





## 1. Output

According to Eurostat's second estimates released on 7 January, **GDP growth** slowed down to 0.3% quarter-on-quarter (q-o-q) in 2010-Q3, which is 0.1 pp. lower than the first estimates available in early December and the Commission's autumn forecast (released on 29 November). Domestic demand (excluding inventories) increased by 0.1% q-o-q, while export and import growth more than halved compared to the second quarter, giving a positive contribution of 0.2 pp. to GDP. As for the largest economies, GDP increased by 0.7% (q-o-q) in Germany, 0.3% in France and Italy, while it was flat in Spain and the Netherlands. In Greece, GDP continued to fall (-1.3%).

According to the **Commission's autumn forecast**, the economic recovery currently underway in the euro area is set to continue. GDP is projected to have grown by 1.7% in 2010 (a sizeable upward revision from the 0.9% spring forecast), to ease to 1.5% in 2011, before picking up to 1.8% in 2012. However, the recovery is expected to remain uneven across Member States.

In January, **sentiment in industry** increased by 1.1 points, continuing to contribute positively to the overall survey results. The gain in industrial confidence reflects sizeable improvements in order books, while managers were more cautious about their production expectations. Stocks of finished goods remained at a very low level by historical standards. In a long-term perspective, industrial confidence has improved markedly since the March 2009 record low. Its level in January was above the long-term average for the 10<sup>th</sup> consecutive month. *Note that since May 2010 business surveys data are classified in accordance with an updated version of the Nomenclature of Economic Activities (NACE rev. 2) causing a potential break in series at this date.*

In November, **industrial production** increased by 1.2% month-on-month (m-o-m).

In November 2010, the euro-area **industrial new orders index** grew by 2.1% m-o-m, after increasing by 1.4% already in October.

## 2. Private consumption

**Private consumption** rose by 0.1% q-o-q in 2010-Q3. In line with the softening in GDP growth, household spending growth weakened marginally compared to the 0.2% growth recorded in 2010-Q2. On a year-on-year basis, private consumption increased by 1.0%.

According to DG ECFIN's survey, confidence among consumers remained stable in January 2011. A slight easing of consumers' unemployment fears was

counterbalanced by a worsening of their assessment of the general economic situation and their future savings as well as deterioration in their financial situation.

**Retail sales** volumes decreased by 0.6% m-o-m in December and were, for the first time in 2010, also falling on a quarterly basis (by -0.6 q-o-q in 2010-Q4). After a significant gain registered in December, **sentiment in the retail sector** weakened substantially in January (by -4.4 points).

## 3. Investment

Having risen by 2.0% q-o-q in 2010-Q2, **gross fixed capital formation** fell by 0.3% in 2010-Q3. On an annual basis, however, it turned positive (increasing by 0.2%).

Having reached a historic low in 2009-Q3 (69.6%), the rate of **capacity utilisation** in manufacturing has since improved, to stand at 80% in 2011-Q1, close to its historic long-term average (81.2%).

## 4. Labour market

With the exception of October (10.1%), the unemployment rate was at 10.0% since June 2010. This aggregate number conceals sharp differences across Member States, with the unemployment rate ranging from 4.3% in the Netherlands to 20.2% in Spain in December 2010. Such cross-country divergences in labour-market performance follow from, inter alia, the sectoral composition of output, capacity utilisation and firm profitability at the outset of the crisis, the characteristics of labour-market institutions and the policy response.

**Employment** in 2010-Q3 was stable, following a 0.1% increase (q-o-q) in the previous quarter. Compared to a year earlier, employment was down by 0.2%. In January, managers' **employment expectations** improved in both, industry and services sectors. At the same time, consumers' unemployment fears eased somewhat, remaining below the long-term average. The level of **labour shortages** has been gradually increasing from the historical lows of the second half of 2009. In 2011-Q1, 4.6% of firms reported that unfilled job openings were constraining production (3.3% in 2010-Q4 and 2.4% in 2010-Q3).

## 5. International transactions

In January, the assessment of **export order books in manufacturing** improved yet again substantially (by 6 points), exceeding the long-term average for the 6<sup>th</sup> month in a row. In November, the seasonally-adjusted **euro-area trade balance** with the rest of the world showed a deficit of 1.9 billion (bn) euro. In 2010-Q3, **export and import growth (goods and services)** slowed to 1.9% and 1.5% q-o-q respectively (from



4.4% and 4.3% in 2010-Q2), in line with the expected softening of global growth.

In November 2010, the seasonally adjusted **current account** recorded a deficit of EUR 11.2 bn euro. This reflected deficits in current transfers, income and goods, which were partly offset by a surplus in services. The **financial account** recorded net inflows of 38 billion euro, which were accounted for by net inflows both in direct investment and in portfolio investment.

## 6. Prices

The flash estimate for the **HICP inflation rate** in January was 2.4%, up from 2.2% in December. The annual rate of inflation for 2010 stood at 1.6%. **The Commission's autumn forecast** projected an inflation rate of 1.5% for 2010, and about 1¾% for both 2011 and 2012. **Core inflation** in December was at 1.1%, unchanged from the two previous months.

**Industrial producer prices** rose by 0.8% (m-o-m) in December 2010, after rising by 0.3% in November.

**Oil prices** were increasing at the beginning of 2011, hitting 100\$ (Brent) in the first days of February, a level last seen in September 2008. The increase in oil prices goes is related to the global recovery which materialised in strong oil demand in 2010-Q4, especially stemming from emerging economies. The recent geopolitical tensions in Middle-east and North Africa as well as declining oil stocks also contributed to upward pressures.

## 7. Monetary and financial indicators

**Money market** rates were rising in January 2011, reaching the highest levels since mid-2009, while interbank confidence improved. The 3-month Euribor continued to rise reaching 1.09% lately, while it had been at 1.0% a month ago. This came on the back of intensified discussions of an ECB policy rate move following higher-than-expected inflation rates in the euro area. The 3-month Libor-OIS spreads (a barometer of banks' willingness to lend) came down

quite significantly over the last month suggesting improved confidence among European banks.

Since the start of the year, **benchmark sovereign bond yields** continued to increase as positive economic news boosted risk appetite and lowered demand for safe assets. The 10-year German bund yield increased to 3.27% (8 February), the highest level for a year. Although European sovereign spreads narrowed during the last few weeks, they still remain at high levels by historical standards. In the US, the markets were affected by the Fed's buying program. In spite of this support, rates were rising; the US 10-year sovereign yield increased to 3.74% (about 3.3% at the turn of the year).

After a sharp hike in November, the annual rate of change of **M3** decreased to 1.7% in December 2010. **Loan growth to the private sector** stood at 1.9%, compared to 2.0% in the previous month. In more detail, the annual rate of change of **loans to non-financial corporations** stood at -0.2% in December, slightly down from -0.1% in the previous month, but still much better than -2% yearly growth a year ago. The annual growth of **loans to households** increased to 3.0% in December from 2.8% in November, driven mainly by house purchases.

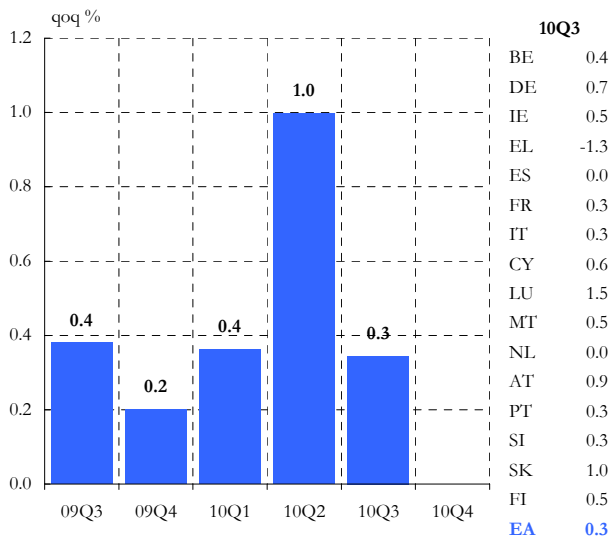
Reflecting the sovereign debt tensions in late 2010, the euro had depreciated around six percent in nominal effective terms between October and December 2010; much less than the depreciation during the first phase of the sovereign bond crisis between December 2009 and May 2010. However, the euro **exchange rate** has rebounded since the turn of the year (by some 2%). On 9 February 2011, USD/EUR rate stood at 1.36 and JPY/EUR rate stood at 112.

**Stock markets** started the year with price increases as positive economic news bolstered investors' expectations of an accelerating pace of economic expansion. Since the beginning of the year, European shares (7.2%) recorded the largest gains as compared to Dow Jones index in the US (almost 5% up) and the Japanese Nikkei index (up by some 2%).

