



On January 1st 2009, Slovakia has joined the euro area as its 16th member.

1. Output

In December, **industrial confidence** declined considerably yet again, continuing the sharp fall already observed in October and November and bringing the indicator to a record low of -33, while the long-term average is -7. All components of the indicator deteriorated in December, especially so managers' production expectations and their order books assessment (down by -8 and -11 respectively). The decline in industrial confidence was broad-based across the Member States.

In November 2008, **industrial production** fell by 1.6% month-on-month (mom), the same magnitude of fall as the previous month. Compared with November 2007, industrial production declined by -7.7%. Looking at the breakdown, production of all product categories decreased (mom), with exception of non-durable consumer goods, which remained broadly stable. As to the country perspective, all the largest economies recorded a decrease.

According to Eurostat's second estimate, euro-area **GDP** contracted for the second consecutive quarter by 0.2% quarter-on-quarter (qoq) in 08Q3, leaving the euro-area economy in its first technical recession. The weakness was broad-based: household consumption stagnated, investment contracted again, exports stagnated while imports surged, leaving net exports as a significant drag on GDP growth in Q3. Lastly, inventories added strongly to GDP. GDP contracted in several of the largest economies Germany (-0.5%), Italy (-0.5%) and Spain (-0.2%), whereas growth remained slightly positive in France (+0.1%). Compared to the same quarter of the previous year, GDP growth in 08Q3 came in at 0.7%.

The **Commission's autumn 2008 forecast** published on 3 November projected euro-area economic growth to drop sharply to 1.2% in 2008 (from 2.6% in 2007). In 2009 the euro-area economy was expected to grind to almost a stand-still (0.1%) before recovering somewhat, to 0.9%, in 2010.

2. Private consumption

In 08Q3, **private consumption** was flat, after a negative reading in 08Q2. Household spending patterns in Q3 differed largely across the biggest economies: consumption fell by -1% in Spain (the first contraction since 94Q1) and by -0.3% in the Netherlands, while it accelerated in Italy (+0.1%), France (+0.2%) and particularly in Germany (+0.3%).

In December, euro-area **consumer confidence** fell to its lowest level (-30) since the start of the series in 1985, while the long-term average is at -12, indicating persisting concerns about households' general economic situation and unease with forthcoming labour market conditions.

In November, the **volume of retail trade** rebounded somewhat with a mom growth of 0.6%, after a strong decline of -1.0% in October. In December, the index of **retail trade confidence** declined strongly to -19, approaching its all-time minimum of -21.

3. Investment

Gross fixed capital formation, which was the main engine of domestic demand until recently, declined further by -0.6% qoq in Q3, after a -1.0% decline in Q2. Euro-area investment was mainly dragged down by significant contractions in Spain (-1.9%), Italy (-1.9%) and Portugal (-1.8%), while capital spending fell much less in France (-0.2%) and rose slightly in Germany (+0.1%).

Capacity utilisation decreased further between October and January (currently at 81.6%), dropping just below its long-term average of 82.0.

4. Labour market

In November 2008, the euro-area **unemployment** rate went up to 7.8%, compared with 7.7% in October. It was 7.2% in November 2007. Divergent trends continue to be evident across the region. While German and Dutch labour markets are holding up well, a further worsening was observed in France (from 7.8% to 7.9%) and Spain (from 12.8% to 13.4%), the latter having the highest unemployment rate in the euro area.

According to Eurostat's estimate, the number of persons employed in the **euro area** decreased by 0.1% (80 000 persons) in 08Q3 compared with Q2, the first contraction since early 2004. Compared with 07Q3, the increase in employment was 0.8% in 08Q3, implying a continued gradual deceleration.

In December 2008, **employment expectations** have worsened once more in both manufacturing and services sectors. **Consumers' unemployment expectations** have worsened by the most in the series' history.

The level of recorded **labour shortages in manufacturing** decreased in 08Q4, with 5.7% of firms (6.8% in 08Q3) reporting that unfilled job openings were constraining production.



5. International transactions

The assessment of **export order books** recorded yet another sharp decline in December (from -35 to -46). The indicator is currently well below its long-term average of -18. The seasonally adjusted **euro-area trade balance** with the rest of the world recorded a sixth consecutive deficit in October (of -1.3bn Euro). In 08Q3, **exports of goods and services** in volume terms stagnated, while **imports** increased by 1.4% (qoq). As a result, net trade subtracted about ½ pp from quarterly GDP growth in Q3.

In October 2008, the working-day and seasonally adjusted **current account** of the euro area recorded a deficit of EUR 6.4 billion. This reflected deficits in current transfers (EUR 9.7 billion) and income (EUR 0.4 billion), which were only partly offset by surpluses in services (EUR 2.8 billion) and goods (EUR 1.0 billion). In the **financial account**, combined direct and portfolio investment showed net inflows of EUR 108 billion in October 2008, owing to net inflows in portfolio investment (EUR 122 billion) that significantly exceeded the net outflows in direct investment (EUR 14 billion).

6. Prices

HICP inflation in December stood at 1.6%, down from 2.1% in November and confirming the flash estimate. **Core inflation** is gradually easing (to 2.1% in December).

Oil prices have continued to tumble in the course of December, to just below 40 USD/bl. just before the end of 2008. In 2009, prices recovered somewhat first, on account of the supply cut by OPEC (and the likelihood of more cuts to come). Afterwards, however, concerns that the recession in the global economy will cut fuel use, intensified. Crude oil is currently trading at about 43.8 USD/bl., a level significantly below the record-high of mid-July 2008 (146 USD/bl. on 4 July).

The euro-area **industrial producer prices** declined by 1.9% mom in November 2008. This decline goes mainly on account of sizable drops in energy prices. However, compared to November 2007, the producer prices were still 3.3% higher.

7. Monetary and financial indicators

On 15 January, the ECB lowered its **policy rate** by 50bps to 2.0% (after previous cumulated -175bps cuts in November and December). The 3-month interbank rates (Euribor) fell from 3.8% to 2.5% between beginning of December and now and the Euribor-OIS

spread, a benchmark measure of availability of cash among financial institutions, eased somewhat remaining however at still elevated levels as compared to the pre-crisis situation. The US Federal Reserve lowered its target interest rate from 1.0% to a target range of 0-0.25% on 16 December 2008. The US 3-month interest rate was at 1.1% on 14 January, significantly easing from 2.2% at the beginning of December.

