

# KEY INDICATORS FOR THE EURO AREA



## European Commission, DG ECFIN

### Key indicators for the euro area

this update: 12 December 2006

next update: 24 January 2007

		2003	2004	2005	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06
<b>1 Output</b>										
Industrial confidence <sup>1.1</sup>	Balance	-11	-5	-8	3	4	2	4	5	6
Industrial production <sup>1.2</sup>	mom % ch.	0.5	2.0	1.3	0.4	-0.5	1.7	-1.0		
		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	1.0	0.5
<b>2 Private consumption</b>										
Consumer confidence <sup>2.1</sup>	Balance	-18	-14	-14	-9	-8	-9	-8	-8	-7
Retail sales <sup>2.2</sup>	mom % ch.	0.1	0.2	1.0	0.1	0.4	0.7	-1.0	0.3	
		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	0.6
<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	0.6	1.0	2.3	0.8
Change in stocks <sup>3.3</sup>	% of GDP	0.0	-0.1		0.2	0.2	0.4	0.0	0.3	0.2
<b>4 Labour market</b>										
Unemployment <sup>4.1</sup>	%	8.4	8.9	8.5	7.8	7.8	7.8	7.8	7.7	
		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	0.8	1.0	1.3	
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	3	2	1	2	2	2
World trade <sup>5.2</sup>	Index	132	146	157	172	169	175	178		
Exports of goods <sup>5.3</sup>	Bn. EUR	1056.0	1142.1	1232.5	113.2	111.1	116.2	118.5		
Imports of goods <sup>5.4</sup>	Bn. EUR	970.4	1069.1	1207.3	115.0	117.4	119.5	119.4		
Trade balance <sup>5.5</sup>	Bn. EUR	85.6	73.0	25.2	-1.8	-6.2	-3.3	-0.9		
		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	0.7	3.8	1.1	1.7
Imports of goods and services <sup>5.7</sup>	qoq % ch.	3.1	6.7	5.2	2.6	2.4	1.6	2.8	1.1	2.1
		2003	2004	2005	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06
Current account balance <sup>5.8</sup>	Bn. EUR	18.1	42.4	38.8	4.9	-2.1	-3.9	-0.3		
Direct investment (net) <sup>5.9</sup>	Bn. EUR	-18.4	-39.7	-41.8	-7.7	-9.4	-7.6	-19.9		
Portfolio investment (net) <sup>5.10</sup>	Bn. EUR	-9.4	39.0	32.3	66.5	1.0	-15.0	40.5		
<b>6 Prices</b>										
HICP <sup>6.1</sup>	yoy % ch.	2.1	2.2	2.2	2.5	2.4	2.3	1.7	1.6	1.8
Core HICP <sup>6.2</sup>	yoy % ch.	2.0	2.1	1.5	1.5	1.6	1.5	1.5	1.6	
Producer prices <sup>6.3</sup>	yoy % ch.	1.6	2.3	4.1	5.8	6.0	5.7	4.6	4.0	
Import prices <sup>6.4</sup>	Index	102.5	97.2	104.8	113.3	114.0	115.1			
<b>7 Monetary and financial indicators</b>										
Interest rate (3 months) <sup>7.1</sup>	% p.a.	2.3	2.1	2.2	3.0	3.1	3.2	3.3	3.5	3.6
Bond yield (10 years) <sup>7.2</sup>	% p.a.	4.1	4.1	3.4	4.0	4.0	3.9	3.8	3.8	3.7
ECB repo rate <sup>7.3</sup>	% p.a.	3.25	2.75		2.75	2.75	3.00	3.25	3.25	3.50
Stock markets <sup>7.4</sup>	Index	2420	2805	3207	3529	3617	3744	3817	3973	4053
M3 <sup>7.5</sup>	yoy % ch.	7.8	5.9	7.4	8.3	8.2	8.2	8.4		
Credit to private sector (loans) <sup>7.6</sup>	yoy % ch.	5.0	6.0	8.1	11.0	11.1	11.3	11.4	11.2	
Exchange rate USD/EUR <sup>7.7</sup>	Value	1.13	1.24	1.24	1.27	1.27	1.28	1.27	1.26	1.29
Nominal effective exchange rate <sup>7.8</sup>	Index	106.4	109.8	109.7	112.6	112.7	112.5	112.4	112.0	112.6



## Comments

### 1. Output

In November, the Commission's **industrial confidence** continued to improve and rose by 1 point in the euro area. The rise in confidence was the result of a slight improvement in production expectations and in the assessment of order books, while the assessment of the stock of finished products remained unchanged.

**Industrial production** in the euro area decreased by 1.0% in September 2006 compared to the previous month. Production decreased in all sectors, with the largest falls registered in intermediate (-2.2%) and durable consumer goods (-3.3%). On an annual basis, industrial production increased by 3.3% vis-à-vis the same period in 2005.

Eurostat's first estimate of **gross domestic product** for the third quarter of 2006 shows an increase of 0.5% over the previous quarter. This figure is 0.1 pp lower than expected in the Commission's autumn forecast. In comparison with the same quarter of the previous year, GDP grew by 2.7%.

