

# KEY INDICATORS FOR THE EURO AREA



## European Commission, DG ECFIN

### Key indicators for the euro area

this update: 5 September 2006

next update: 5 October 2006

		2003	2004	2005	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06
<b>1 Output</b>										
Industrial confidence <sup>1.1</sup>	Balance	-11	-5	-8	-1	1	2	3	4	2
Industrial production <sup>1.2</sup>	mom % ch.	0.5	2.0	1.3	0.8	-0.7	1.8	-0.1		
		2003	2004	2005	05Q2	05Q3	05Q4	06Q1	06Q2	06Q3
Gross domestic product <sup>1.3</sup>	qoq % ch.				0.4	0.6	0.4	0.8	0.9	
<b>2 Private consumption</b>										
Consumer confidence <sup>2.1</sup>	Balance	-18	-14	-14	-11	-10	-9	-9	-8	-8
Retail sales <sup>2.2</sup>	mom % ch.	0.1	0.2	1.0	-0.6	0.9	-0.3	0.5	0.6	
		2003	2004	2005	05Q2	05Q3	05Q4	06Q1	06Q2	06Q3
Private consumption <sup>2.3</sup>	qoq % ch.	1.3	1.4	1.4	0.4	0.7	0.1	0.7	0.3	
<b>3 Investment</b>										
Capacity utilization <sup>3.1</sup>	%	80.7	81.6	81.3	81.1	80.9	81.1	82.0	82.5	83.6
Gross fixed capital formation <sup>3.2</sup>	qoq % ch.	1.0	2.1	2.7	1.2	1.2	0.4	0.9	2.1	
Change in stocks <sup>3.3</sup>	% of GDP	0.0	-0.1		0.2	0.2	0.5	0.2	0.3	
<b>4 Labour market</b>										
Unemployment <sup>4.1</sup>	%	8.4	8.9	8.5	8.0	8.0	7.9	7.8	7.8	
		2003	2004	2005	05Q2	05Q3	05Q4	06Q1	06Q2	06Q3
Employment <sup>4.2</sup>	yoy % ch.	0.4	0.6	0.7	0.7	0.6	0.7	0.9		
Shortage of labour <sup>4.3</sup>	%	2.5	2.4		2.0	2.1	2.8	2.7	3.1	4.3
Wages <sup>4.4</sup>	yoy % ch.	2.5	2.2		2.2	2.2	2.2	2.2		
<b>5 International transactions</b>										
Export order books <sup>5.1</sup>	Balance	-24	-13	-16	-6	-2	-2	3	3	3
World trade <sup>5.2</sup>	Index	132	146	157						
Exports of goods <sup>5.3</sup>	Bn. EUR	1056.0	1142.1	1232.5	112.0	111.9	112.5	112.9		
Imports of goods <sup>5.4</sup>	Bn. EUR	970.4	1069.1	1207.3	112.4	113.0	113.7	114.0		
Trade balance <sup>5.5</sup>	Bn. EUR	85.6	73.0	25.2	-0.4	-1.1	-1.2	-1.1		
		2003	2004	2005	05Q2	05Q3	05Q4	06Q1	06Q2	06Q3
Exports of goods and services <sup>5.6</sup>	qoq % ch.	1.1	6.8	4.2	1.9	2.6	0.9	3.9	1.3	
Imports of goods and services <sup>5.7</sup>	qoq % ch.	3.1	6.7	5.2	2.6	2.5	1.6	2.9	1.2	
		2003	2004	2005	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06
Current account balance <sup>5.8</sup>	Bn. EUR	18.1	42.4	38.8	-1.8	0.9	-7.6	4.0		
Direct investment (net) <sup>5.9</sup>	Bn. EUR	-18.4	-39.7	-41.8	8.6	-2.5	-0.4	-8.7		
Portfolio investment (net) <sup>5.10</sup>	Bn. EUR	-9.4	39.0	32.3	48.4	-5.7	49.3	71.4		
<b>6 Prices</b>										
HICP <sup>6.1</sup>	yoy % ch.	2.1	2.2	2.2	2.2	2.4	2.5	2.5	2.4	2.3
Core HICP <sup>6.2</sup>	yoy % ch.	2.0	2.1	1.5	1.4	1.6	1.4	1.5	1.6	
Producer prices <sup>6.3</sup>	yoy % ch.	1.6	2.3	4.1	5.1	5.5	6.1	5.8		
Import prices <sup>6.4</sup>	Index	102.5	97.2	104.8	112.9	113.1	113.2			
<b>7 Monetary and financial indicators</b>										
Interest rate (3 months) <sup>7.1</sup>	% p.a.	2.3	2.1	2.2	2.7	2.8	2.9	3.0	3.1	3.2
Bond yield (10 years) <sup>7.2</sup>	% p.a.	4.1	4.1	3.4	3.7	3.9	4.0	4.0	4.0	3.9
ECB repo rate <sup>7.3</sup>	% p.a.	3.25	2.75		2.50	2.50	2.50	2.75	2.75	3.00
Stock markets <sup>7.4</sup>	Index	2420	2805	3207	3815	3841	3731	3529	3617	3744
M3 <sup>7.5</sup>	yoy % ch.	7.8	5.9	7.4	8.4	8.7	8.7	8.3		
Credit to private sector (loans) <sup>7.6</sup>	yoy % ch.	5.0	6.0	8.1	10.8	11.4	11.4	11.0	11.1	
Exchange rate USD/EUR <sup>7.7</sup>	Value	1.13	1.24	1.24	1.20	1.23	1.28	1.27	1.27	1.28
Nominal effective exchange rate <sup>7.8</sup>	Index	106.4	109.8	109.7	109.0	110.3	111.7	112.6	112.7	112.5



## Comments

### 1. Output

The Commission's **industrial confidence** indicator fell by 2 points in the euro area, having risen strongly since the second quarter of 2005. Despite this setback, the indicator is still about 10 points above its long term average. The fall in confidence is mainly due to production expectations turning less positive. Managers' assessment of order books and stocks of finished products have not changed much compared to last month.

**Industrial production** in the euro area fell by 0.1% in June 2006 compared to the previous month. On an annual basis, industrial production increased by 4.3% vis-à-vis the same period in 2005. Month-on-month production of energy and intermediate goods increased, while production of durable, non-durable and capital goods decreased.

Eurostat's first estimate of **gross domestic product** for the second quarter of 2006 shows an increase of 0.9% over the previous quarter. In comparison with the same quarter of the previous year, GDP grew by 2.6%. In the first quarter of 2006 growth was revised upwards to 0.8% (m-o-m).

The **Commission's interim forecast** released on 6 September indicates that economic growth is set to remain above potential throughout 2006. Compared to the spring forecast, GDP growth has been revised upwards by 0.4 percentage points from 2.1% to 2.5% in the euro area and from 2.3% to 2.7% in the EU for 2006. HICP inflation for the year as a whole has been revised upwards slightly to 2.3% in both the euro area and the EU.

### 2. Private consumption

The **consumer confidence** indicator remained unchanged in August. Except for a small setback in the first half of 2005, the indicator has been on an upward trend since the first quarter of 2003.

In July 2006, the volume of **retail sales** increased by 0.6%, compared to the previous month. Vis-à-vis the same period in 2005, retail sales rose by 2.5%.

**Private consumption** increased by 0.3% in the second quarter of 2006 (q-o-q), after a growth rate of 0.7% in the previous quarter. On an annual

basis, household final consumption expenditure rose by 1.7%, after growing by 1.8% y-o-y in the previous quarter.

### 3. Investment

**Gross fixed capital formation** rose by 2.1% in the second quarter of 2006 (q-o-q), after a growth rate of 0.9% registered in the previous quarter. On an annual basis, investment increased by 4.6%. The change in **stocks** as a percentage of GDP amounted to 0.3% in the second quarter of 2006. According to the quarterly manufacturing survey, **capacity utilisation** in the manufacturing sector increased to 83.6% in the third quarter of 2006. This is slightly above its long-term average.

### 4. Labour market

In July 2006, the **unemployment** rate stood at 7.8%, unchanged compared to June. It was 8.7% one year ago.

Total **employment** in the euro area rose by 0.9% (y-o-y) in the first quarter of 2006, it had increased by 0.7% in the previous quarter. The growth rate registered one year ago was 0.8%. Employment expectations in August improved by 2 points.

The level of recorded **labour shortages** increased by 1.2 pp in the third quarter of 2006: 4.3% of firms reported that unfilled job openings were constraining production.

### 5. International transactions

The assessment of **export order books** in manufacturing remained stable in August for the third consecutive month. The estimate of the **trade balance** for the euro area revealed a 1.1 bn euro deficit in June 2006, compared to a revised deficit of 1.2 bn euro in the previous month. The slight improvement in the trade balance was the result of an increase in **exports of goods** (+0.4 bn euro), which was slightly larger than the increase in **imports of goods** (+0.3 bn euro). In the second quarter of 2006, **exports of goods and services** (in volume terms) were up by 1.3% and **imports** by 1.2% (q-o-q). Compared to one year earlier, exports and imports rose by 9.0% and 1.3%, respectively.

The seasonally-adjusted **current account** of the euro area recorded a surplus of 4 bn euro in June 2006 (corresponding to a surplus of 5.5 bn euro in non seasonally-adjusted terms). This reflected



surpluses in goods (2.5 bn euro), services (2.3 bn euro) and income (2.2 bn euro), which were partly offset by a deficit in current transfers (3.0 bn euro). In the **financial account**, combined direct and portfolio investment recorded net inflows of 64 bn euro in June 2006, reflecting net inflows in **portfolio investment** (71 bn euro) and net outflows in **direct investment** (9 bn euro).

## 6. Prices

According to Eurostat's flash estimate, euro area annual **HICP** is expected to be 2.3% in August, down from 2.4% in July and 2.5% in June. The main components with the highest annual rates in July 2006 were housing (5.0%), transport (4.1%) and alcohol and tobacco (2.8%), while the lowest annual rates were observed for communications (-3.4%), clothing (-0.2%) and recreation and culture (0.3%). Concerning the detailed sub-indices, fuels for transport had the largest upward impact on the headline rate (+0.30 percentage points), followed by gas (+0.19), while telecommunications (-0.18) and garments (-0.15) had the biggest downwards impacts. The **core inflation** rate (HICP excluding energy and unprocessed food) increased to 1.6% in July from 1.5% in June 2006.

