

# KEY INDICATORS FOR THE EURO AREA



## European Commission, DG ECFIN

### Key indicators for the euro area

this update: 5 October 2006

next update: 31 October 2006

		2003	2004	2005	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
<b>1 Output</b>										
Industrial confidence <sup>1.1</sup>	Balance	-11	-5	-8	1	2	3	4	2	4
Industrial production <sup>1.2</sup>	mom % ch.	0.5	2.0	1.3	-0.7	1.7	0.0	-0.4		
		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	-10	-9	-9	-8	-9	-8
Retail sales <sup>2.2</sup>	mom % ch.	0.1	0.2	1.0	0.9	0.0	0.2	0.4	0.7	
		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	7.9	7.8	7.8	7.9	
		2003	2004	2005	05Q2	05Q3	05Q4	06Q1	06Q2	06Q3
Employment <sup>4.2</sup>	yoy % ch.	0.4	0.6	0.7	0.7	0.7	0.7	1.0	1.2	
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	2.1	2.5	2.4	
<b>5 International transactions</b>										
Export order books <sup>5.1</sup>	Balance	-24	-13	-16	-2	-2	3	2	2	2
World trade <sup>5.2</sup>	Index	132	146	157	166	170	172	169		
Exports of goods <sup>5.3</sup>	Bn. EUR	1056.0	1142.1	1232.5	111.9	112.5	113.2	110.7		
Imports of goods <sup>5.4</sup>	Bn. EUR	970.4	1069.1	1207.3	113.0	113.7	115.0	117.1		
Trade balance <sup>5.5</sup>	Bn. EUR	85.6	73.0	25.2	-1.1	-1.2	-1.8	-6.4		
		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	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
Current account balance <sup>5.8</sup>	Bn. EUR	18.1	42.4	38.8	0.9	-7.6	5.2	-4.8		
Direct investment (net) <sup>5.9</sup>	Bn. EUR	-18.4	-39.7	-41.8	-2.5	-0.4	-7.7	-8.9		
Portfolio investment (net) <sup>5.10</sup>	Bn. EUR	-9.4	39.0	32.3	-5.7	49.3	66.5	2.1		
<b>6 Prices</b>										
HICP <sup>6.1</sup>	yoy % ch.	2.1	2.2	2.2	2.4	2.5	2.5	2.4	2.3	1.8
Core HICP <sup>6.2</sup>	yoy % ch.	2.0	2.1	1.5	1.6	1.4	1.5	1.6	1.5	
Producer prices <sup>6.3</sup>	yoy % ch.	1.6	2.3	4.1	5.5	6.1	5.8	6.0	5.7	
Import prices <sup>6.4</sup>	Index	102.5	97.2	104.8	113.1	113.2	113.3			
<b>7 Monetary and financial indicators</b>										
Interest rate (3 months) <sup>7.1</sup>	% p.a.	2.3	2.1	2.2	2.8	2.9	3.0	3.1	3.2	3.3
Bond yield (10 years) <sup>7.2</sup>	% p.a.	4.1	4.1	3.4	3.9	4.0	4.0	4.0	3.9	3.8
ECB repo rate <sup>7.3</sup>	% p.a.	3.25	2.75		2.50	2.50	2.75	2.75	3.00	3.00
Stock markets <sup>7.4</sup>	Index	2420	2805	3207	3841	3731	3529	3617	3744	3817
M3 <sup>7.5</sup>	yoy % ch.	7.8	5.9	7.4	8.7	8.7	8.3	8.2		
Credit to private sector (loans) <sup>7.6</sup>	yoy % ch.	5.0	6.0	8.1	11.4	11.4	11.0	11.1	11.3	
Exchange rate USD/EUR <sup>7.7</sup>	Value	1.13	1.24	1.24	1.23	1.28	1.27	1.27	1.28	1.27
Nominal effective exchange rate <sup>7.8</sup>	Index	106.4	109.8	109.7	110.3	111.7	112.6	112.7	112.5	112.4



## Comments

### 1. Output

In September, the Commission's **industrial confidence** indicator rose by 2 points in the euro area, offsetting the drop in the previous month. The rise in confidence is mainly due to production expectations, which improved by 4 points, correcting its decline by 4 points in August. Managers' assessment of order books improved by 1 point, while the stocks of finished products fell by 1 point.

**Industrial production** in the euro area fell by 0.4% in July 2006 compared to the previous month. Production declined in all sectors but the energy sector, which increased by 1.1%. On an annual basis, industrial production increased by 3.2% vis-à-vis the same period in 2005.

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 improved by 1 point in September, making up for the drop in the previous month. The components of the indicator show that consumers expect a slight improvement in their own financial situation and in the general economic situation. With regard to their own savings, consumers have adjusted their expectations downwards, and the prospects for unemployment were assessed slightly less positively than in August.

In August 2006, the volume of **retail sales** increased by 0.7%, compared to the previous

month. Vis-à-vis the same period in 2005, retail sales rose by 2.4%.

**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 August 2006, the **unemployment** rate stood at 7.9%, compared to 7.8% in July. It was 8.7% one year ago.

Total **employment** in the euro area rose by 1.2% (y-o-y) in the second quarter of 2006; it had increased by 1.0% in the previous quarter. On a quarterly basis, the seasonally-adjusted number of persons employed rose by 0.4%, after 0.3% in the first quarter. Employment expectations remained stable in September.

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 September for the fourth consecutive month. The estimate of the **trade balance** for the euro area revealed a 6.4 bn euro deficit in July 2006, compared to a revised deficit of 1.8 bn euro in the previous month. The deterioration in the trade balance was the result of an increase in **imports of goods** (+2.1 bn euro) and a decrease in **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 deficit of 4.8 bn euro in July 2006 (corresponding to a surplus of 1.4 bn euro in non seasonally-adjusted terms). This reflected deficits in goods (2.1 bn euro) and in current transfers (6.2 bn euro), that were partly offset by a surplus in services (3.0 bn euro); the income account was close to balance. In the **financial account**, combined direct and portfolio investment recorded net outflows of 7 bn euro in July 2006, reflecting net inflows in **portfolio investment** (2 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 1.8% in September, down from 2.3% in August and 2.4% in July. The main components with the highest annual rates in August 2006 were housing (4.8%), transport (3.5%) and food (2.9%), while the lowest annual rates were observed for communications (-3.9%), clothing (-0.1%) and recreation and culture (0.0%). Concerning the detailed sub-indices, fuels for transport had the largest upward impact on the headline rate (+0.21 percentage points), followed by gas (+0.18), while telecommunications (-0.19) and garments (-0.14) had the biggest downwards impacts. The **core inflation** rate (HICP excluding energy and unprocessed food) decreased to 1.5% in August from 1.6% in July 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 then end of June and remained high in July. 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. In the past 6 weeks, oil prices have fallen to a six-month low of around 58-60 USD/bl as healthy US fuel stockpiles and reduced tension over Iran have calmed markets. Prices are now lower than they were at the beginning of the year.

The euro area industrial **producer price** index rose by 0.1% in August 2006 compared to July 2006. Prices in total industry excluding the energy sector increased by 0.2%, intermediate goods gained 0.4%, capital goods and non-durable consumer

goods 0.1%, and durable consumer goods remained stable. Prices in the energy sector fell by 0.4%.

## 7. Monetary and financial indicators

On 5 October 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 3,25%. This move followed increases in policy interest rates of 25 basis points in December 2005, March 2006, June 2006 and August 2006. In 2006, euro area money markets have been strongly affected by market expectations of future changes in ECB policy interest rates. In early October 2006, the **three-month money market rate** stood close to 3.44%. **Government bond yields** reached new record lows in September 2005, on renewed concerns about the economic outlook. Since then, bond markets have experienced a strong downward price correction as market sentiment has changed in the wake of upbeat survey indicators, higher inflation rates and expectations about ECB interest rate hikes. Since early July, the euro-area ten-year bond yield has decreased; it stood at 3.73% on 4 October. The euro area **yield curve**, measuring the term-structure of interest rates, has flattened slightly in recent weeks.

