12,2	9,2	6,1	8,1	6,6	4,3	5,7
	balance	-3	-17	-16	-16	-11	-7	-3	-2	5	7	14	18	13
Evolution of prices of services expected over the next 3 months	increase	4,46	6,31	3,75	2,88	3,12	4	4	5	7	8	16	17	14
	remain unchanged	73	71,3	72,5	71,4	71,5	73	81	81	82	84	75	80	83
	decrease	22,5	22,4	23,8	25,7	25,4	23	15	14	11	8	9	3	3
	balance	-18	-16	-20	-23	-22	-19	-12	-9	-5	0	8	13	11
Factors currently limiting business														
	none	x	4	x	x	4	x	x	4	x	x	6	x	x
	insufficient demand	x	78	x	x	75	x	x	76	x	x	65	x	x
	shortage of labour force	x	1	x	x	1	x	x	1	x	x	1	x	x
	shortage of space and/or equipment	x	0	x	x	1	x	x	1	x	x	0	x	x
	financial constraints	x	10	x	x	16	x	x	14	x	x	22	x	x
	other	x	7	x	x	4	x	x	4	x	x	5	x	x
Business situation expected after 6 months	improve	x	13,7	x	x	22,7	x	x	37	x	x	40	x	x
	remain unchanged	x	36,3	x	x	54	x	x	46	x	x	53	x	x
	deteriorate	x	50	x	x	23,3	x	x	17	x	x	7	x	x
	balance	x	-36	x	x	-1	x	x	19	x	x	33	x	x
Confidence indicator		-14	-23	-18	-8	-9	-11	-14	-13	-6	-2	12	26	30

SERVICE SURVEY, June 2010
(% of enterprises)

		Information technology	Hotels	Restaurants	Tourism	Transport	Car rent	Real estate	Advertising	Waste treatment	TOTAL
Evolution of sales of services over the past 3 months	increased	25,0	75,6	56,1	33,3	52,5	53,3	45,8	50,0	46,7	47,4
	remained unchanged	57,0	17,4	31,9	40,7	39,5	26,7	50,2	40,0	33,3	41,6
	decreased	18,0	7,0	12,0	26,0	8,0	20,0	4,0	10,0	20,0	11,0
	balance	7	69	44	7	45	33	42	40	27	36
Evolution of demand over the past 3 months	increased	25,0	73,2	56,1	33,3	62,5	53,3	44,0	53,3	53,3	48,3
	remained unchanged	62,0	21,8	33,9	40,7	29,5	26,7	56,0	36,7	26,7	42,9
	decreased	13,0	5,0	10,0	26,0	8,0	20,0	0,0	10,0	20,0	8,8
	balance	12	68	46	7	55	33	44	43	33	39
Evolution of demand expected over the next 3 months	increase	17,5	53,7	63,4	28,2	22,5	66,7	24,0	13,3	20,0	30,2
	remain unchanged	59,5	34,3	24,6	40,8	52,5	26,3	76,0	43,7	73,0	54,8
	decrease	23,0	12,0	12,0	31,0	25,0	7,0	0,0	43,0	7,0	15,1
	balance	-6	42	51	-3	-3	60	24	-30	13	15
Evolution of employment over the past 3 months	increased	25,0	19,5	31,7	10,3	12,5	6,7	24,0	13,3	26,7	20,2
	remained unchanged	62,0	78,5	61,3	74,7	69,5	86,3	64,0	79,7	60,3	68,4
	decreased	13,0	2,0	7,0	15,0	18,0	7,0	12,0	7,0	13,0	11,4
	balance	12	18	25	-5	-6	0	12	6	14	9
Evolution of employment expected over the next 3 months	increase	25,0	31,7	26,8	2,6	17,5	20,0	20,0	10,0	13,3	18,7
	remain unchanged	75,0	68,3	71,2	94,4	72,5	80,0	72,0	80,0	73,7	75,7
	decrease	0,0	0,0	2,0	3,0	10,0	0,0	8,0	10,0	13,0	5,7
	balance	25	32	25	0	8	20	12	0	0	13
Evolution of prices of services expected over the next 3 months	increase	2,5	36,6	19,5	10,3	37,5	46,7	4,0	0,0	0,0	13,7
	remain unchanged	94,5	56,4	80,5	79,7	62,5	53,3	96,0	97,0	87,0	83,4
	decrease	3,0	7,0	0,0	10,0	0,0	0,0	0,0	3,0	13,0	3,0
	balance	-1	30	20	0	38	47	4	-3	-13	11
Confidence indicator		5	60	47	4	32	42	37	18	24	30

SERVICE SURVEY
(balance, %)

Indicator	2002 - 2010			2009							2010					
	min	average	max	06	07	08	09	10	11	12	01	02	03	04	05	06
Evolution of sales of services over the past 3 months	-68	11	52	-15	-19	-13	-5	-11	-7	-7	-6	-20	-21	-5	21	36
Evolution of demand over the past 3 months	-73	9	50	-16	-23	-14	-5	-8	-6	-8	-13	-14	-14	3	27	39
Evolution of demand expected over the next 3 months	-60	10	60	-10	-28	-26	-13	-9	-20	-28	-19	17	30	39	30	15
Evolution of employment over the past 3 months	-35	3	21	-9	-13	-14	-15	-19	-15	-15	-12	-6	-9	-4	4	9
Evolution of employment expected over the next 3 months	-21	11	39	-3	-17	-16	-16	-11	-7	-3	-2	5	7	14	18	13
Evolution of prices of services expected over the next 3 months	-31	9	33	-18	-16	-20	-23	-22	-19	-12	-9	-5	0	8	13	11
Factors currently limiting business																
none	4	18	35	x	4	x	x	4	x	x	4	x	x	6	x	x
insufficient demand	21	44	82	x	78	x	x	75	x	x	76	x	x	65	x	x
shortage of labour force	1	16	36	x	1	x	x	1	x	x	1	x	x	1	x	x
shortage of space and/or equipment	0	3	9	x	0	x	x	1	x	x	1	x	x	0	x	x
financial constraints	2	9	22	x	10	x	x	16	x	x	14	x	x	22	x	x
other	3	8	17	x	7	x	x	4	x	x	4	x	x	5	x	x
Business situation expected after 6 months	-44	11	43	x	-36	x	x	-1	x	x	19	x	x	33	x	x
Confidence indicator	-60	10	43	-14	-23	-18	-8	-9	-11	-14	-13	-6	-2	12	26	30