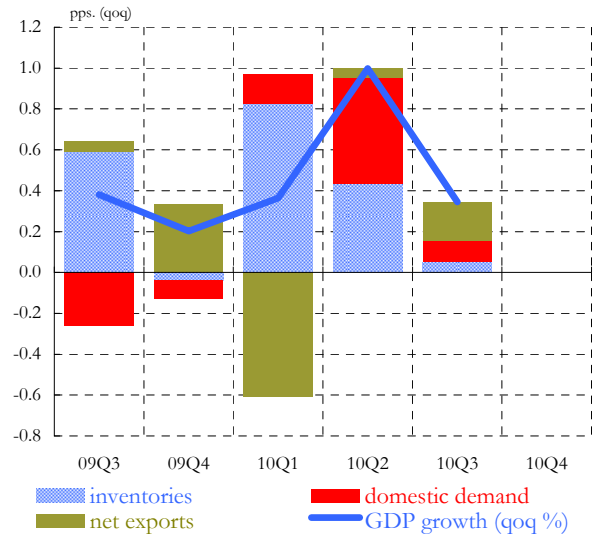


1. OUTPUT

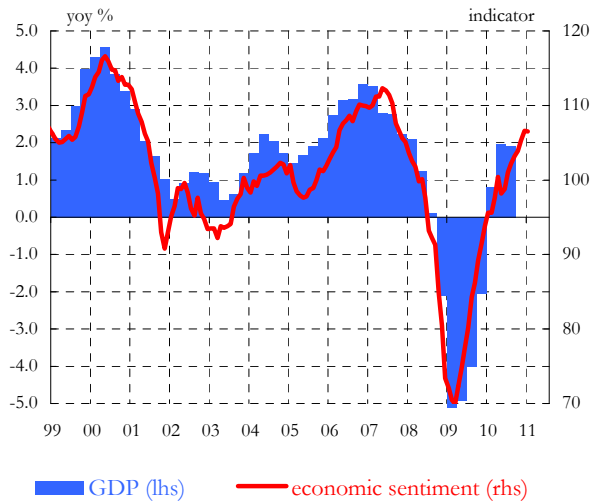
GDP



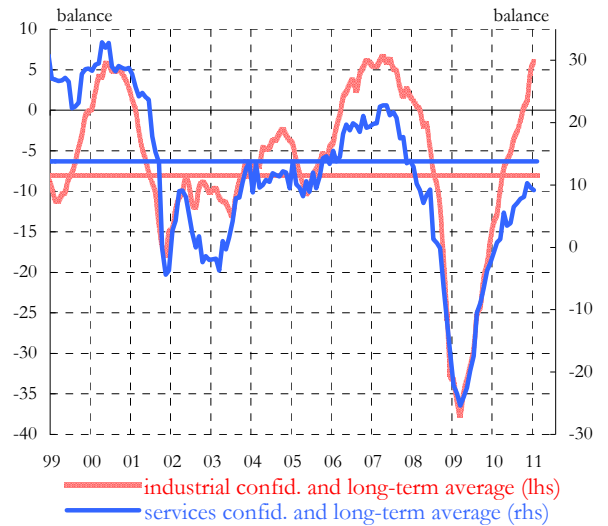
Contributions to GDP growth



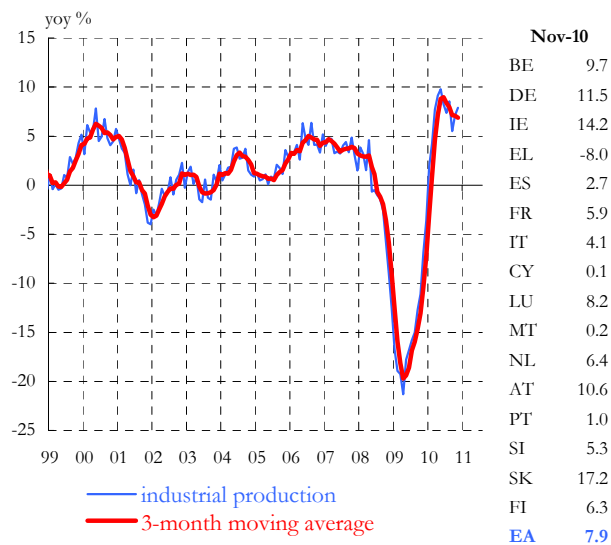
GDP and Economic Sentiment Indicator



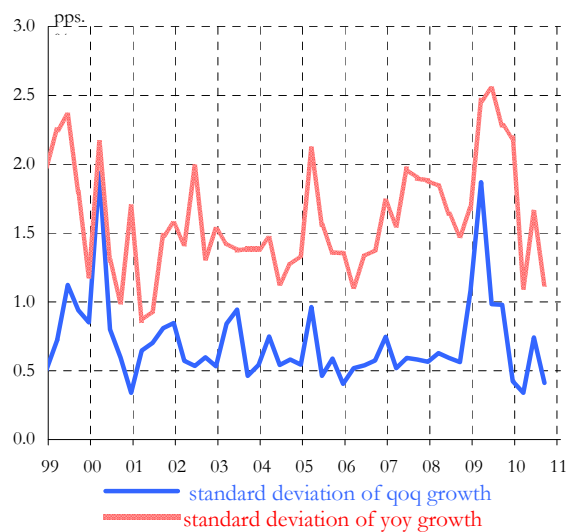
Industrial and services confidence



Industrial production



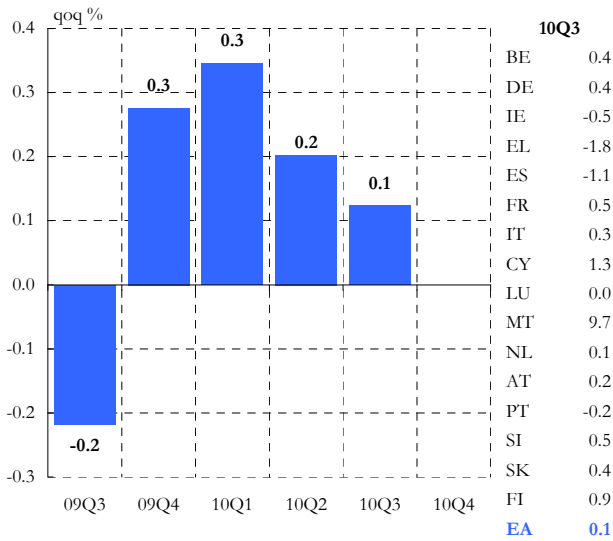
GDP growth divergence, euro area



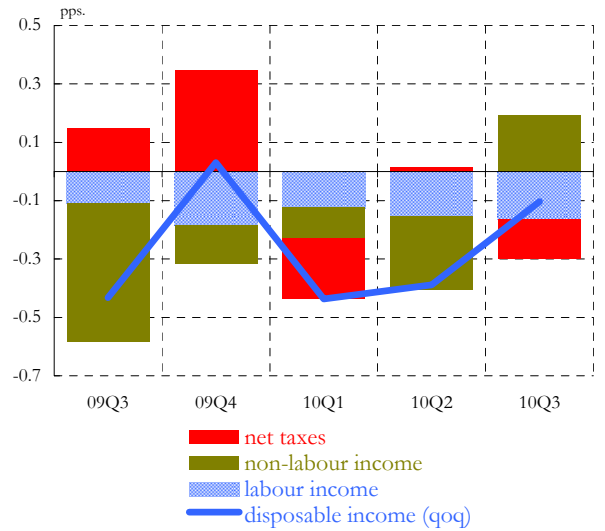


2. PRIVATE CONSUMPTION

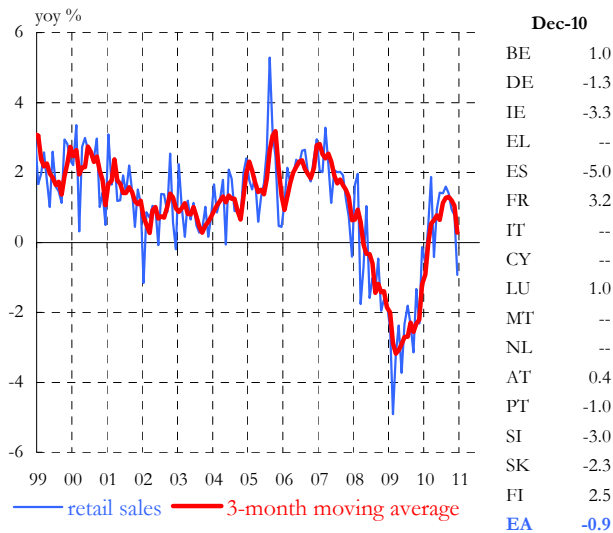
Private consumption



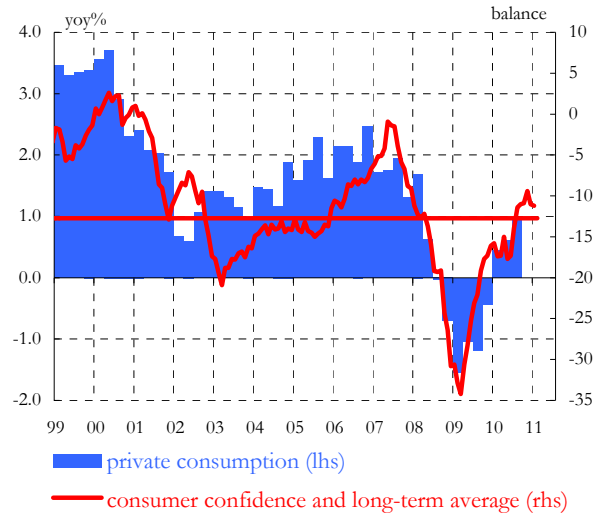
Gross disposable income and its components



