

# KEY INDICATORS FOR THE EURO AREA



European Commission, DG ECFIN											
Key indicators for the euro area											
this update: 22 March 2007											
next update: 17 April 2007											
1	Output		2003	2004	2005	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
	Industrial confidence <sup>1.1</sup>	Balance	-11	-5	-8	4	5	6	6	5	5
	Industrial production <sup>1.2</sup>	mom % ch.	0.5	2.0	1.3	-0.9	0.0	0.3	1.2	-0.2	
			2003	2004	2005	05Q3	05Q4	06Q1	06Q2	06Q3	06Q4
	Gross domestic product <sup>1.3</sup>	qoq % ch.				0.6	0.3	0.8	1.0	0.6	0.9
2	Private consumption		2003	2004	2005	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
	Consumer confidence <sup>2.1</sup>	Balance	-18	-14	-14	-8	-8	-7	-6	-7	-5
	Retail sales <sup>2.2</sup>	mom % ch.	0.1	0.2	1.0	-0.8	0.1	0.6	0.3	-1.0	
			2003	2004	2005	05Q3	05Q4	06Q1	06Q2	06Q3	06Q4
	Private consumption <sup>2.3</sup>	qoq % ch.	1.3	1.4	1.4	0.7	0.1	0.6	0.3	0.7	0.6
3	Investment		2003	2004	2005	05Q3	05Q4	06Q1	06Q2	06Q3	06Q4
	Capacity utilization <sup>3.1</sup>	%	80.7	81.6	81.3	80.9	81.1	82.0	82.5	83.6	83.9
	Gross fixed capital formation <sup>3.2</sup>	qoq % ch.	1.0	2.1	2.7	1.3	0.4	0.8	2.1	0.6	1.2
	Change in stocks <sup>3.3</sup>	% of GDP	0.0	-0.1		0.0	0.4	0.0	0.3	0.2	
4	Labour market		2003	2004	2005	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
	Unemployment <sup>4.1</sup>	%	8.4	8.9	8.5	7.7	7.6	7.5	7.5	7.4	
			2003	2004	2005	05Q3	05Q4	06Q1	06Q2	06Q3	06Q4
	Employment <sup>4.2</sup>	yoy % ch.	0.4	0.6	0.7	0.7	0.8	1.0	1.4	1.5	1.6
	Shortage of labour <sup>4.3</sup>	%	2.5	2.4		2.1	2.8	2.8	3.1	4.4	5.0
	Wages <sup>4.4</sup>	yoy % ch.	2.5	2.2		2.2	2.6	2.9	2.9	2.7	2.5
5	International transactions		2003	2004	2005	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
	Export order books <sup>5.1</sup>	Balance	-24	-13	-16	2	2	3	4	2	5
	World trade <sup>5.2</sup>	Index	132	146	157	177	178	179	178	182	
	Exports of goods <sup>5.3</sup>	Bn. EUR	1056.0	1142.1	1232.5	120.3	119.6	120.6	124.6		
	Imports of goods <sup>5.4</sup>	Bn. EUR	970.4	1069.1	1207.3	118.0	117.8	116.2	123.9		
	Trade balance <sup>5.5</sup>	Bn. EUR	85.6	73.0	25.2	2.3	1.8	4.4	0.7		
			2003	2004	2005	05Q3	05Q4	06Q1	06Q2	06Q3	06Q4
	Exports of goods and services <sup>5.6</sup>	qoq % ch.	1.1	6.8	4.2	2.5	0.7	3.1	0.9	1.8	3.7
	Imports of goods and services <sup>5.7</sup>	qoq % ch.	3.1	6.7	5.2	2.0	1.5	2.3	0.8	2.2	1.9
			2003	2004	2005	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
	Current account balance <sup>5.8</sup>	Bn. EUR	18.1	42.4	38.8	1.5	1.5	4.6	5.0		
	Direct investment (net) <sup>5.9</sup>	Bn. EUR	-18.4	-39.7	-41.8	-27.1	-15.3	-13.0	-28.3		
	Portfolio investment (net) <sup>5.10</sup>	Bn. EUR	-9.4	39.0	32.3	44.2	22.5	45.5	39.6		
6	Prices		2003	2004	2005	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
	HICP <sup>6.1</sup>	yoy % ch.	2.1	2.2	2.2	1.7	1.6	1.9	1.9	1.8	1.8
	Core HICP <sup>6.2</sup>	yoy % ch.	2.0	2.1	1.5	1.5	1.6	1.6	1.6	1.8	1.9
	Producer prices <sup>6.3</sup>	yoy % ch.	1.6	2.3	4.1	4.6	4.0	4.3	4.1	2.9	
	Import prices <sup>6.4</sup>	Index	102.5	97.2	104.8	113.5	111.2	110.9			
7	Monetary and financial indicators		2003	2004	2005	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
	Interest rate (3 months) <sup>7.1</sup>	% p.a.	2.3	2.1	2.2	3.2	3.3	3.4	3.4	3.6	3.7
	Bond yield (10 years) <sup>7.2</sup>	% p.a.	4.1	4.1	3.4	3.8	3.8	3.7	3.8	4.0	4.1
	ECB repo rate <sup>7.3</sup>	% p.a.	3.25	2.75		3.25	3.25	3.50	3.50	3.50	3.75
	Stock markets <sup>7.4</sup>	Index	2420	2805	3207	109	113	115	116	118	119
	M3 <sup>7.5</sup>	yoy % ch.	7.8	5.9	7.4	8.4	8.8	9.3	9.8	9.8	
	Credit to private sector (loans) <sup>7.6</sup>	yoy % ch.	5.0	6.0	8.1	11.5	11.2	11.2	10.7	10.6	
	Exchange rate USD/EUR <sup>7.7</sup>	Value	1.13	1.24	1.24	1.27	1.26	1.29	1.32	1.30	1.31
	Nominal effective exchange rate <sup>7.8</sup>	Index	106.4	109.8	109.7	112.4	112.0	112.6	114.1	113.4	113.8



## Comments

### 1. Output

In February, the Commission's **industrial confidence** remained unchanged. Looking at the components of the indicator, managers' production expectations turned less positive, while managers' assessments of order books and of stocks of finished products improved. The indicator remains at a very high level.

**Industrial production** in the euro area fell by 0.2% in January 2007 compared to the previous month. Production of capital goods increased, non-durable consumer goods remained unchanged and production of durable consumer goods, intermediate goods and energy declined. On an annual basis, industrial production increased by 3.7% vis-à-vis the same period in 2005.

Eurostat's first estimate of **gross domestic product** for the fourth quarter of 2006 shows an increase of 0.9% over the previous quarter. This figure is 0.3 pp higher than expected in the Commission's autumn forecast. In comparison with the same quarter of the previous year, GDP grew by 3.3%.

The **Commission's interim forecast** released on 16 February indicates that after having picked up to 2.7% in 2006, economic growth in 2007 is set to moderate slightly to 2.4%. Compared to the autumn forecast, GDP growth has been revised upwards by 0.3 percentage points. HICP inflation is forecast to decline to 1.8%, down from 2.2% in the autumn forecast.

### 2. Private consumption

The **consumer confidence** indicator improved by 2 points in February. Except for households' assessment of their financial situation over the next 12 months, which is expected to decline marginally, all underlying components improved. Consumers expected both the general economic situation as well as their opportunity to save over the next 12 months to improve. Unemployment expectations also became significantly better.

In January 2007, the volume of **retail sales** fell by 1.0%, compared to the previous month. Vis-à-vis the same period in 2006, retail sales declined by 0.1%.

**Private consumption** increased by 0.6% in the fourth 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 2.1%, up from 1.7% in 2006Q3.

### 3. Investment

**Gross fixed capital formation** rose by 1.2% in the fourth quarter of 2006 (q-o-q), after a growth rate of 0.6% registered in the previous quarter. On an annual basis, investment increased by 4.8%. The change in **stocks** as a percentage of GDP decreased by 0.1% in the fourth quarter of 2006. According to the quarterly manufacturing survey, **capacity utilisation** in the manufacturing sector increased to 84.4% in the first quarter of 2007. This is 2.6 pp above its long-term average.

### 4. Labour market

In January 2007, the **unemployment** rate stood at 7.4%, compared to 7.5% in December 2006. It was 8.3% one year ago.

Total **employment** in the euro area rose by 1.6% (y-o-y) in the fourth quarter of 2006; it had increased by 1.5% in the previous quarter. On a quarterly basis, the seasonally-adjusted number of persons employed rose by 0.3%, unchanged from the third quarter. Employment expectations remained unchanged in February.

The level of recorded **labour shortages** remained unchanged in the first quarter of 2007, compared to 2006Q4: 5.0% of firms reported that unfilled job openings were constraining production.