**Oil prices** rose in April to around 75 USD/bl. for Brent crude oil, amid concerns surrounding Iran's nuclear programme and supply disruptions in Nigeria, along with expectations of robust oil demand growth. Tensions eased in May and early June, picking up again towards the end of June. In July, the price level remained high. A low level of excess oil supply capacity, stretched refinery capacity, and ongoing geopolitical risks and risks to the security of oil supply continue to put pressure on the price of oil. On the back of the hostilities in Lebanon, oil prices reached record high levels at the beginning of August, with a barrel of Brent crude oil costing almost 80 USD. Oil prices moderated afterwards, likely reflecting the lower risk of the Israel-Lebanon conflict spreading.

The euro area1 industrial **producer price** index rose by 0.6% in July 2006 compared with June 2006. Prices in total industry excluding the energy sector increased by 0.3%, while prices in the energy sector rose by 1.8%. Among the other components intermediate goods gained 0.6%, durable consumer goods increased by 0.2% and capital goods rose by 0.1%, while non-durable consumer goods remained stable.

## 7. Monetary and financial indicators

On 3 August 2006, the ECB Governing Council decided to raise policy interest rates by 25 basis points, raising the minimum bid rate on the main refinancing operations of the Eurosystem to 3%. This move followed increases in policy interest rates of 25 basis points in December 2005, March 2006 and June 2006. In 2006, euro area money markets have been strongly affected by market expectations of future changes in ECB policy interest rates. In early September 2006, the **three-month money market rate** stood close to 3.27%. **Government bond yields** increased somewhat in the first half of July, but eased afterwards; in early September they stood around 3.74%. The euro area **yield curve**, measuring the term-structure of interest rates, has flattened slightly in recent weeks.

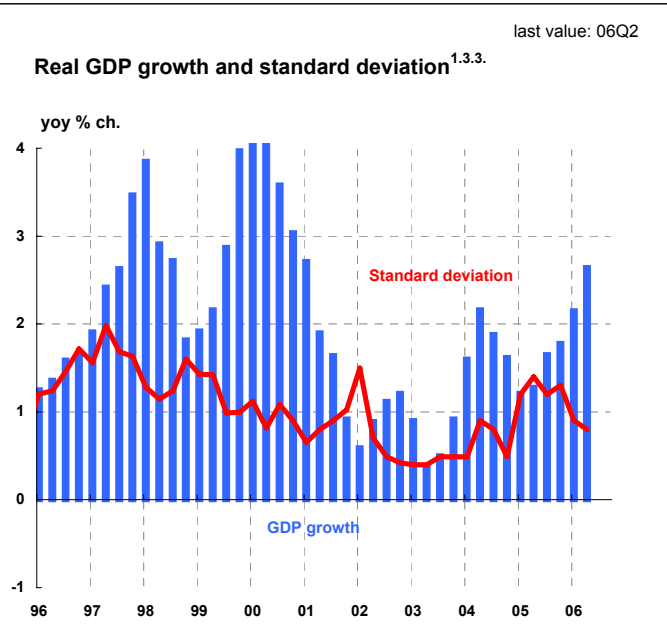
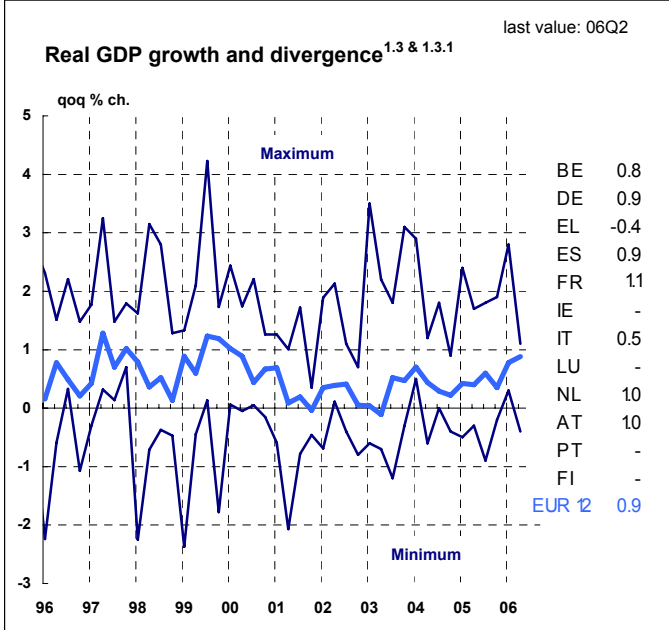
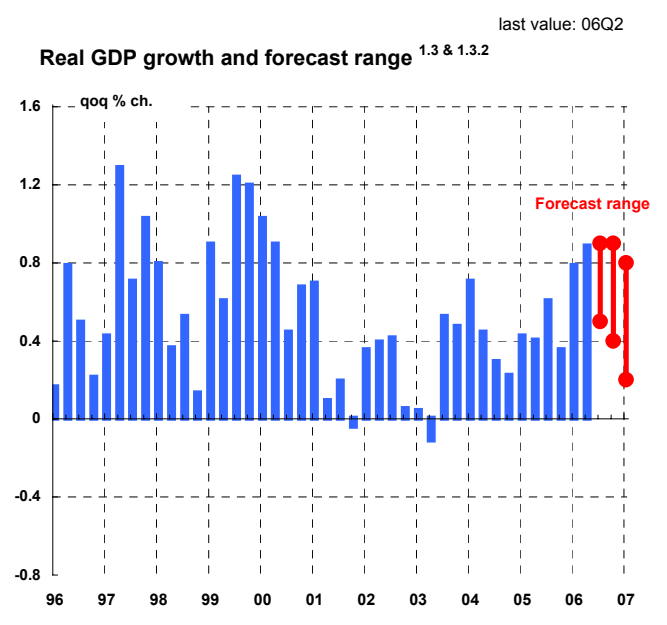
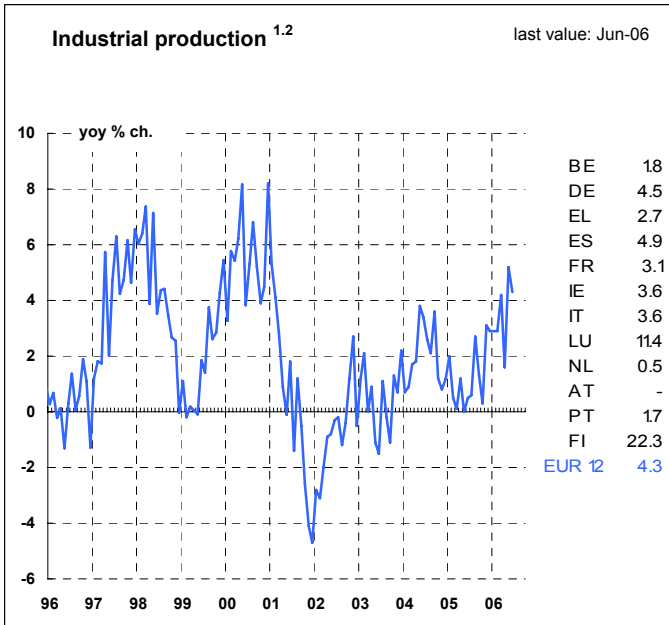
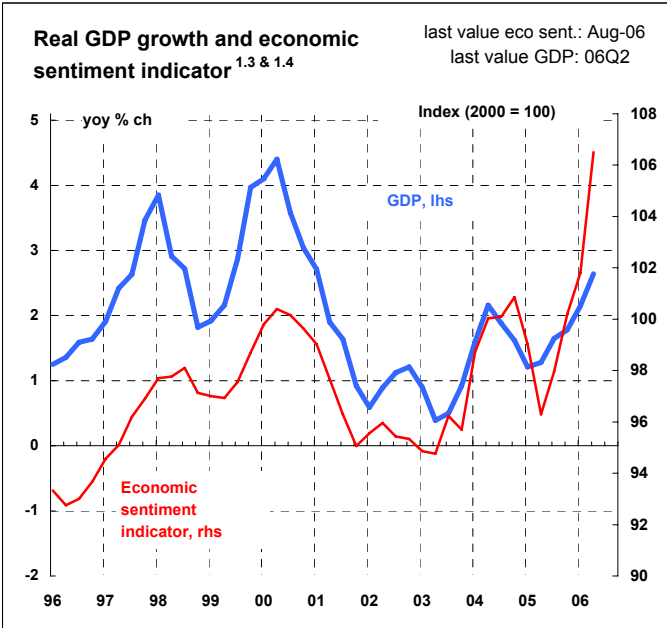
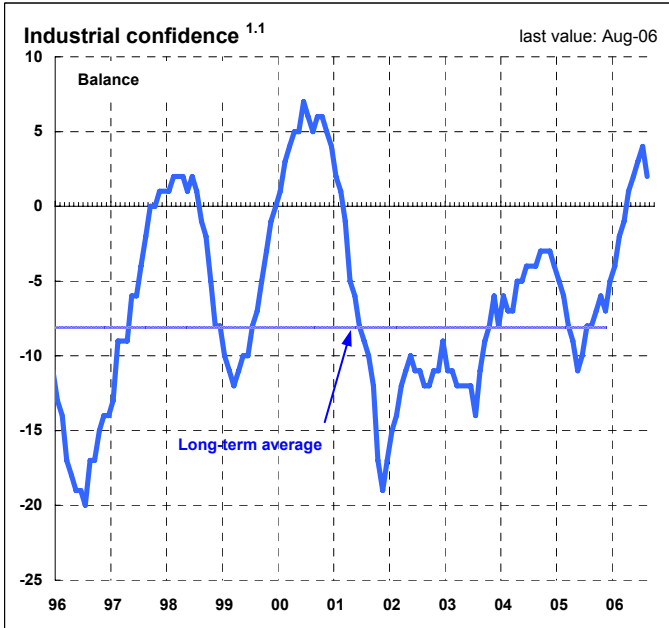
The annual rate of growth of **M3** decreased to 7.8% in July, from 8.5% in June 2006. The three-month moving average of the annual growth rate of M3 over the period May 2006 - July 2006 declined to 8.3%, from 8.7% in the period April 2006 - June 2006. Regarding the main components of M3, the annual rate of growth of M1 decreased to 7.4% in July 2006, from 9.3% in June. The annual rate of growth of short-term deposits other than overnight deposits increased to 9.3% in July, compared with 8.8% in the previous month. The annual rate of growth of marketable instruments increased to 5.0% in July, from 4.8% in June. The annual rate of **credit growth (loans)** to the private sector was 11.1% in July, compared with 11.0% in the previous month. Lending for house purchase decreased to 11.4% in July, from 11.8% in June.