The **bond yields** in both the euro area and the US have been on a downward trend since mid-June due to weaker economic data and volatile and declining stock markets leading to stronger demand for safer assets. Continuation of policy rate cuts reinforced this flight to quality and on 14 January, the ten-year interest rate was 2.3% in the US (compared with 4.27%, the most recent high, on June 16) and 2.94% in the euro area (4.61% on June 18).

According to the ECB, the annual rate of **growth of M3** slowed to 7.8% in November 2008, from 8.7% in October. The 3-month moving average declined to 8.4%. The annual rate of growth of **loans to the private sector** decreased to 7.1% in November, after 7.8% in October. Loan growth to households witnessed its record low in November (at 2.5%, down from 3.3% in October), while loans to non-financial corporations still show robust, though slightly decelerating growth numbers (from 11.9% to 11.1% in November).

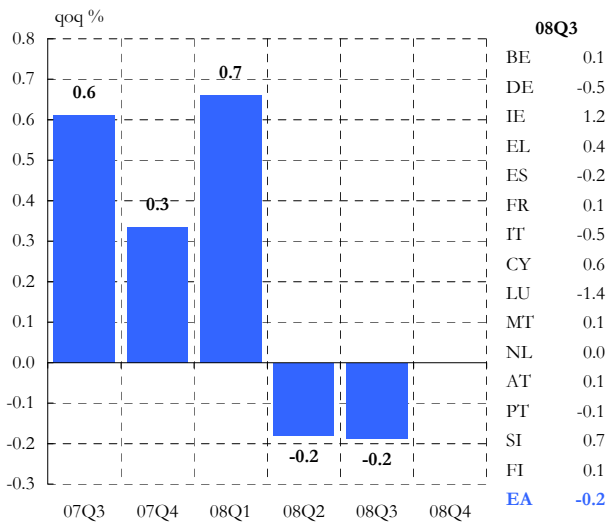
After strengthening in the first half of 2008, the nominal effective **exchange rate** of the euro (NEER) began to weaken in August. The downward pressure intensified in October and November, largely reflecting a reassessment of the economic situation in the euro area in relation to other economic regions. However, more recently, compared to the beginning of November, the NEER has strengthened again. On 14 January, the euro was trading at 1.32 against the dollar and 117.3 against the yen.

In December and the beginning of January, the **stock price indices**, such as Dow Jones, Eurostoxx and Nikkei, declined little on average compared to November. However, there was a lot of volatility in stock prices during the period, reflecting mainly persisting concerns about corporate earnings, speculations on and actual central banks policy rate cuts, fiscal stimulus plans and government rescue packages. However, the indices are more than 30% below their one-year-ago value.