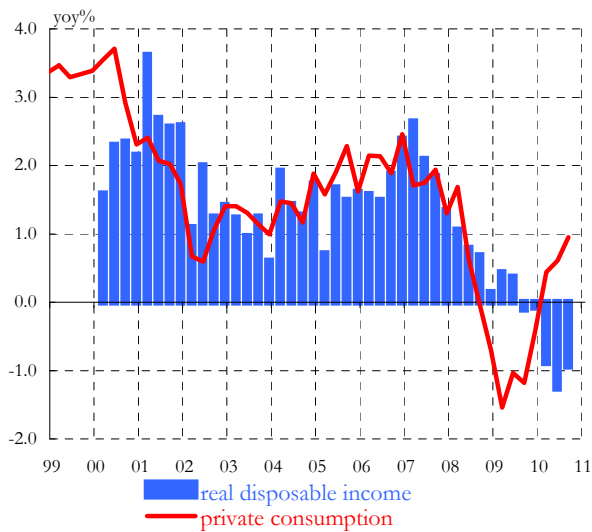
Retail sales



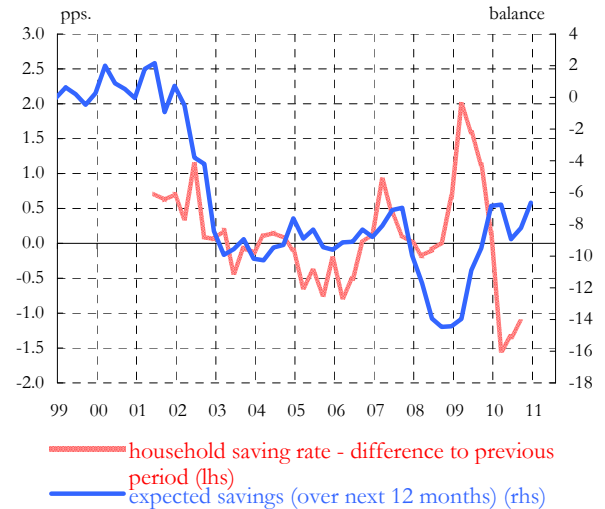
Consumer confidence and private consumption



Households: real disposable income and consumption



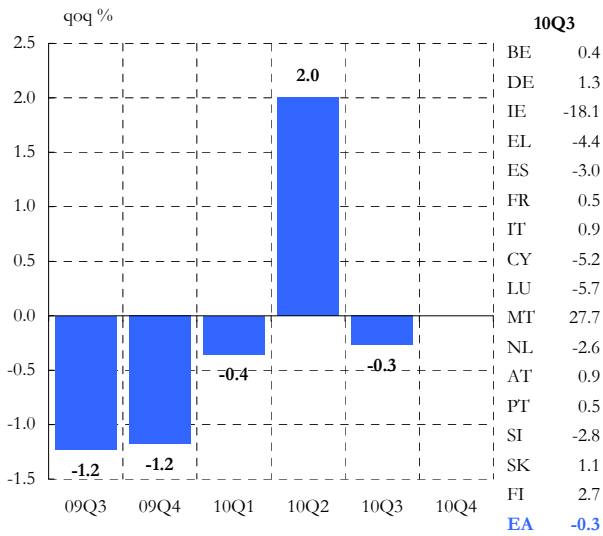
Households: actual saving rate and expected savings



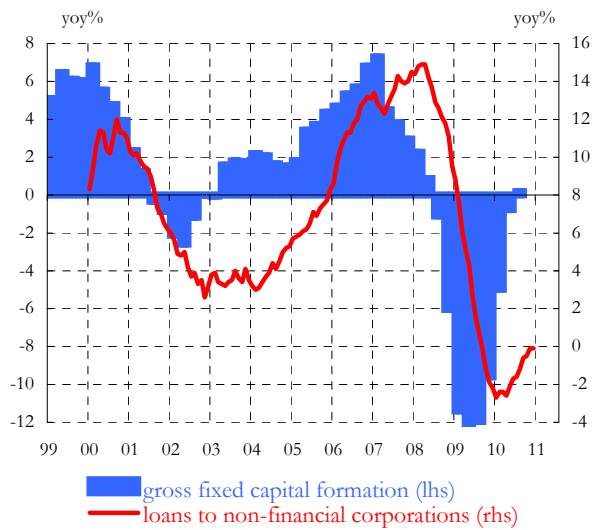


3. INVESTMENT

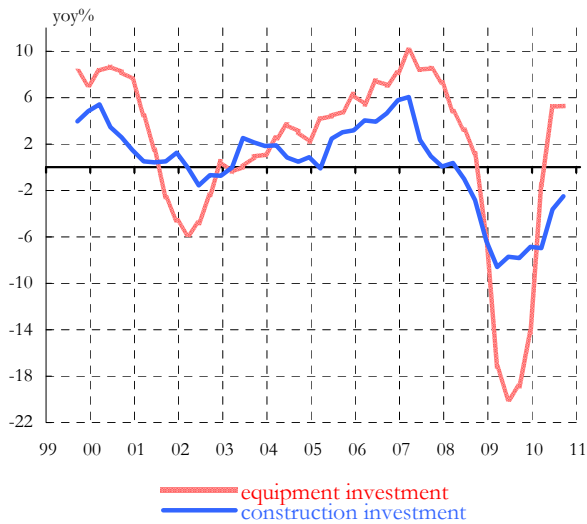
Gross fixed capital formation



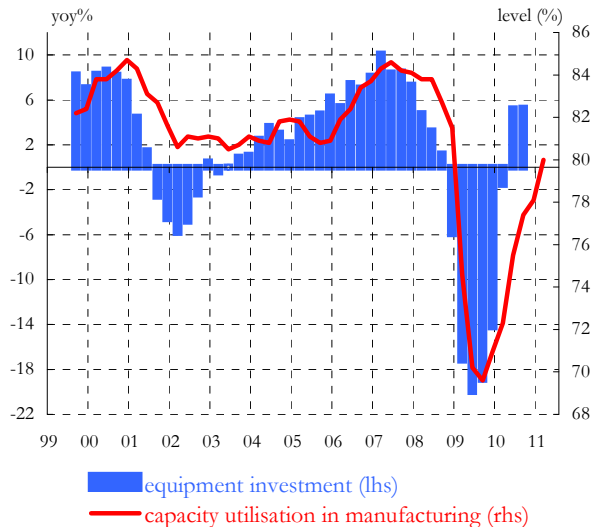
Gross fixed capital formation and corporate loans



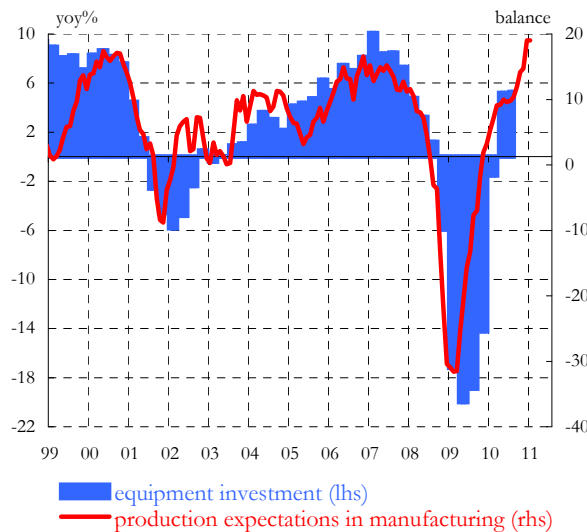
Equipment and construction investment



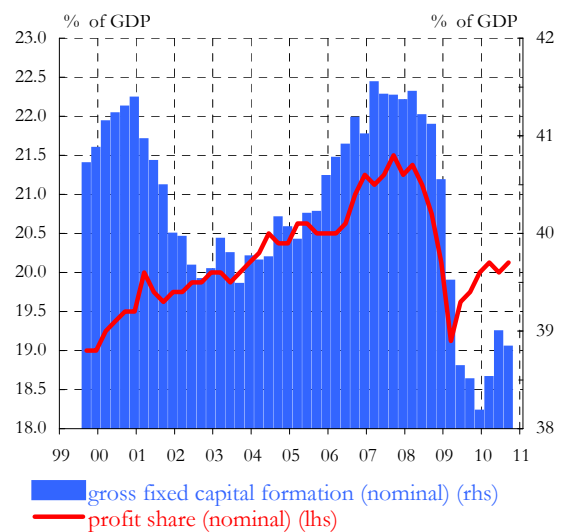
Equipment investment and capacity utilisation