The **euro exchange rate** strengthened against the USD (to 1.29) and the JPY (to 149) by 4 September. The market still expects further gradual increases in ECB interest rates.

In May and early June 2006, there was a substantial sell-off in equity markets. The **EuroSTOXX50** index lost almost fifteen percent during this period. Since mid-June the index recovered and on 6 September it was around 6.5% higher than at the beginning of 2006.



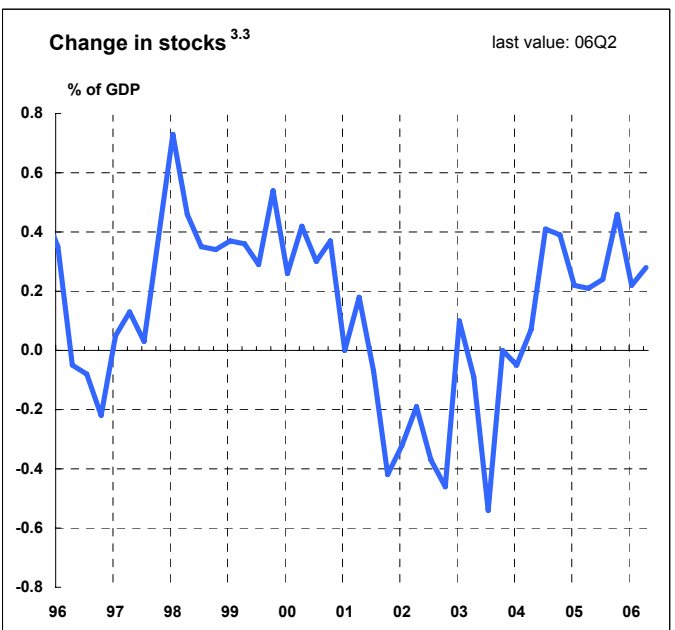
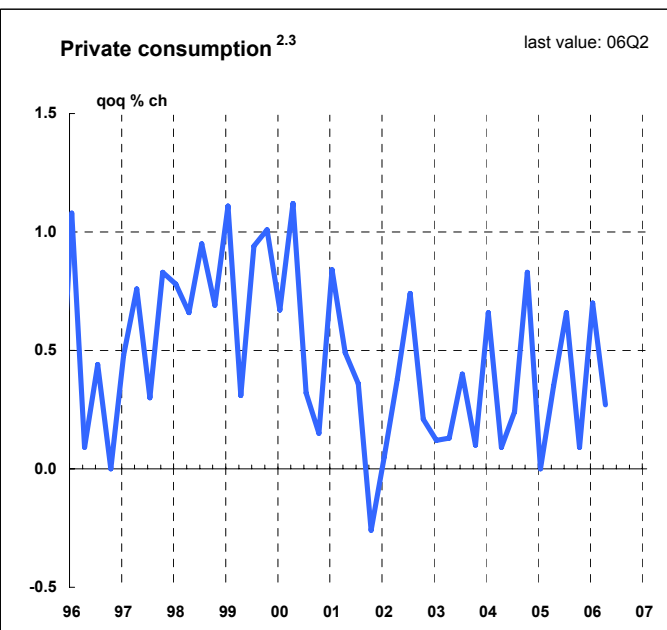
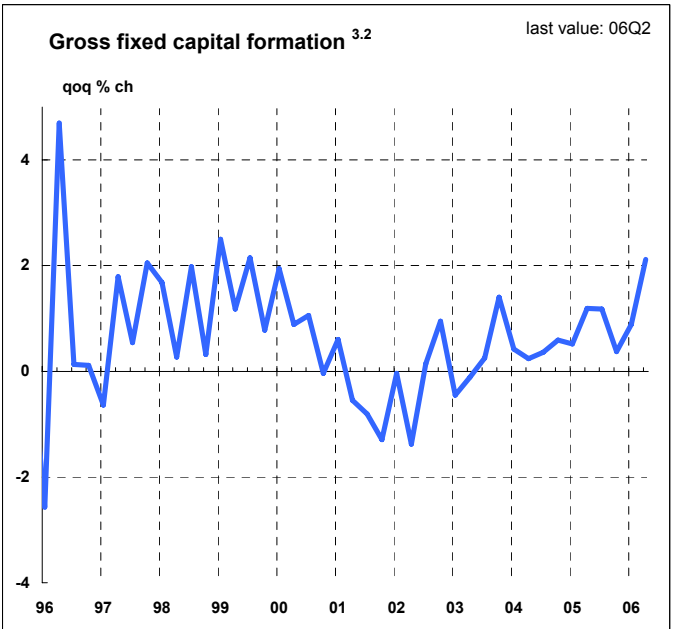
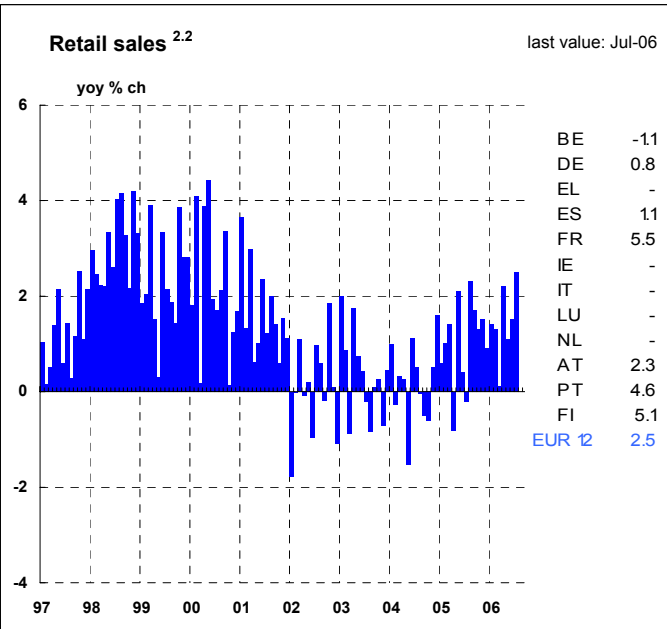
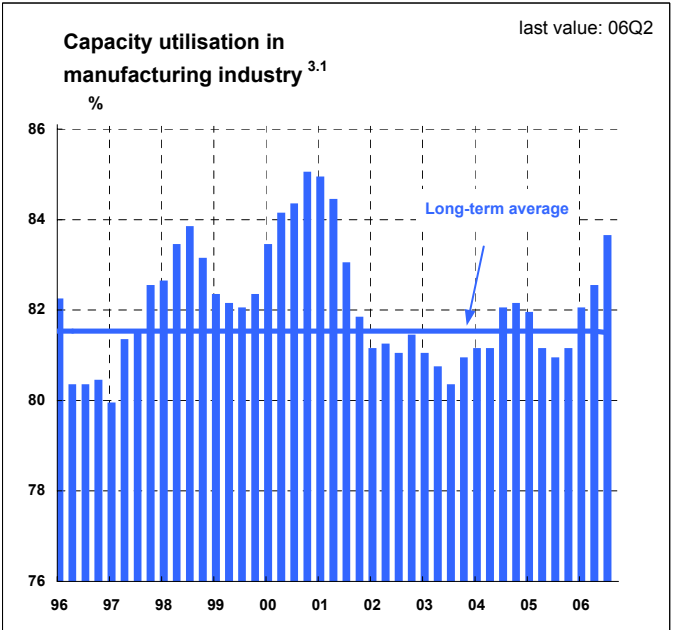
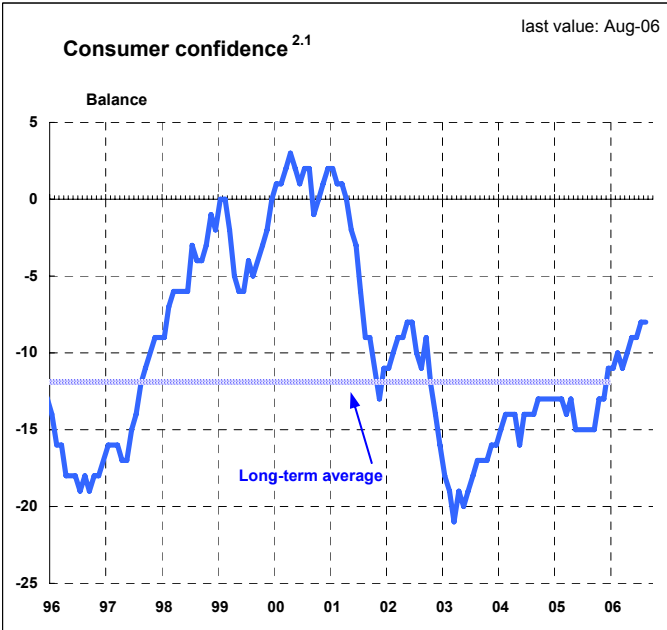
1. OUTPUT