### 5. International transactions

The assessment of **export order books** in manufacturing improved by 3 points in February. The estimate of the **trade balance** for the euro area revealed a 0.7 bn euro surplus in December 2006, compared to a revised surplus of 4.4 bn euro in the previous month. The decline in the trade balance was the result of an increase in **imports of goods** (+7.7 bn euro), which was larger than the increase in **exports of goods** (+4.0 bn euro). In the fourth quarter of 2006, **exports of goods and services** (in volume terms) were up by 3.7% and **imports** by 1.9% (q-o-q). Compared to one year earlier, exports and imports rose by +9.8% and 7.3%, respectively.



The working-day and seasonally-adjusted **current account** of the euro area recorded a surplus of 2.3 bn euro in December (corresponding to a surplus of 5.0 bn euro in non seasonally-adjusted terms). This reflected surpluses in goods (3.3 bn euro), services (3.0 bn euro) and income (1.4 bn euro) that were partly offset by a deficit in current transfers (5.3 bn euro). In the **financial account**, combined direct and portfolio investment recorded net inflows of 11 bn euro in December 2006, reflecting net inflows in **portfolio investment** (40 bn euro) and net outflows in **direct investment** (28 bn euro).

## 6. Prices

Euro area annual **HICP** was 1.8% in February 2007, unchanged compared to January. A year earlier the rate was 2.3%. The main components with the highest annual rates in February 2007 were alcohol and tobacco (4.1%), education (3.3%) and housing (3.1%), while the lowest annual rates were observed for communications (-1.7%), recreation and culture (0.2%) and transport (1.0%). Concerning the detailed sub-indices, restaurants and cafés and tobacco had the largest upward impacts on the headline rate, while fuels for transport and telecommunications had the biggest downward impacts.. The **core inflation** rate (HICP excluding energy and unprocessed food) was 1.9% in February, up from 1.8% in January.

**Oil prices** dropped substantially after the abatement of geopolitical tensions in the Middle East (hostilities in Lebanon) from September 2006 on. Prices stayed in a range of 55-65 USD during Autumn 2006. They dropped considerably in January, to reach a low of 51.8 USD, reflecting mild winter weather conditions in the Northern hemisphere, but also increases in OPEC's spare capacity. Prices rose again, to about 61 USD on 20 March, following stronger demand, as the winter weather conditions started to normalise and stocks in the US were built up.

The euro area industrial **producer price** index rose by 2.9% in January 2007 compared to January 2006. Prices in total industry excluding the energy sector increased by 3.4%. Compared to the previous month, prices rose by 0.1% in total industry and by 0.4% in total industry excluding construction.

## 7. Monetary and financial indicators

On 14 March 2007, 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 3.75%. The previous 25 basis points hike was decided in December 2006. In 2006, euro area money markets have been strongly affected by market expectations of future changes in ECB policy interest rates. On 20 March 2006, the **three-month money market rate** stood at 3.90%. In 2006, **Government bond yields** experienced a strong downward price correction as market sentiment changed in the wake of upbeat survey indicators and expectations about ECB interest rate hikes. At the turn of 2007 euro-area government bond yields increased again as financial markets anticipated a milder slowdown in the US housing market; they stood at 3.91% on 20 March.

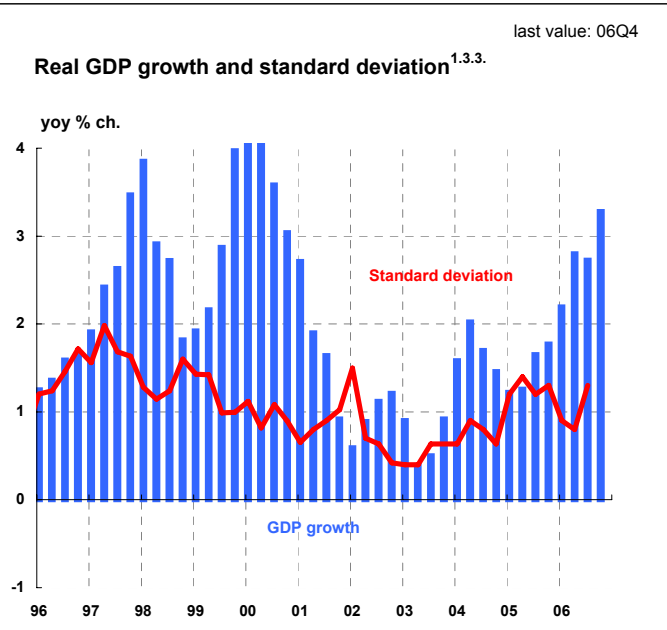
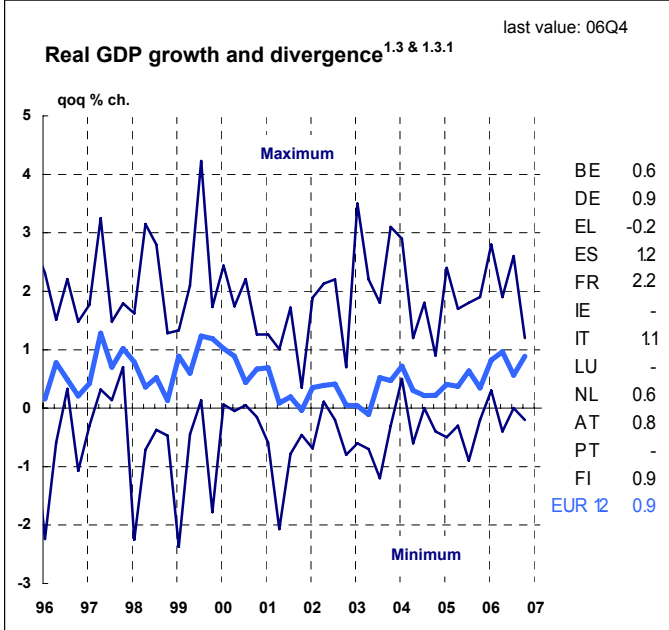
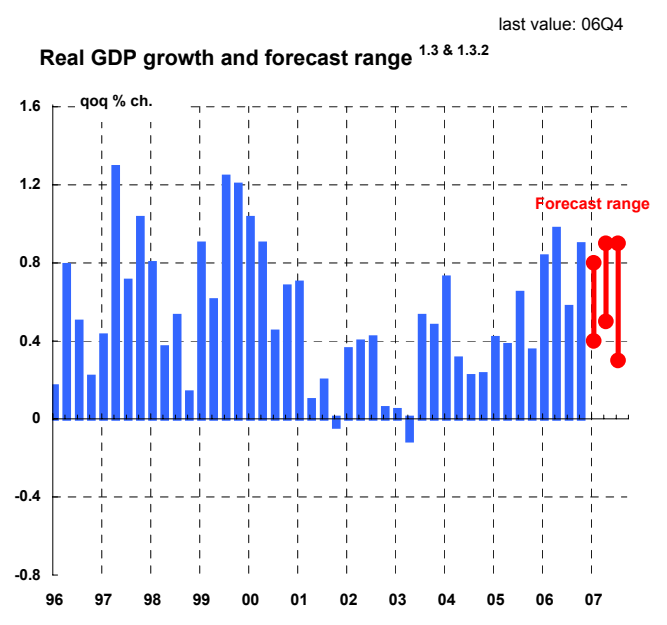
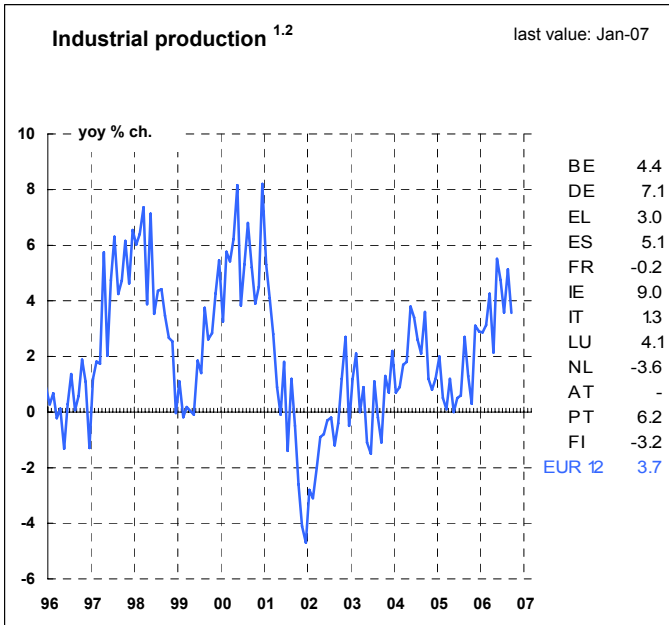
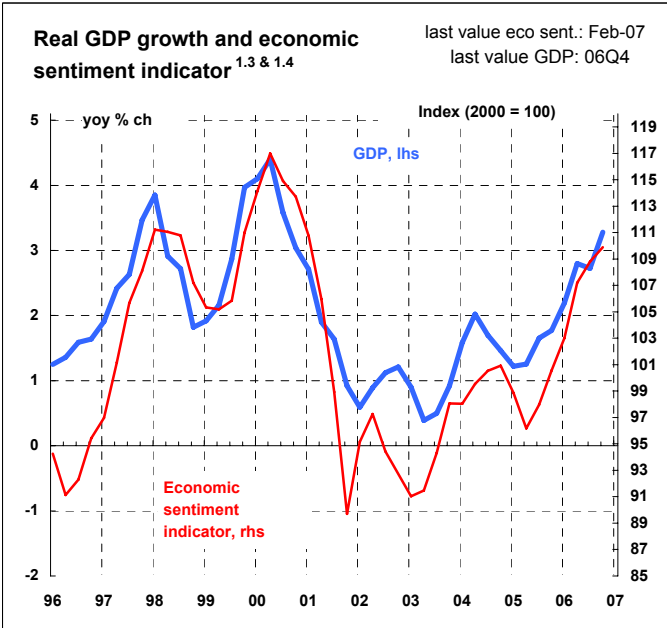
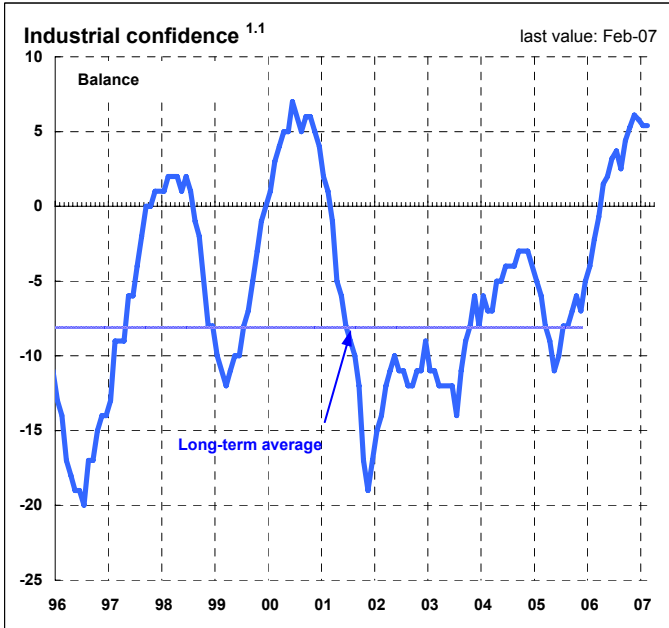
The annual rate of growth of **M3** increased to 9.8% in January, unchanged from the previous month. The three-month moving average of the annual growth rate of M3 over the period November 2006 - January 2007 rose to 9.7%, from 9.2% in the period October 2006 - December 2006. Regarding the main components 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. The annual rate of **credit growth (loans)** to the private sector stood at 10.6% in January, down from 10.7% in December 2006. Lending for house purchase decreased to 9.3% in January, from 9.5% in December.