Equipment investment and production expectations



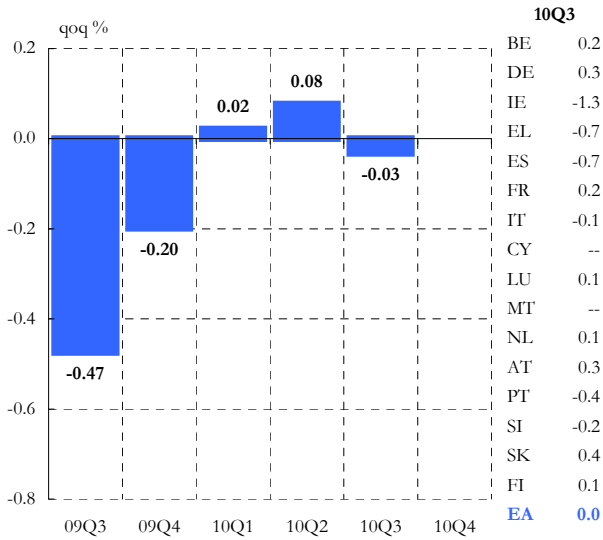
Gross fixed capital formation and profit share



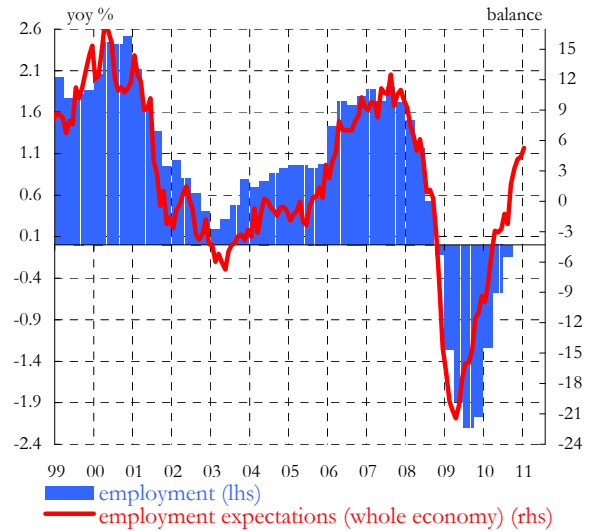


4. LABOUR MARKET

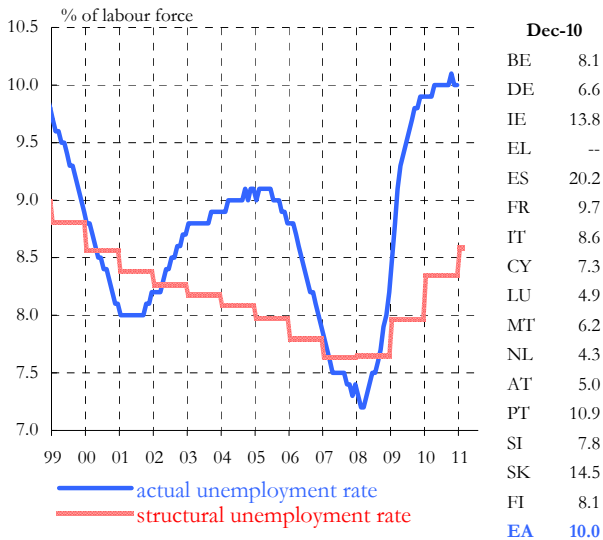
Employment



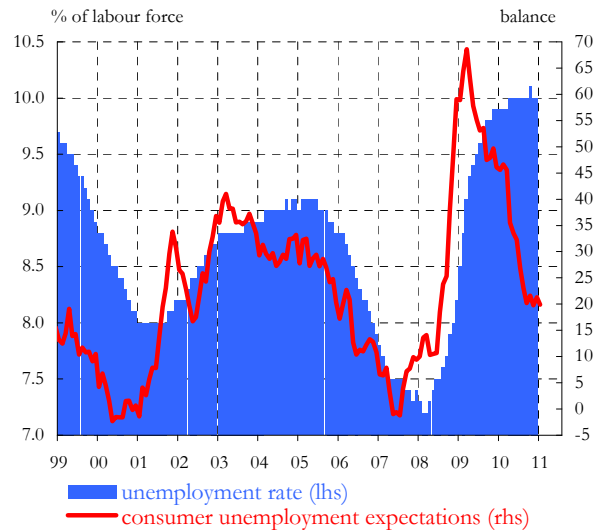
Employment and employment expectations



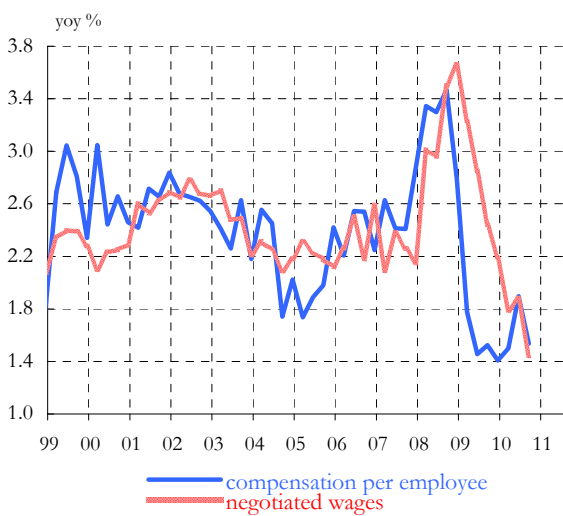
Actual and structural unemployment rate



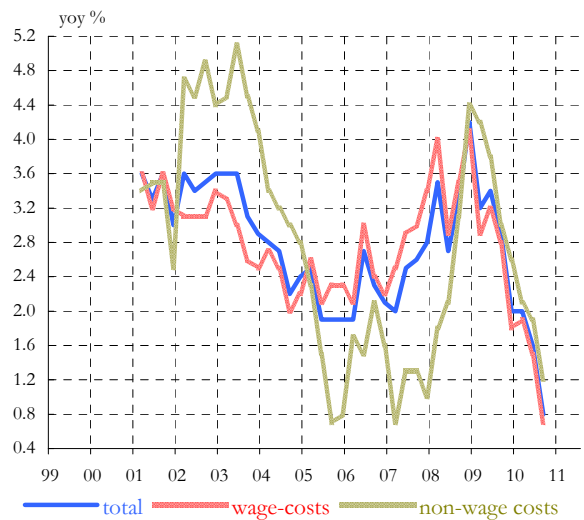
Unemployment rate and unemployment expectations



Compensation per head and negotiated wages (nominal)



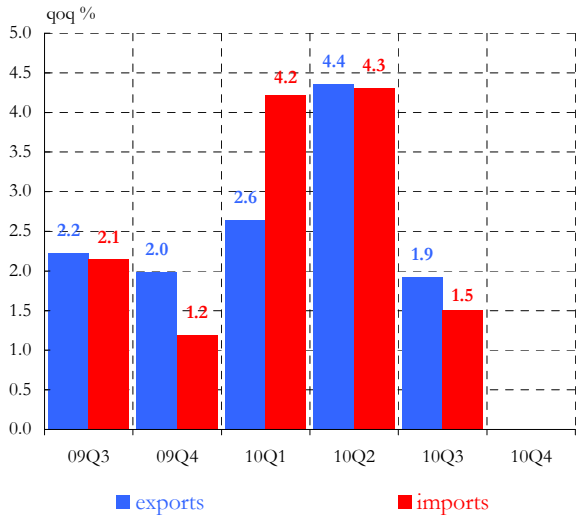
Labour costs in the private business sector (nominal)