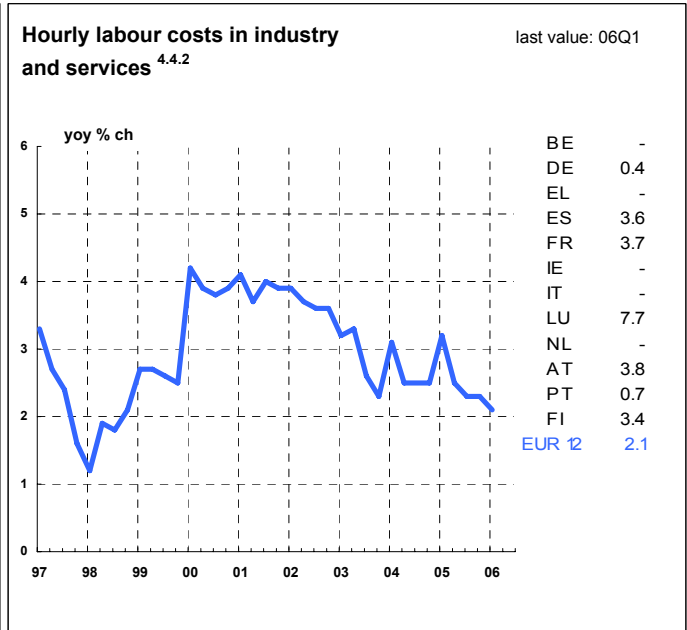
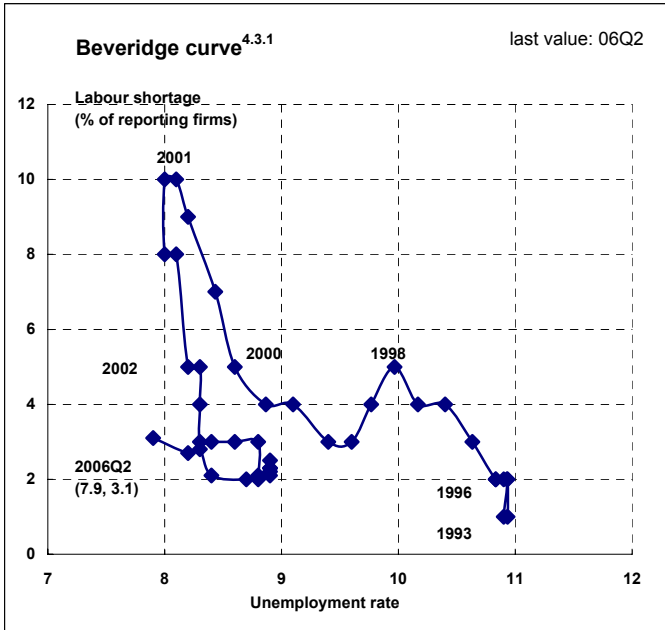
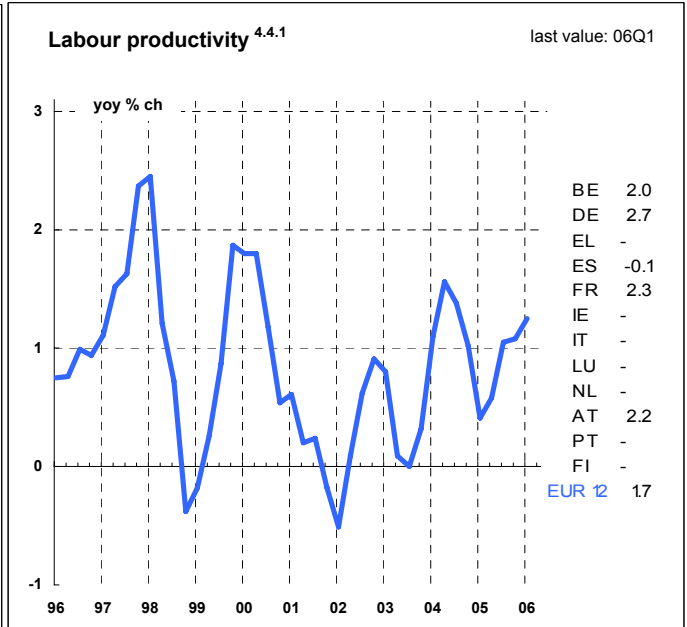
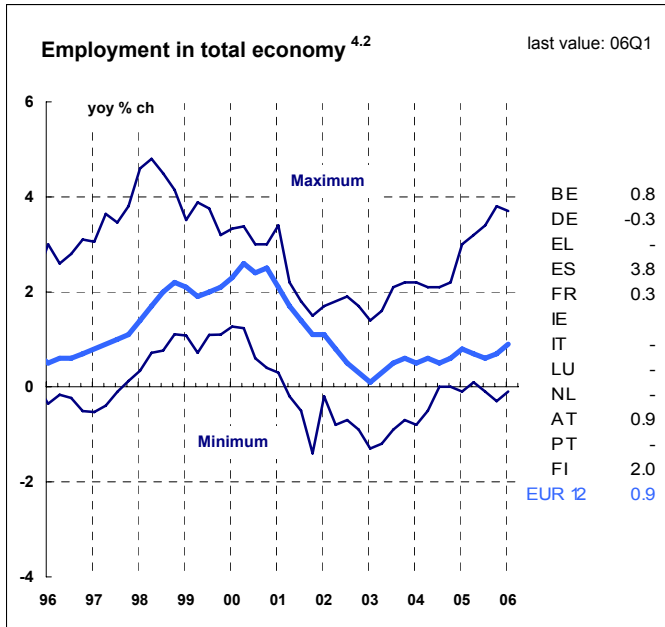
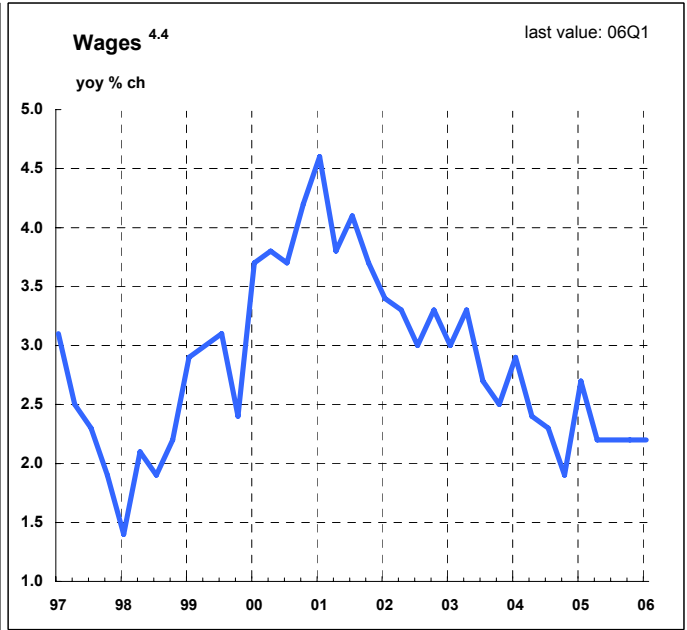
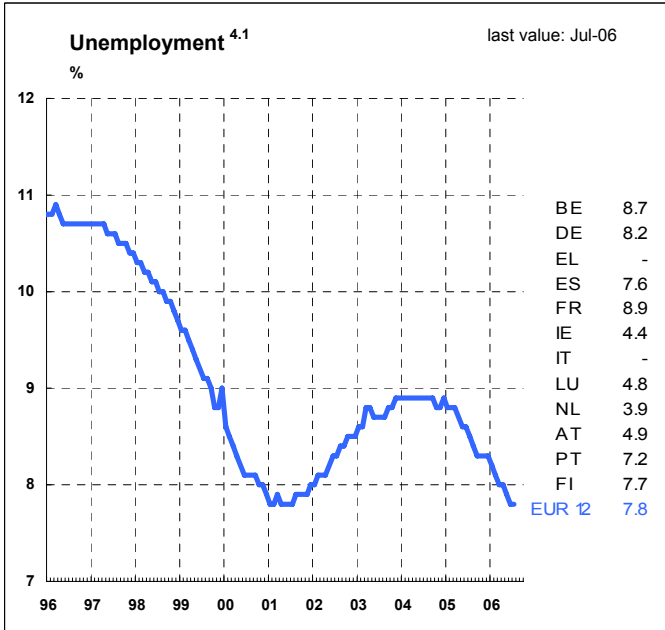
2. PRIVATE CONSUMPTION