2.5. Consumer survey¹⁸

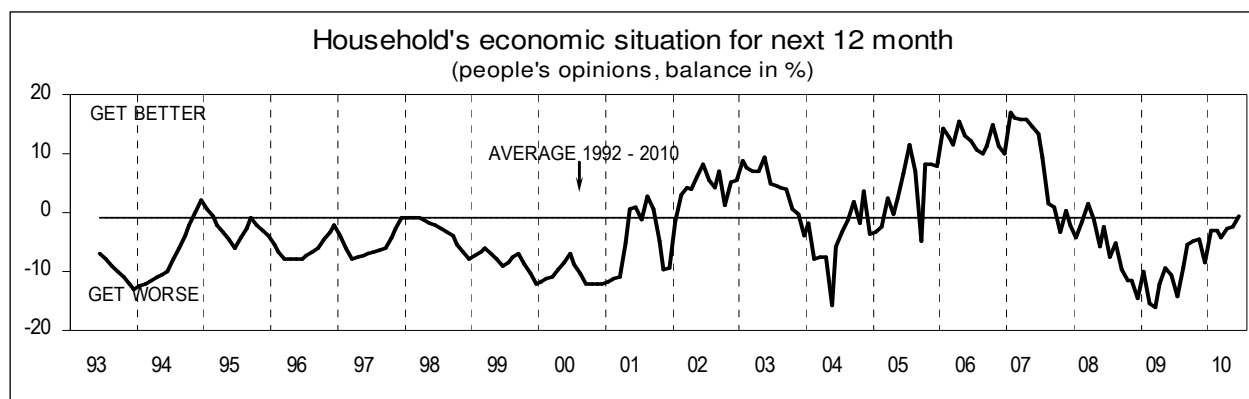
Consumer confidence growth in the second quarter continued and for the first time after two years confidence rose over the historic mean (1992–2010). Consumers' estimates of the labour market have improved rapidly and optimism for the national economic outlooks has become greater.

Households' expectations of the economic situation of their household improved

In a majority in June were consumers whose household's economic situation deteriorated over the past 12 months (48%); the situation for 46% of the consumers remained the same and for 6% improved (balance in April -32, in May -31, in June -29).

improved in June (balance in March -4, in June -1). In June, 23% of the interviewees (in March 22%) prognosticated worsening of the economic situation of their household, 44% (in March 40%) that it would stay the same and 23% hoped an improvement (in March 19%).

Expectations of the economic situation of one's household during the next 12 months

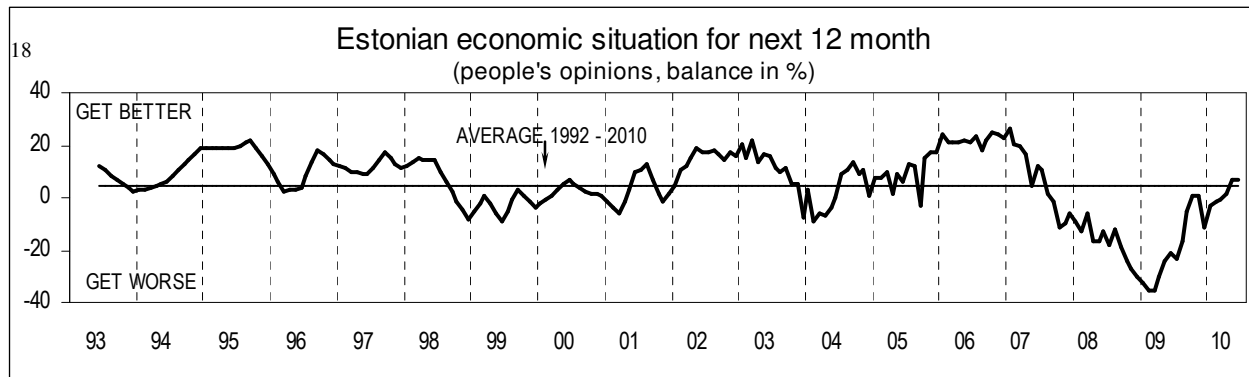


Expectations of the national economic situation improved

Consumers' estimate of the national economic situation during the last 12 months is still negative, although it has moved toward improvement in recent months. In June, 62% of the interviewees (in March 78%) were of the opinion that Estonia's economic situation is worse than 12 months ago.

and in June optimists were already more numerous than pessimists (balance +7). The June estimate was 8 points better than the estimate given in March and 28 points better than a year ago. 42% of the interviewees hoped that the national economic situation will be better after the next 12 months, 28% hope the same situation would last and 23% are afraid of worsening.

Expectations for the national economic development in the next 12 months improved

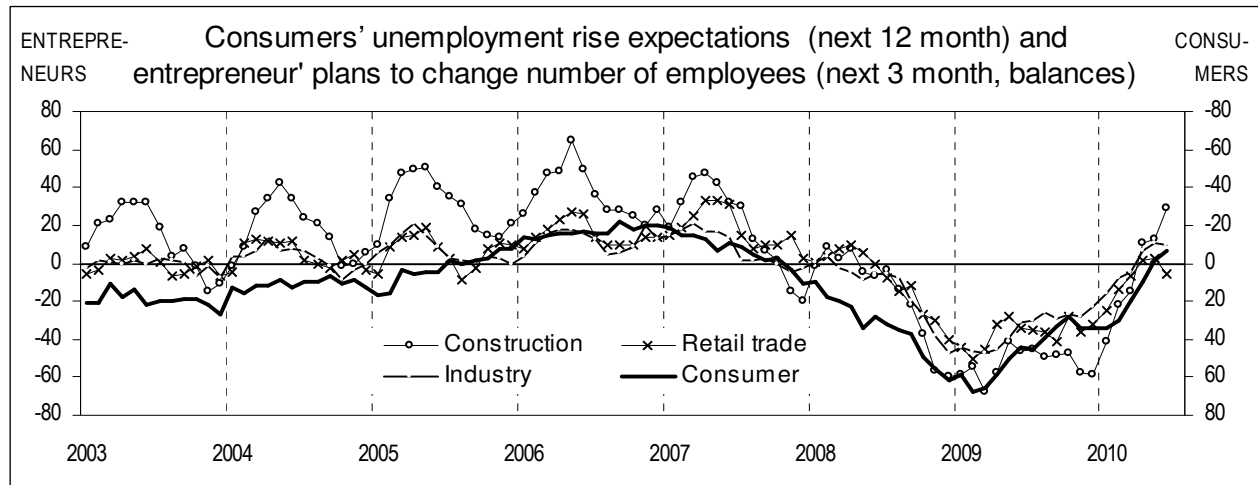


¹⁸ The interviews are conducted by phone. The June survey was conducted between 1 and 8 June, and 800 people across Estonia were interviewed

Unemployment growth is slowing down

In recent months, opinions expressed by interviewees about the labour market situation have turned much more positive. People believe the unemployment growth is slowing down (balance in March 20, in June -7, long-term aver-