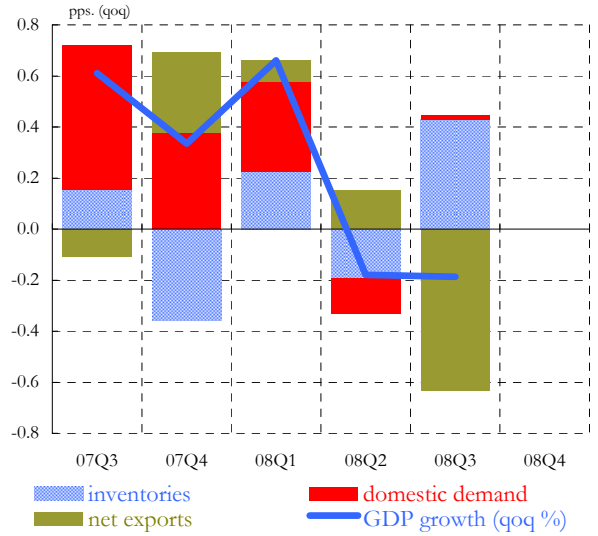


1. OUTPUT

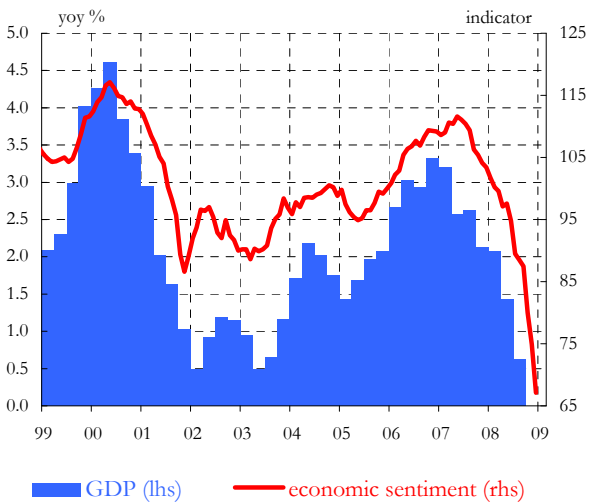
GDP



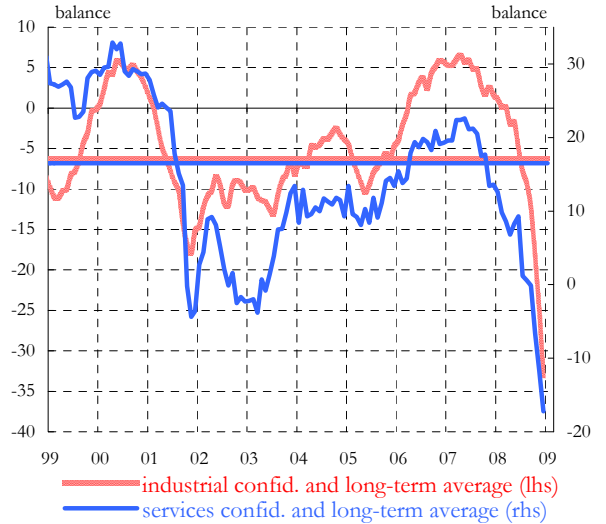
Contributions to GDP growth



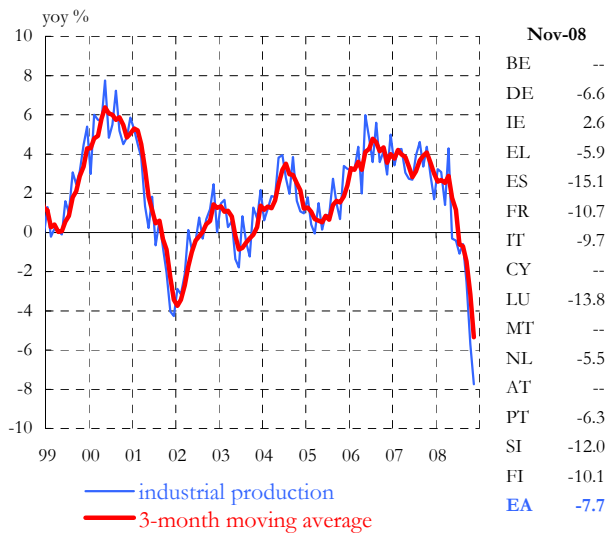
GDP and Economic Sentiment Indicator



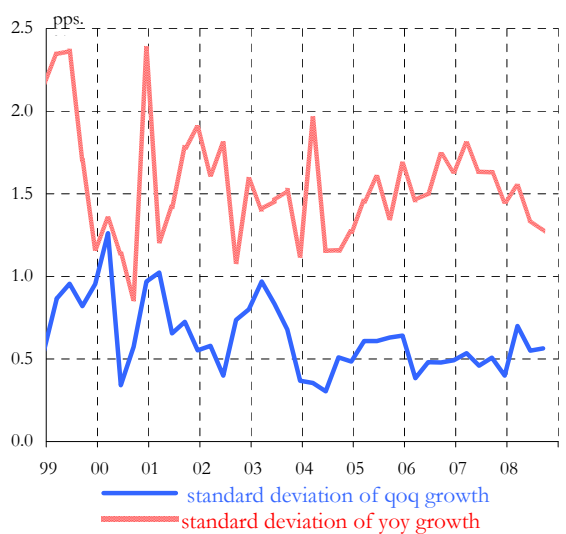
Industrial and services confidence



Industrial production



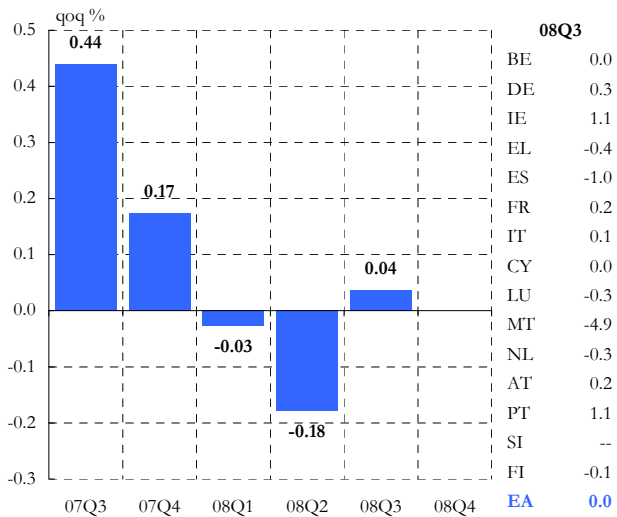
GDP growth divergence, euro area



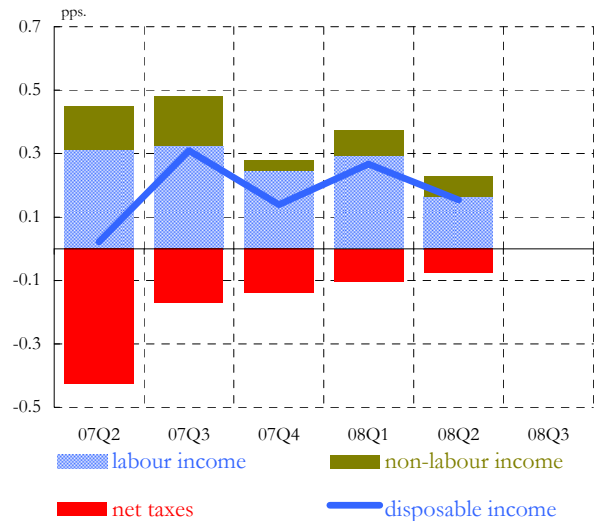


2. PRIVATE CONSUMPTION

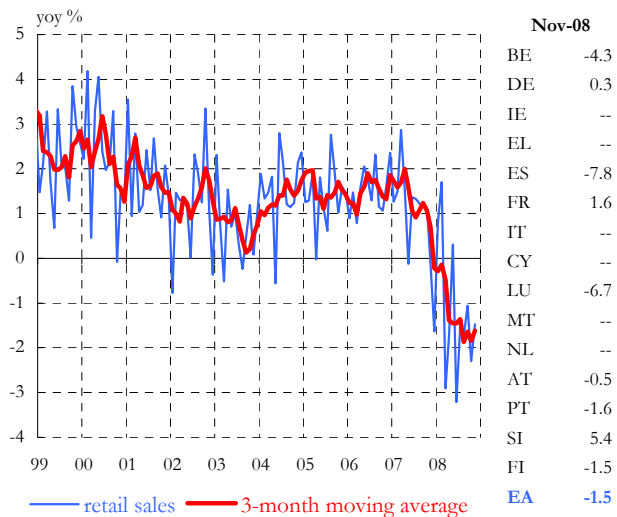
Private consumption



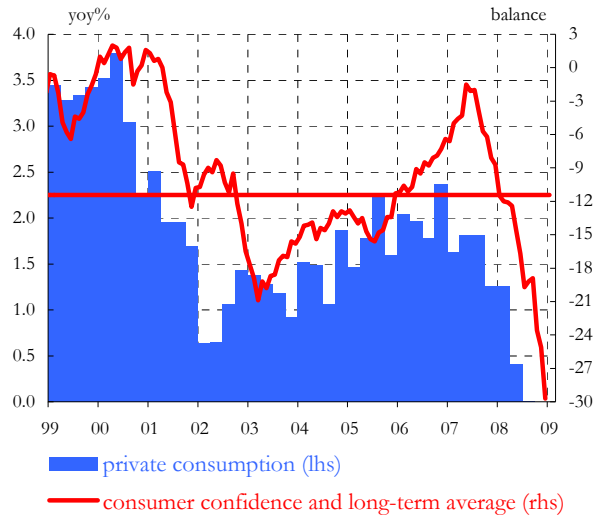
Gross disposable income and its components