3. INVESTMENT



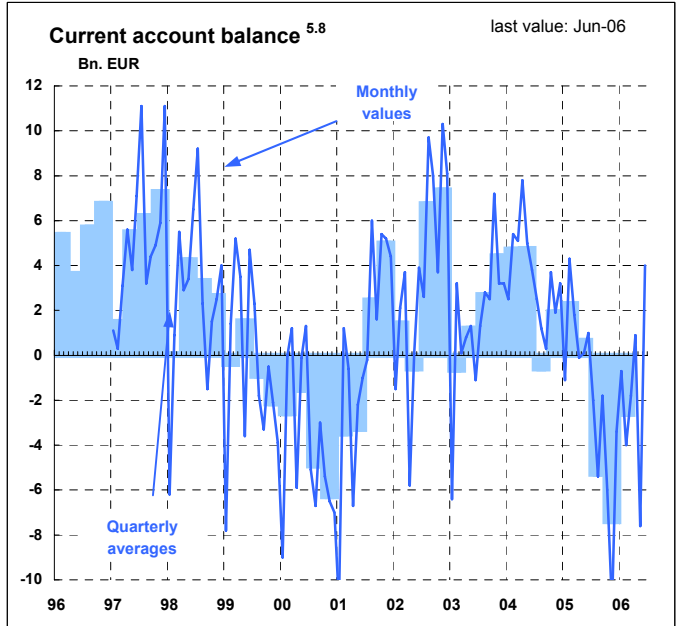
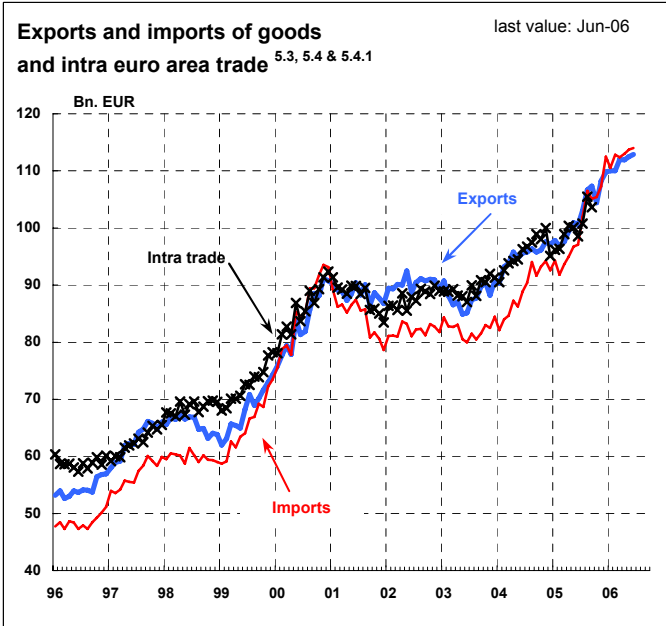
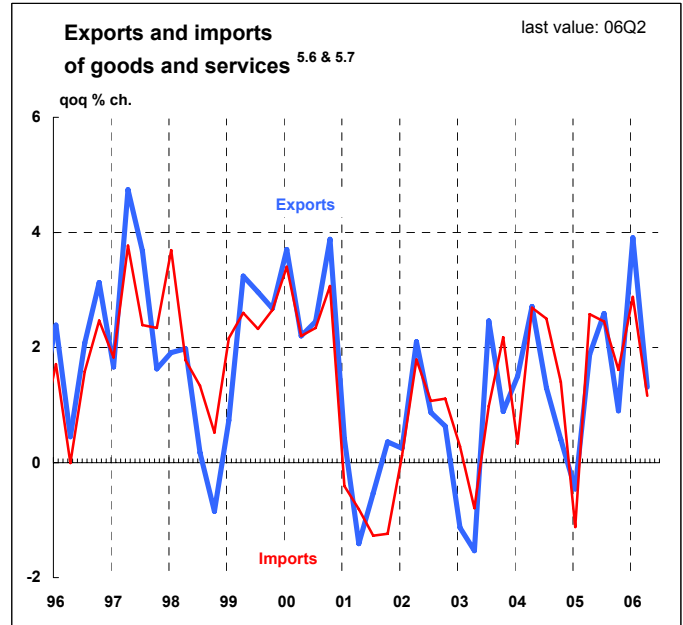
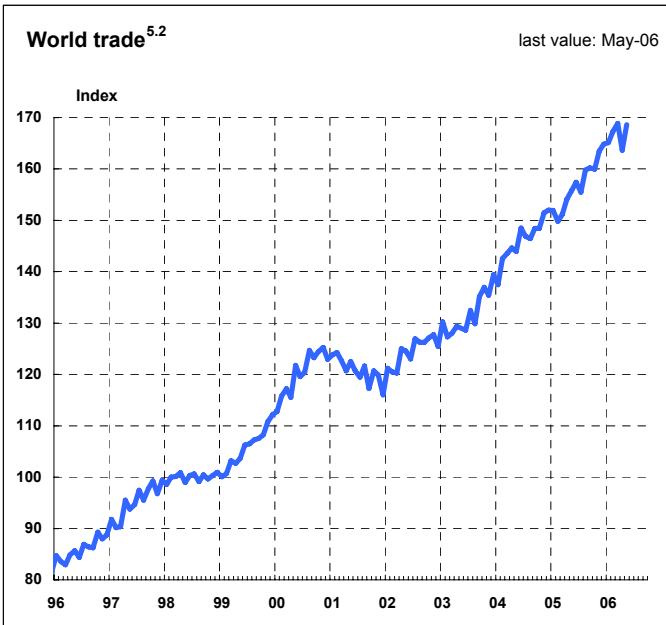
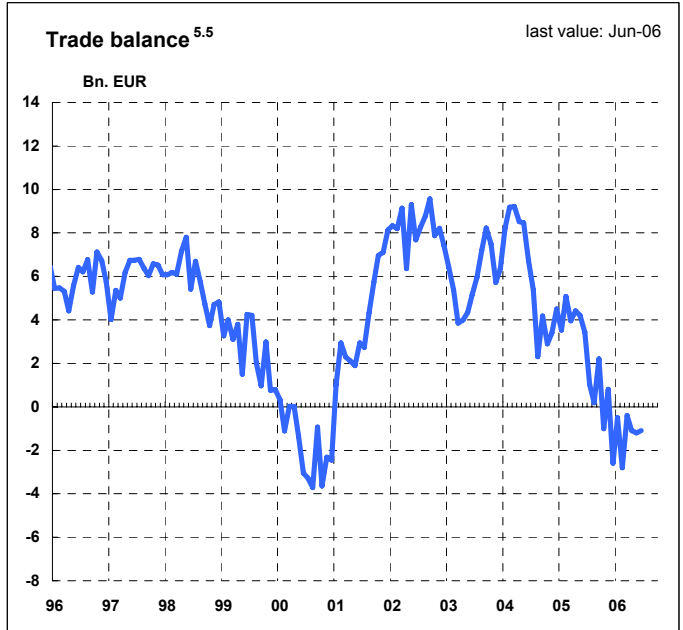
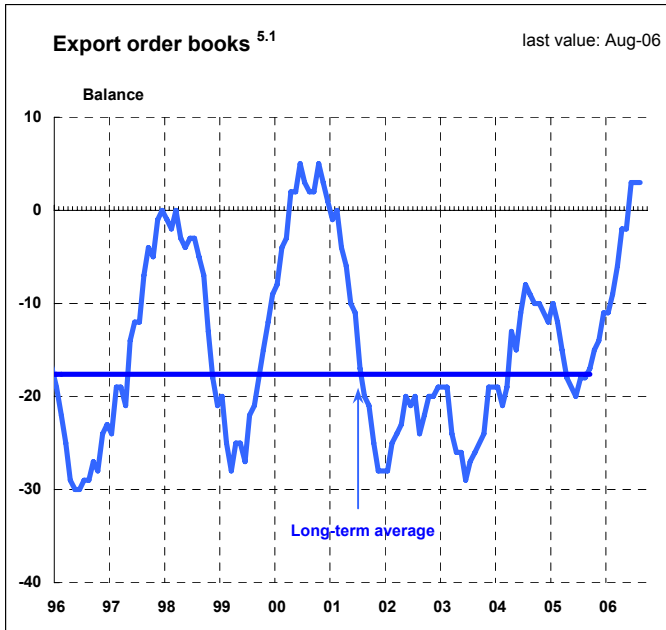