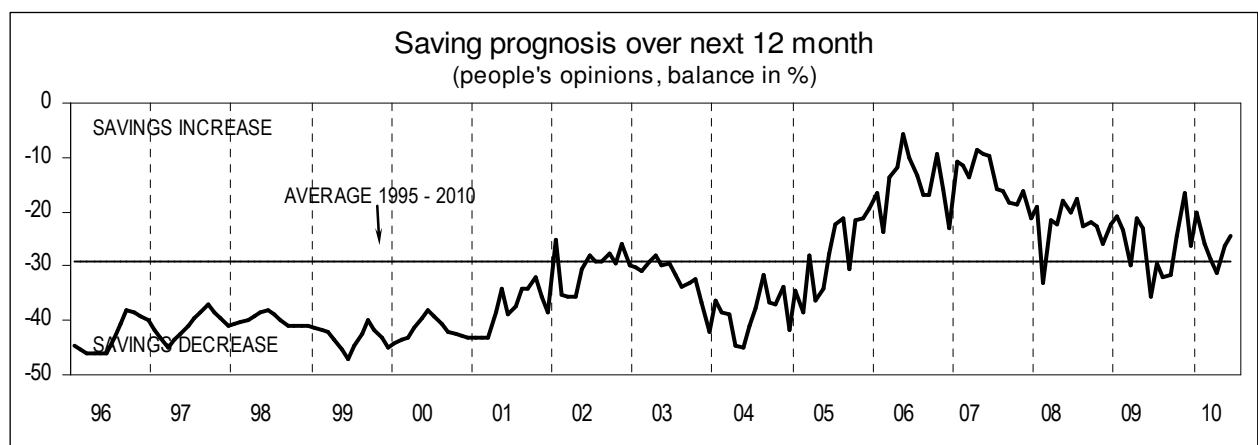
age 18). The assessment in June was the most optimistic over 2 years. Consumers' expectations are supported also by entrepreneurs' plans to create new jobs.



No big changes happened in the financial status of households

Households' financial status has been relatively stable at the cost of essentially curbing expenditure throughout the period of crisis. In June, 36% of the households said they could save, 51% managed somehow and 13% lived on previous savings or were in debt (balance 12).

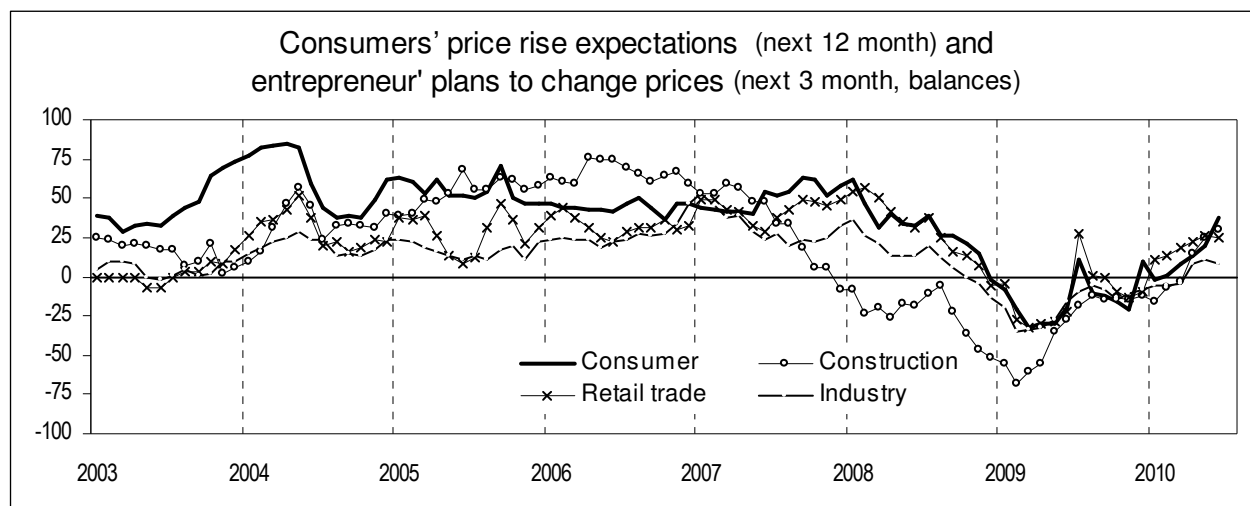
The consumer survey indicates that consumers' plans to buy durable goods are still modest, however a little more optimistic than typical of the last two years.



Consumers' expectations of inflation growing again

Consumers estimate that retail prices will rise in the short term and they prognosticate a price rise of 7% for the next 12 months. A year ago in June, 15% of the interviewees prognosticated fall of prices and 6% a faster price rise than pre-

viously; in June 2010, however, only 1% predict a price fall and 29% of the consumers estimate that price rise will accelerate. Also enterprises' estimates in the conjuncture survey imply an acceleration of inflation in the short term.



A factor that enhances consumers' expectations of inflation is Estonia joining the euro area. In June, we asked from consumers an extra question about that.

What do you think, will the introduction of euro in Estonia bring a change in retail prices (% responses)?

	Total	Gender		Age			
		Males	Females	16-29	30-49	50-64	65-
Prices will fall substantially	0	0	1	1	0	0	0
Prices will fall slightly	1	1	1	1	2	1	1
Prices will remain the same	9	11	7	11	9	8	9
Prices will rise slightly	56	59	52	57	55	54	56
Prices will rise significantly	29	22	34	28	32	31	21
Cannot say	5	6	5	2	2	6	13

Most of the respondents were of the opinion that the adoption of euro will bring a smaller or bigger price rise. The opinions were quite similar across different income groups, among people with different education and of different age. Women looked at the coming price

rise in somewhat darker colours. So, 59% of the males believed that prices will rise a little and 22% that they would rise significantly. However, a moderate price rise was forecasted by 52% of women and a big price rise by 34% of the respondents.

Consumer confidence aggregate indicator

Consumer confidence indicator in June was -3 and this is 8 points better than the long-term average (1992-2010). Compared to the bottom of the economic crisis in March 2009, consumer confidence has improved by 34 points. A faster

improvement has been in expectations of the national economic situation and expectations of the labour market. Expectations of the economic situation of one's household and households' saving prognosis have improved less.