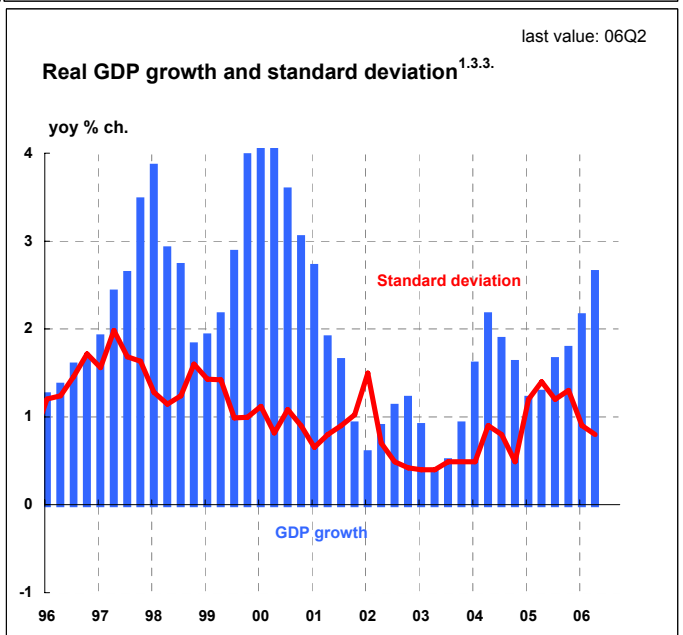
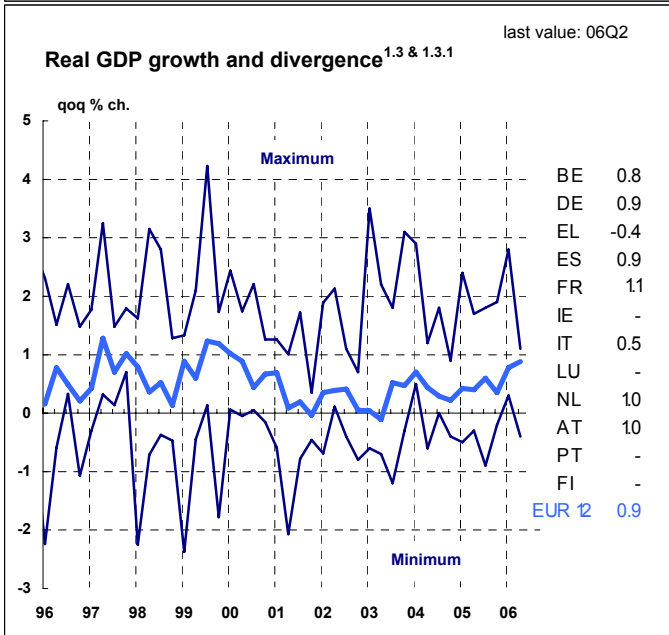
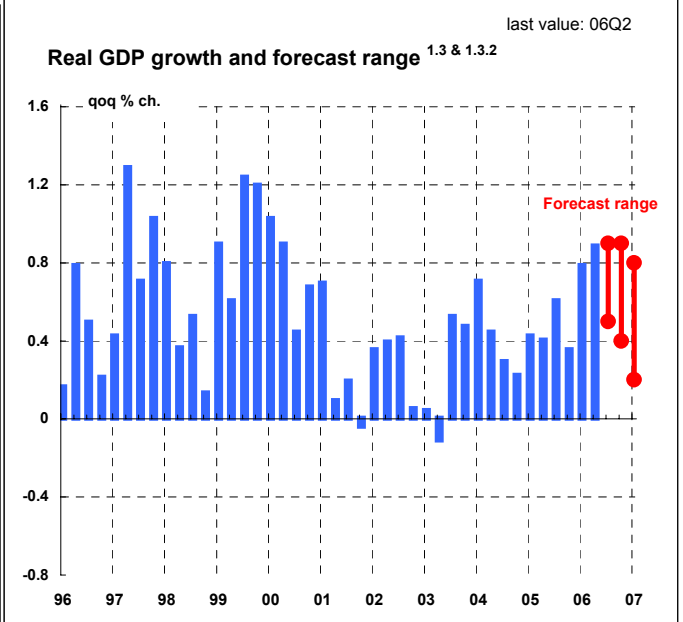
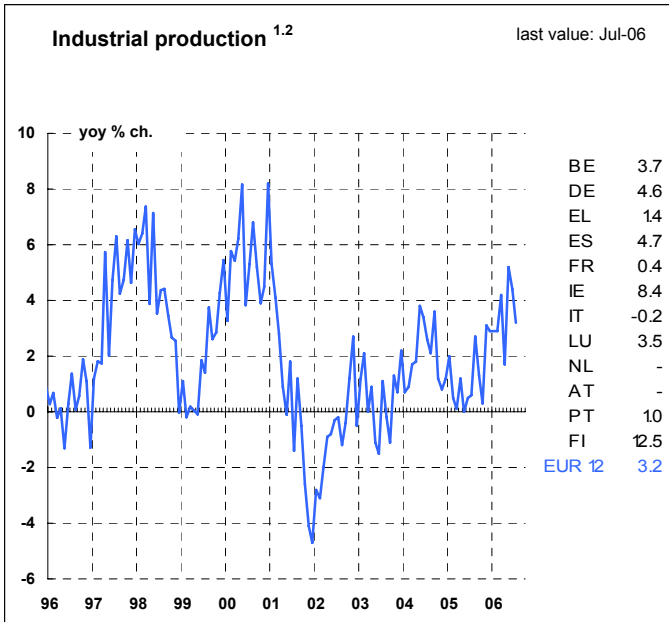
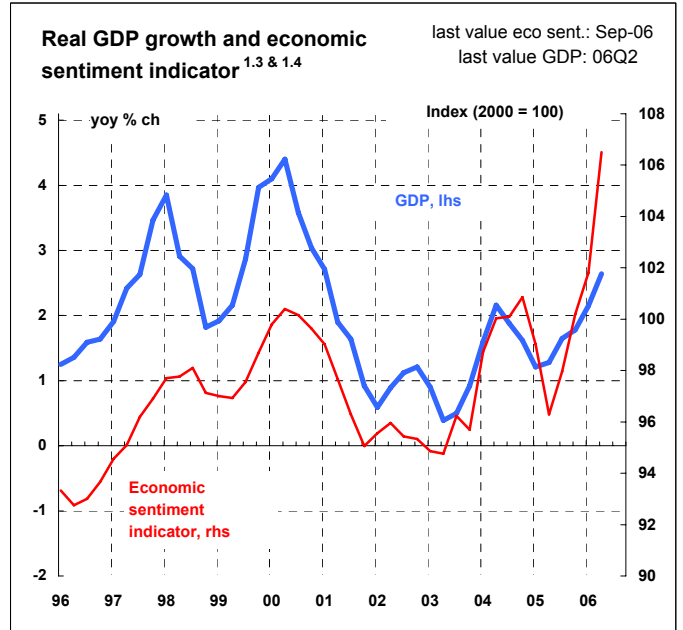
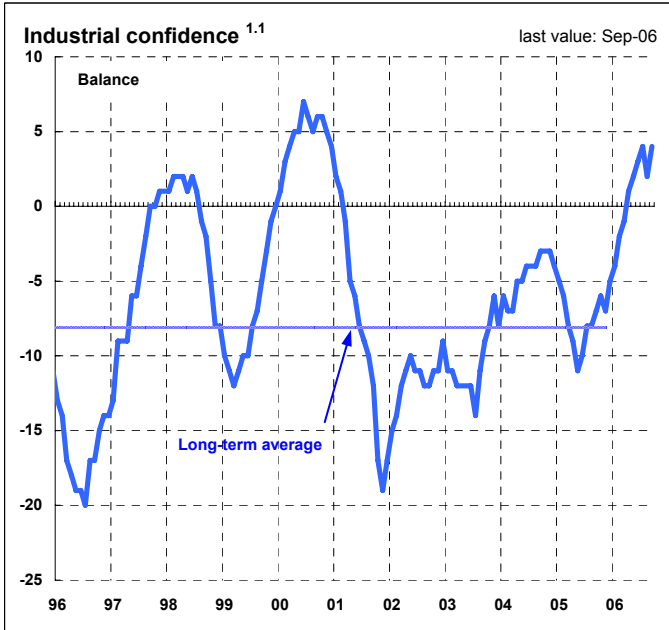
The annual rate of growth of **M3** increased to 8.2% in August, from 7.8% in July. The three-month moving average of the annual growth rate of M3 over the period June 2006 - August 2006 declined to 8.2%, from 8.3% in the period May 2006 - July 2006. Regarding the main components of M3, the annual rate of growth of M1 decreased, while both the annual rate of growth of short-term deposits other than overnight deposits and the annual rate of growth of marketable instruments increased. The annual rate of **credit growth (loans)** to the private sector was 11.3% in August, compared with 11.1% in the previous month. Lending for house purchase decreased to 11.1% in August, from 11.4% in July.