4. LABOUR MARKET



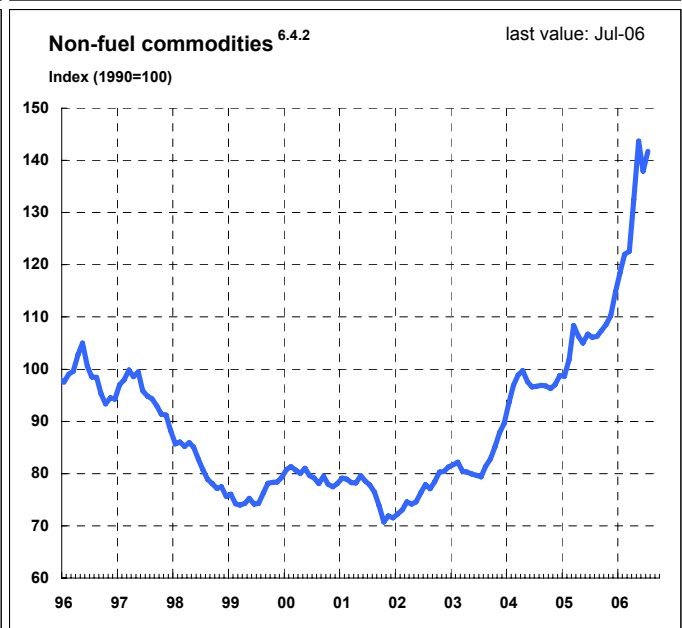
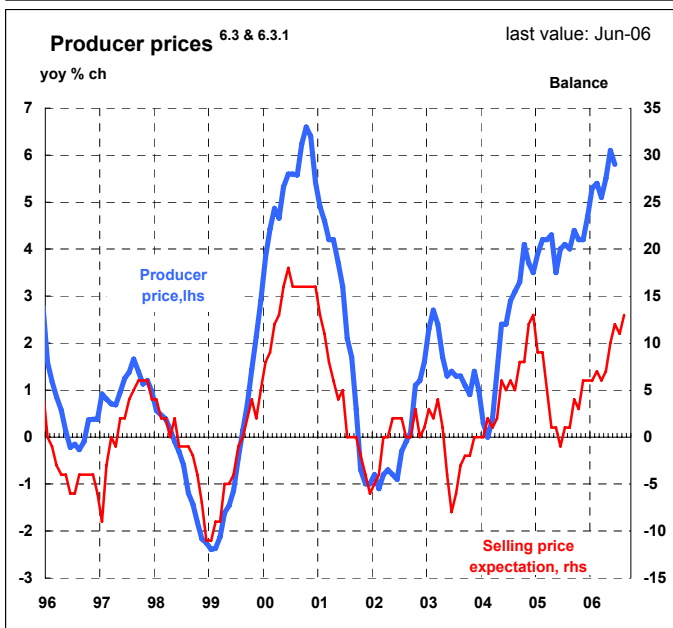
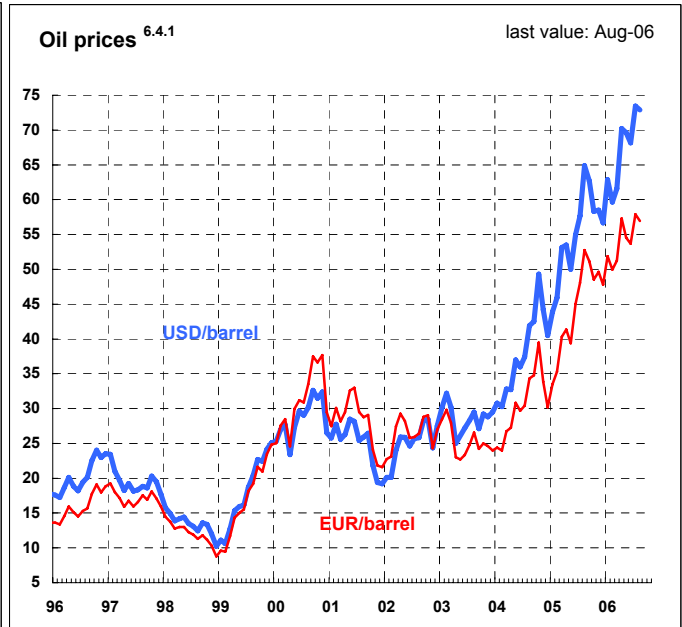
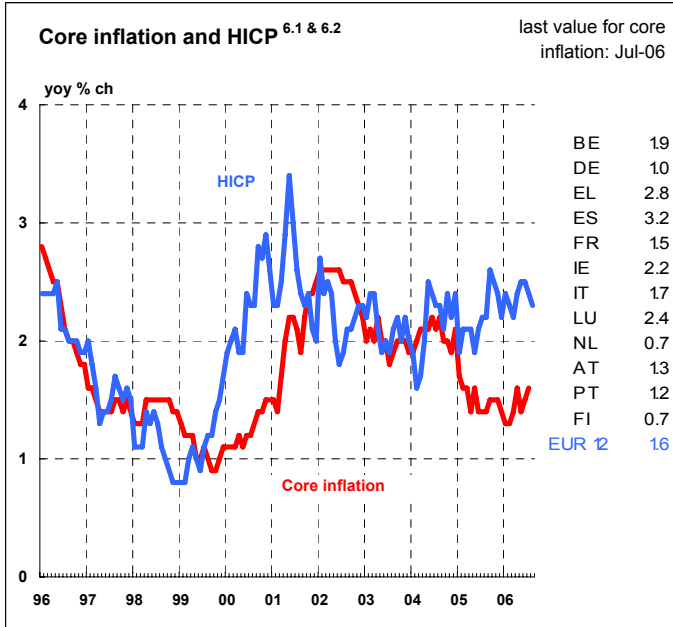
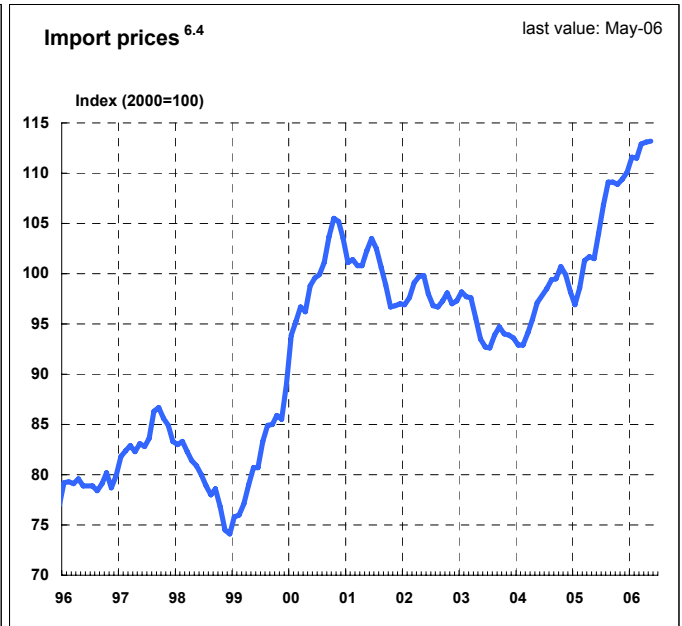
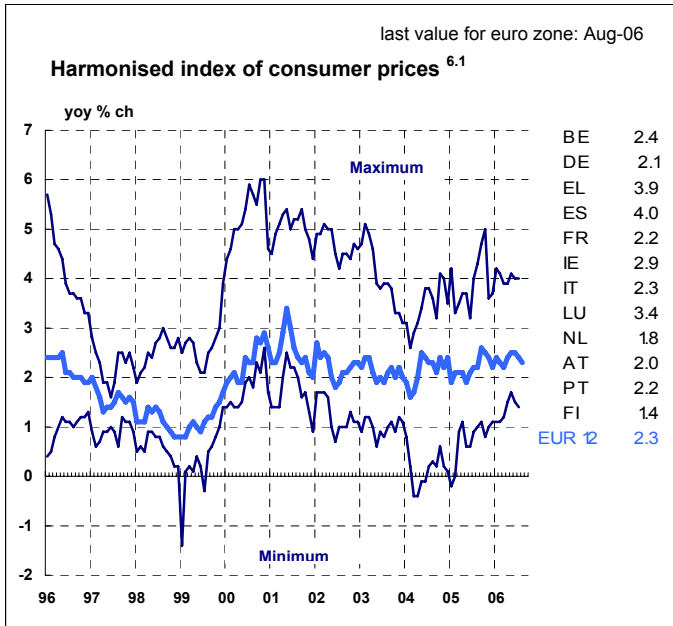


5. INTERNATIONAL TRANSACTIONS





## 6. PRICES

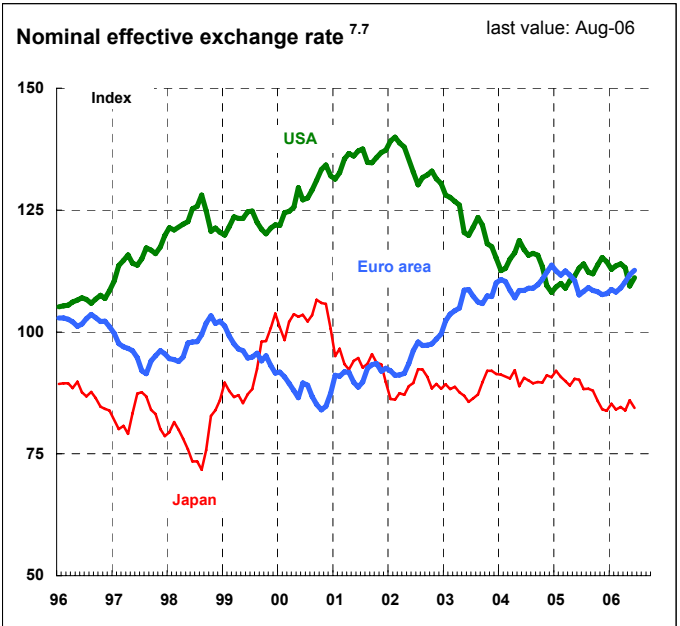
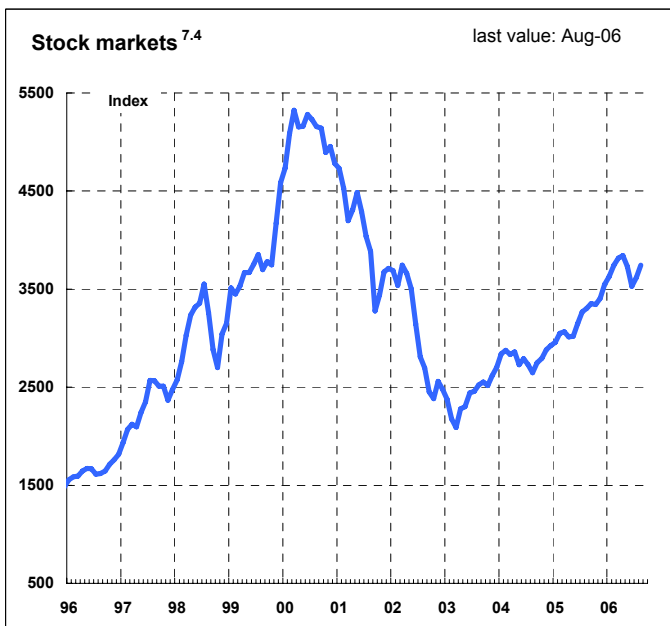
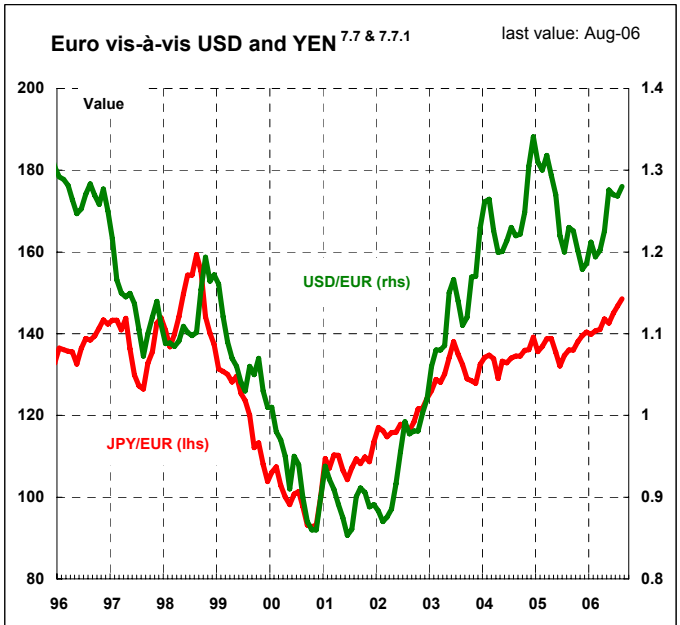
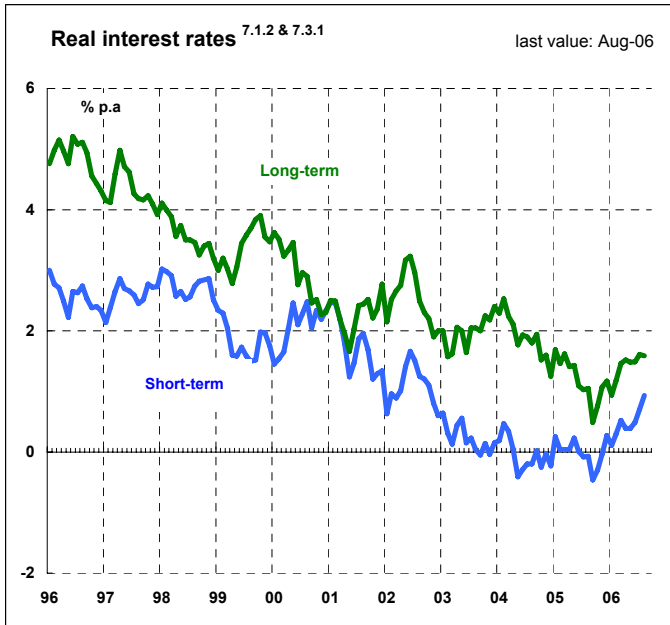
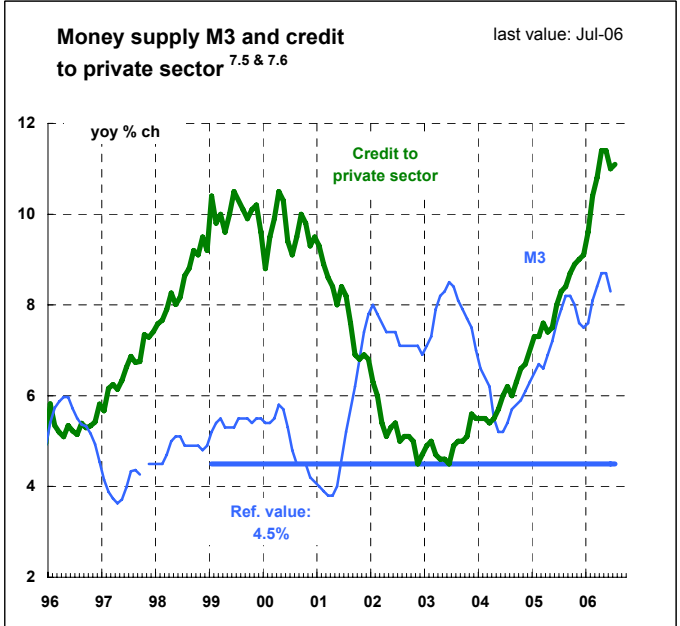
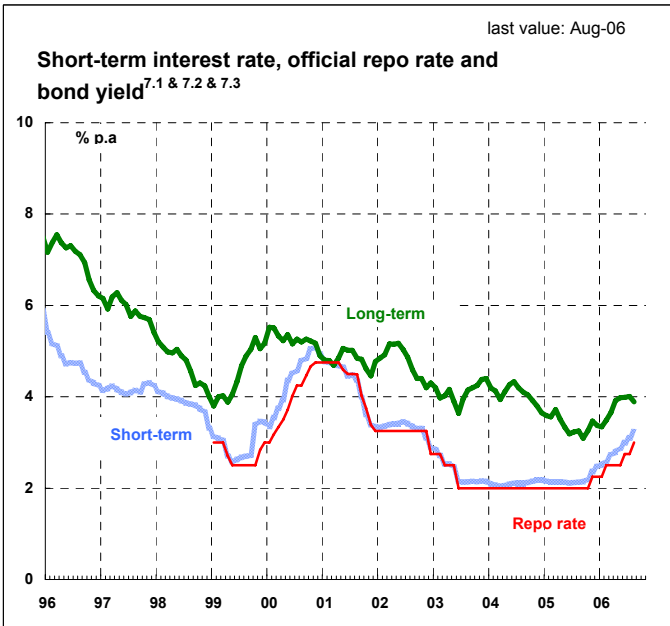