Consumers' confidence indicator (by components of confidence indicator)

		Confidence indicator	Household's own financial situation in the next 12 months (balance)	National economic situation in the next 12 months (balance)	Unemployment in the next 12 months (balance)	Saving in the next 12 months (balance)
June	2005	-5	7	6	4	-25
June	2006	10	12	22	-16	-9
June	2007	7	13	12	-11	-6
June	2008	-16	-2	-13	28	-16
March	2009	-37	-16	-35	66	-30
June	2009	-28	-11	-21	45	-36
March	2010	-14	-4	-1	20	-29
June	2010	-3	-1	7	-7	-24

Consumers' confidence indicator across different social groups

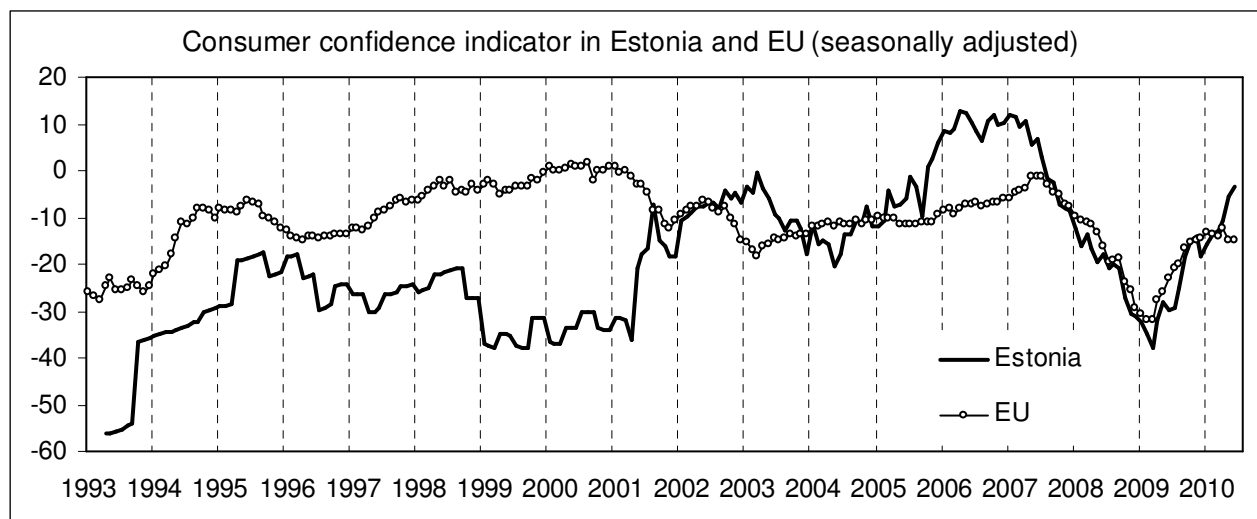
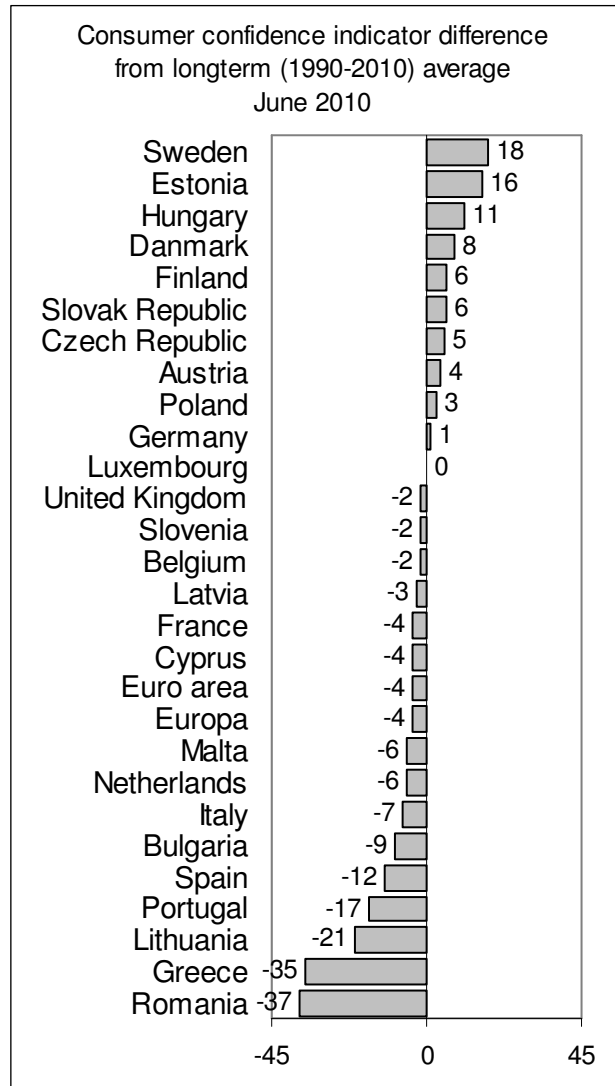
	2006 June	2007 June	2008 June	2009 June	2010 June
KOKKU	13	7	-16	-28	-3
Income					
1st quartile	-2	-1	-21	-33	-15
2nd quartile	6	5	-20	-34	-12
3rd quartile	13	12	-11	-19	5
4th quartile	21	14	-11	-25	8
Gender					
Males	16	8	-13	-25	2
Females	5	6	-18	-31	-7
Age					
16-29	16	19	-6	-19	14
30-49	12	4	-18	-28	-6
50-64	7	1	-21	-31	-11
over 64	2	2	-9	-32	-10
Occupation					
Self-employed	23	8	-17	-24	1
White-collar	10	9	-17	-27	4
Skilled worker	10	9	-17	-27	-4
Unskilled worker	10	5	-17	-29	-11

Consumer confidence in the European Union as a whole did not change much in the second quarter; however, different directional trends have started to appear in different countries.

Consumer confidence rose in June in important export destination countries for Estonia: in Finland, Sweden, Latvia and Lithuania. In many South-European countries where gov-

ernments are facing the need to cut budgets, consumer confidence fell (Greece, France, Rumania, United Kingdom).

On the basis of the adjusted time series published by the European Commission, consumer confidence has recovered most rapidly in Sweden, Estonia, Hungary, Denmark, Finland, Slovakia. The recovery has been slow in Romania, Greece, Lithuania, Portugal, Spain and Bulgaria.



CONSUMER SURVEY (balance, %)

Question	2010			
	APR	MAY	JUN	
1. How has the financial situation of your household changed over the last 12 months?				
got a lot better	++	0,6	0,1	0,6
got a little better	+	4,4	4,8	5,0
stayed the same	=	44,6	45,9	45,9
got a little worse	-	27,6	30,3	32,1
got a lot worse	--	21,4	17,9	16,1
don't know		1,4	1,1	0,3
	balance	-32	-31	-29
2. How do you expect the financial position of your household to change over the next 12 months?				
get a lot better	++	1,1	1,3	1,1
get a little better	+	19,9	18,1	21,4
stayed the same	=	43,1	44,5	44,0
get a little worse	-	12,1	13,0	17,9
get a lot worse	--	7,8	6,4	3,6
don't know		16,0	16,8	12,0
	balance	-3	-3	-1
3. How do you think the general economic situation in Estonia has changed over the past 12 months?				
got a lot better	++	0,3	0,4	0,3
got a little better	+	6,0	13,8	13,8
stayed the same	=	16,5	18,3	19,9
got a little worse	-	37,0	34,6	42,9
got a lot worse	--	30,5	26,9	18,6
don't know		9,8	6,1	4,6
	balance	-46	-37	-33
4. How do you expect the general economic situation in Estonia to develop over the next 12 months?				
get a lot better	++	0,6	1,1	1,8
get a little better	+	35,3	39,8	39,4
stayed the same	=	29,8	28,3	27,8
get a little worse	-	13,1	11,4	16,8
get a lot worse	--	10,3	8,5	6,5
don't know		11,0	11,0	7,9
	balance	1	7	7
5. How do you think that consumer prices have developed over the last 12 months?				
Risen a lot	++	17,3	15,8	17,0
Risen moderately	+	22,4	26,0	33,4
Risen slightly	=	19,6	25,0	31,8
Stayed about the same	-	21,4	21,1	13,4
Fallen	--	11,3	7,4	1,6
Don't know		8,1	4,8	2,9
	balance	7	11	25