Since the beginning of September, the **euro exchange rate** has eased slightly against the USD (to 1.27 on 4 October) and remained stable against the JPY (149.7).

In May and early June 2006, there was a substantial sell-off in equity markets. The **EuroSTOXX50** index lost almost fifteen per cent during this period. Since mid-June the index recovered and on 4 October it was around 7% higher than at the beginning of 2006.



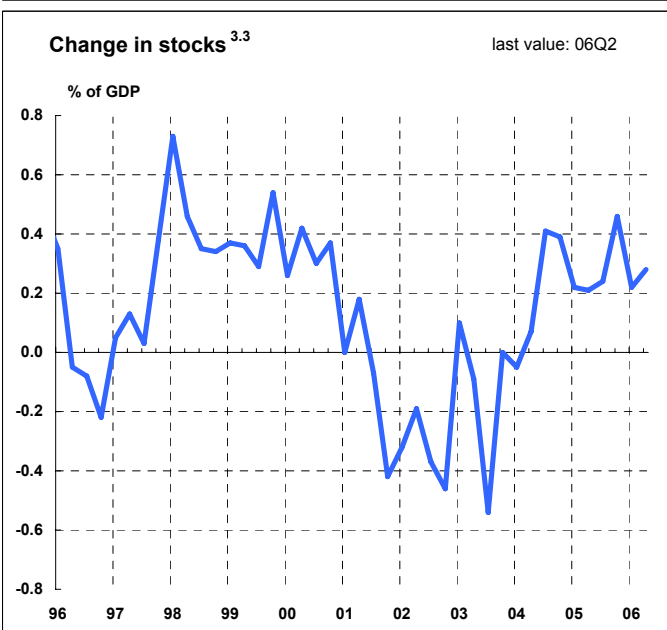
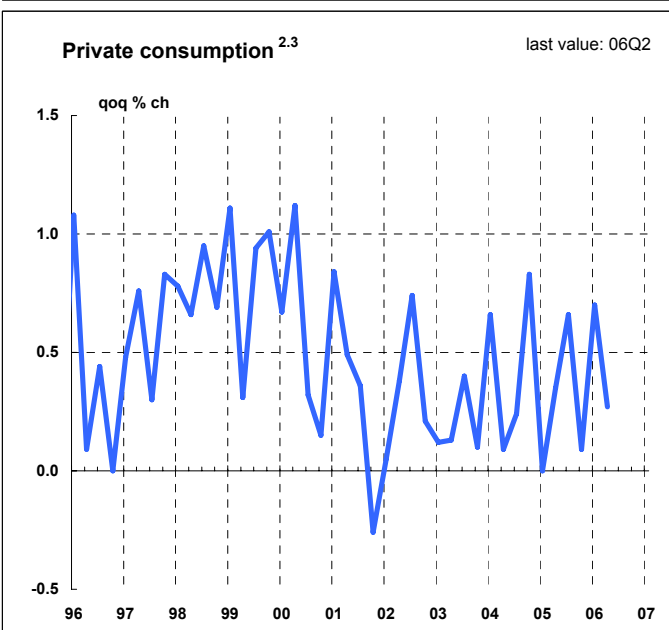