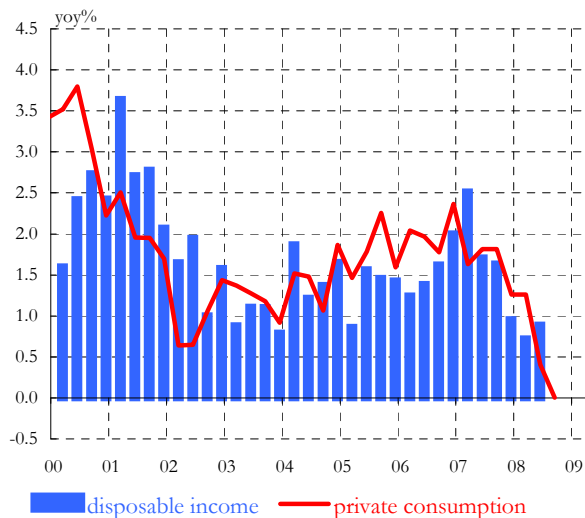
Retail sales



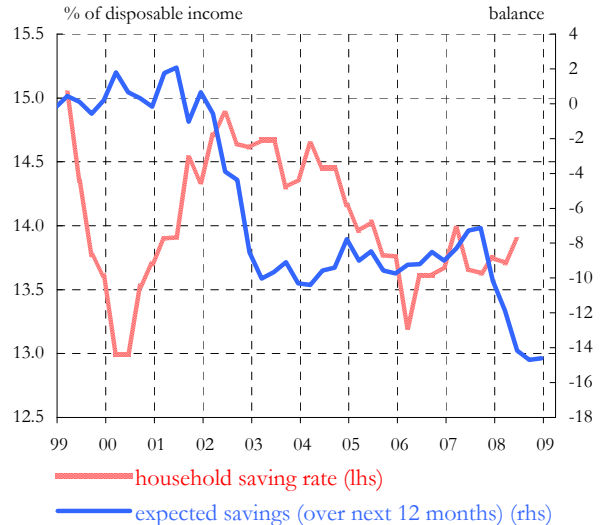
Consumer confidence and private consumption



Households: disposable income and consumption



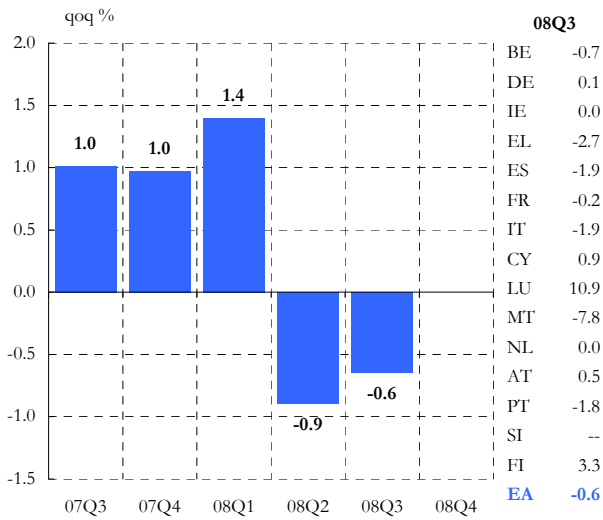
Households: actual saving rate and expected savings



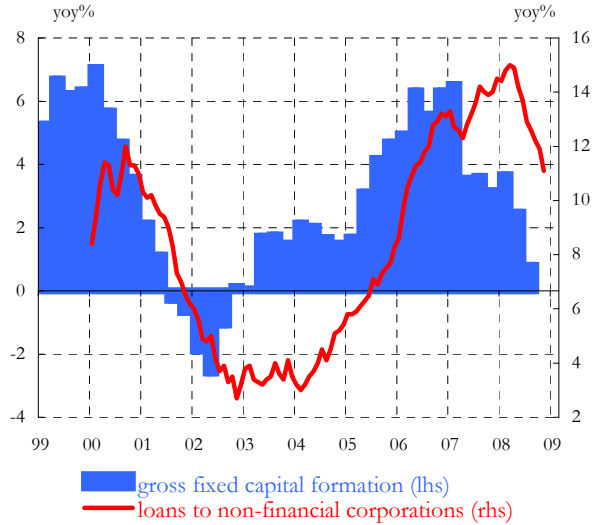


3. INVESTMENT

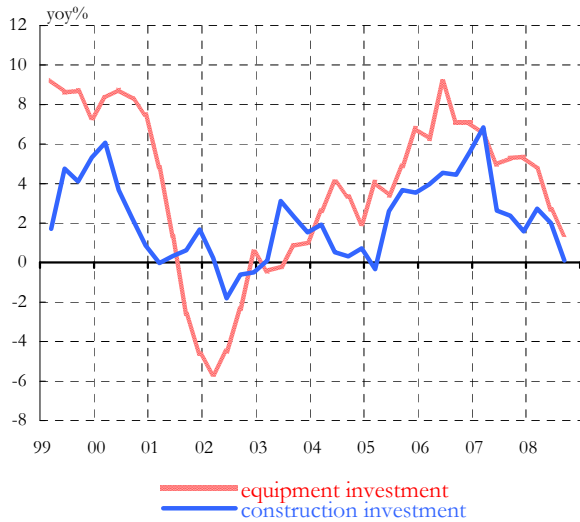
Gross fixed capital formation



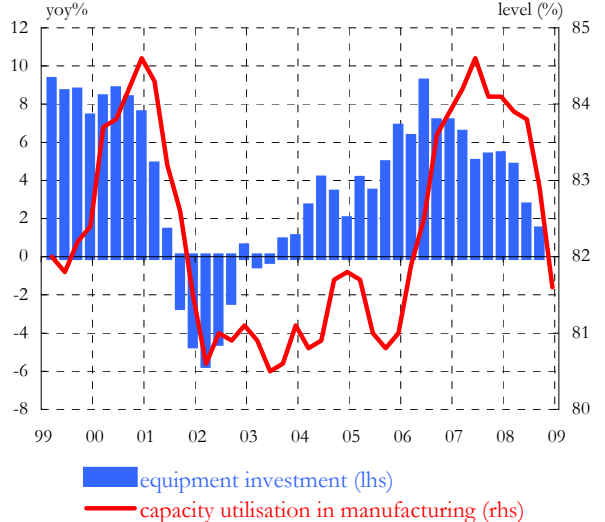
Gross fixed capital formation and corporate loans