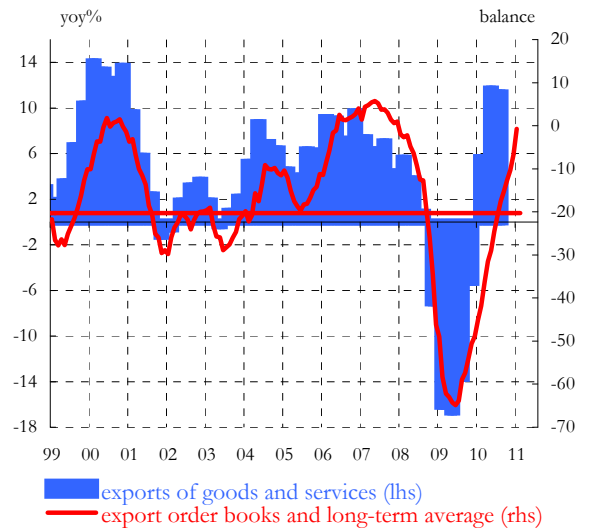


5. INTERNATIONAL TRANSACTIONS

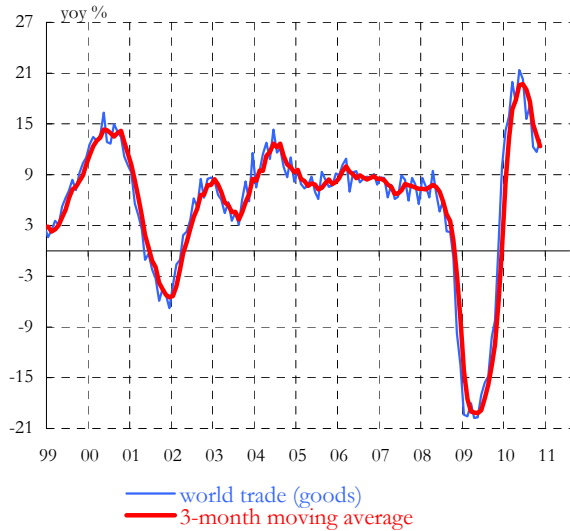
Exports and imports of goods and services



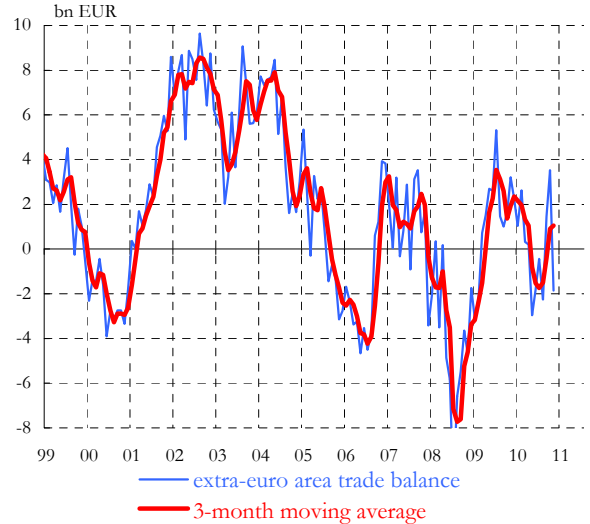
Exports and export order books



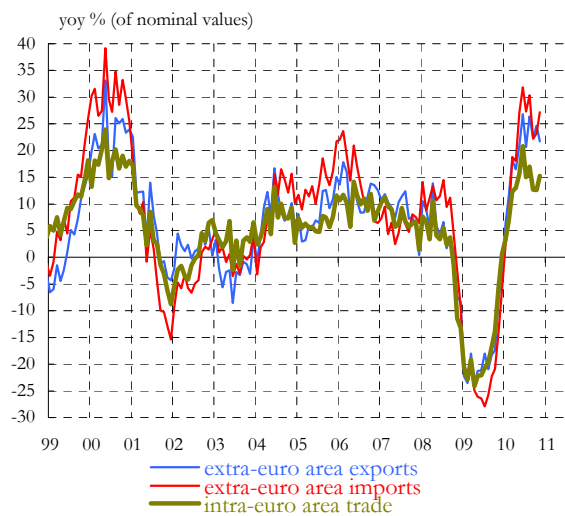
World trade



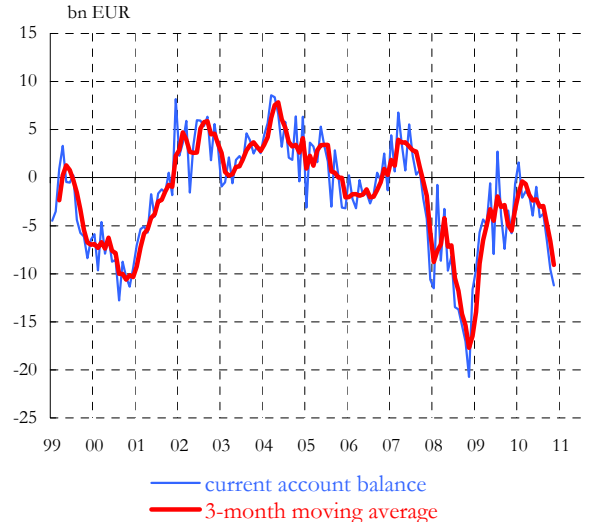
Extra euro-area trade balance



Extra- and intra-euro area trade



Current account balance

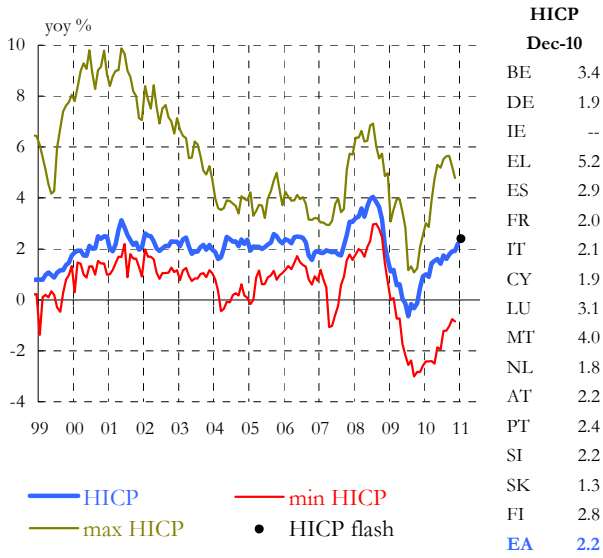




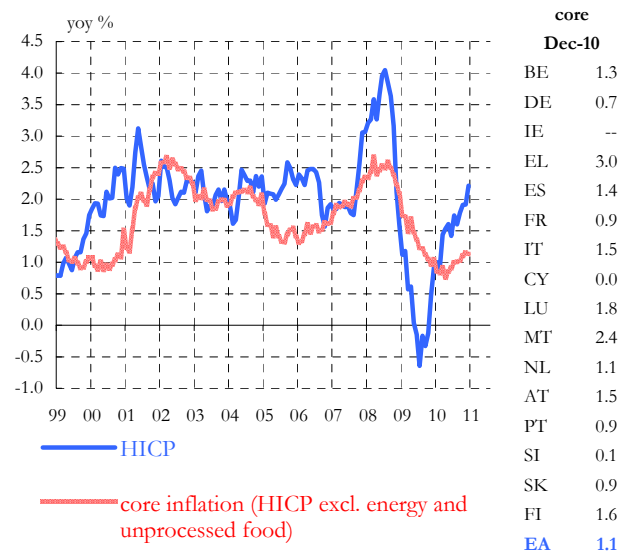


6. PRICES

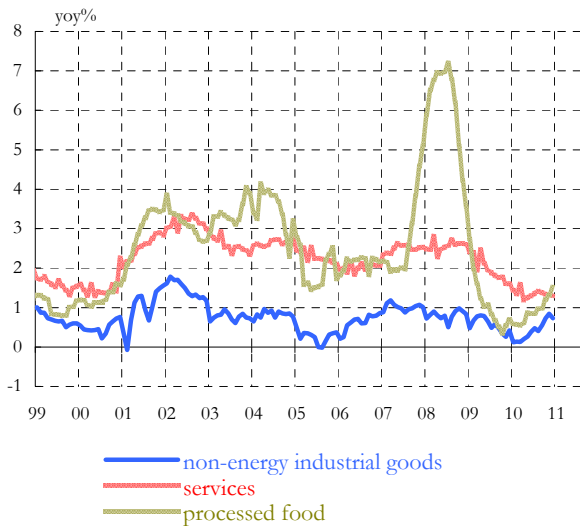
Harmonised index of consumer prices (HICP)