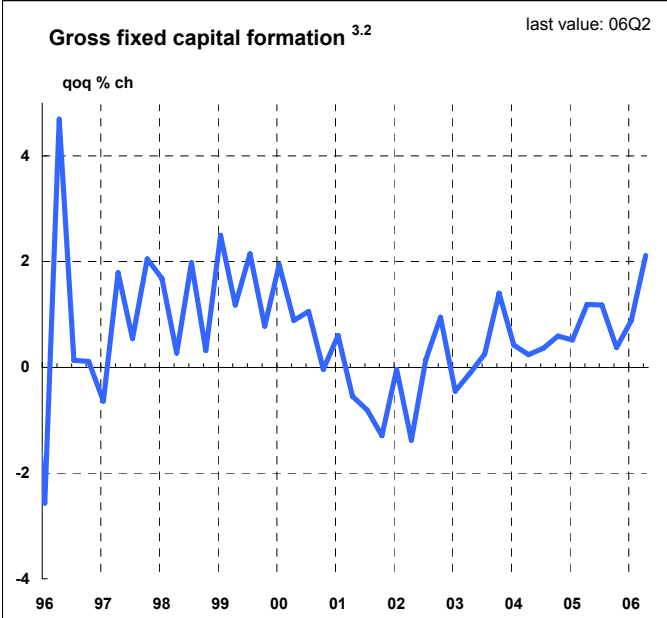
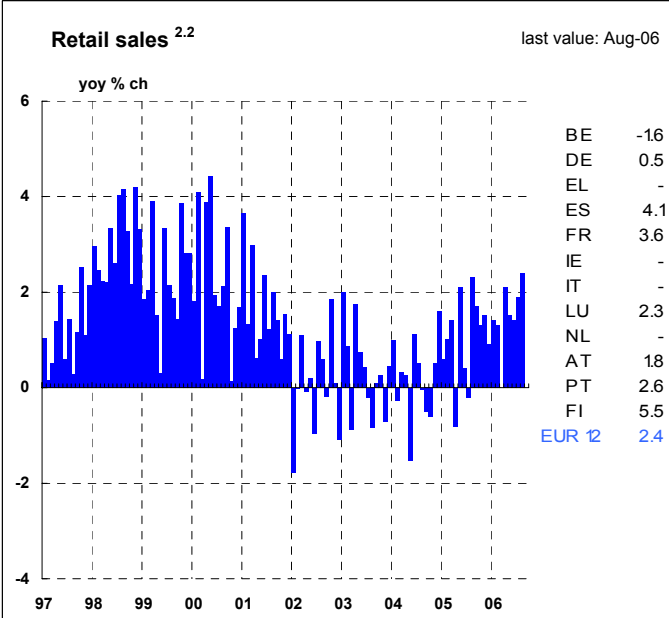
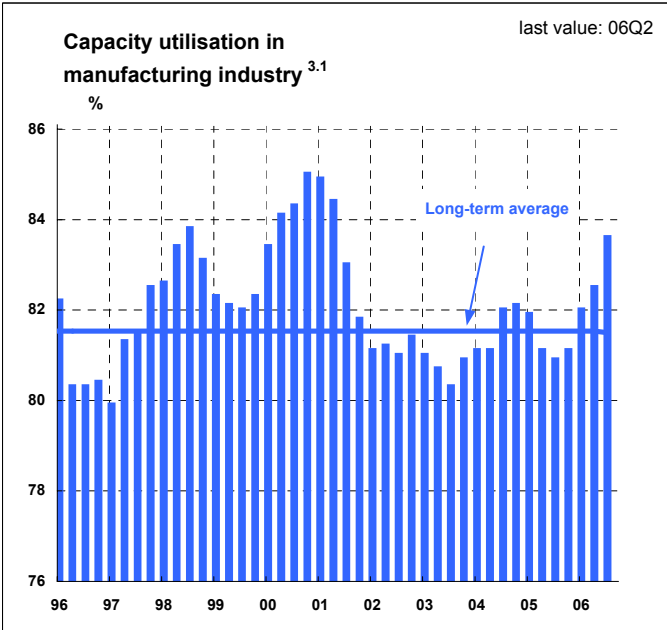
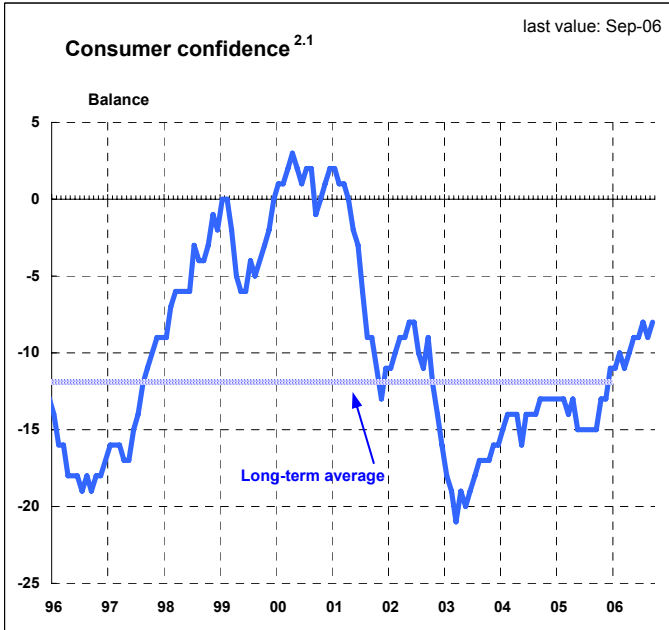
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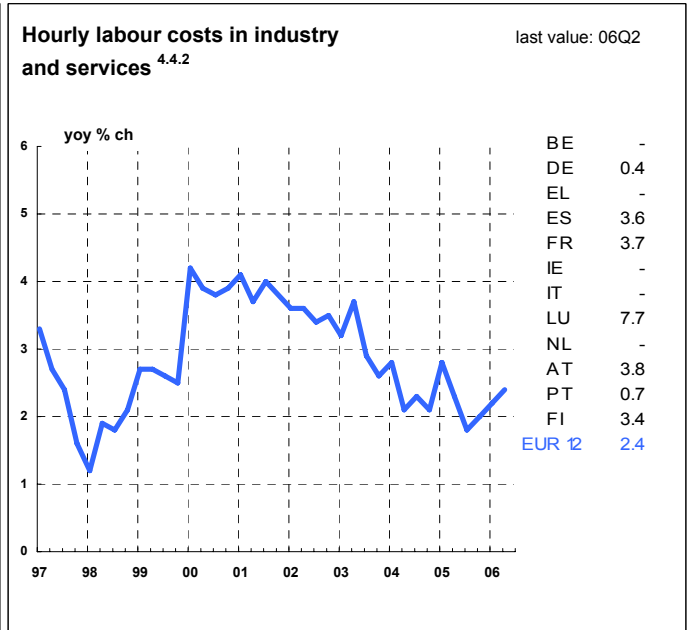
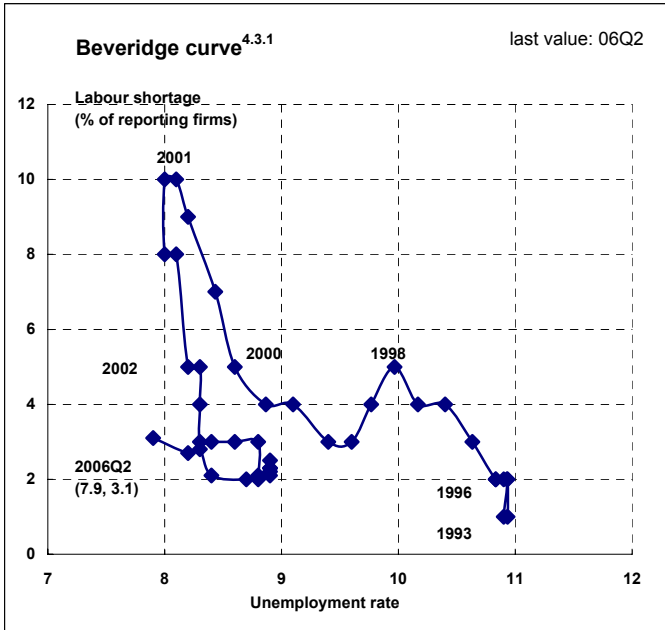
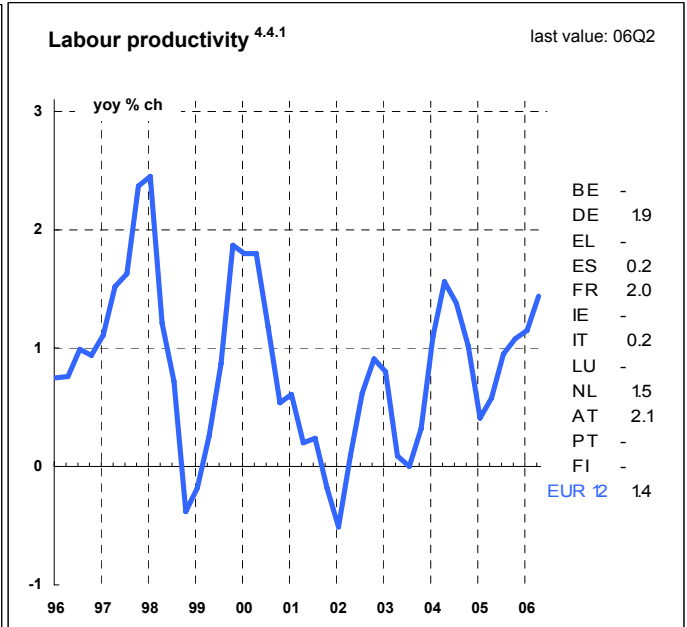
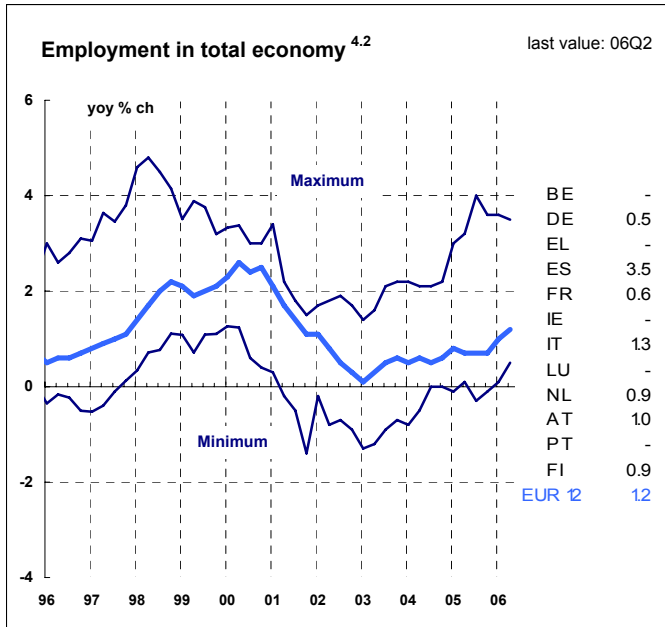
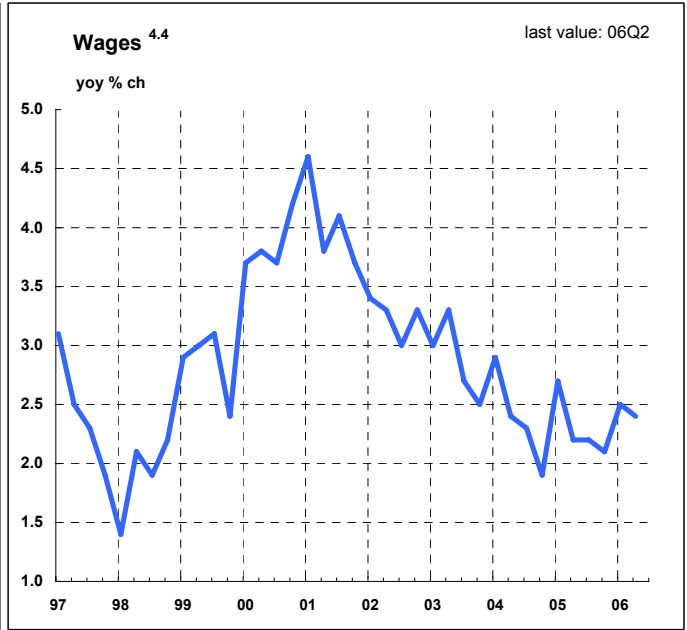
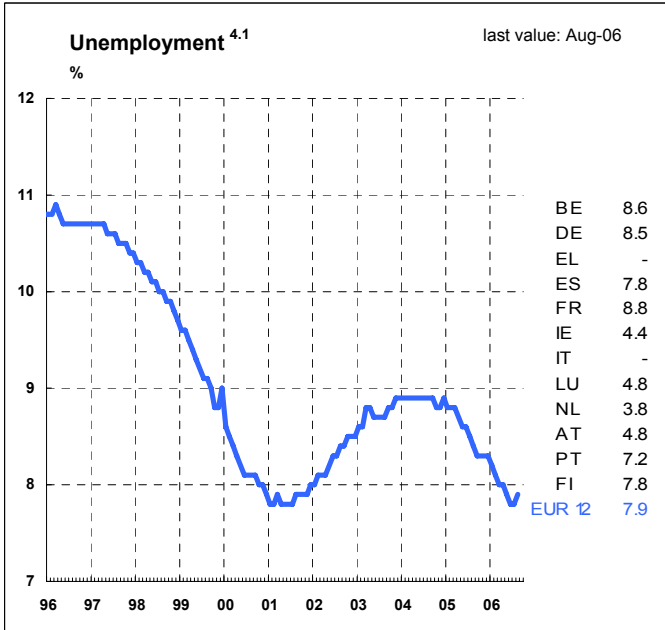
2. PRIVATE CONSUMPTION

