1. Output

Real GDP in the euro area was up by 0.1% compared to the previous quarter. Household final consumption expenditure rose by 0.3% (q-o-q). Gross fixed capital formation disappointed as it decreased by 0.9%. Exports continued to be supportive: they rose by 1.3%. As compared to 2013-Q2, real GDP was 0.8% higher.

According to the **Commission's autumn 2014 forecast**, released on 4 November, euro-area GDP is expected to increase by 0.8%, 1.1% and 1.7%, in 2014, 2015 and 2016 respectively, as the legacies of the crisis fade away, structural reforms start to bear fruit, labour markets improve and more supportive policies and financing conditions are in place.

In October, the **Commission's Economic Sentiment Indicator** picked up in the euro area (by 0.8 pts. to 100.7). The stabilisation of euro-area sentiment resulted from an improvement in confidence in all the business sectors. While rises were important in retail trade, services and, particularly, construction, industry registered only a small increase, and confidence among consumers remained broadly stable. Amongst the largest euro-area economies, the ESI decreased only in Spain (-0.7), while it rose in Germany (+0.6), France (+1.1), Italy (+0.5) and the Netherlands (+2.1). Increasing industry confidence (+0.4) resulted from managers' more optimistic views on expected production. The marked improvement in services confidence (+1.2) was driven by managers' significantly brighter views on past demand, demand expectations, and, to a lesser degree, the past business situation. The **final PMI Composite Output Index** for the euro area remained broadly stable in October at 52.1 (52.0 in September), with modest output growth registered at manufacturers and service providers alike.

In August, **industrial production** decreased by 1.8% (m-o-m) after an increase of 0.9% in July. In August, production of capital goods, intermediate goods and non-durable consumer goods decreased by 4.8%, 0.7% and 0.2% respectively, whereas production of energy and durable consumer increased respectively by 1.2% and 0.2%.

2. Private consumption

In 2014-Q2, **private consumption** increased by 0.3% q-o-q (0.2% in 2014-Q1). With respect to the same period of the previous year, private consumption was up by 0.7% (0.5% in 2014-Q1).

In October, consumer confidence remained broadly stable in the euro area (+0.3) resulting from more positive assessments of the future general economic situation and future unemployment, while consumers' expectations of their financial situation and future savings remained broadly unchanged.

In September, the volume of **retail trade** was down by 1.3% (m-o-m) after having increased by 0.9% in August. As compared to September 2013, retail trade volumes were 0.6% higher. In October, confidence in the retail sector increased by 0.9 pt., reflecting more positive views on the expected business situation and on the adequacy of the volume of stocks, while managers' assessment of the present business situation remained broadly unchanged.

3. Investment

In 2014-Q2, **gross fixed capital formation** decreased by 0.9% q-o-q (+0.3% in 2014-Q1). Compared to the same quarter of the previous year, investment increased by 0.5%.

The rate of **capacity utilisation** slightly increased in the third quarter of 2014 (data collected in July) to 79.8%, still below its long-term average of 81.3% and as such does not indicate much price pressure.

4. Labour market

In September, the seasonally-adjusted **unemployment rate** was 11.5% (unchanged from August), and 0.5 pp. lower than in September 2013. Significant differences persist across Member States, with the lowest rates recorded in Germany (5.0%) and Austria (5.1%) and the highest in Greece (26.4% in July) and Spain (24.0%). In September, **youth unemployment** was 23.3% of the labour force of the same age (people aged 15-24), unchanged from August.

In 2014-Q2, seasonally-adjusted **employment** increased by 0.2% (up from 0.1% in 2014-Q1). According to the Commission's survey results, in October **employment expectations** saw a significant upward revision in construction and a smaller increase in services, while employment plans remained broadly unchanged in retail trade and worsened in the industry sector.

5. International transactions

In August 2014, the **world trade volume** (goods) decreased by 0.8% m-o-m, following a 1.5% increase in July. World trade increased by 0.4% q-o-q in 2014-Q2 (-0.6% in 2014-Q1). In October 2014, **export order books in manufacturing** improved. They stood at -14.8 pts. (-15.5 pts. in September), above the long-term average.