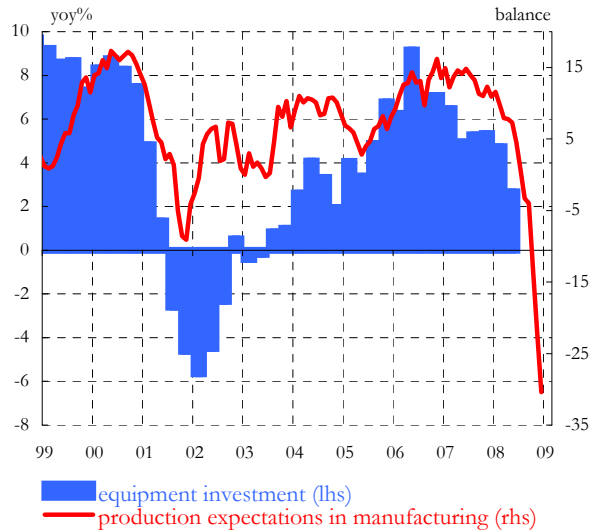
Equipment and construction investment



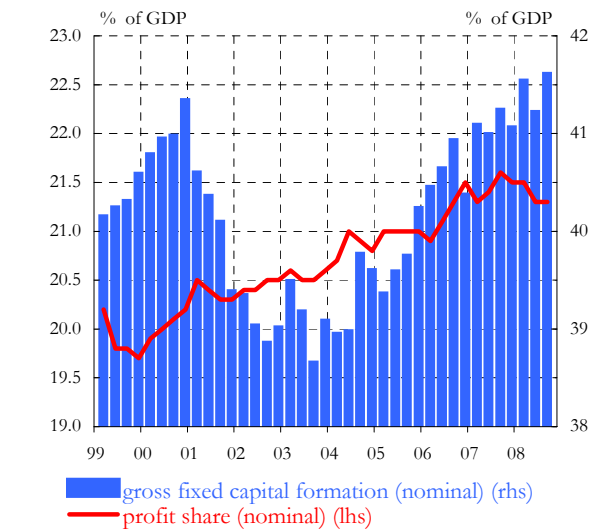
Equipment investment and capacity utilisation



Equipment investment and production expectations



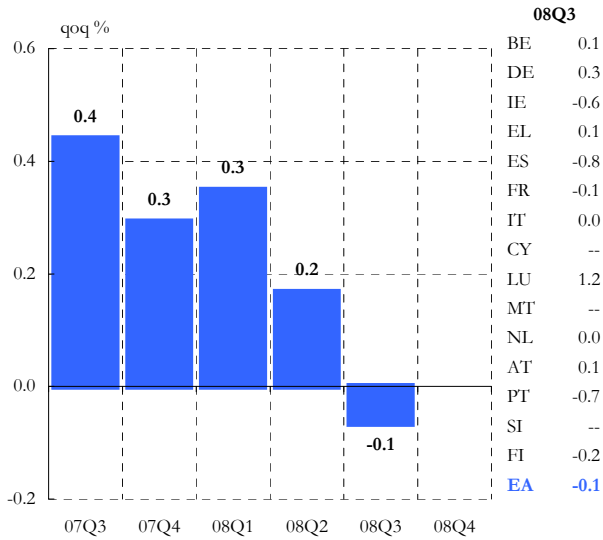
Gross fixed capital formation and profit share