**Foreign exchange** markets in 2006 have returned to the trends of 2002-2004, with the dollar weakening broadly and the euro strengthening. The euro stood at 1.33 on 20 March, more than 10% higher than one year ago. Against the yen, the euro has also strengthened, to around 156.5 on 20 March. That being said, in real effective terms the exchange rate of the euro appreciated by much less (around 2%). The positive outlook for euro area growth and expectations for further increases in euro area interest rates relative to the US and Japan have underpinned the euro's strength.

A significant drop in major **stock indices** took place on 27 February (-3.3% in DJ, -2.30 in FTSE, -3.0 in DAX and CAC), led by a sharp decline in Chinese equity prices and weak data on the US economy. Nervousness persists, the major stock indices are about 3-5% below the highs reached earlier in the year.



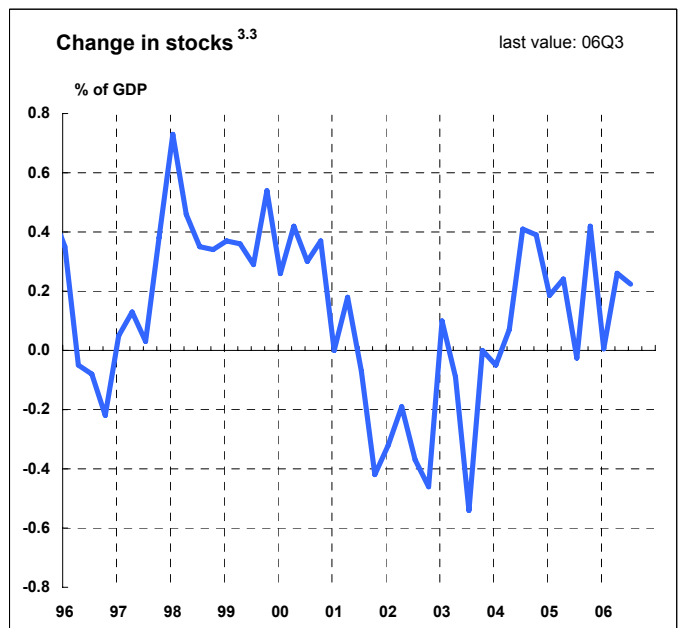
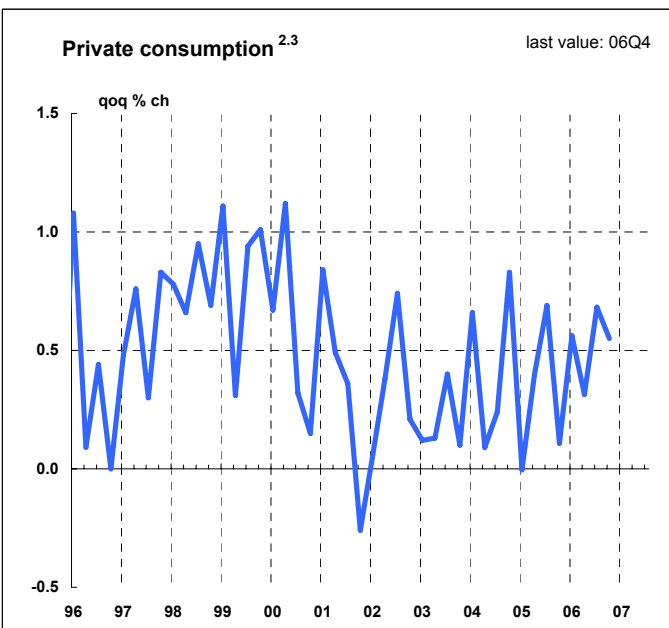
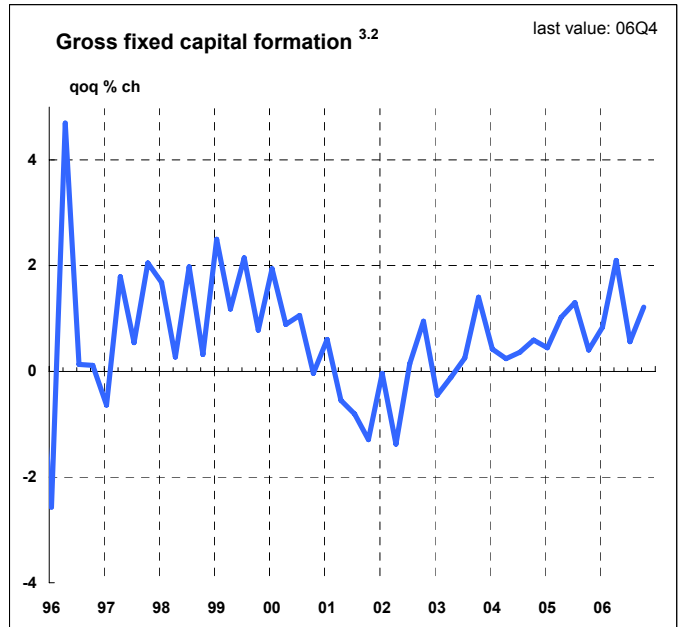
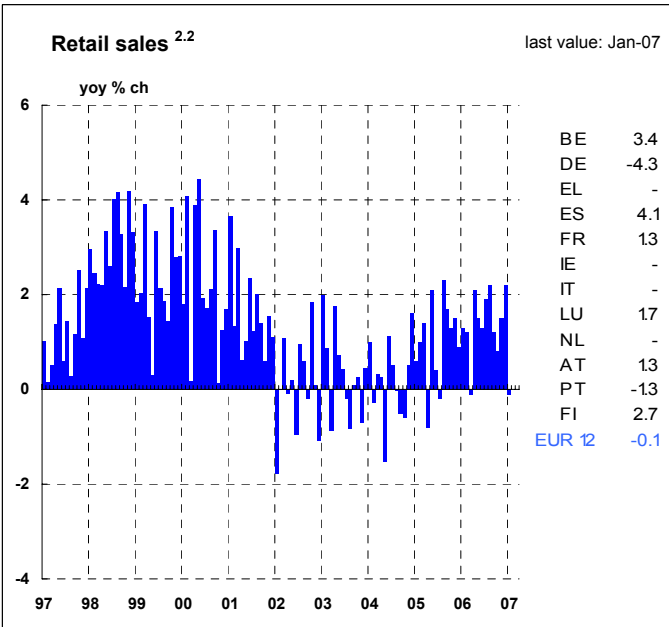
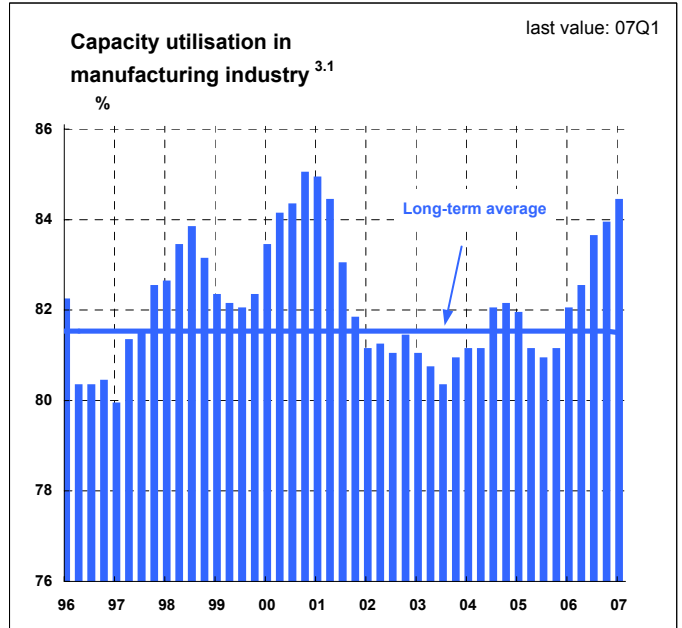
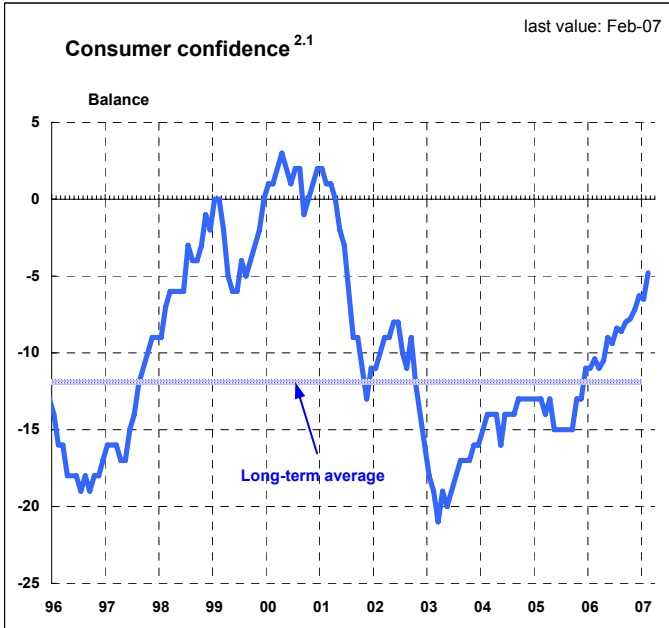
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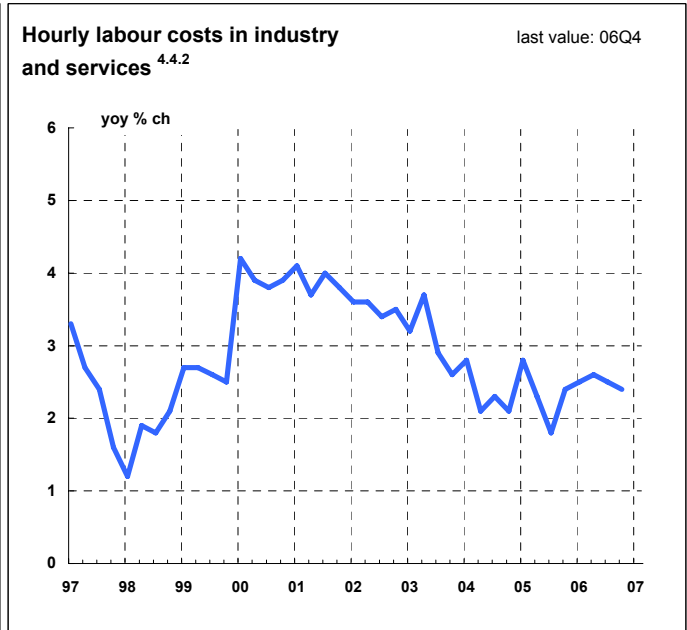
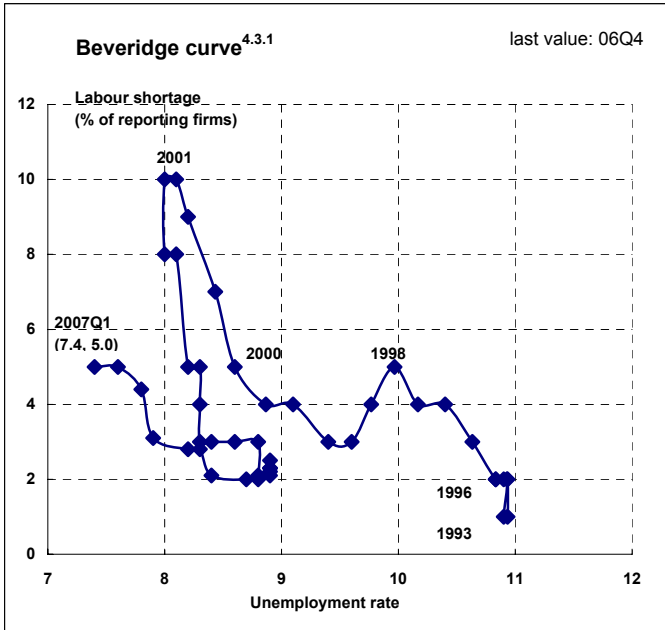
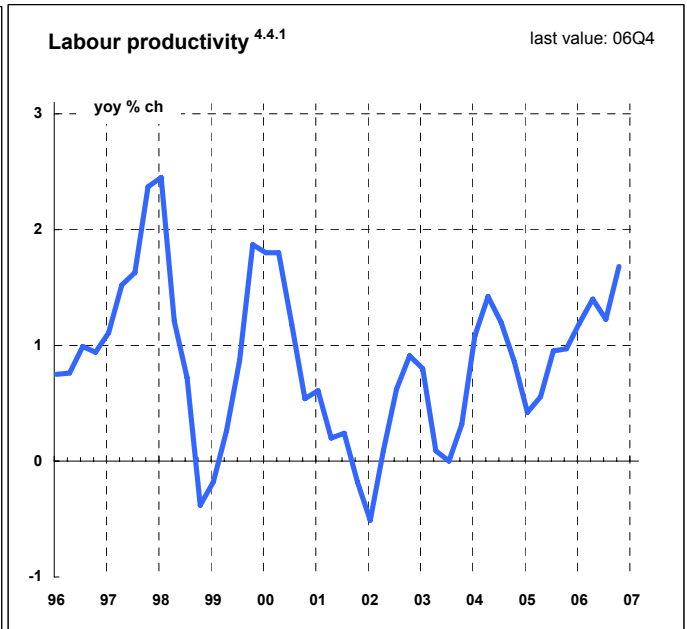
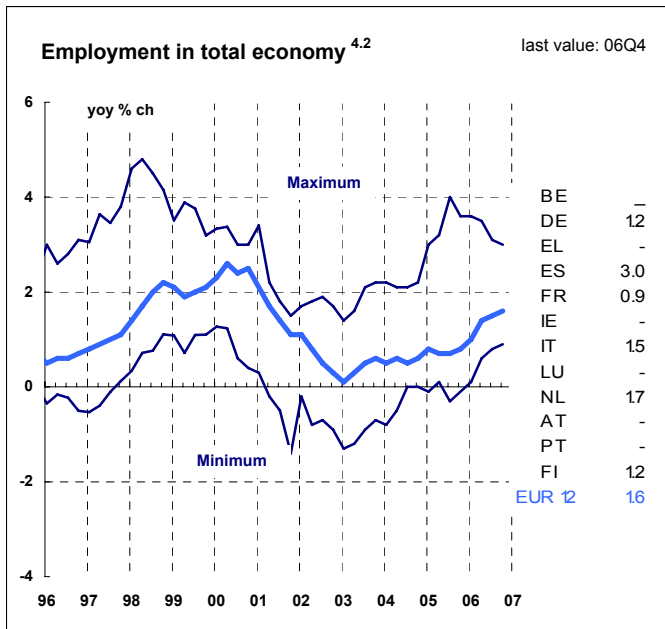
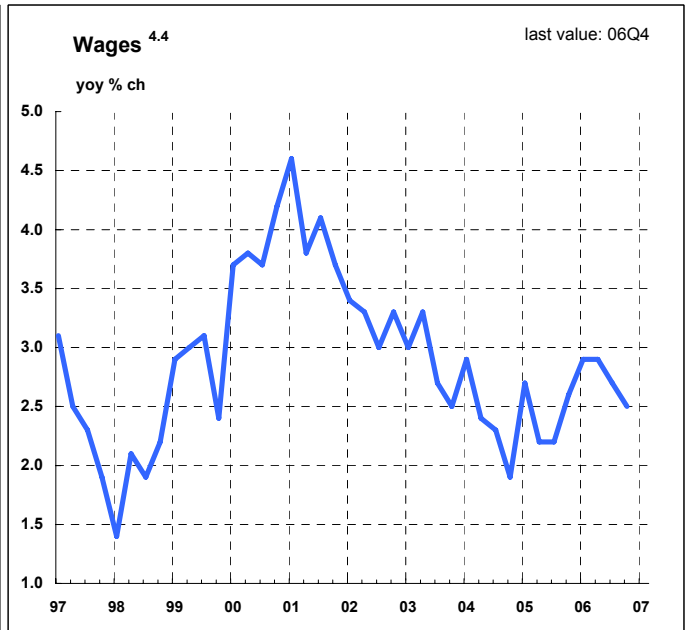
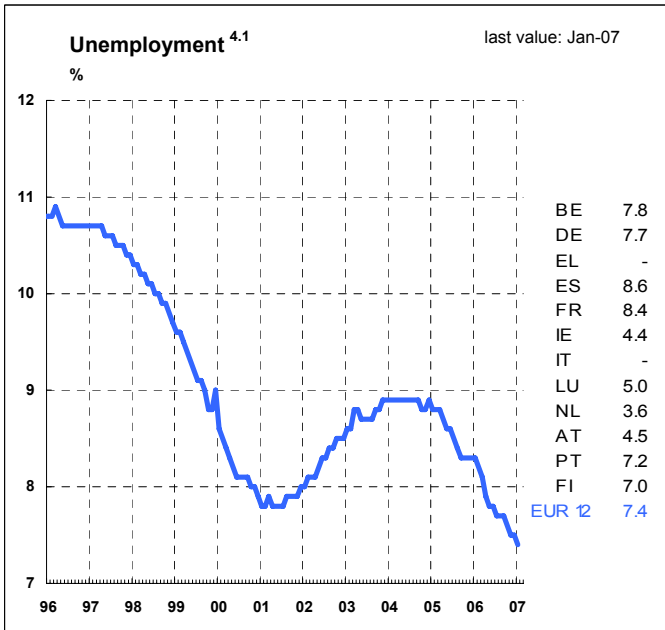
2. PRIVATE CONSUMPTION