In August 2014, the seasonally adjusted **trade balance** was in surplus at €9.2 bn, compared with +€7.3 bn in August 2013. In August 2014, the seasonally adjusted **current-account balance** also recorded a surplus (€18.9 bn.). Surpluses were recorded for goods, services and income (€15.3 bn, €7.8 bn and €4.2 bn respectively), whereas a deficit was registered for current transfers (€8.4 bn). The **financial account** recorded net outflows of €19 bn mainly as a result of net outflows for portfolio investment (€28 bn) which were partly offset by net inflows for direct investment (€9 bn).

6. Prices

In October 2014, annual **HICP inflation** is expected to be 0.4% (up from 0.3% in September), according to Eurostat's flash estimate. Services is expected to have the highest annual rate in October (1.2%, up from 1.1% in September), followed by food, alcohol & tobacco prices (0.5%, up from 0.3%) and non-energy industrial goods (-0.1%, down from 0.2%), while prices decreased in energy (-1.8% from -2.3% in September). In September, **core inflation** (all items excl. energy and unprocessed food) remained at 0.8% from 0.9% in August.

The **Commission's autumn 2014 forecast** projects HICP inflation of 0.5% in 2014, 0.8% in 2015 and 1.5% in 2016. In October 2014, **consumer price expectations** picked up (+1.3 pts.), remaining below their long-term average. In September 2014, **industrial producer prices** rose by 0.2% (m-o-m). Compared with September 2013, industrial producer prices decreased by 1.4%.

Crude **oil prices** continued to trend lower in October. High risk aversion keeps downward pressure on commodity prices. On 4 November, Brent crude traded at 85.36 USD/bbl. (corresponding to 68.21 EUR/bbl.).

7. Monetary and financial indicators

Money market interest rates decreased in October with the 3-month EURIBOR standing at 0.08%. At its meeting on 2 October, the ECB Governing Council kept **policy interest rates** on the main refinancing operations, on the marginal lending facility and the deposit facility unchanged at the levels resulting from the rate cut in September (at 0.05%, 0.30% and 0.20% respectively).

Benchmark sovereign bond yields stabilised somewhat in September and October after falling continuously in 2014. While yields in higher-rated euro-area countries decreased slightly, a more pronounced decline in most other Member States resulted in narrower intra-euro area sovereign bond yield spreads. On 3 November, the benchmark yield of ten-year sovereign bonds stood at 0.93%.

The October 2014 Bank Lending Survey confirmed the easing of credit conditions for all loan categories in 2014-Q3, in the current context of persistently weak loan demand. As in the previous report in July, a net easing was reported for credit standards on loans to non-financial corporations. Banks also continued to slightly ease credit standards in net terms for loans to households

The annual rate of change of M3 increased slightly to 2.5% in September (2.1% in August). Loans to the private sector stood at -0.6% in September (up from -0.9% in August, adjusted for loan sales and securitisation). In September, the annual growth in loans to households increased to 0.6% (from 0.5% in August). The annual growth rate of loans to non-financial corporations stood at -1.8%, up from -2.0% in August.

At its meeting on 28-29 October, the FOMC announced the end to quantitative easing (QE3) and maintained its target policy rate range at 0-25 bps for a "considerable time following the end of QE" and assessed the underutilisation of labour market pressures as gradually diminishing, which marked a deviation from its earlier assessments. On 5 November, the US 3-month Libor rate stood at 0.231%.

As compared to the beginning of 2014 the euro has slightly depreciated in nominal terms. Since early May the **EUR/USD exchange rate** has fallen almost steadily from about 1.40 to 1.2480 on 5 November. Relative monetary policy has become a key factor, with the US tapering up to October and the decisions by the ECB Governing Council in previous months affecting financial markets. Among other factors at play are the changes in the economic outlook and elevated geopolitical risks in several regions. On 5 November, the euro foreign exchange reference rate stood at 143.21 JPY/EUR.

After having moved sideways for a while, in recent days **stock market indices** in the US and Japan have increased markedly. At the end of October, in the US, the index reached a new all-time high, whereas in Japan markets responded with sharp increases in the index to news about additional monetary stimulus (about 10% between mid and end-October). Developments in the euro area were smoother with the main index returning to the level registered at the beginning of October. In the last three months, stock market indices have gained 1.3% in the euro area (as measured by the Euro-Stoxx 50 index), 5.8% in the US (Dow Jones) and 7.1% in Japan (Nikkei 225 index).