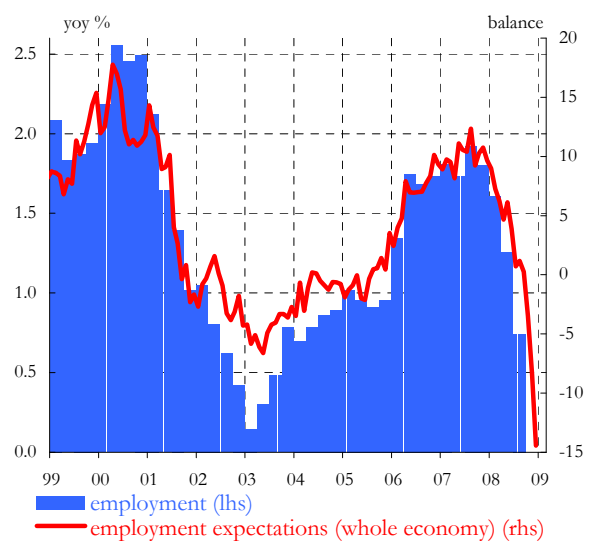


4. LABOUR MARKET

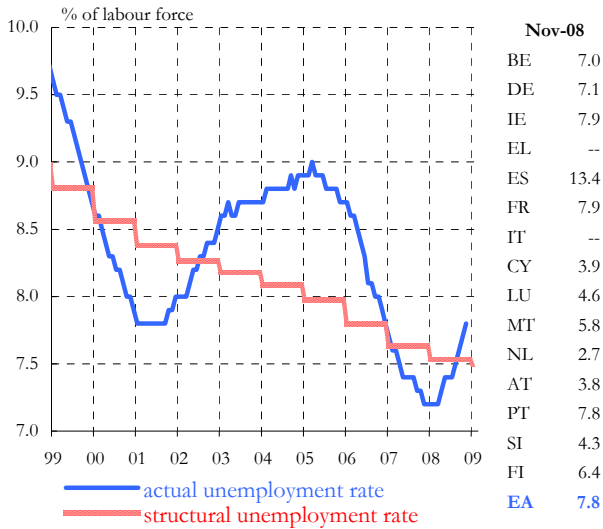
Employment



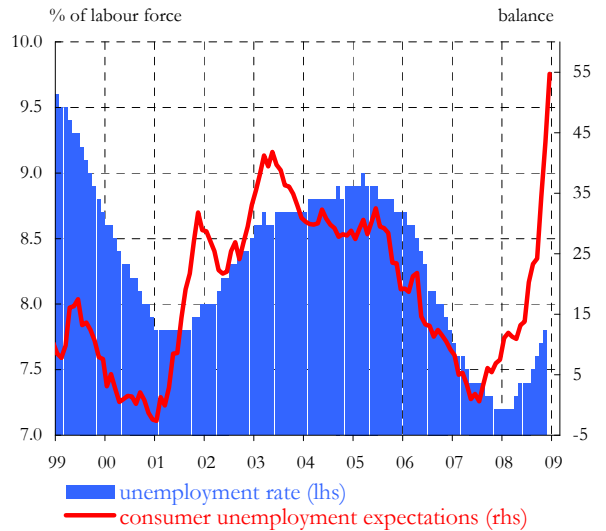
Employment and employment expectations



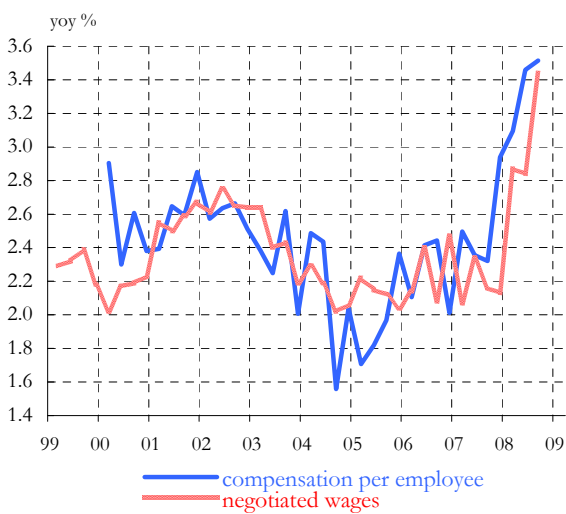
Actual and structural unemployment rate



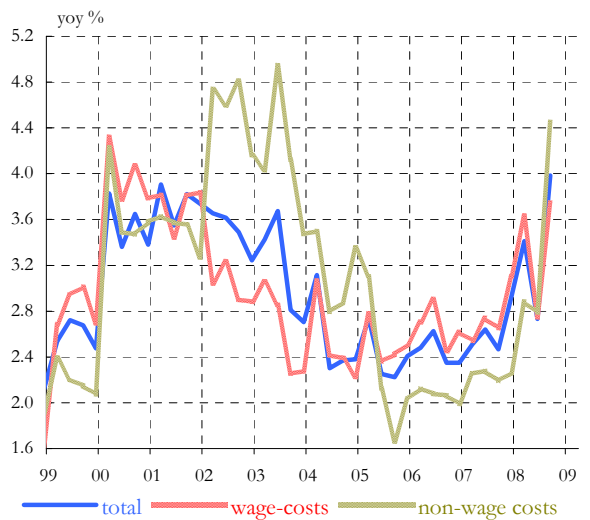
Unemployment rate and unemployment expectations



Compensation per head and negotiated wages (nominal)



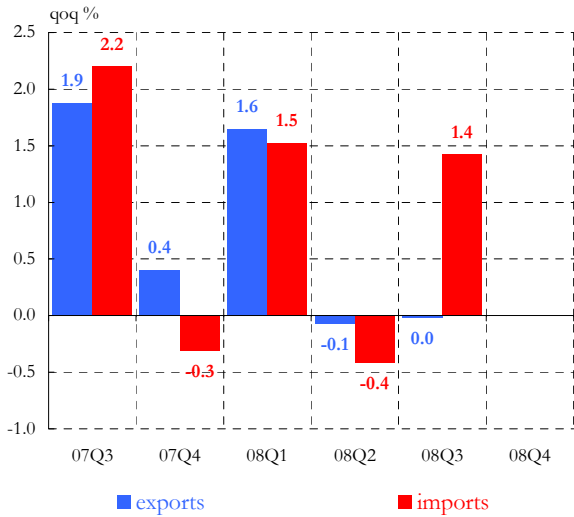
Labour costs in the private business sector (nominal)



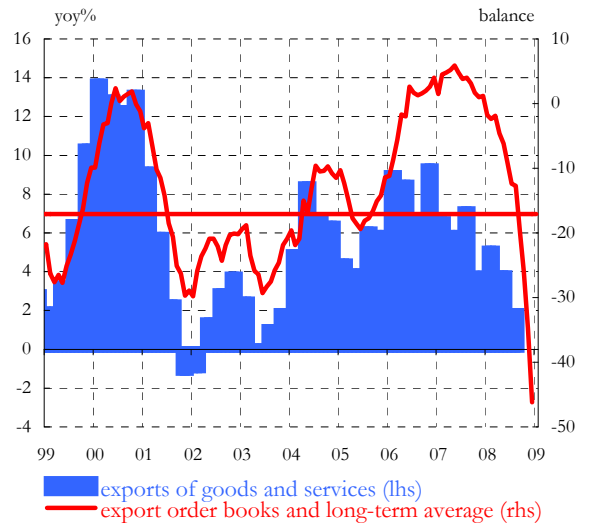


5. INTERNATIONAL TRANSACTIONS

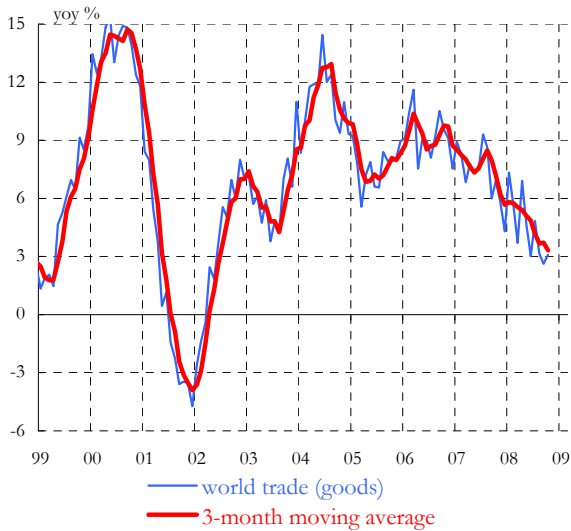
Exports and imports of goods and services