3. INVESTMENT



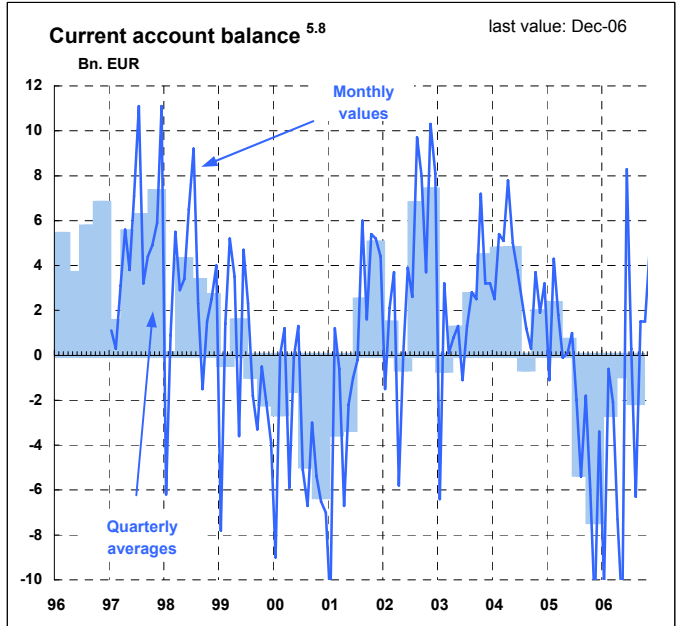
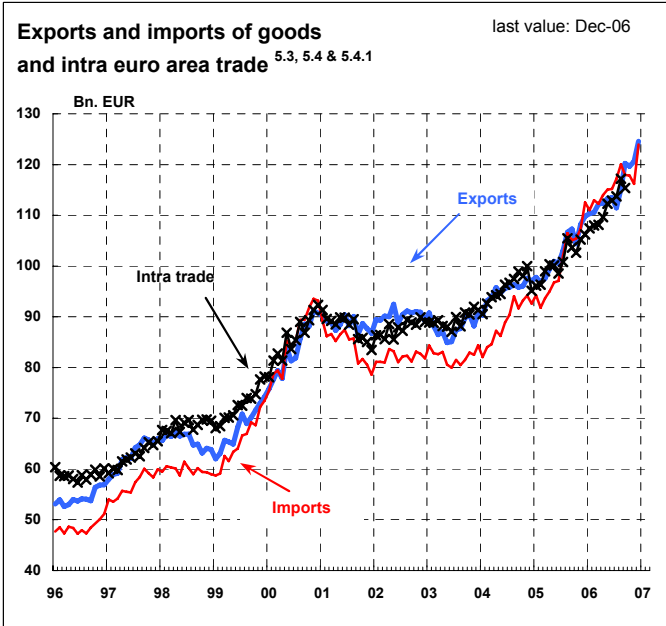
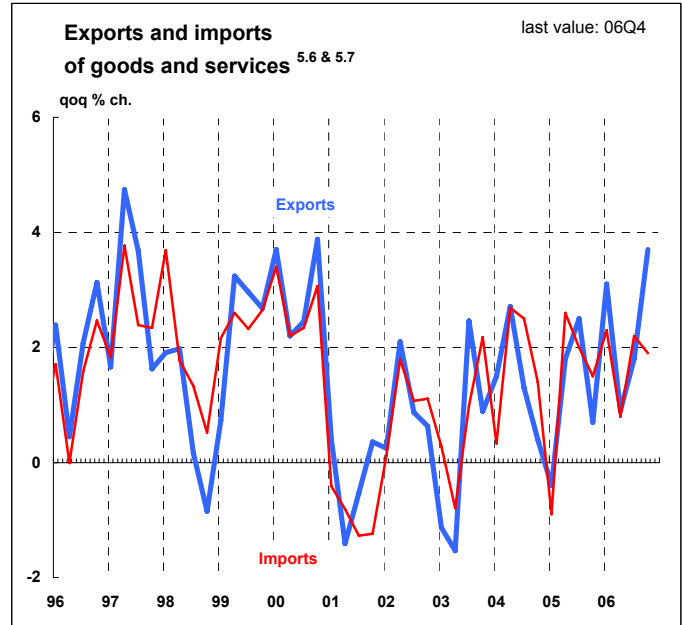
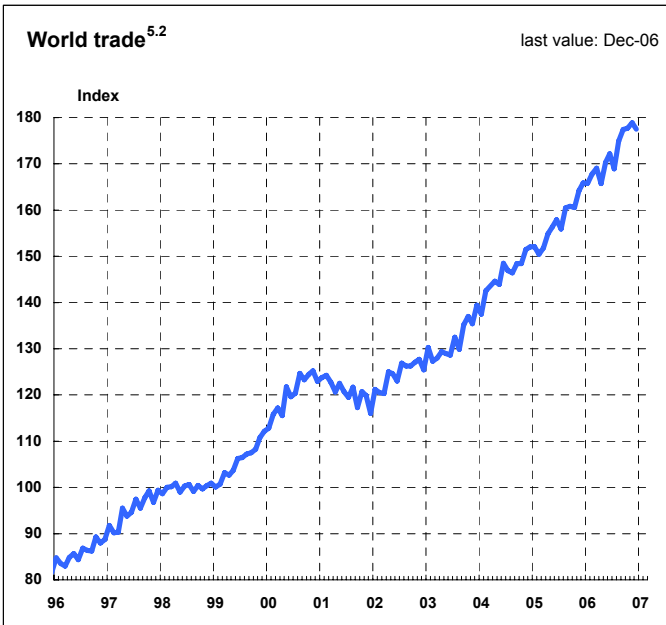
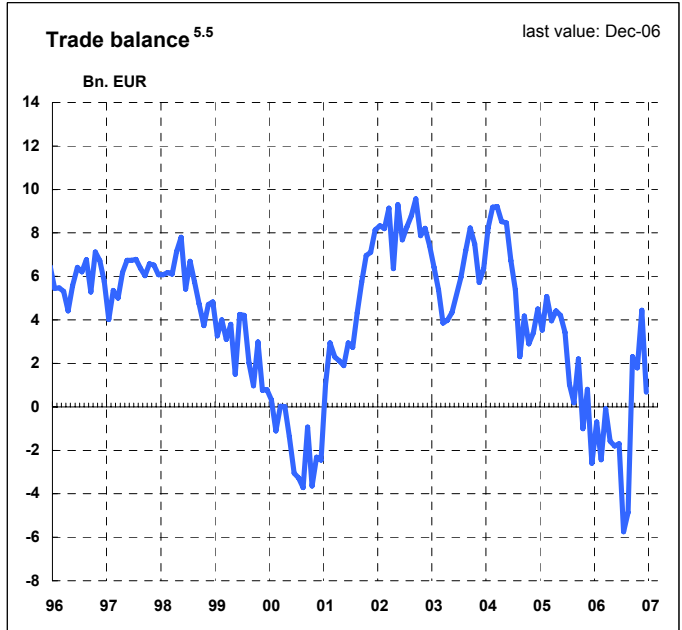
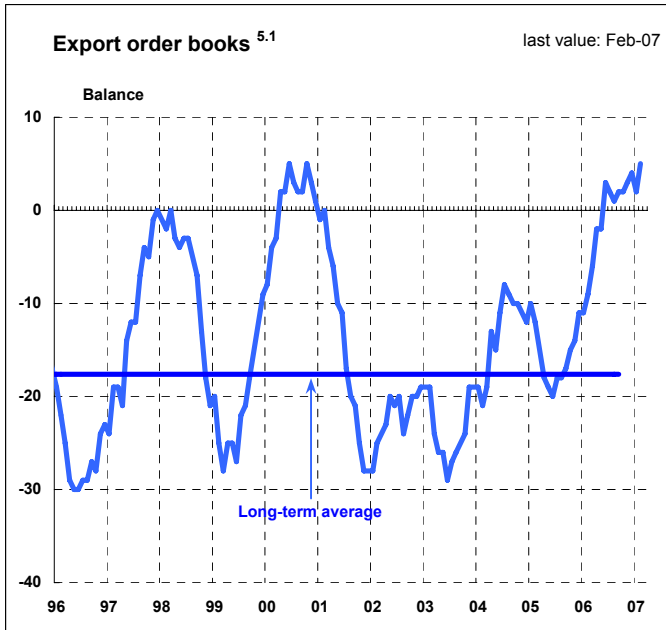


