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CAN PRODUCTION OF ALCOHOL BEVERAGES PREDICT RECESIONS?

Abstract:

Periods before the start of recessions are characterized by increased uncertainty and stress which are manifested by increase in alcohol consumption. The main idea behind this paper is that increased alcohol production follows this increase in consumption and thereby can be used as early warning indicator. The data was analysed through signal extraction approach that tests if specific indicator deviates significantly from its „normal“ values and by doing so issues a warning signal about possible future recession. Analysis on production of three main alcohol types in four European countries shows good accuracy of indicators based on alcohol production but with significant inconsistency between countries. Inconsistency can be explained by alcoholic preference of specific country with indicators being far less precise in predicting recessions if they are based on least consumed alcohol type. Received results expand existing early warning methodology and give potential for further development by putting larger focus on human behaviour in predicting recessions. Also, these findings have important policy implications since early recognition of upcoming recession significantly aids in reducing its effects and duration.

Keywords:

recession, early warning indicators, alcohol consumption, drinking habits

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