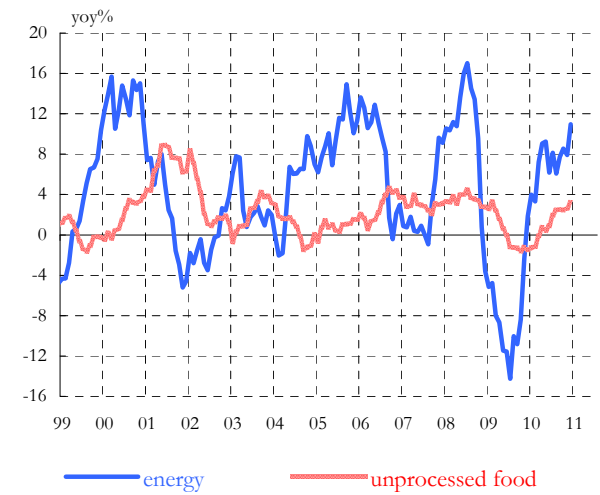
HICP and core inflation



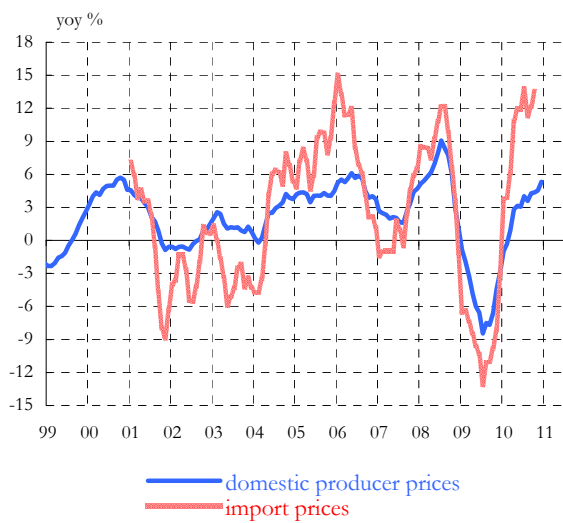
Breakdown of core inflation



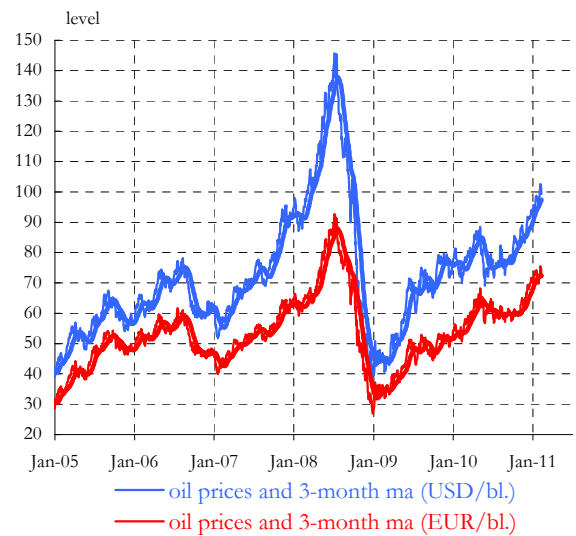
Energy and unprocessed food



Domestic producer prices and import prices



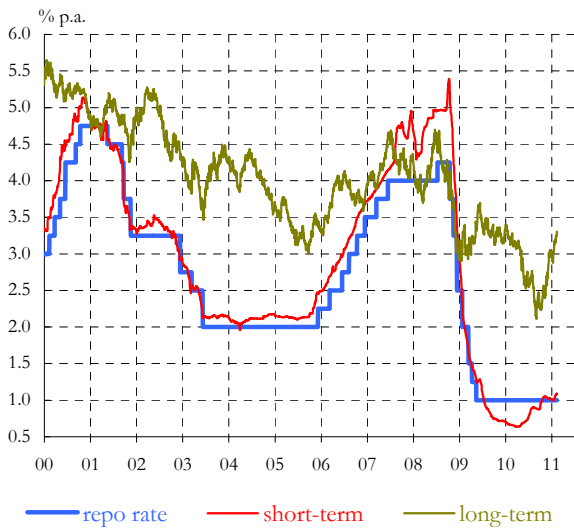
Oil prices



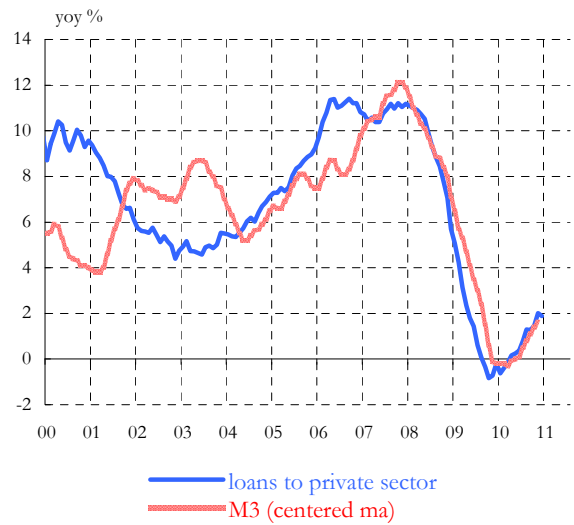


7. MONETARY AND FINANCIAL INDICATORS

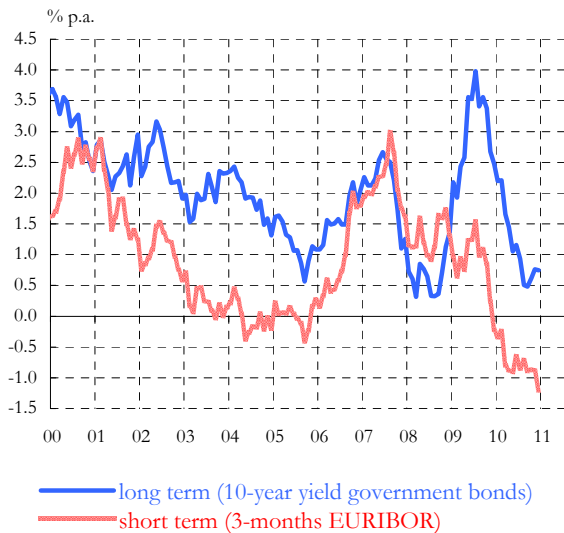
Nominal interest rates



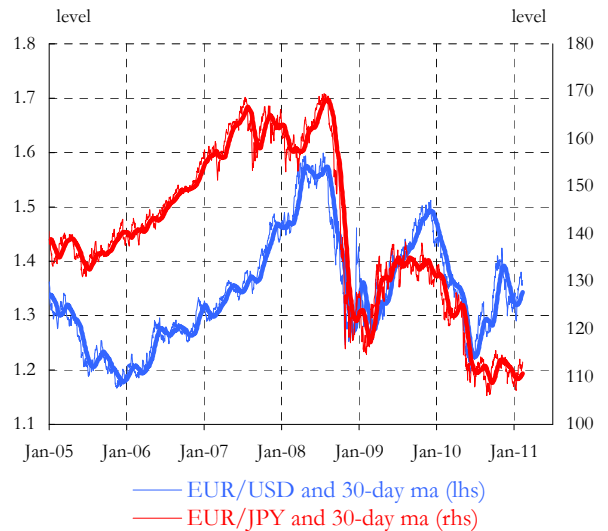
Loans to private sector and money supply