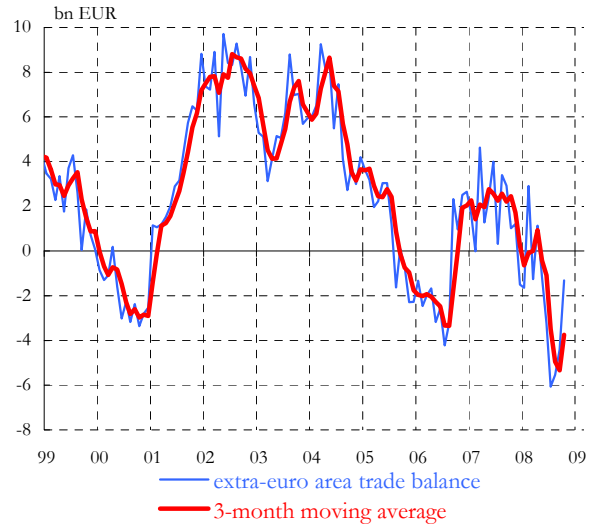
Exports and export order books



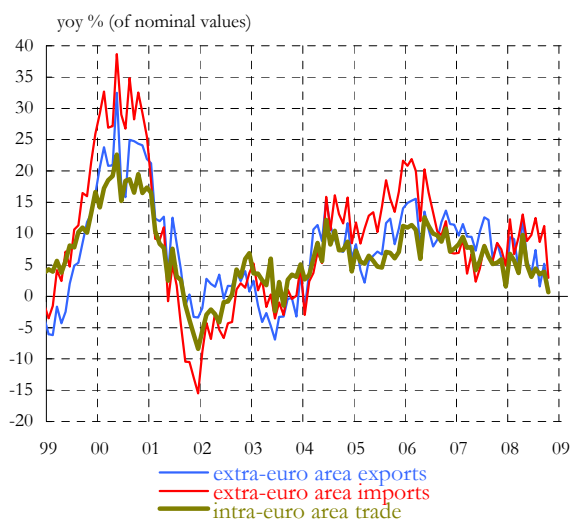
World trade



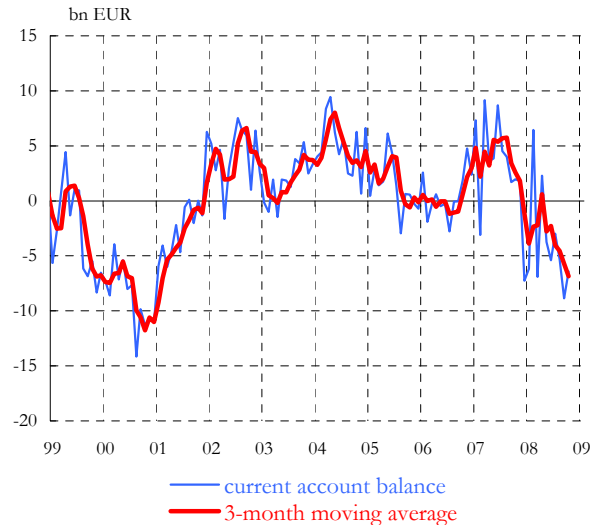
Extra euro-area trade balance



Extra- and intra-euro area trade



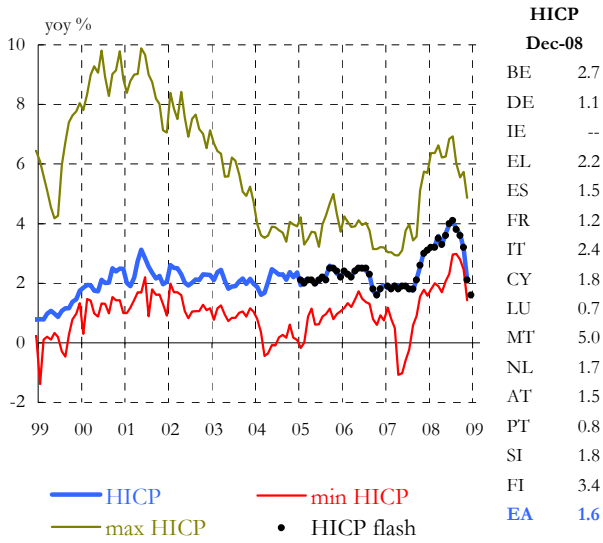
Current account balance



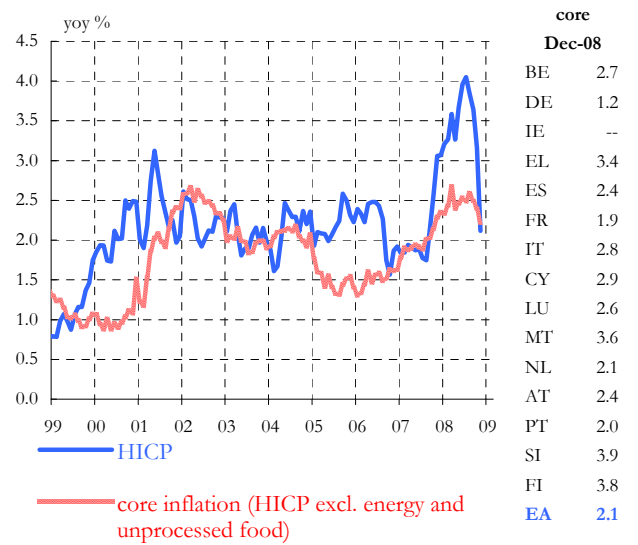


6. PRICES

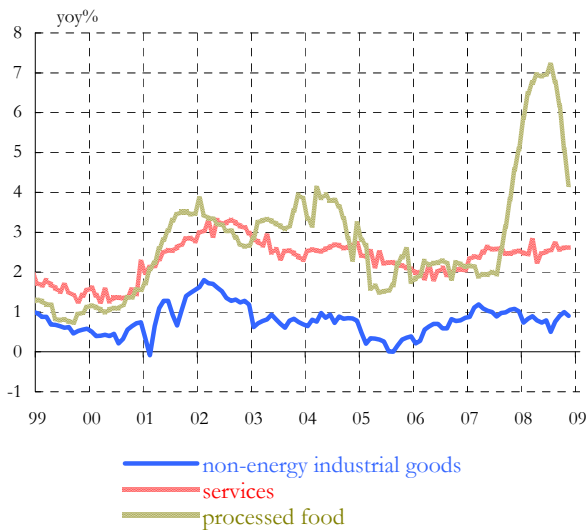
Harmonised index of consumer prices (HICP)