Question	2010			
	APR	MAY	JUN	
6. By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 month?				
More rapid increase in prices	++	14,4	15,4	29,0
Increase in the same rate	+	26,4	31,5	30,5
Increase in the slower rate	=	17,4	19,8	19,3
Will stay about the same	-	23,6	20,5	11,1
Prices will fall slightly	--	2,5	1,6	0,5
Don't know		15,8	11,3	9,6
	balance	13	19	38
7. How do you expect the unemployment in Estonia to change over the next 12 months?				
increase sharply	++	7,3	4,0	4,6
increase slightly	+	30,6	25,3	19,5
remain the same	=	32,3	31,0	30,3
fall slightly	-	21,4	32,0	37,3
fall sharply	--	1,9	2,1	2,9
don't know		6,6	5,6	5,5
	balance	10	-2	-7
8. In view of the general economic situation, do you think now it is the right moment for people to make major purchases as furniture, electrical/electronic devices, etc.?				
yes, now is the right time	+	44,0	35,3	39,4
it is neither the right time nor the wrong time	=	21,3	29,6	28,5
the wrong time	-	24,1	25,3	23,8
don't know		10,6	9,9	8,4
	balance	20	10	16
9. Compare the past 12 months, do you expect to spend more or less money on major purchases (furniture, electrical/electronic devices, etc.) over the next 12 months?				
much more	++	1,0	1,9	2,3
a little more	+	6,1	7,3	9,6
about the same	=	47,8	37,9	44,1
a little less	-	12,5	16,9	15,1
much less	--	24,5	29,5	26,1
don't know		8,1	6,6	2,8
	balance	-27	-32	-27
10. In view of the general economic situation, do you think that now is ... ?				
a very good time to save	++	7,3	5,5	7,5
quite a good time to save	+	22,1	26,3	24,9
rather an unfavourable time to save	-	33,8	37,3	38,1
a very unfavourable time to save	--	29,9	23,4	23,6
don't know		7,0	7,6	5,9
	balance	-28	-23	-23

Question	2010			
	APR	MAY	JUN	
11. Over the next 12 months, how likely is it that you save any money?				
very likely	++	6,3	6,4	6,4
fairly likely	+	26,0	28,0	28,9
fairly unlikely	-	27,4	34,5	34,1
very unlikely	--	36,8	29,3	28,1
don't know		3,6	1,9	2,5
balance		-31	-26	-24
12. Which of these statements best describes the current financial situation of your household?				
we are saving a lot	++	3,0	2,1	2,8
we are saving a little	+	33,9	34,5	33,6
we are just managing to make ends meet on our income	=	53,1	51,4	50,6
we are having to draw on our savings	-	5,6	7,1	9,4
we are running into debt	--	3,4	3,9	3,1
don't know		1,0	1,0	0,5
balance		14	12	12

Question	2010			
	APR	MAY	JUN	
13. How likely are you to buy a car within the next 12 months?				
very likely	++	3,8	-	-
fairly likely	+	5,0	-	-
fairly unlikely	-	4,4	-	-
very unlikely	--	85,5	-	-
don't know		1,4	-	-
balance		-81	-	-
14. Are you planning to buy or build a home over the next 12 months?				
very likely	++	2,3	-	-
fairly likely	+	2,5	-	-
fairly unlikely	-	4,3	-	-
very unlikely	--	88,8	-	-
don't know		2,3	-	-
balance		-87	-	-
15. How likely are you to spend any large sums of money on home improvements or renovations over the next 12 months?				
very likely	++	12,3	-	-
fairly likely	+	17,3	-	-
fairly unlikely	-	6,3	-	-
very unlikely	--	62,9	-	-
don't know		1,4	-	-
balance		-45	-	-

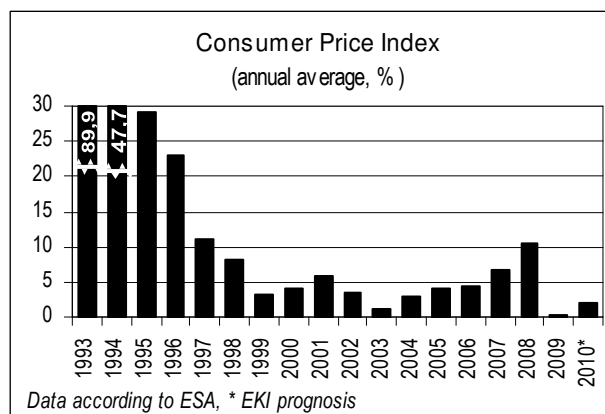
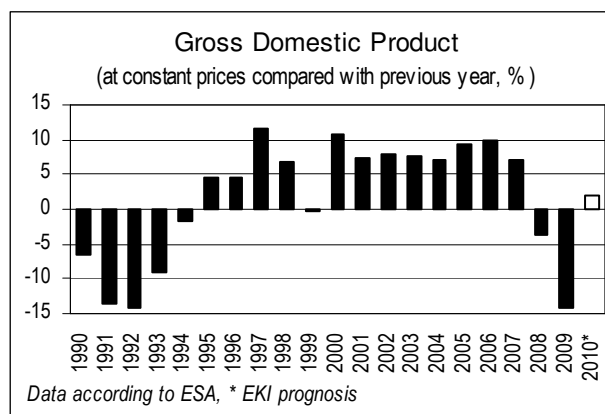
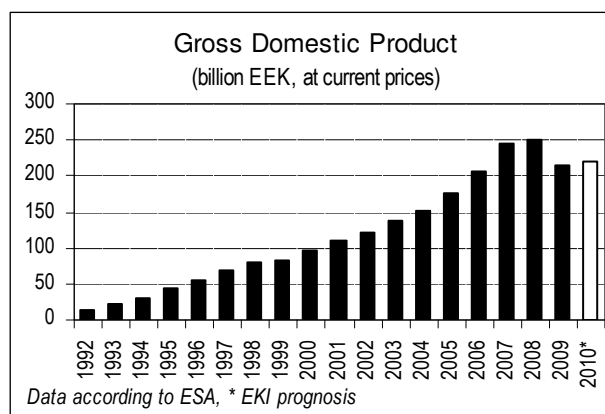
CONSUMER SURVEY (balance, %)