4. LABOUR MARKET



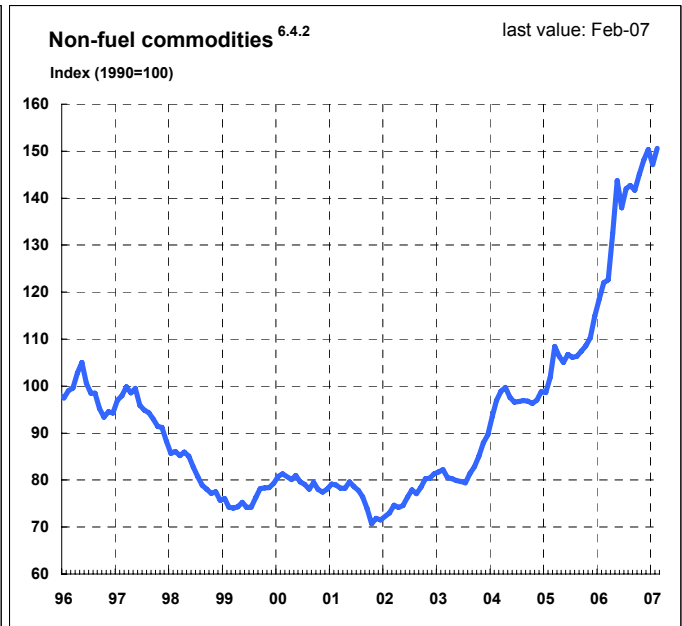
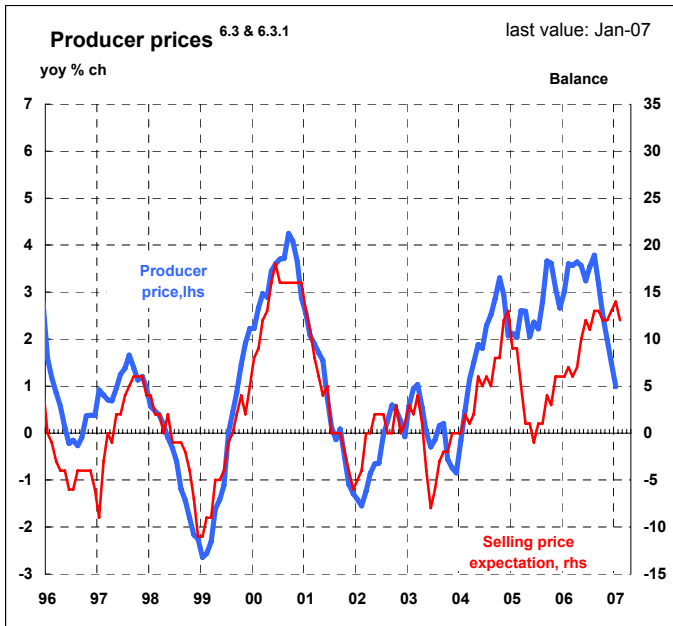
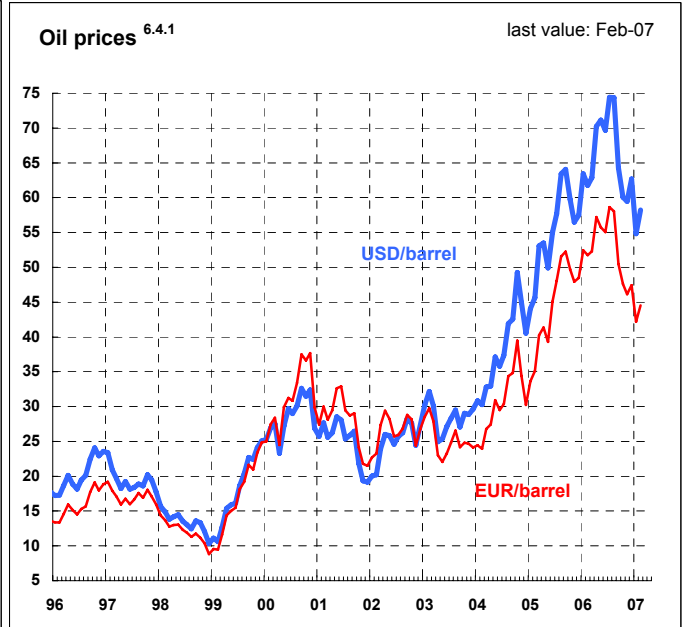
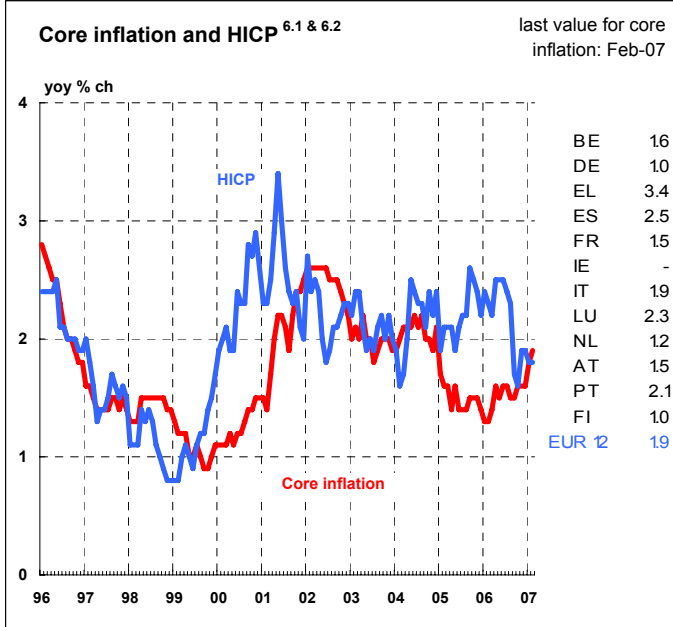
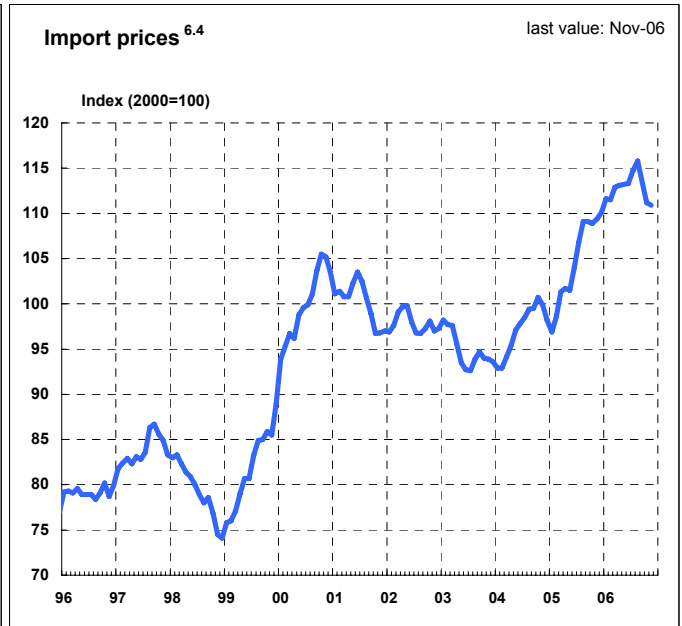
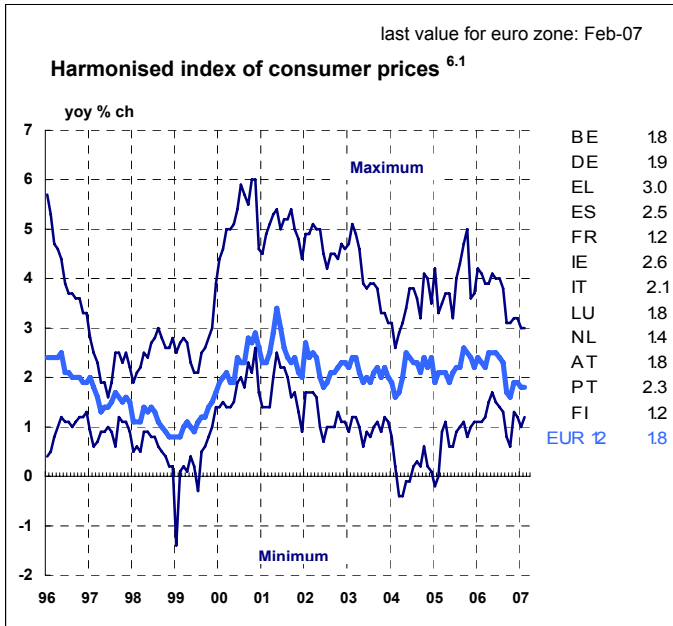