# KEY INDICATORS FOR THE EURO AREA

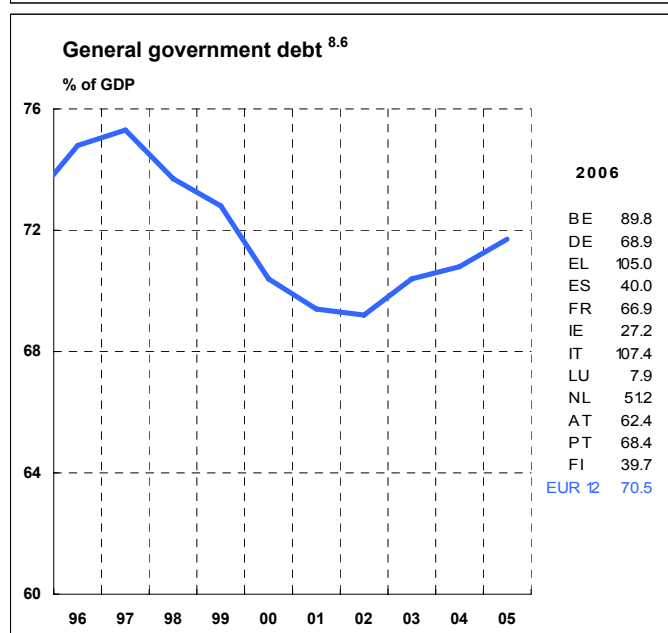
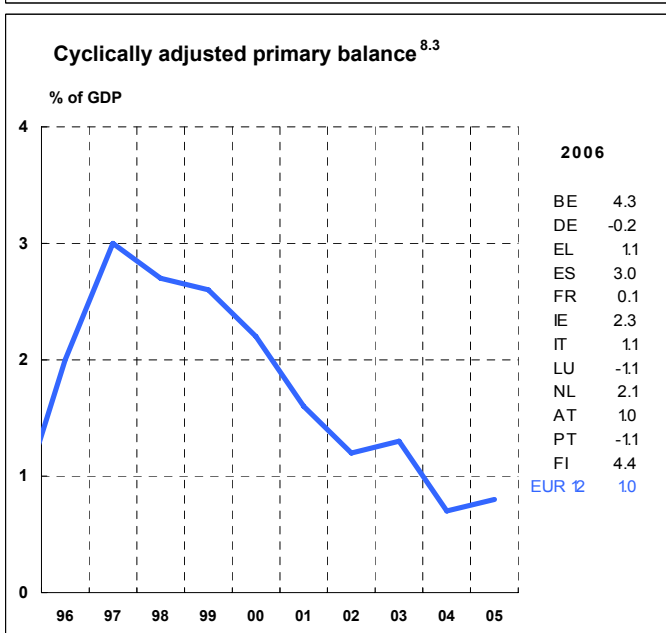
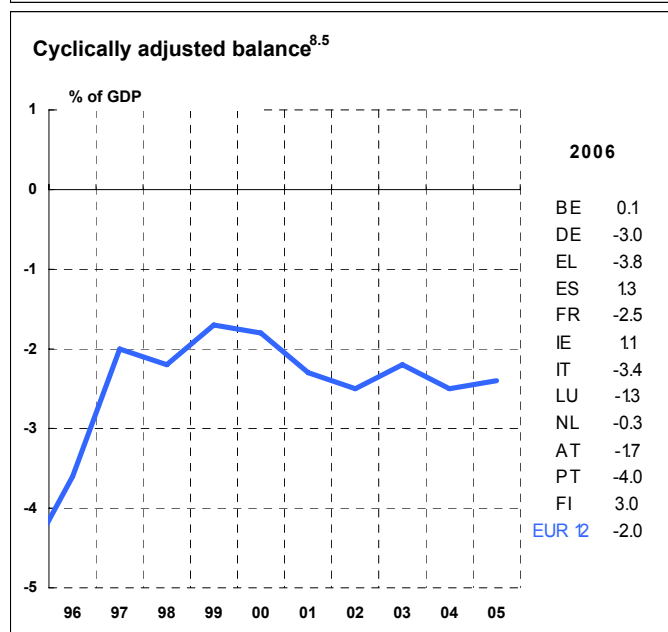
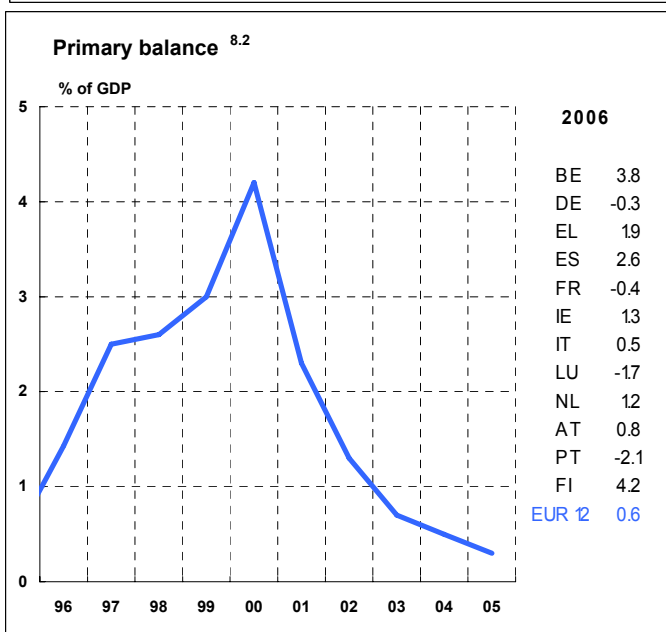
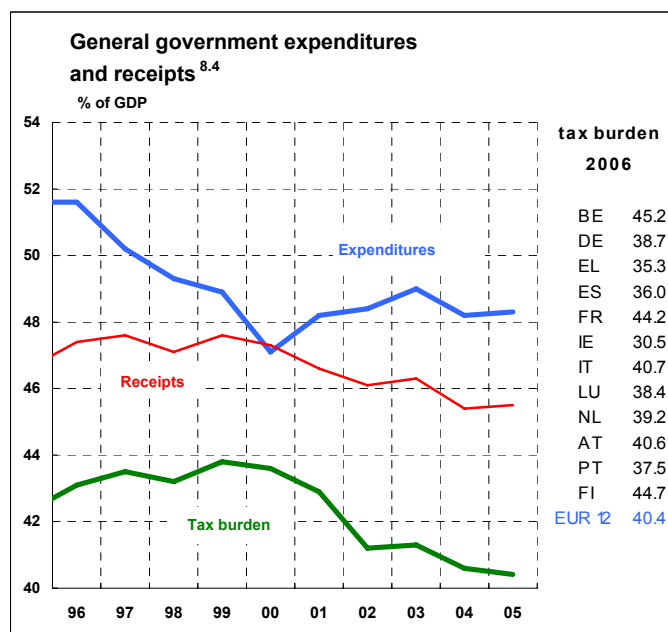
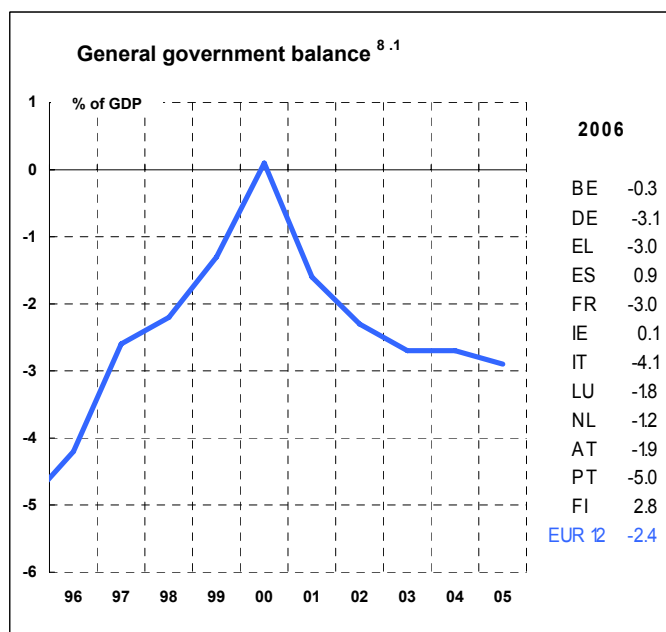