Question	1992 - 2010		2010													
	min	average max	6	7	8	9	10	11	12	1	2	3	4	5	6	
HOUSEHOLD ECONOMY																
Last 12 months	-53	-7	18	-29	-33	-30	-30	-31	-31	-32	-31	-33	-36	-32	-31	-29
Next 12 months	-36	-1	17	-11	-14	-9	-5	-5	-4	-9	-3	-3	-4	-3	-3	-1
ESTONIAN ECONOMY																
Last 12 months	-65	-5	38	-60	-61	-55	-55	-54	-54	-61	-58	-52	-55	-46	-37	-33
Next 12 months	-37	4	27	-21	-23	-16	-5	1	1	-12	-3	-2	-1	1	7	7
PRICE TRENDS																
Last 12 months (balance)	-29	31	85	-18	6	-9	-12	-26	-29	-13	-21	-7	3	7	11	25
Next 12 months (balance)	-33	41	85	-20	11	-11	-13	-15	-21	9	-2	0	8	13	19	38
(%)	-1	11	21	1	6	5	5	5	4	6	6	7	7	7	7	7
UNEMPLOYMENT TREND																
Present	-22	18	76	45	45	40	33	28	34	34	34	30	20	10	-2	-7
MAJOR PURCHASES																
Present	-7	25	47	12	15	16	14	18	23	18	17	21	13	20	10	16
Next 12 months	-60	-16	-2	-39	-35	-34	-36	-39	-36	-35	-36	-35	-33	-27	-32	-27
SAVINGS																
Present	-75	-26	-2	-27	-15	-22	-19	-15	-14	-12	-20	-16	-25	-28	-23	-23
Next 12 months	-47	-29	-6	-36	-29	-32	-32	-24	-17	-26	-20	-26	-29	-31	-26	-24
FINANCIAL SITUATION OF HOUSEHOLD																
Present	-22	11	20	11	11	9	9	11	12	12	13	10	12	14	12	12
PURCHASE OF A CAR																
Present	-89	-69	-55	x	-86	x	x	-89	x	x	-84	x	x	-81	x	x
PURCHASE OR BUILD A HOME																
Present	-93	-82	-64	x	-93	x	x	-93	x	x	-90	x	x	-87	x	x
HOME IMPROVEMENTS																
Present	-66	-33	-14	x	-64	x	x	-61	x	x	-56	x	x	-45	x	x
CONSUMER CONFIDENCE INDICATOR																
Present	-37	-11	13	-28	-28	-24	-19	-14	-14	-20	-15	-15	-14	-11	-5	-3

3. A short overview of Estonia's economic development in 1993-2010

Gross domestic product (GDP). In the process of reforms and economic restructuring (1992-1994), gross domestic product (at constant prices) diminished by nearly one quarter. A rise began in the second half of 1994 and has lasted till 2007. Average annual real growth of the economy was 8.7% during the boom years (2000–2007). GDP at nominal prices increased approximately 10 times over the period of 1994–2007. The growth rate accelerated after Estonia's accession to the European Union. Therefore, the year 2004 can be called a year of acceleration and 2005 a year of high conjuncture. The real estate boom started in this year and culminated in 2006, which is therefore called the year of overheating. The post-real estate boom year was characterised by economic growth slowing down, owing to what the keyword for the year 2007 is cooling down. The situation changed in 2008 when a financial crisis broke out in the world, which turned the Estonian economy to decline. GDP per capita in 2008 was 67% of the European Union 27 countries average (considering the price difference). The economic decline accelerated in 2009 (decline 14.1%) and only in 2010 a small rise is expected (EKI forecast 2%).

Consumer price index (CPI). Prices of consumer goods and fee-charging services have risen on average 10.42 times since the introduction of the kroon (from June 1992 till May 2010). The rise of consumer prices slowed down from year to year, reaching 1.3% in 2003. In the period 2004-2006, CPI stayed between 3.0...4.4%. The price rise has been induced by the price consolidation process typical of the transition economies. In recent years, the administratively regulated prices have risen faster than free market prices, and prices of services faster than prices of goods (in 2004, CPI was 3.0%, in 2005 4.1% and in 2006 4.4%). In 2007, as a co-effect of demand and supply side factors, inflation started to grow faster again: CPI in 2007 was 6.6% and

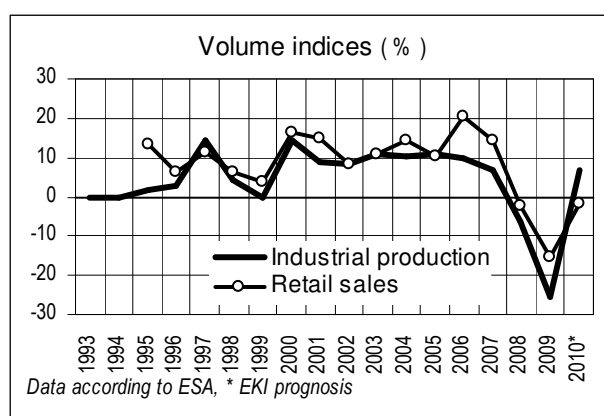
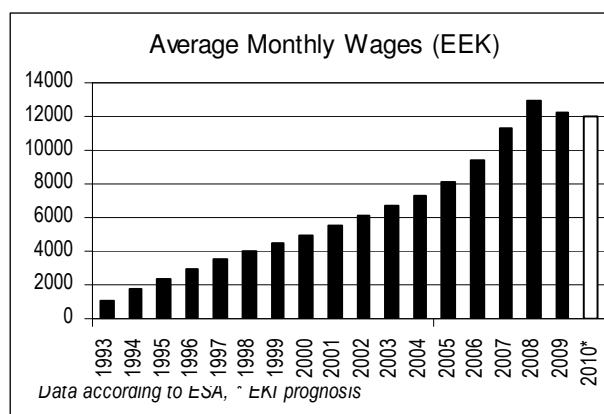
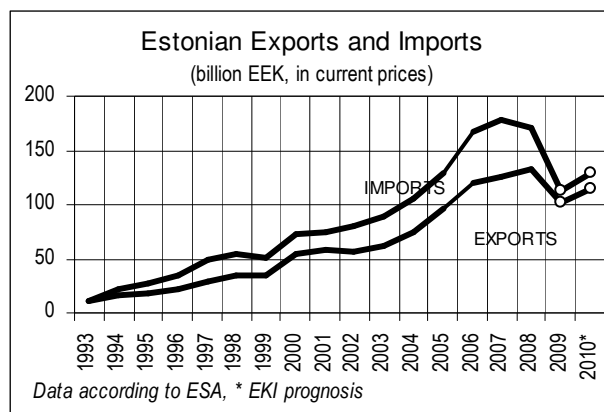


in 2008 even 10.4%. The situation changed drastically in 2009 when the economic recession and other factors lowered inflation to 0.1%. EKI prognosticates that prices in 2010 will rise 2%.