The **Commission's autumn forecast** released on 6 November indicates that economic growth in 2006 is set to reach 2.6%, up from 1.4% in 2005. Compared to the spring forecast, GDP growth has been revised upwards by 0.5 percentage points. HICP inflation for the year as a whole is forecast to be 2.2% (unchanged from the spring forecast).

### 2. Private consumption

The **consumer confidence** indicator improved by 1 point in November. The components of the indicator remained broadly unchanged, with the exception of households' expectations about the general economic situation, which improved slightly. The indicator has been on an upward trend since mid-2005 and although the levels are currently above their long-term averages, they are significantly below the record levels of 2000.

In October 2006, the volume of **retail sales** increased by 0.3%, compared to the previous month. Vis-à-vis the same period in 2005, retail sales rose by 1.1%.

**Private consumption** increased by 0.6% in the third quarter of 2006 (q-o-q), after a growth rate of 0.3% in the previous quarter. On an annual basis, household final consumption expenditure rose by 1.8%, unchanged from the previous quarter.

### 3. Investment

**Gross fixed capital formation** rose by 0.8% in the third quarter of 2006 (q-o-q), after a growth rate of 2.3% registered in the previous quarter. On an annual basis, investment increased by 4.7%. The change in **stocks** as a percentage of GDP amounted to 0.2% in the third quarter of 2006. According to the quarterly manufacturing survey, **capacity utilisation** in the manufacturing sector increased to 83.9% in the fourth quarter of 2006. This is 2.2 pp above its long-term average.

### 4. Labour market

In October 2006, the **unemployment** rate stood at 7.7%, compared to 7.8% in September. It was 8.5% 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 October. The estimate of the **trade balance** for the euro area revealed a 0.9 bn euro deficit in September 2006, compared to a revised deficit of 3.3 bn euro in the previous month. The improvement in the trade balance was the result of an increase in **exports of goods** (+2.3 bn euro) and a slight decrease in **imports of goods** (-0.1 bn euro). In the third quarter of 2006, **exports of goods and services** (in volume terms) were up by 1.7% and **imports** by 2.1% (q-o-q). Compared to one year earlier, exports and imports rose by 7.5% and 7.8%, respectively.



The working-day and seasonally-adjusted **current account** of the euro area was close to balance in September (-0.3 bn euro) (also close to balance in non seasonally-adjusted terms). This reflected surpluses in goods (1.7 bn euro), services (2.2 bn euro) and income (2.7 bn euro) that were almost offset by the deficit in current transfers (6.8 bn euro). In the **financial account**, combined direct and portfolio investment recorded net inflows of 21 bn euro in September 2006, reflecting net inflows in **portfolio investment** (41 bn euro) and net outflows in **direct investment** (20 bn euro).

## 6. Prices

Euro area annual **HICP** is expected to be 1.8% in November 2006 according to a flash estimate issued by Eurostat. It was 1.6% in October, down from 1.7% in September. The main components with the highest annual rates in October 2006 were housing (3.6%), education (3.4%) and food (3.0%), while the lowest annual rates were observed for communications (-2.6%), transport (-0.7%) and recreation and culture (0.0%). Concerning the detailed sub-indices, gas (+0.16 percentage points) had the largest upward impact on the headline rate, followed by restaurants and cafés (+0.08), while fuels for transport (-0.42) and telecommunications (-0.13) had the biggest downward impacts. The **core inflation** rate (HICP excluding energy and unprocessed food) was 1.6% in October, up from 1.5% in September.

**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. Since then, oil prices have fallen by more than 25 percent to a lowest at the end of October. Recently prices have risen somewhat, on 11 December Brent crude oil closed at 63.17 USD/bl.

The euro area industrial **producer price** index fell by 0.5% in September 2006 compared to August 2006. Prices in total industry excluding the energy sector increased by 0.1%, intermediate and capital goods gained 0.2% and durable consumer goods remained stable. Prices in the energy sector fell by 2.5%.

## 7. Monetary and financial indicators

On 7 December 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 3,50%. This move followed increases in policy interest rates of 25 basis points in December 2005, March 2006, June 2006, August 2006 and October 2006. In 2006, euro area money markets have been strongly affected by market expectations of future changes in ECB policy interest rates. On 11 December 2006, the **three-month money market rate** stood at 3.67%. **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 3.75% on 11 December. 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** stood at 8.5% in October, unchanged from the previous month. The three-month moving average of the annual growth rate of M3 over the period August 2006 - October 2006 rose to 8.4%, from 8.2 in the period July 2006 - September 2006. Regarding the main components of M3, the annual rate of growth of M1 decreased, while the annual rate of growth of short-term deposits other than overnight deposits and the annual rate of growth of marketable instruments increased, compared to the previous month. The annual rate of **credit growth (loans)** to the private sector decreased to 11.2% in October, from 11.4% in the previous month. Lending for house purchase decreased to 10.4% in October, from 11.0% in September.

The **euro exchange rate** has gained against the USD to 1.32 on 11 December after the Ifo index showed business confidence in Germany rose to a 15-year high IN November. It has also gained against the JPY (154.5) since the beginning of December.

On 11 December, the **EuroSTOXX50** index was around 13% higher than at the beginning of 2006.