3. INVESTMENT



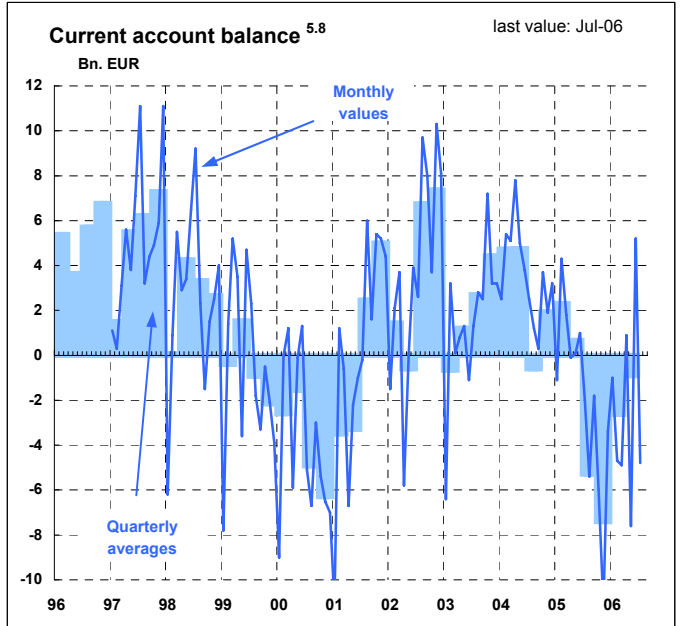
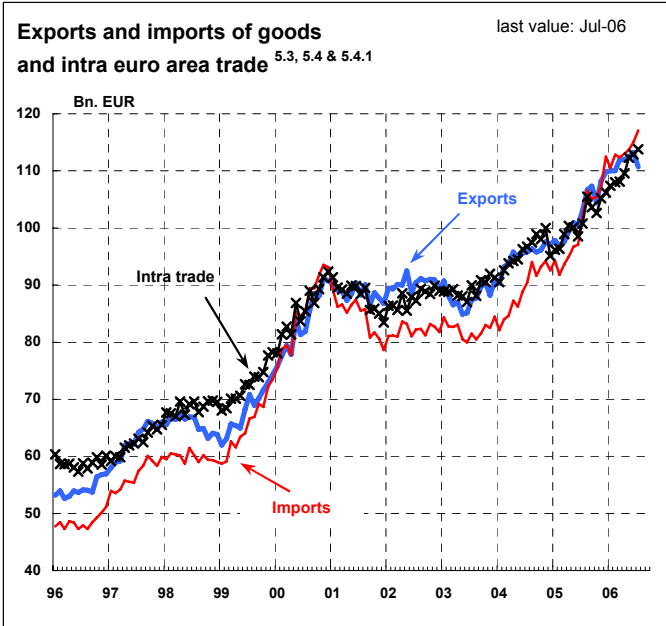
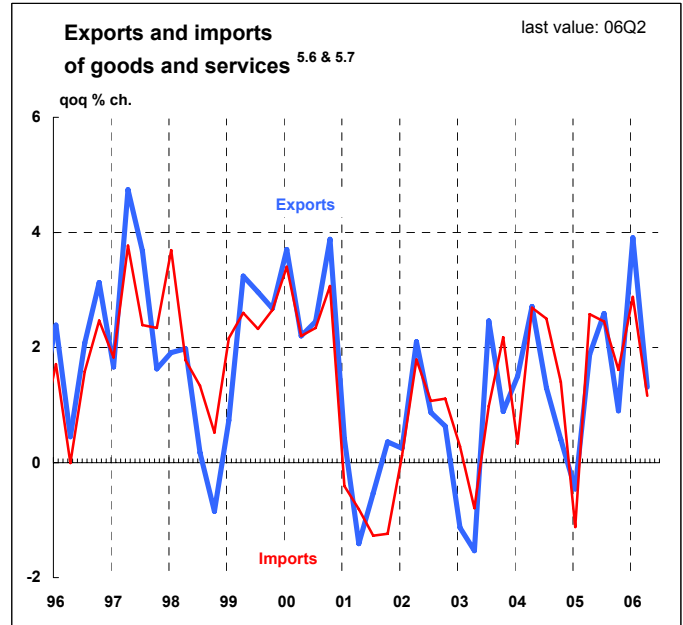
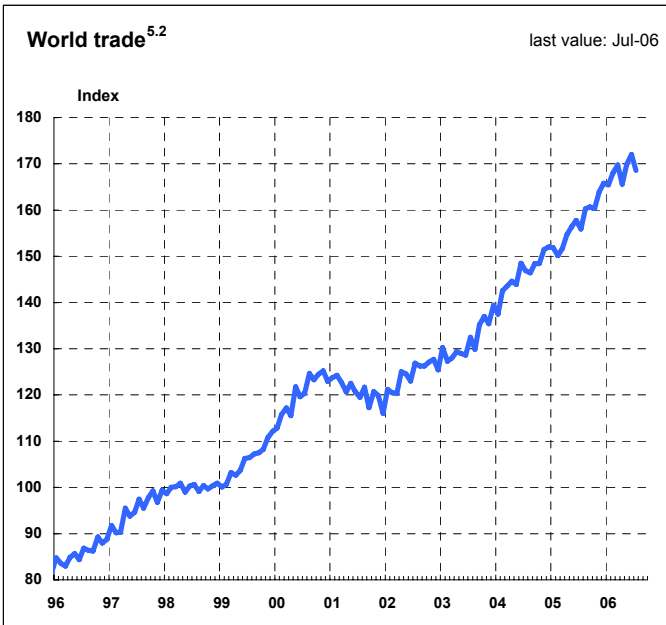
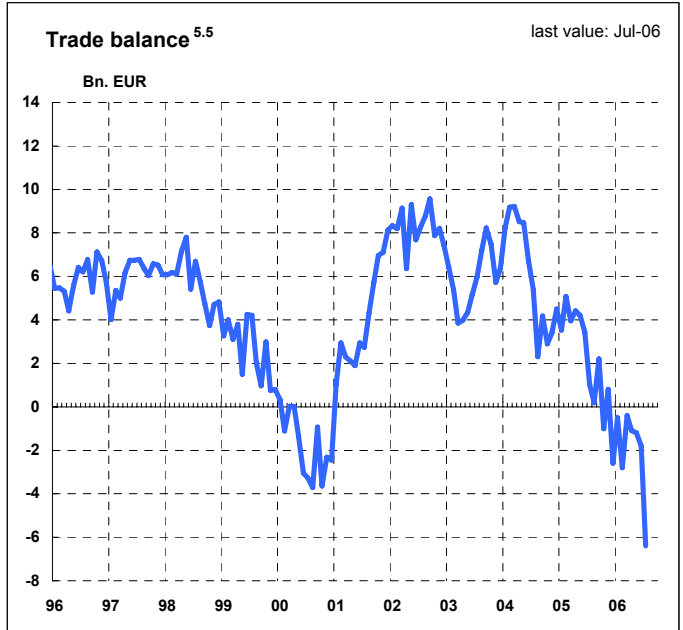
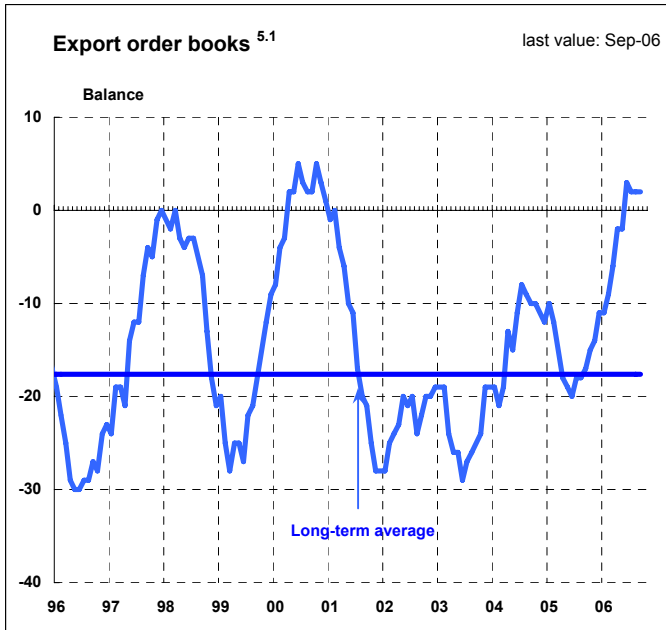