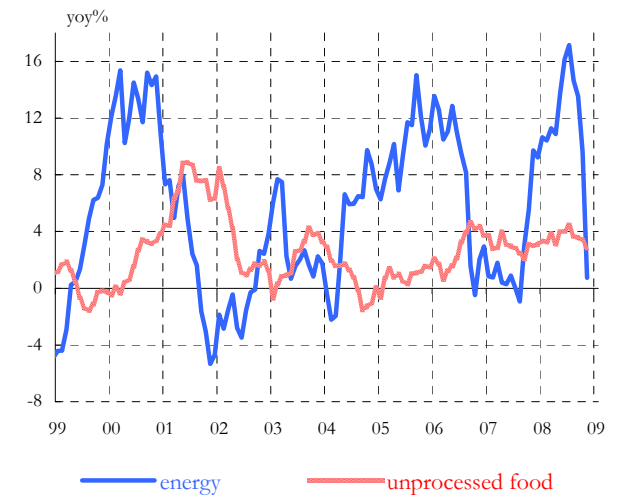
HICP and core inflation



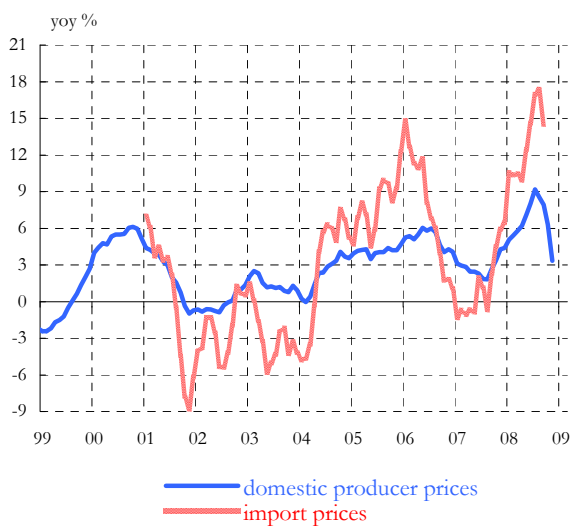
Breakdown of core inflation



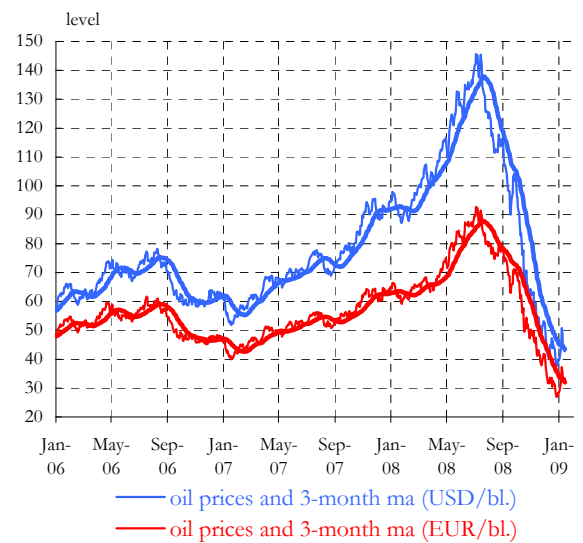
Energy and unprocessed food



Domestic producer prices and import prices



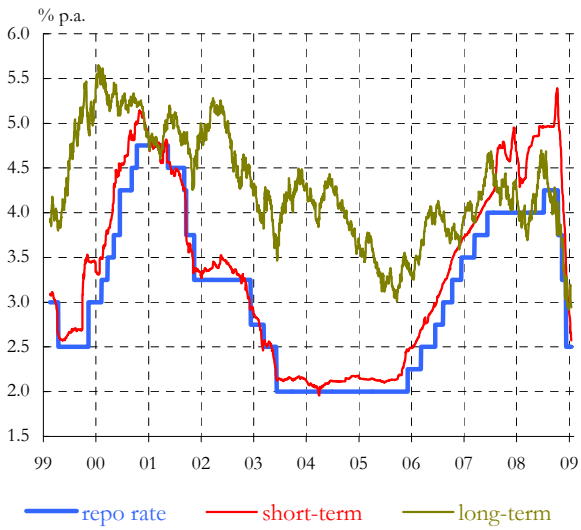
Oil prices



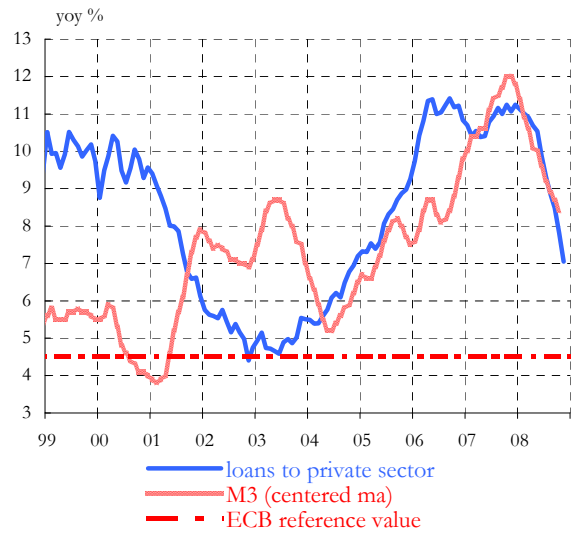


7. MONETARY AND FINANCIAL INDICATORS

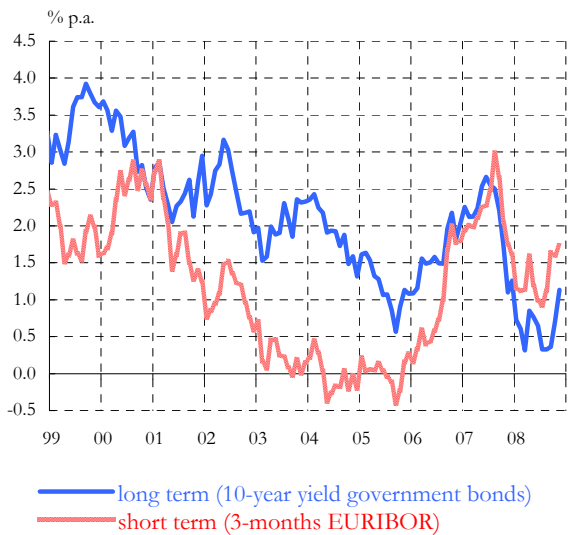
Nominal interest rates



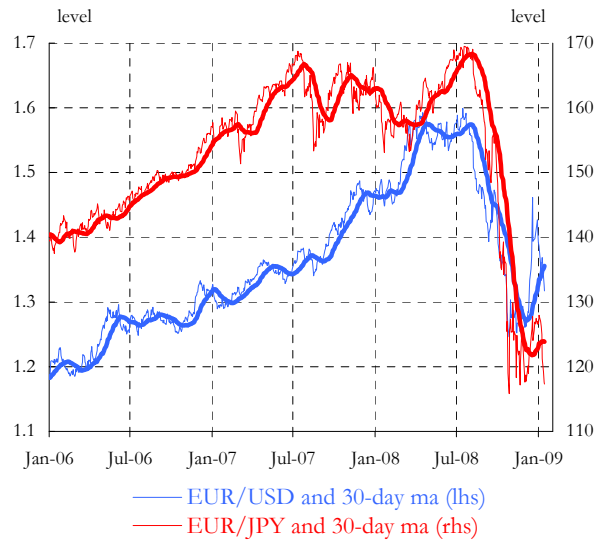
Loans to private sector and money supply



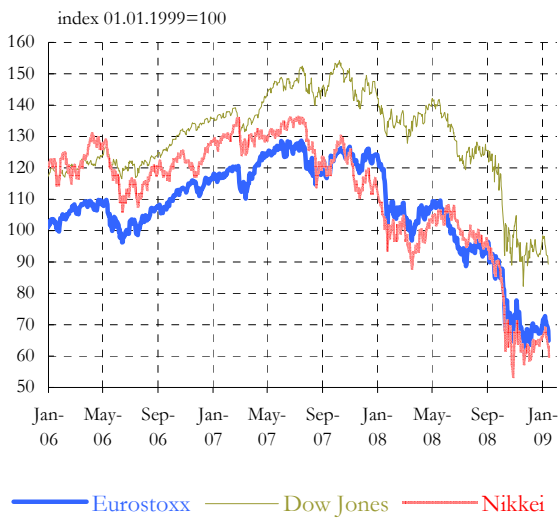
Real interest rates



Euro vis-à-vis US dollar and JP yen



Stock market indices



Nominal effective exchange rates