5. INTERNATIONAL TRANSACTIONS





## 6. PRICES

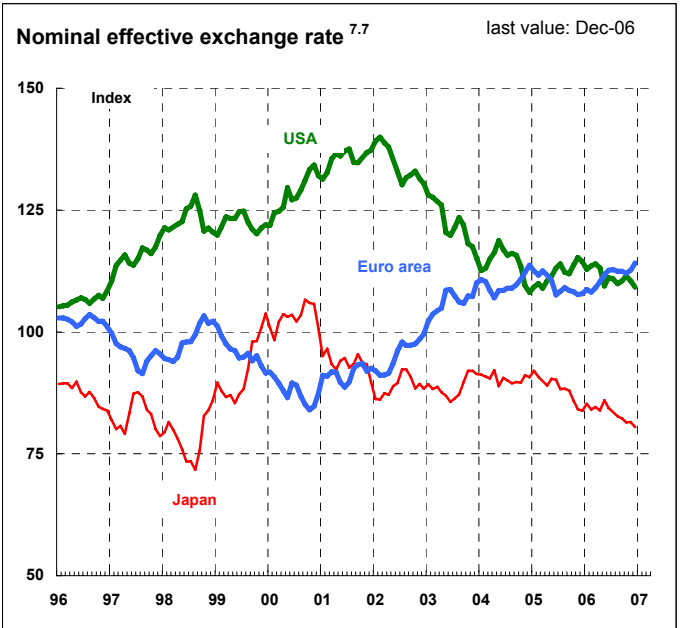
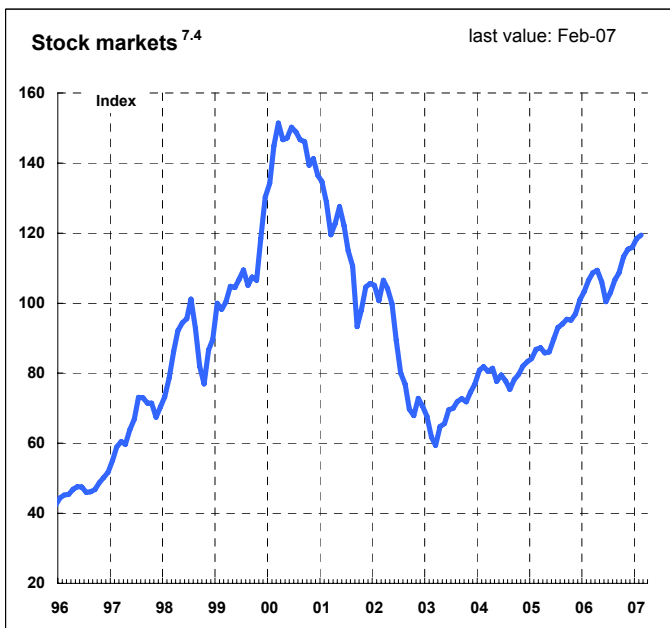
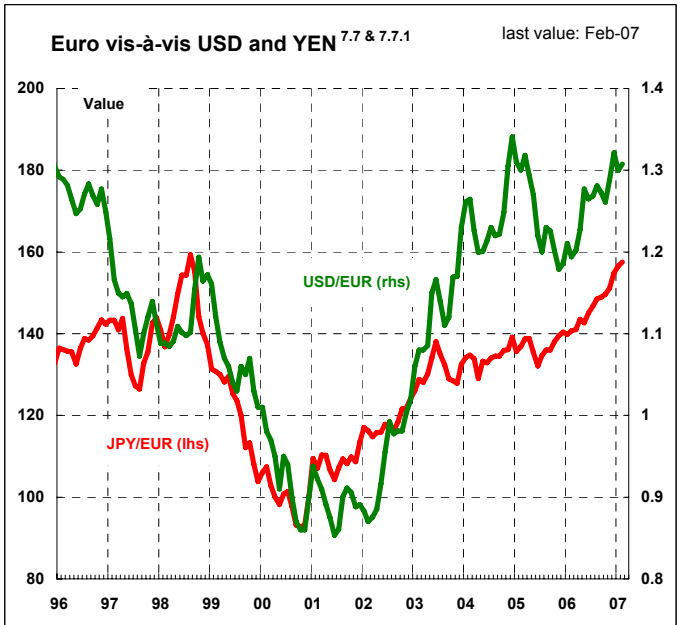
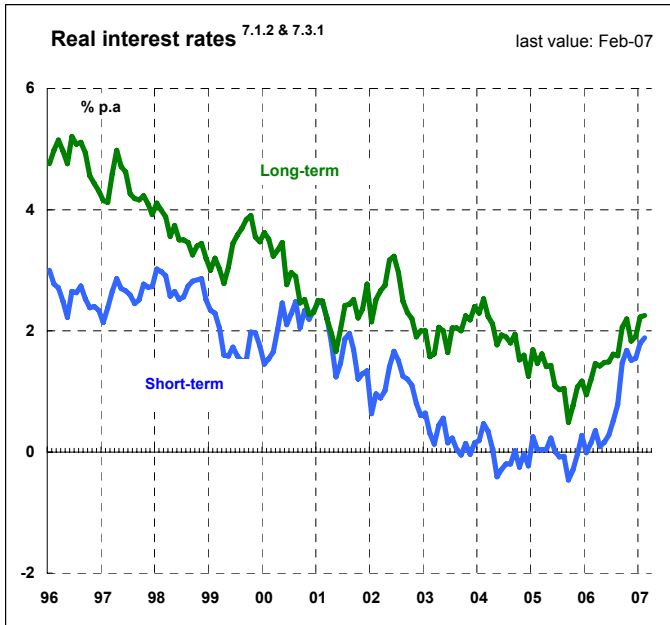
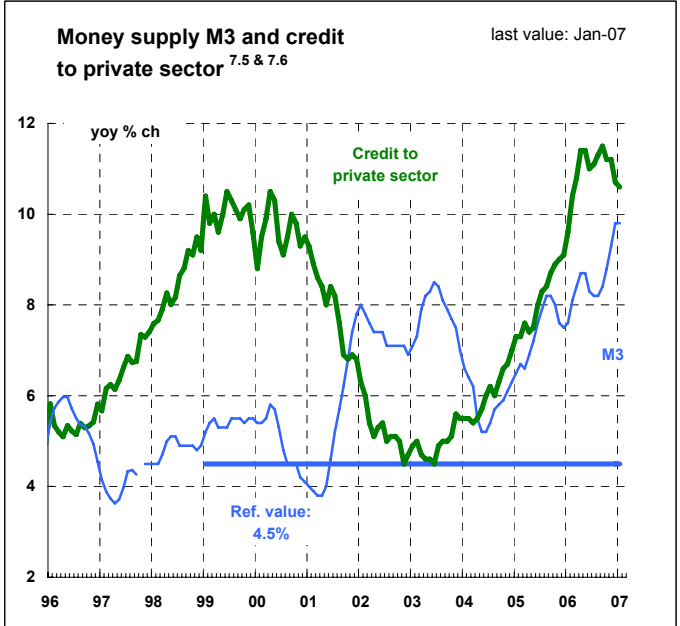
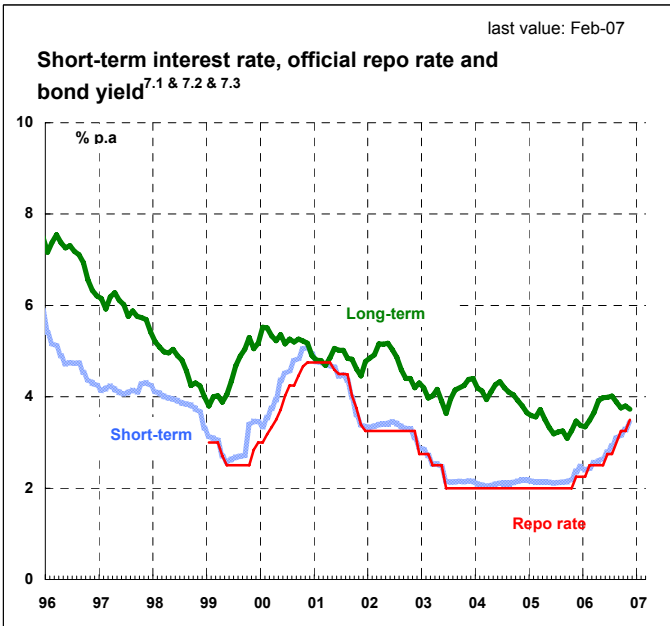