4. LABOUR MARKET



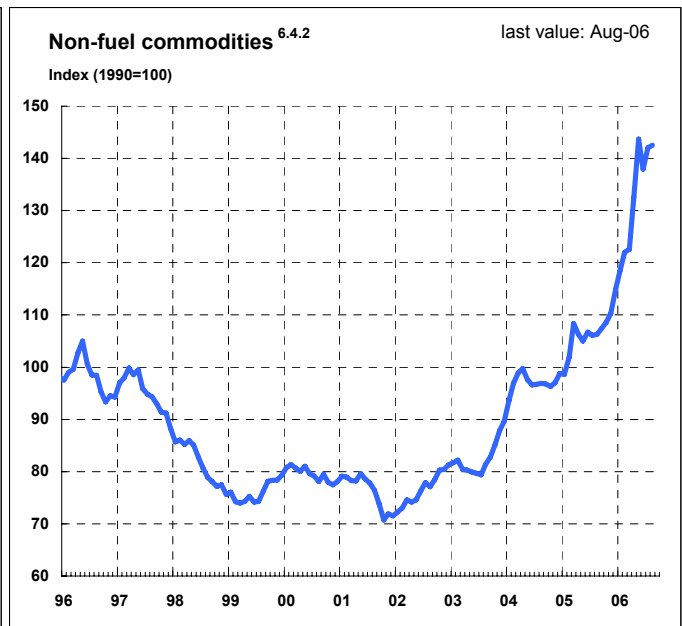
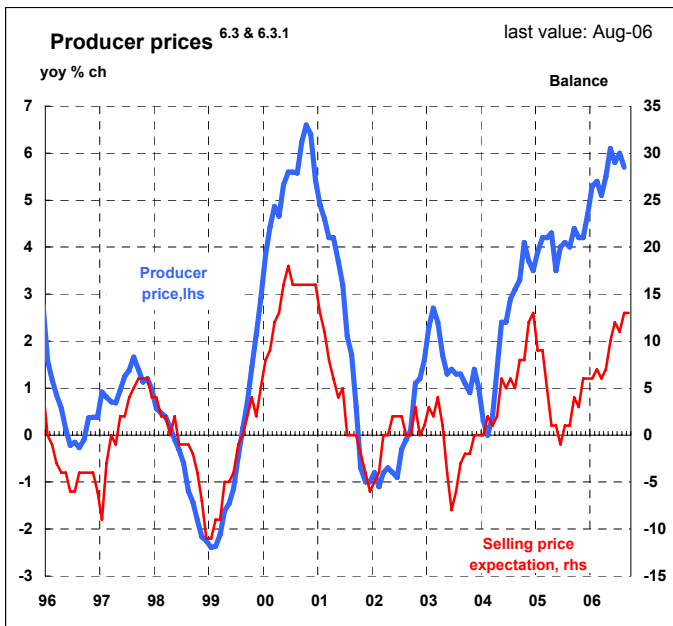
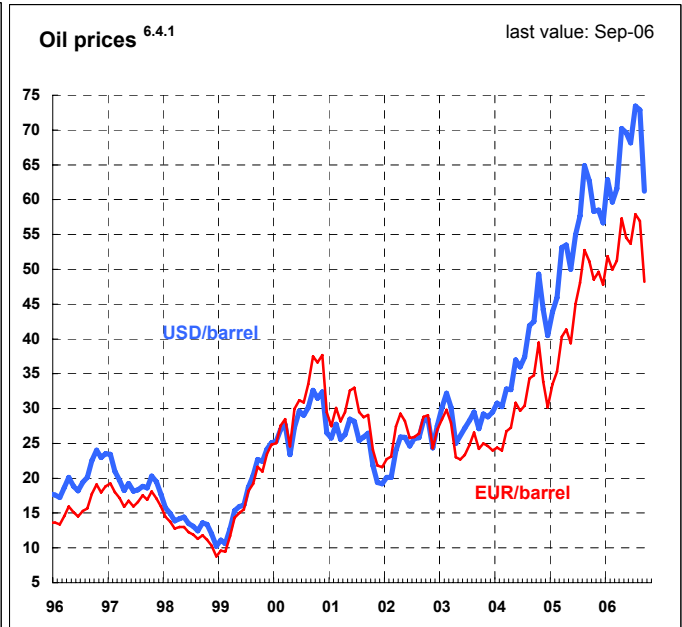
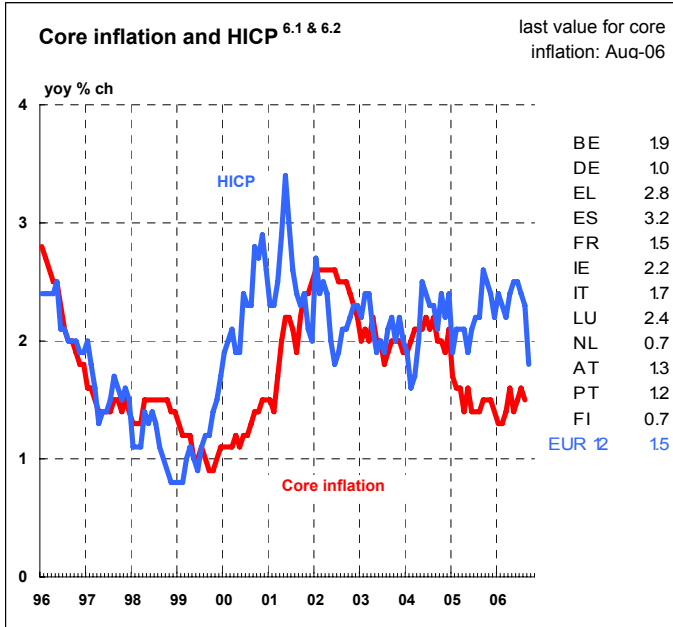
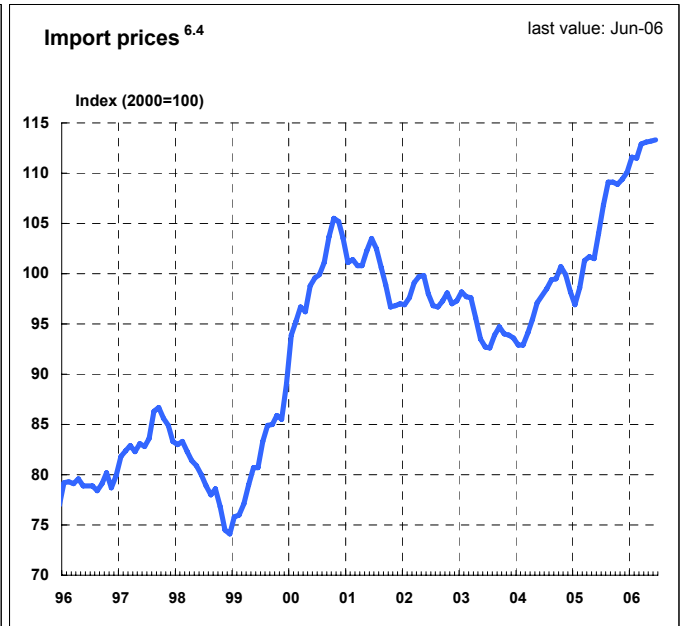
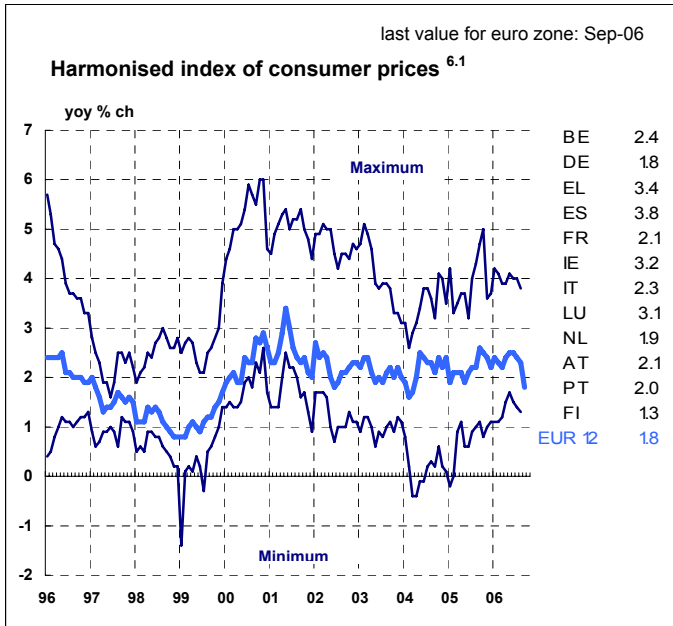