Foreign trade. Estonian foreign trade has been thriving during the past twelve years. Foreign trade turnover of goods at current

prices increased nearly 8 times over the years 1994–2008. However, the trade balance has been negative in all these years and in recent years the deficit has exceeded 30 billion kroons. The fastest leap was made by **exports** in 2005–2006, which is associated with Estonia's accession to the European Union. Finland and Sweden have been the major export partners for Estonia over time. **Import** of goods has increased in all years (with the exception of 1999 and 2009). Fast growth of import demand has been induced by intensive inflow of foreign direct investments and fast growth of private consumption. The main import partners have been also Finland and Sweden, from where come also the bulk of components and intermediate products used for subcontracting. In 2001–2002, foreign trade development in Estonia slowed down as a result of worsening of the world economic climate, but started to grow faster again in 2003. In 2008, exports amounted to 132.5 billion kroons and imports 169.9 billion kroons. Growth slowed down sharply in 2009. A reason for this is a slow-down in demand growth in foreign markets due to the global financial crisis. A revival of foreign trade is expected in 2010.

Employment. As a result of negative natural increase and emigration in the 90s, the number of employed population in Estonia decreased considerably. Since 2000, the number of employed population has been increasing and reached from 572 thousand in 2000 to 657 thousand people in 2008. The rate of unemployment increased until 2000 when it was nearly 14%. After that the unemployment rate was declining, amounting to about ~10% in 2003 and 2004, and 4.7% in 2007. Employment was increased by the real estate boom during which the construction sector obtained nearly 40 thousand new employees. Unemployment started to increase again in 2008, caused by the economic recession and especially by the decline in the construction sector. Employment increased sharply in 2009. There were 87,282 registered job seekers at the end of the year. The situation has started to improve slowly in the second quarter of 2010.



Industrial output. The share of industrial output in GDP has fallen in the process of economic restructuring from 35.4% (1992) to 14.5% (2009). Manufacturing produces 5/6 of the industrial output. The volume index of industrial production has been positive since 1995 with the exception of 1999 when a 3.4% decline was caused by the Russian economic crisis. The growth of industry was fast (on average 10%) in 2000–2006. Production output depends largely on subcontracts and the latter in turn on the world economy situation. Industrial production is significantly influenced also

by external demand, as industrial enterprises sell more than half of their output on foreign markets. In 2006, real growth of industrial production was 9.9% and it slowed down in 2007 – to 6.7%. The situation changed essentially in 2008 when the domestic and external demand decline caused a decline by 6.5% in production. Orders decreased further in 2009 when production decreased 25.5%. Forecast for 2010 – growth 7%.

Wages and personal income. Average gross wages have been increasing since the introduction of the kroon and reached more than 6000 kroons first in 2002 and 11,000 kroons in 2007. The growth of wages has outstripped the rise of consumer prices, providing a rise of real wages in all these years. Average annual rise of real wages was 7% in 1996-2008. Nominal wages are higher in financial intermediation, government sector, real estate and mining industry. In 2005, wages and salaries started to rise faster (effect of shortage of workforce) and in 2007, average monthly wage was 11,336 kroons already and in 2008 – 12,912 kroons. Economic recession forced enterprises to observe more strictly the productivity-wage rise proportions. In 2009, average wages dropped to 12,264 kroons and in 2010 expectedly to 12,000 kroons.

ESTONIAN ECONOMIC INDICATORS

Indicator	Unit	1993	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 * prog- no- sis
Gross Domestic Product	bil. kroons	22,8	78,7	83,8	96,4	109,1	121,7	136,4	151,5	175,0	207,0	244,5	251,5	214,8	219
Gross Domestic Product compared with same period of previous year	%	91,0	106,7	99,7	110,0	107,5	107,9	107,6	107,2	109,4	110,0	107,2	96,4	85,9	102
Investment in fixed assets	bil. kroons	5,4	23,9	20,6	24,8	28,9	36,1	43,1	46,8	56,2	72,3	84,4	73,8	46,9	49
Consumer price index (annual average)	%	89,9	8,2	3,3	4,0	5,8	3,6	1,3	3,0	4,1	4,4	6,6	10,4	0,1	2,0
Producer price index (annual average)	%	75	4,2	-1,2	4,9	4,5	0,4	0,2	2,9	2,1	4,5	8,3	7,1	-0,5	1,0
Exports	bil. kroons	10,6	35,2	35,4	53,9	57,8	57,0	62,6	74,6	97,8	120,8	125,7	132,5	101,3	115
Imports	bil. kroons	11,8	55,2	50,4	72,2	75,1	79,5	89,4	104,9	128,8	167,6	179,0	170,5	113,6	130
Trade balance	bil. kroons	...	-20,0	-15,4	-18,3	-17,2	-22,5	-26,8	-30,3	-31,7	-46,6	-53,3	-36,0	-12,2	-15
Export of services	bil. kroons	4,4	20,8	22,0	25,3	28,1	28,2	30,7	35,9	40,9	44,3	50,0	55,0	49,4	50
Import of services	bil. kroons	3,4	12,8	13,6	15,1	16,8	18,3	19,2	22,0	27,7	31,0	35,1	35,8	28,4	30
Current account deficit	bil. kroons	+0,3	-6,8	-3,6	-5,2	-5,6	-12,9	-15,4	-17,1	-17,5	-32,1	-42,6	-24,5	+9,8	0
Current account deficit (% of GDP)	%	1,2	-8,6	-4,3	-5,4	-5,2	-10,6	-11,3	-11,3	-10,0	-15,5	-17,4	-9,8	4,6	0
Registered unemployed (monthly average)	thous. people	34,4	31,9	44,0	46,2	54,1	48,2	43,3	32,2	26,0	15,4	13,4	19,7	67	85
Average monthly wage	kroons	1 066	4 021	4 440	4 907	5 510	6 144	6 723	7 287	8 073	9 407	11 336	12 912	12 264	12 000
Growth of real wage compared with previous year	%	2,2	4,0	6,9	6,3	6,1	7,6	8,0	5,2	6,4	11,6	13,0	3,2	-5,2	-4,2
Volume indices of industrial production	%	-18,7	4,1	-3,4	14,6	8,9	8,2	11,0	10,5	11,0	9,9	6,7	-6,5	-25,5	7,0
Volume indices of retail sales	%	...	6,4	3,6	16,3	15,0	8,4	10,9	14,6	10,5	20,3	14,6	-2,5	-15,6	-2,0
Loan stock	bil. kroons	...	23,9	26,7	34,2	40,7	50,0	69,2	92,5	125,4	177,7	240	260,1	244,7	240
Balance of payments	bil. kroons	2,6	0,1	1,8	2,3	-0,7	0,9	2,3	3,4	4,9	7,5	1,4	7,9	0,03	...
Construction activities	bil. kroons	1,8	9,5	8,4	9,7	10,8	14,0	15,6	18,4	23,7	34,0	43,1	37,5	23,5	24

* prognosis compiled in June 2010

4. Development prognosis for Estonian economy 2010-2013

The financial and economic crisis that hit the world economy in 2008–2009 caused big problems and confusion in the world, revealed vulnerability of developed countries and new, so far unused opportunities of developing Asian countries. Many analysts have prognosticated that development opportunities of the European countries in the post-crisis years will depend largely on the speed of adaptation to changed conditions, more effective use of workforce, macroeconomic equilibrium and structural changes.