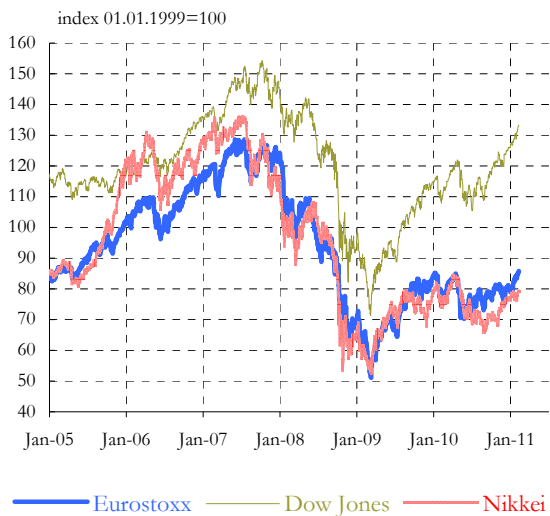
Real interest rates



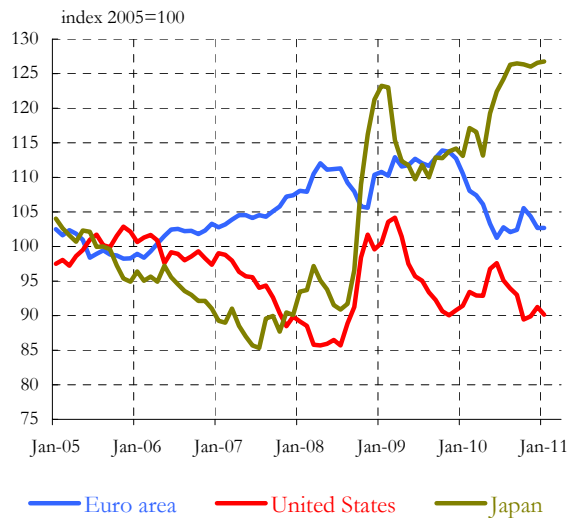
Euro vis-à-vis US dollar and JP yen



Stock market indices



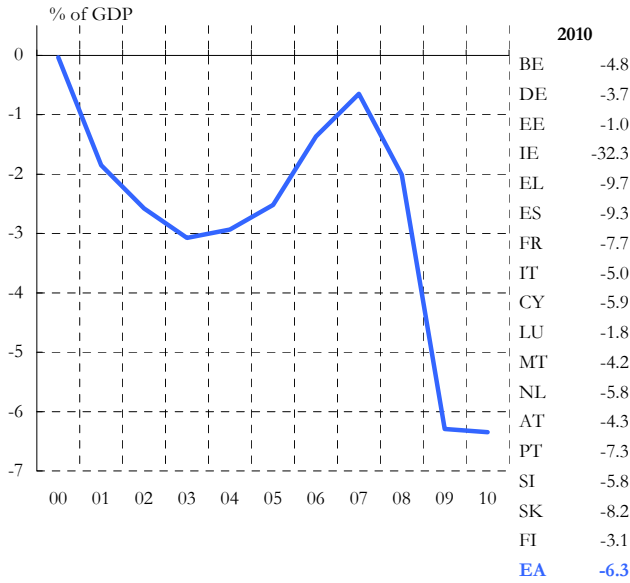
Nominal effective exchange rates



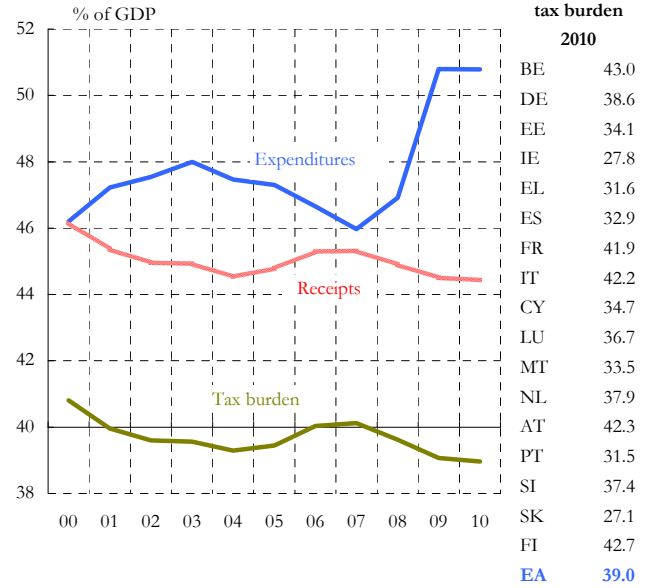


8. PUBLIC FINANCES\*

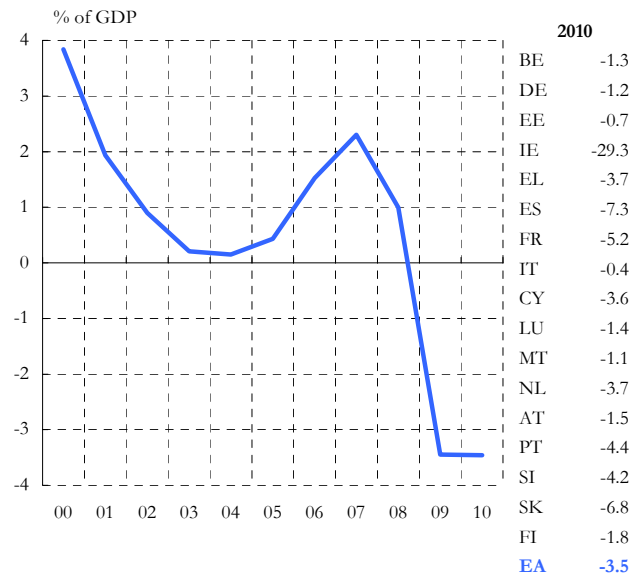
Government general balance



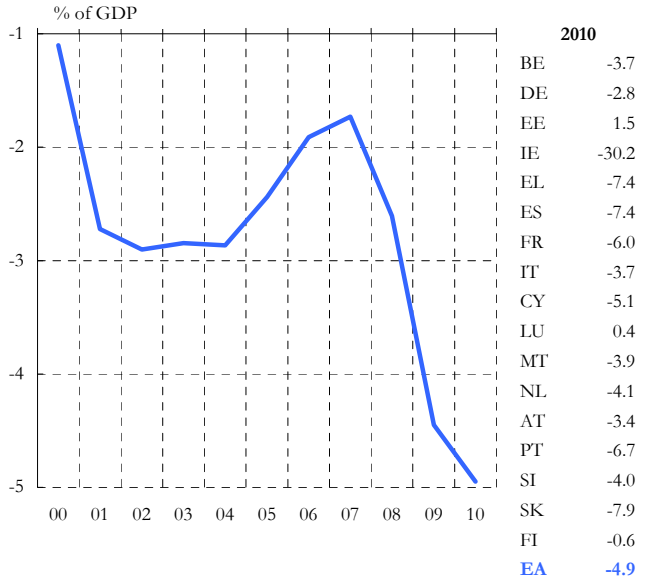
General government expenditures and receipts