5. INTERNATIONAL TRANSACTIONS





## 6. PRICES

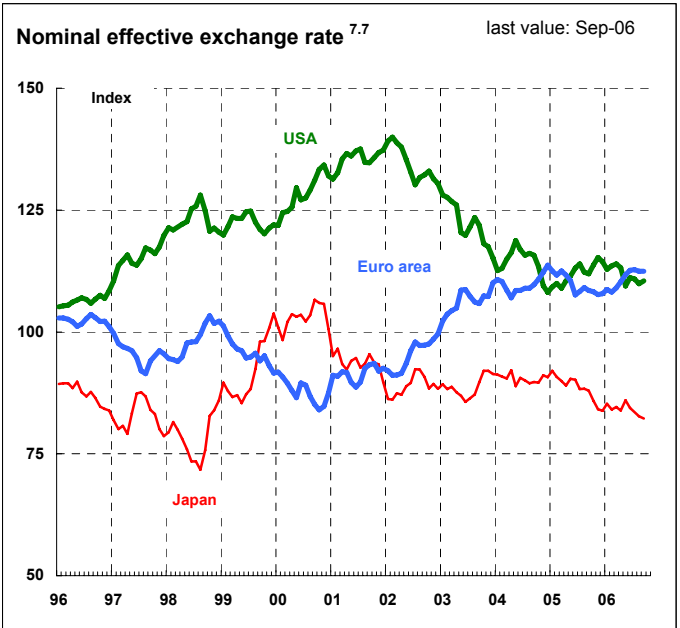
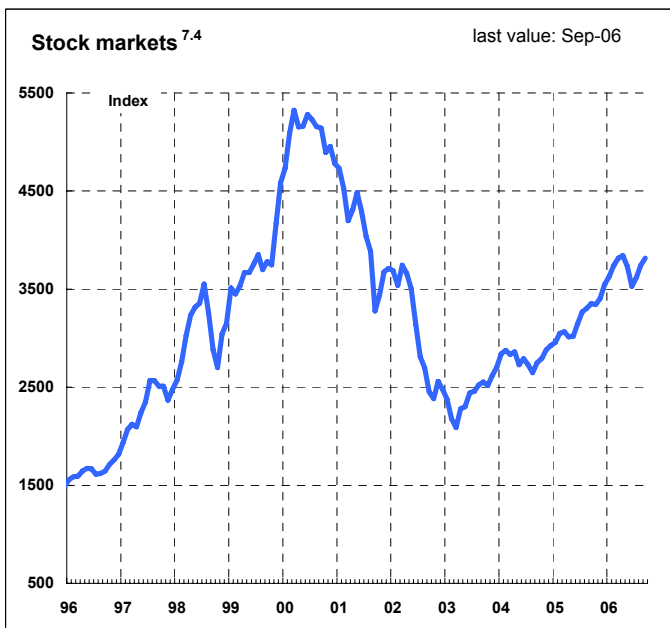
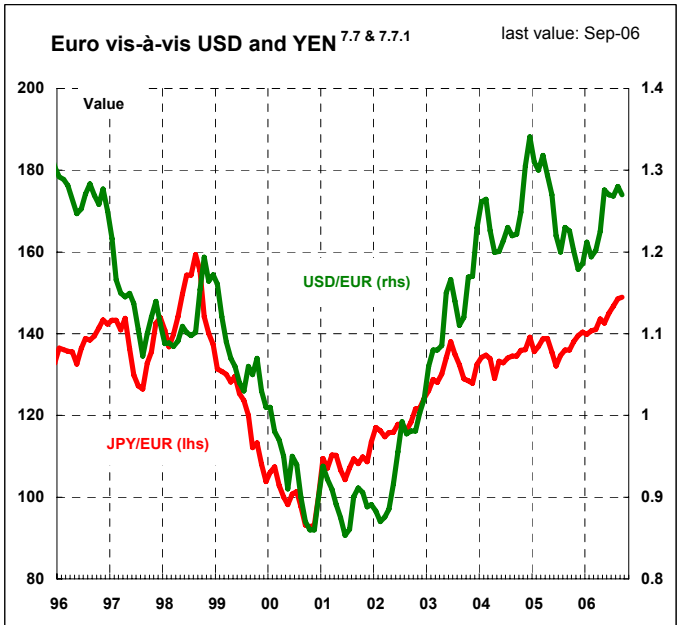
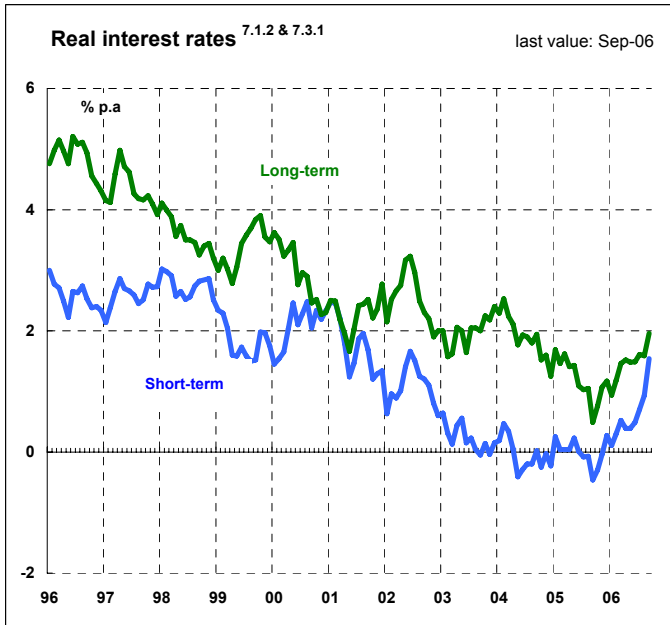
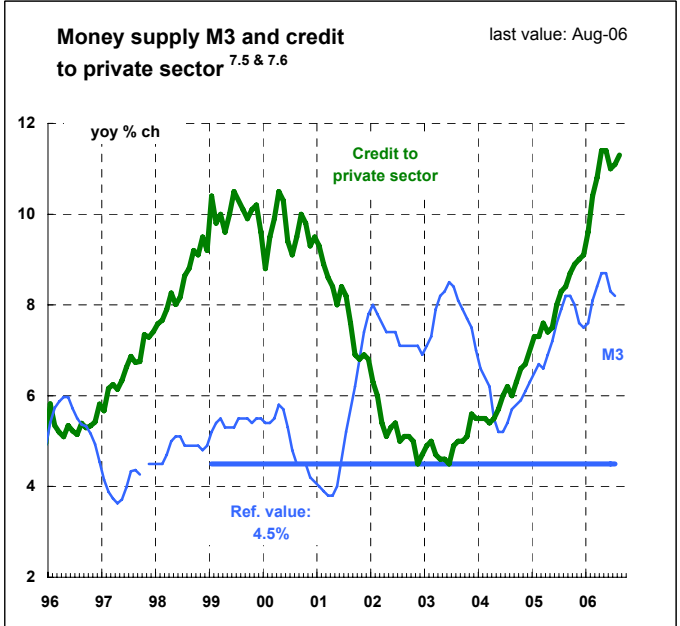
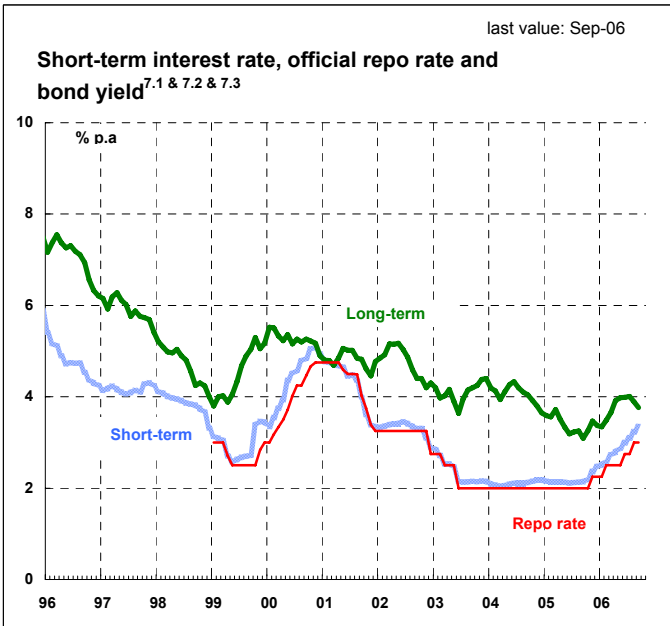