The short-term development of the **Estonian** economy will be largely dependent on the success of our main foreign trade partners and foreign investors' interest in Estonia. However, these factors involve risks and make the medium-term economic prognoses complicated and uncertain. To reduce the risks associated with prognoses, we decided (again) in favour of using the so-called consensus method and asked analysts of the EKI panel of experts to participate in prognosticating¹⁹. Table 4.1 provides arithmetic means of prognoses by 11 analysts for 12 key economic indicators.

Table 4.1. Medium-term development prognosis for the Estonian economy, 2010–2013¹⁹

Indicator	Unit of measure	Factual				Prognosis			
		2006	2007	2008	2009	2010	2011	2012	2013
Gross domestic product at current prices	bln EEK	207	244	251	215	219	231	247	266
Gross domestic product, real growth	%	10.0	7.2	-3.6	-14.1	1.1	3.6	3.9	4.1
Total capital investment into fixed assets at current prices	bln EEK	72.3	84.4	73.8	46.9	46.9	52.5	59.3	67.0
Consumer price index	%	4.4	6.6	10.4	0.1	1.8	2.4	2.7	3.0
Merchandise exports at current prices	bln EEK	121	126	132	101	111	122	133	143
Merchandise imports at current prices	bln EEK	167	179	170	114	120	132	144	157
Registered unemployment (annual average)	thous.	15.4	13.4	19.7	67.0	86.8	76.7	68.2	56.5
Average monthly wage	EEK	9 407	11 336	12 912	12 225	11 966	12 276	12 780	13 420
Industrial production, volume index	%	9.9	6.7	-6.5	-25.5	7.0	8.0	6.7	6.5
Retail sales, volume index	%	20.3	14.6	-2.5	-15.6	-0.5	3.5	4.3	5.5
Construction production at current prices	bln EEK	34.4	43.1	37.5	23.5	22.6	25.5	29.3	33.1
Banks' aggregate loans portfolio	bln EEK	178	240	260	245	237	245	256	268

¹⁹ The consensus prognosis is based on prognoses made by Aare Järvan, Kalev Kukk, Leev Kuum, Ahti Kuningas, Maris Lauri, Heldur Meerits, Alari Purju, Janno Reiljan, Andres Saarniit, Andrus Säälük and Heido Vitsur.

The following can be added to the prognoses provided in the table:

Gross domestic product (at current prices) will grow every year and will surpass the pre-crisis level in 2013. Real growth will accelerate from 1.1% (2010) to 4.1% (2013) approaching the estimated sustainable level (5%). According to the most pessimistic individual prognosis, growth rate in the medium-term period will be between 0 and 3%, and according to the most optimistic prognosis, it will be between 3 and 6%.

Capital investment into fixed assets will increase, according to the consensus prognosis, more than 10% a year during the next 3 years, however, won't catch the boom period record (84.4 bln kroons in 2007). According to the most optimistic prognosis, investments in 2013 will be 75 bln kroons and according to the minimal prognosis – 60 bln kroons. In relation to GDP, investments in 2010 will amount to 21.5% and by the end of the prognosticated period will reach 24.8%.

Consumer price rise will be moderate in the medium-term period, but according to the consensus prognosis, will accelerate from year to year, amounting to 3.0% in 2013. Maximum estimates of CPI are even somewhat higher amounting to 4.0% in 2011 and in 2013, which might not fit in the Maastricht inflation criteria.

Merchandise export development in the medium-term period will be good, according to the consensus prognosis – on average 9% annually. At the end of the period (2013), exports should surpass the pre-crisis level by 11 bln kroons (in 2008 132 bln EEK). According to the minimum prognosis, export growth will be more than 2%-points slower, but even in that case exports will amount to 130 bln kroons at the end of the period.

Merchandise imports will grow from year to year during the period prognosticated and will be bigger than exports in all the years. Imports in 2013 will still remain smaller than in the boom years. In money terms, imports will ex-

ceed exports in the first year (2010) by 9 bln kroons and in 2013 by 14 bln kroons (according to the maximum scenario, the trade deficit in 2013 will be 16 bln kroons).

Unemployment (annual average) in 2010 will be nearly 20 thousand bigger than in the previous year, but then will start decreasing by approximately 10 thousand annually and by 2013 will fall to 56.5 thousand people (according to the most optimistic prognosis, to 30 thousand). Hence, the unemployment rate at the end of the medium-term period will be relatively high still (approximately 8%). It should be mentioned that the rate of unemployment can be lowered by (administrative) measures applied by the central and local governments.

Average wage, which according to the prognosis remains in 2010 below the 2009 level (–2%), will later on increase from year to year reaching in 2013 13,420 kroons (the pre-crisis peak was in 2008 – 12,912 kroons). In 2011, the prognosticated growth of gross wages would be 2.6%, in 2012 – 4.1% and in 2013 – 5.0%. Considering inflation, we get the real wage growth in 2011 0.2%, in 2012 1.4% and in 2013 2.0%.

Regarding **industrial production** growth, the consensus prognosis is quite optimistic: it might grow in the short term 7...8% annually. At the same time, prognoses vary to a great extent, amounting in 2011 from 2 to 5% and in two last years from 2 to 10%, which testifies to possible risks arising above all from exports.

Retail sales development in the medium term caused more different opinions; the difference between the marginal prognoses of the annual volume index was as big as 8%-points. According to the consensus prognosis, the retail turnover in 2010 will decrease (–1%), but in the future will increase at accelerating rate and in 2013 will reach 5.5%.

Construction production, according to the consensus prognoses, will be going upwards in 2010–2013 and will reach from 23 bln kroons (2010) to 33 bln kroons by the end of the period

(pre-crisis peak level was in 2007 – 43.1 bln EEK). It should be mentioned, however, that experts' prognoses vary to a great deal and according to the most optimistic prognosis, construction production in 2013 will be on the boom level again (43 bln kroons).

Bank loans portfolio is gaining in weight from year to year and at the end of the period will surpass the pre-crisis peak level (260 and 268 bln kroons, respectively). According to the maximum prognosis, the volume of loans in 2013 will be even 300 bln EEK.

In brief, it may be said that the medium-term outlooks of the Estonian economy are moderately positive.