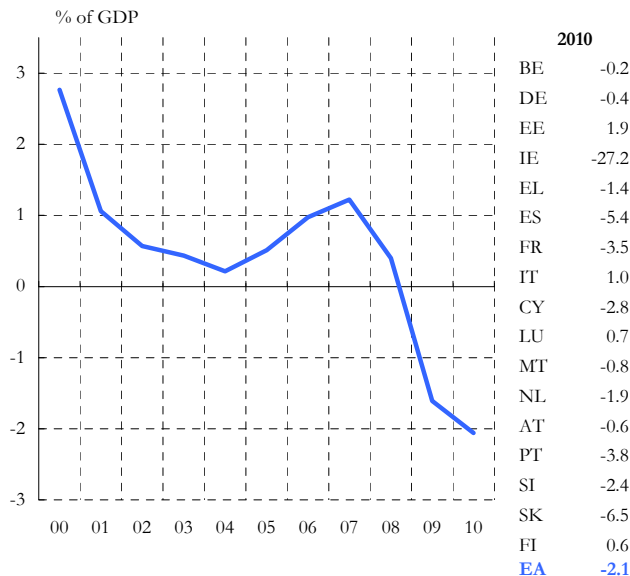
Primary balance



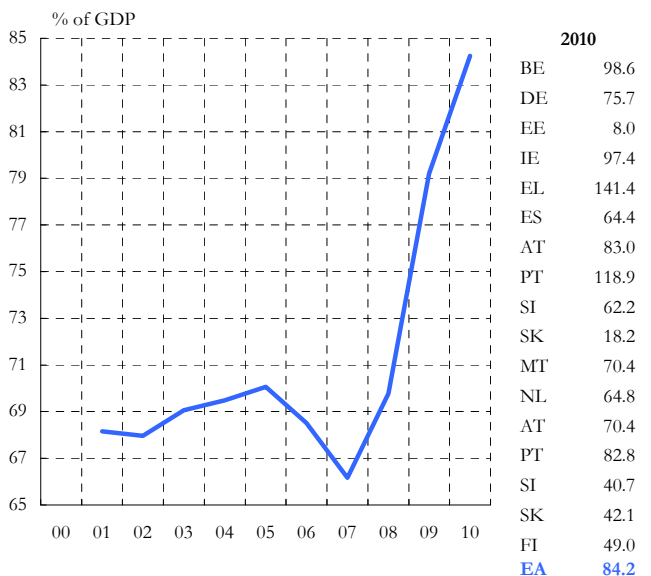
Cyclically adjusted balance



Cyclically adjusted primary balance



General government debt



\* Figures are from the Commission's autumn 2010 forecast

## KEY INDICATORS FOR THE EURO AREA



Euro area	Indicators as from 2011 refer to Belgium (BE), Germany (DE), Estonia (EE), Ireland (IE), Greece (GR), Spain (ES), France (FR), Italy (IT), Cyprus (CY), Luxembourg (LU), Malta (MT), the Netherlands (NL), Austria (AT), Portugal (PT), Slovenia (SI), Slovakia (SK), Finland (FI).	
Indicator	Note	Source
<b>1. Output</b>		
Economic Sentiment Indicator	The economic sentiment indicator is the weighted average (of the industrial confidence indicator (40%), the services confidence indicator (30%), the consumer confidence indicator (20%), the construction confidence indicator (5%) and the retail trade confidence indicator (5%)). Data are seasonally adjusted.	DG ECFIN
Industrial confidence indicator	The industrial confidence indicator is the arithmetic average of the balances (%) referring to the questions on production expectations, order books and stocks (the latter with inverted sign) from the survey of manufacturing industry. The long-term average refers to the period as from publishing of the indicator up to now. Data are seasonally adjusted.	DG ECFIN
Services confidence indicator	The services confidence indicator is the arithmetic average of the balances (%) referring to the questions on business situation and recent and expected evolution of demand from the survey of services. The long-term average refers to the period as from publishing of the indicator up to now. Data are seasonally adjusted.	DG ECFIN
Industrial production	Monthly Production Index (2005=100), NACE Rev.2 B-C-D, Total industry (excluding construction). Mom % ch. and qoq% ch. are seasonally adjusted, yoy% ch. are working-day adjusted.	Eurostat
Gross domestic product	Gross domestic product at constant market prices (chain-linked volumes, reference year 2000), EUR. Data are seasonally and working-day adjusted.	Eurostat
Labour productivity	Labour productivity defined as the difference between GDP growth and employment growth.	Eurostat
GDP divergence	Standard deviation of GDP growth of the following countries: BE, DE, ES, FR, IT, CY, LU, NL, AT, PT, SI, FI.	Eurostat
<b>2. Private consumption</b>		
Consumer confidence indicator	The consumer confidence indicator is the arithmetic average of the balances (%) referring to the questions on the financial situation of households, general economic situation, unemployment expectations (with inverted sign) and savings; all over next 12 months. The long-term average refers to the period as from publishing of the indicator up to now. Data are seasonally adjusted.	DG ECFIN
Retail confidence indicator	The retail confidence indicator is the arithmetic average of the balances (%) referring to the questions on the present and the future business situation and the volume of stocks (with inverted sign). The long-term average refers to the period from publishing of the indicator up to now. Data are seasonally adjusted.	DG ECFIN
Private consumption	Household & NPISH final consumption expenditure at constant market prices (chain-linked volumes, reference year 2000), EUR. Data are seasonally and working-day adjusted.	Eurostat
Retail sales	Retail trade (NACE Rev.2 G47) excluding motor vehicles, motorcycles; Deflated turnover, mom % ch. and qoq% ch. are seasonally adjusted, yoy% ch. are working-day adjusted.	Eurostat
<b>3. Investment</b>		
Capacity utilisation	In percent of full capacity in the manufacturing sector. Data are seasonally adjusted (collected in January, April, July and October).	DG ECFIN
Production expectations	Production expectations in manufacturing sector. Data are seasonally adjusted.	DG ECFIN
Gross fixed capital formation	Gross fixed capital formation at constant market prices (chain-linked volumes, reference year 2000), EUR. Data are seasonally and working-day adjusted.	Eurostat
Equipment investment	Gross fixed capital formation at constant market prices (chain-linked volumes, reference year 2000), EUR, metal products, machinery and transport equipment. Data are seasonally and working-day adjusted.	Eurostat
Construction investment	Gross fixed capital formation at constant market prices (chain-linked volumes, reference year 2000), EUR, construction work and housing. Data are seasonally and working-day adjusted.	Eurostat
Change in stocks	Changes in inventories and acquisitions less disposals of valuables (at prices of previous year).	Eurostat
Profit share	Ratio of nominal gross operating surplus and gross mixed income to nominal GDP	Eurostat

## KEY INDICATORS FOR THE EURO AREA



4. Labour market		
Employment expectations (manufacturing)	Managers' employment expectations over the next three months in the manufacturing sector. Data are seasonally adjusted.	DG ECFIN
Employment expectations (services)	Managers' employment expectations over the next three months in the services sector. Data are seasonally adjusted.	DG ECFIN
Employment expectations (whole economy)	Weighted average of managers' employment expectations over the next three months in the manufacturing (19%), services (65%), construction (6%) and retail sectors (10%). Weights in brackets according to value-added share on GDP of the respective sector. Data are seasonally adjusted.	DG ECFIN
Employment	Total domestic employment (number of persons). Data are seasonally and working-day adjusted.	Eurostat
Compensation of employees per head	Nominal compensation of employees divided by the number of employees. Data are seasonally and working-day adjusted.	DG ECFIN
Unemployment expectations	Consumers' unemployment expectations over the next twelve months. Data are seasonally adjusted.	DG ECFIN
Unemployment rate	Harmonised unemployment rate (in percent of labour force), ILO definition. Data are seasonally adjusted.	Eurostat
Structural unemployment rate	Non-accelerating inflation rate of unemployment. Data are seasonally adjusted.	OECD
Total labour costs	Nominal wage- and non-wage costs less subsidies in the private business sector. Data are seasonally and working-day adjusted.	Eurostat
Wage costs	Nominal wage and salary costs include direct remunerations, bonuses, and allowances, payments to employees saving schemes, payments for days not worked and remunerations in kind. Data are seasonally and working-day adjusted.	Eurostat
Non-wage costs	Nominal non-wage costs include the employers' social contributions plus employment taxes less subsidies. Data are seasonally and working-day adjusted.	Eurostat
Labour productivity	Ratio between GDP and employment. Data are seasonally and working-day adjusted.	DG ECFIN
5. International transactions		
World trade	Volume, 1998=100, seasonally adjusted	CPB
Export order books	Managers' export order expectations in the manufacturing sector. Data are seasonally adjusted.	DG ECFIN
Extra-euro area exports	Nominal extra-euro area exports of goods, fob. Data are seasonally adjusted.	Eurostat
Extra-euro area imports	Nominal extra-euro area imports of goods, cif. Data are seasonally adjusted.	Eurostat
Extra-euro area trade balance	Difference between extra-euro area exports and extra-euro area imports. Data are seasonally adjusted.	Eurostat
Intra-euro area trade	Nominal intra-euro area trade in goods, fob. Data are seasonally adjusted.	Eurostat
Current-account balance	Transactions in goods and services plus income and current transfers between residents and non-residents of the euro area. Data are seasonally and working-day adjusted.	ECB
Exports of goods and services	Exports of goods and services at constant market prices (chain-linked volumes, reference year 2000), EUR. Data are seasonally and working-day adjusted.	Eurostat
Imports of goods and services	Imports of goods and services at constant market prices (chain-linked volumes, reference year 2000), EUR. Data are seasonally and working-day adjusted.	Eurostat
Direct investment	Nominal transactions/positions in assets abroad by euro-area residents less nominal transactions/positions in euro-area assets by non-residents. To be regarded as a direct investment, ownership in an enterprise must be equivalent to more than 10% of the ordinary shares or voting power.	ECB
Portfolio investment	Nominal transactions/positions in securities (including equities) abroad by euro-area residents less nominal transactions/positions in euro-area securities (including equities) by non-residents. To be regarded as a portfolio investment, ownership in an enterprise must be equivalent to less than 10% of the ordinary shares or voting power.	ECB

## KEY INDICATORS FOR THE EURO AREA



6. Prices		
HICP	Harmonized index of consumer prices (index 2005=100)	Eurostat
Core HICP	HICP excluding energy and unprocessed food (index 2005=100)	Eurostat
Producer prices	Domestic producer price index, total industry excluding construction (index 2005=100)	Eurostat
Selling price expectation	Managers' selling-price expectations in the manufacturing sector. Data are seasonally adjusted.	DG ECFIN
Import prices	Unit value index of imports, Current Prices (index 2000=100)	Eurostat
Oil prices	Price of north sea Brent in USD/barrel and EUR/barrel	ICE
Non-energy commodity prices	Market price for non-fuel commodities in EUR terms (index 2000c=100)	HWWI
7. Monetary and financial indicators		
Nominal interest rate (3-month)	3-month EURIBOR interbank rate (360 day)	ECB/Ec owin
Nominal interest rate (10-year)	10-year interest rate on government bonds for euro area (based upon the 10-year German government bond)	ECB/Ec owin
ECB repo rate	Minimum bid rate of main refinancing operations, end of period.	ECB/Ec owin
Money demand (M3)	Monetary aggregate including currency in circulating (banknotes and coins), operational deposits in central bank, money in current accounts, saving accounts, money market deposits, certificates of deposit, all other deposits and repurchase agreements. Data are seasonally adjusted.	ECB
Loans to private sector	Loans by MFI (monetary and financial institutions) to euro area residents (excl government). Data are seasonally adjusted.	ECB
Real long-term interest rates	Nominal interest rate (10-year) deflated by HICP index	DG ECFIN
Real short-term interest rates	Nominal interest rate (3-month) deflated by HICP index	DG ECFIN
Stock markets	Eurostoxx50, Dow Jones and Nikkei indices (1.1.1999=100)	Ecwin
Exchange rates	EUR/USD and EUR/JPY reference rates	ECB
Nominal effective exchange rate	Graph – Monthly Nominal Effective Exch. Rates vs. rest of IC36 (index 2005 = 100) Table - ECB Nominal effective exch. rate, euro area-17 countries vis-à-vis the EER-20 group of trading partners against Euro	DG ECFIN/ ECB
8. Public finance		
General government balance	Net lending (+) or net borrowing (-) of general government	DG ECFIN
Primary government balance	Net lending (+) or net borrowing (-) of general government minus interest payment	DG ECFIN
Cyclically adjusted balance	Net lending (+) or net borrowing (-) of general government corrected for the influence of the business cycle	DG ECFIN
Cyclically adjusted primary balance	Primary government balance corrected for the influence of the business cycle	DG ECFIN
General government expenditures and receipts	Nominal expenditures and receipts; tax burden includes taxes on production and imports (incl. taxed paid to EU), current taxes on income and wealth (direct taxes) and actual social contributions	DG ECFIN
General government debt	Cumulative sum of net lending (+) or net borrowing (-) positions of general government	DG ECFIN