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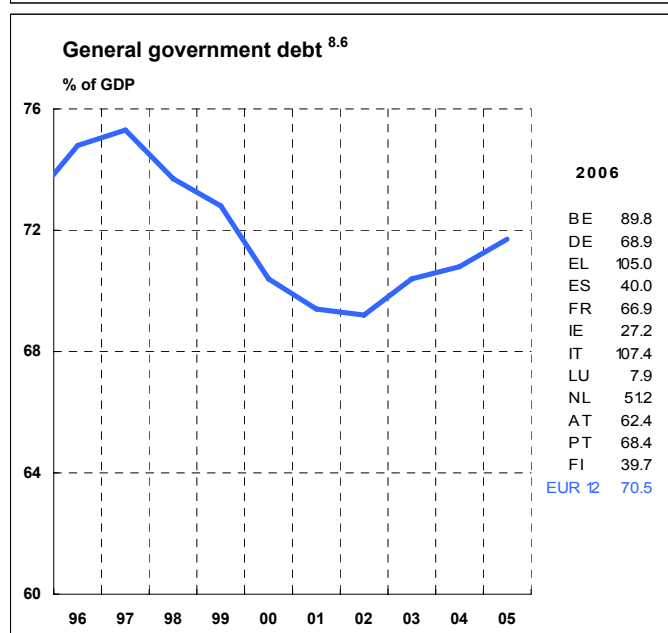
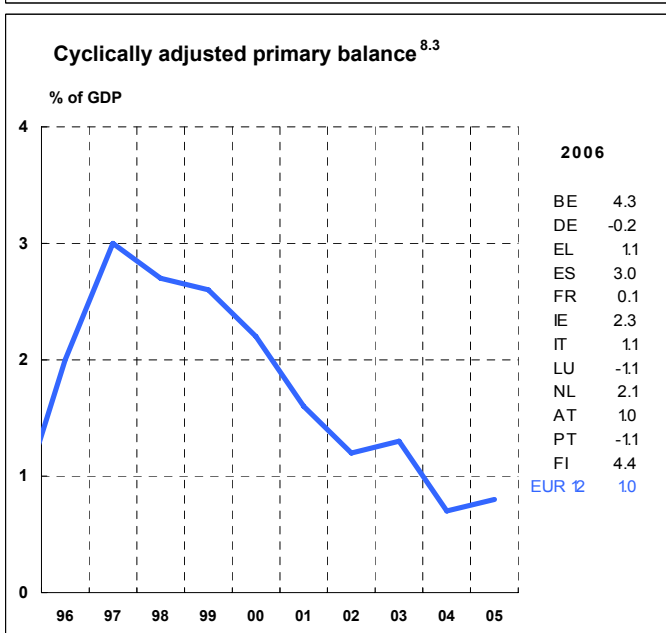
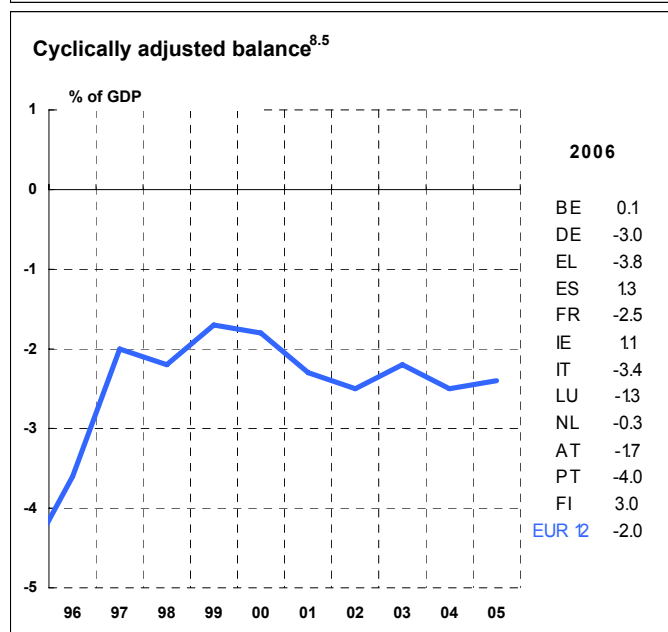
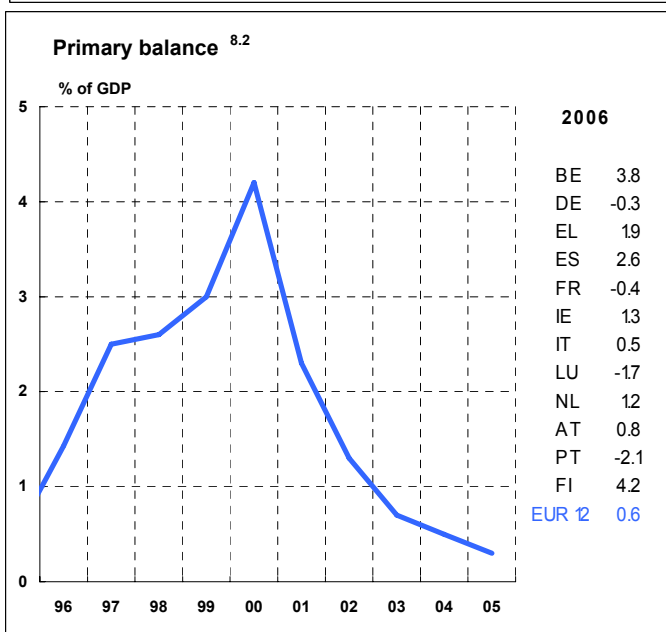
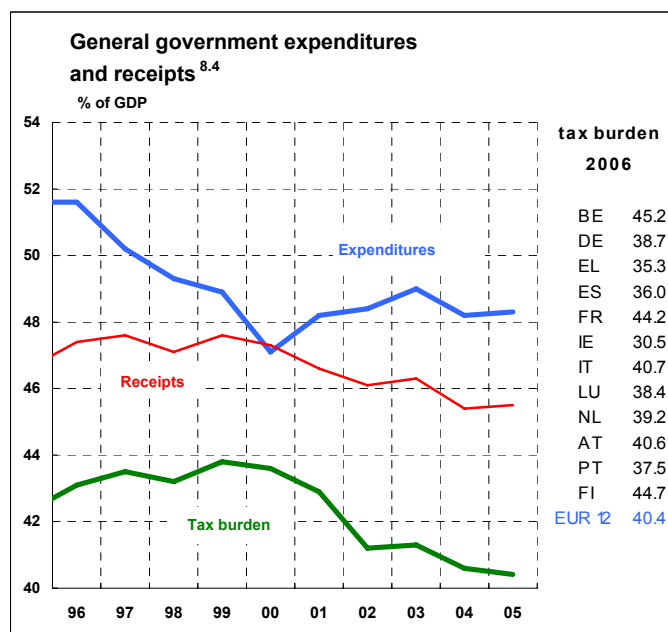
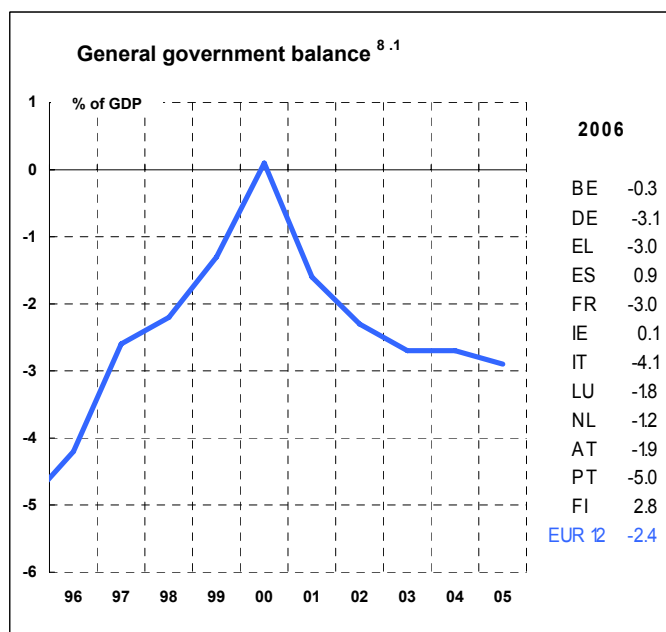


## 7. MONETARY AND FINANCIAL INDICATORS





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