## 7. MONETARY AND FINANCIAL INDICATORS





8. PUBLIC FINANCE\*



\* Figures are from the Commission's spring 2006 forecasts

## Key indicators for the euro area - Explanatory notes

The euro area includes 12 countries (BE, DE, EL, ES, FR, IE, IT, LU, NL, AT, PT, FI)

mom % ch., qoq % ch., yoy % ch.: monthly, quarterly and annual percentage change respectively.

No.	Indicator	Note	Source
<b>1</b>	<b>Output</b>		
1.1	Industrial confidence indicator	Industry survey, average of balances to replies on production expectations, order books, and stocks (the latter with inverted sign)	ECFIN
1.2	Industrial production	Volume, excluding construction, working day adjusted	Eurostat
1.3	Gross domestic product	Volume (1995), seasonally adjusted	Eurostat
1.3.1	Gross domestic product & divergence	From 1992 until 1996 the minimum and maximum is based on BE, DE, ES, FR, IT, NL, PT and FI; from 1996 it includes also AT	Eurostat
1.3.2	Gross domestic product and forecast range	Volume (1995), seasonally adjusted; the forecast is based on confidence indicators, real and financial variables (see also ECFIN Economic Papers No 154, June 2001)	ECFIN/ Eurostat
1.3.3	Gross domestic product and standard deviation	From 1992 until 1996 the standard deviation is based on BE, DE, ES, FR, IT, NL, PT and FI; from 1996 it includes also AT	ECFIN/ Consensus Forecasts
1.4	Economic sentiment indicator	Composite of indicators for industry, construction, retail trade and consumers (1995 = 100)	ECFIN
<b>2</b>	<b>Private consumption</b>		
2.1	Consumer confidence indicator	Consumer survey, average of balances to replies to four questions (financial and economic situation, unemployment, savings over next 12 months)	ECFIN
2.2	Retail sales	Volume, excluding motor vehicles, working day adjusted	Eurostat
2.3	Private consumption	Volume (1995 prices), seasonally adjusted	Eurostat
<b>3</b>	<b>Investment</b>		
3.1	Capacity utilization	In percent of full capacity, manufacturing, seasonally adjusted, survey data (collected each January, April, July and October). Last value available for 06Q2: 82.4	ECFIN
3.2	Gross fixed capital formation	Volume (1995 prices), seasonally adjusted	Eurostat
3.3	Change in stocks	In percent of GDP, volume (1995 prices), seasonally adjusted	Eurostat
<b>4</b>	<b>Labour market</b>		
4.1	Unemployment	In percent of total workforce, ILO definition, seasonally adjusted	Eurostat
4.2	Employment	Total employment, domestic concept, seasonally and working day adjusted	Eurostat
4.3	Shortage of labour	Percent of firms in the manufacturing sector reporting a shortage of labour (unfilled job openings) as a constraint to production, seasonally adjusted	ECFIN
4.3.1	Beveridge curve	Relationship between the unemployment rate and shortage of labour as defined in 4.3	ECFIN/ Eurostat
4.4	Wages	Wages and salaries. Labour cost index, industry and services (excluding public administration), nominal, working day adjusted	Eurostat
4.4.1	Labour productivity	Difference between GDP growth and employment growth	ECFIN
4.4.2	Hourly labour costs in industry and services	Labour cost index, industry and services (excluding public administration), hourly, not seasonally adjusted	Eurostat
<b>5</b>	<b>International transactions</b>		
5.1	Export order books	Industry survey; balance of positive and negative replies, seasonally adjusted	ECFIN
5.2	World trade	Volume, 1998=100, seasonally adjusted	CPB
5.3	Exports of goods	Bn. EUR, excluding intra euro area trade, fob, seasonally and working day adjusted	Eurostat
5.4	Imports of goods	Bn. EUR, excluding intra euro area trade, cif, seasonally and working day adjusted	Eurostat
5.4.1	Intra trade	Bn. EUR, intra euro area trade, seasonally and working day adjusted	Eurostat
5.5	Trade balance	Bn. EUR, excluding intra euro area trade, fob-cif, seasonally and working day adjusted	
5.6	Exports of goods and services	Volume (1995 prices), including intra euro area trade, seasonally adjusted	Eurostat Eurostat
5.7	Imports of goods and services	Volume (1995 prices), including intra euro area trade, seasonally adjusted	Eurostat
5.8	Current account balance	Bn. EUR, excluding intra euro area transactions; before 1997 partly estimated	ECB
5.9	Direct investment	(net) Bn. EUR, excluding intra euro area transactions	ECB
5.10	Portfolio investment	(net) Bn. EUR, excluding intra euro area transactions	ECB

No.	Indicator	Note	Source
<b>6</b>	<b>Prices</b>		
6.1	HICP	Harmonised index of consumer prices, national CPI until 1996	Eurostat
6.2	Core HICP	Harmonised index of consumer prices, excluding energy and unprocessed food	Eurostat
6.3	Producer prices	Without construction	Eurostat
6.3.1	Selling price expectation	Industry survey; balance of positive and negative replies, seasonally adjusted	ECFIN
6.4	Import prices	Import unit values index for goods, 2000=100	Eurostat
6.4.1	Oil prices	Brent light; USD/barrel and EUR/barrel	Ecwin
6.4.2	Non-fuel commodities prices	Index of market prices for non-fuel commodities, 1995=100, in USD terms	IMF
<b>7</b>	<b>Monetary and financial indicators</b>		
7.1	Interest rate	Percent p.a., 3-month interbank money market rate, period averages	Ecwin
7.1.2	Real short-term interest rates	3-month interbank money market rate (period averages) minus annual percentage change of HICP (CPI before 1996)	Ecwin/ Eurostat
7.2	ECB repo rate	Percent p.a., minimum bid rate of the ECB, end of period	Ecwin
7.3	Bond yield	Percent p.a., 10-year government bond yields (before 1995 long-term bond yield available) lowest level prevailing in the euro area, period averages	Ecwin
7.3.1	Real long-term interest rates	10-year government bond yields (lowest level prevailing in the euro area, period averages) minus annual percentage change of HICP (CPI before 1996)	Ecwin/ Eurostat
7.4	Stock markets	DJ Euro STOXX50 index, period averages	Ecwin
7.5	M3	Seasonally adjusted, three-month moving average (attributed to middle month): from 1997 onwards corrected for holdings by non-residents	ECB
7.6	Credit to private sector (loans)	MFI loans to euro area residents excluding MFIs and general government, monthly values: month end values, annual values: annual averages	ECB
7.7	Exchange rate USD/EUR	Period averages, until December 1998: USD/ECU rates	ECB
7.7.1	Exchange rate JPY/EUR	Period averages, until December 1998: JPY/ECU rates	ECB
7.8	Nominal effective exchange rate	Against 13 other industrialized countries, double export weighted, 1995 = 100, increase (decrease): appreciation (depreciation)	ECFIN
<b>8</b>	<b>Public finance</b>		
8.1	General government balance	In percent of GDP, net lending (+) or net borrowing (-) general government, ESA 79 up to 1994, ESA 95 as of 1995, 2005 estimates are based on ECFIN spring 2006 forecasts	ECFIN
8.2	Primary balance	In percent of GDP; net lending/borrowing minus interest payment; ESA 79 up to 1994, ESA 95 as of 1995; incl. 2000 and 2001 one-off proceeds relative to UMTS licences, 2005 results are based on ECFIN spring 2006 forecasts	ECFIN
8.3	Cyclically adjusted primary balance	In percent of GDP; primary balance corrected for the influence of the cycle; ESA 79 up to 1994, ESA 95 as of 1995, proceeds from UMTS licences excluded, 2005 results are based on ECFIN spring 2006 forecasts	ECFIN
8.4	General government expenditure and receipts	In percent of GDP, ESA 79 up to 1994, ESA 95 as of 1995; proceeds from UMTS licences booked as expenditure with negative sign; tax burden: taxes on production and imports (incl. taxed paid to EU) + current taxes on income and wealth + actual social contributions + capital taxes; 2005 results are based on ECFIN spring 2006 forecasts	ECFIN
8.5	Cyclically adjusted balance	In percent of GDP, general government balance corrected for the influence of the cycle; ESA 79 up to 1994, ESA 95 as of 1995, proceeds from UMTS licences excluded, 2005 results are based on ECFIN spring 2006 forecasts	ECFIN
8.6	General government debt	In percent of GDP, ESA 79 up to 1994, ESA 95 from 1995 onwards, 2005 results are based on ECFIN spring 2006 forecasts	ECFIN