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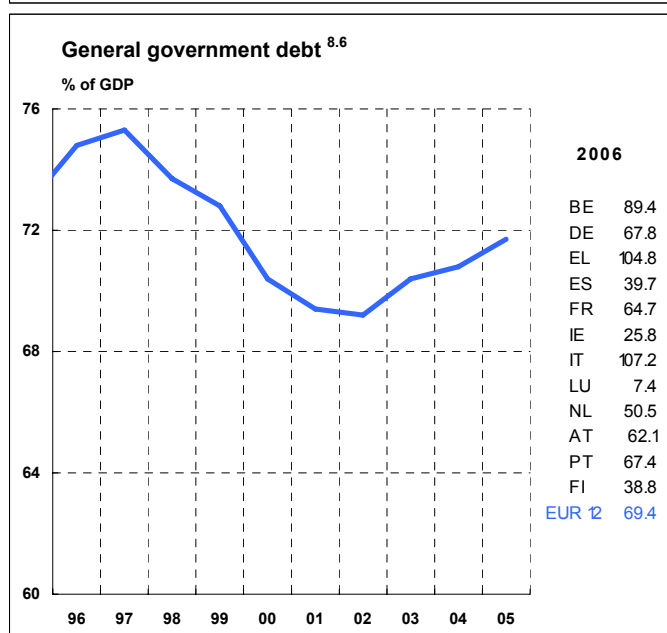
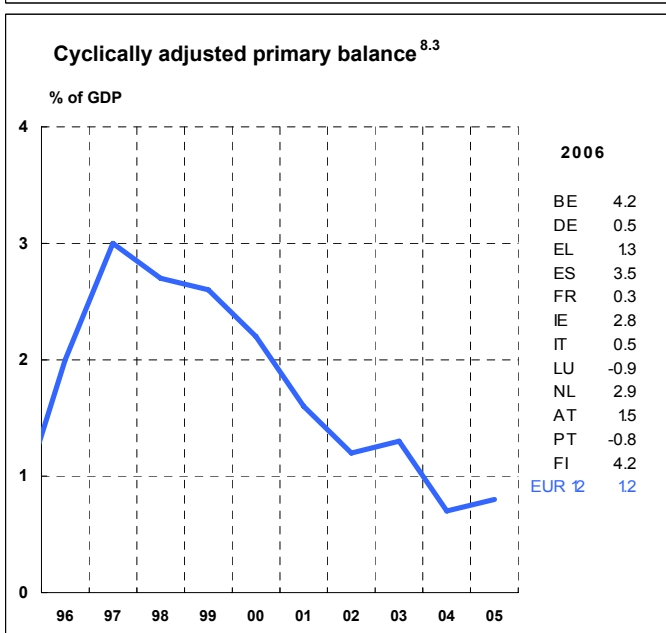
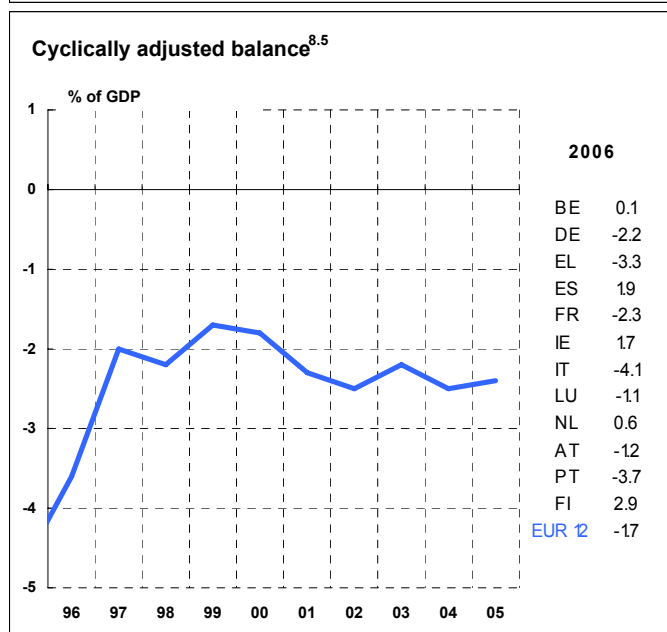
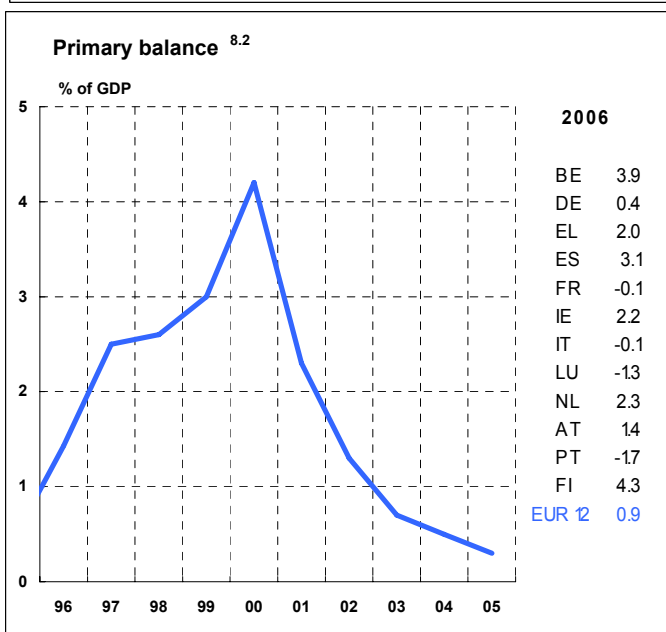
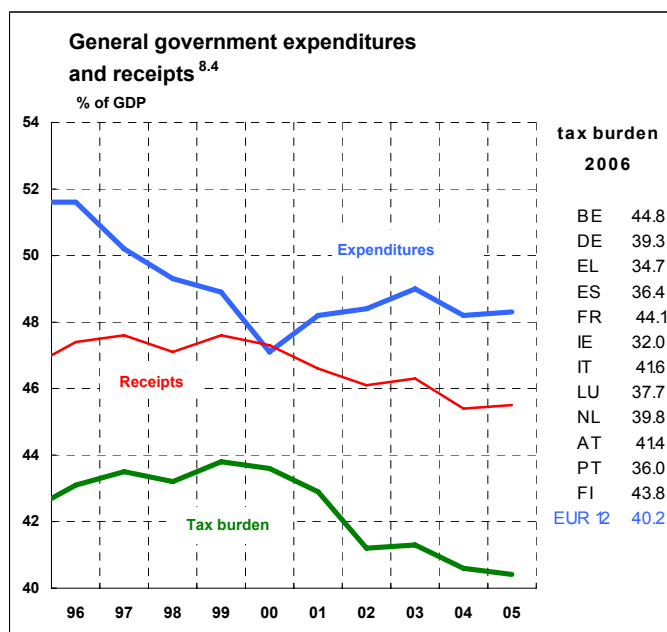
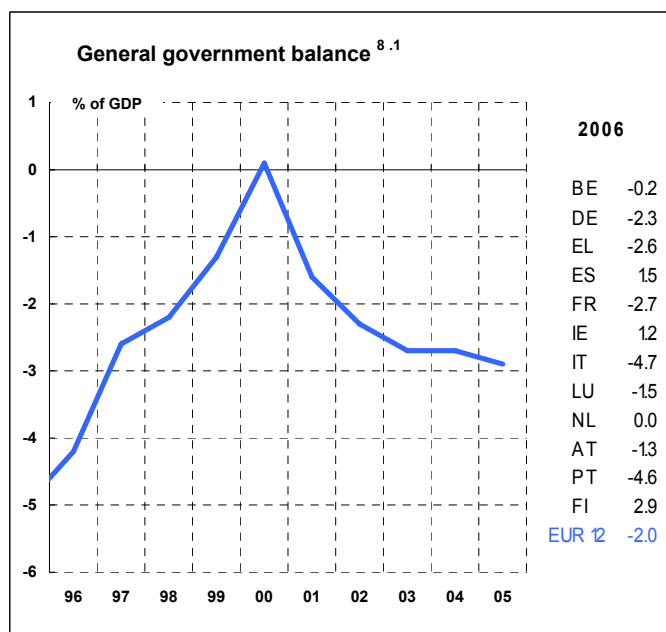


## 7. MONETARY AND FINANCIAL INDICATORS





8. PUBLIC FINANCE\*



\* Figures are from the Commission's autumn 2006 forecast

## 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 07Q1: 84.4	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