Global and European setting

World economic activity

Global economy on flatter growth path

Global growth, which in spring had already started a visible slowdown following a period of very vigorous activity, continued to slacken in the second half of the year. This was due mainly to a perceptible tailing-off of expansion in the industrial countries after the torrid pace of growth in some major emerging market economies (EMEs) had already subsided a bit in the second quarter. The primary factor behind the weaker upswing among the industrial countries was that aggregate output growth in the euro area was down by around one-half on the period – which partly represents a return to normal following a very strong second quarter. The UK economy was unable to fully sustain its high growth rate from the same period, either. After the midpoint of the year, the United States remained on the moderate path of economic recovery upon which it had embarked in the second quarter. The faster growth of the Japanese economy is most likely attributable, in particular, to temporary factors. In the summer months, according to initial estimates based on provisional data for the United States, Japan, the United Kingdom and the euro area, real gross domestic product (GDP) for the industrial countries grew by a seasonally adjusted ½% on the period, compared with +¾% for each of the three preceding quarters. Total output was up by 2¾% on the year.

Danger of overheating in some EMEs

In the emerging market economies (EMEs) of south and east Asia, the stimuli from exports, which in many places were weak, were offset in the summer months by persistently vibrant growth in domestic demand; as a result, quarter-on-quarter aggregate growth is likely to have once again been quite strong. In Latin America, the previously rapid pace of growth has slowed down. On the whole, economic policymakers in those countries remained focused on preventing their economies from overheating. Brazil raised its key lending rates once again in July. China raised its rates in mid-October for the first time since 2007. India's monetary authorities raised their repo rate in several steps, beginning in March, by a total of 1.50 percentage points to 6.25%. A sharp contrast to these countries is presented by developments in the Russian economy, which was hampered by a variety of special factors.

Signs of growth picking up slightly in autumn 2010

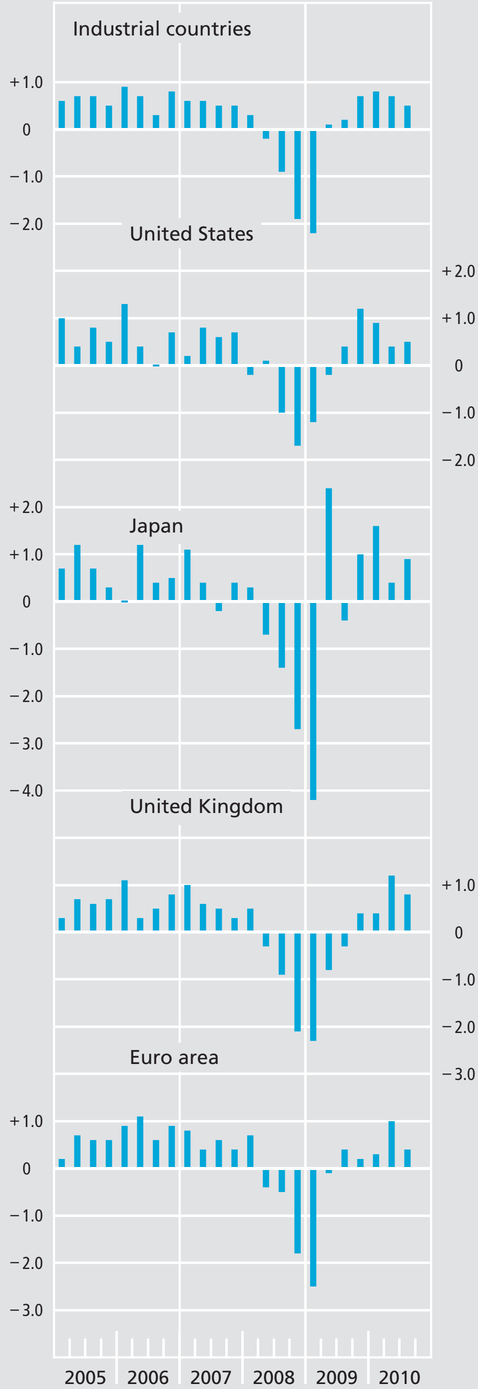
In the July-August period, global industrial output was up by a mere ½% from the second quarter, in which it had grown by 2%. However, the pace of expansion seems to be resurging somewhat towards the end of the year. The global Purchasing Managers' Indices for manufacturing (and services) were up perceptibly in October after falling noticeably in the five preceding months. Although the expectation component of the ifo World Economic Climate indicator was down significantly in the third quarter from a high level, it still remained higher than in the boom year of 2007.

Renewed upward revision of IMF forecast for 2010

In the October edition of its World Economic Outlook (WEO), the International Monetary Fund (IMF) once again raised its forecast of global growth for 2010 slightly (+0.2 percentage point) to 4.8%. At the beginning of July already, it had perceptibly revised its forecast

Overall economic output in industrial countries*

Seasonally adjusted, quarter-on-quarter percentage change



* The United States, Japan, the United Kingdom and the euro area.

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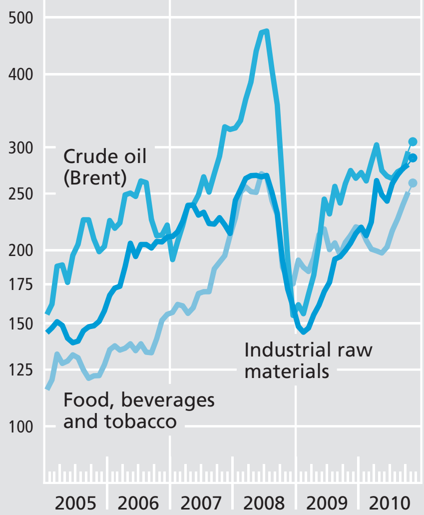
World market prices for crude oil and industrial raw materials as well as food, beverages and tobacco

US dollar basis, 2000 = 100, log scale



Sources: Thomson Reuters and HWWI. — • = 12 November 2010.

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upward, primarily owing to the unexpectedly good start to 2010. The projection for 2011, however, was reduced slightly in the autumn to 4.2% owing to the slackening pace of growth in the second half of the current year. The IMF expects growth over the course of 2011 to be about as brisk as this year. In a regional view, the renewed upward revision for 2010 is attributable mainly to a more favourable assessment of economic activity in the developing and emerging economies, which are now projected to see growth of 7.1%, compared with 2.7% in the advanced economies. According to the IMF, however, next year's growth rates in both groups of countries will probably be down by around one-half percentage point. The projections were raised particularly sharply for Germany, up to 3.3% (2010) and 2.0% (2011), which was also the main reason for the more positive assessment of the euro-area outlook. The forecast for real world trade growth was raised by 2.4 percentage points to 11.4% for 2010 and by 0.7 percentage point to 7.0% for 2011. As before, the IMF still considers that the risks with regard to the latest growth projection outweigh the chances of a better result. The primary factor cited by the IMF is the danger emanating from the sharp rise in government debt in the industrial countries.

Marked rise in commodity prices ...

The price of Brent crude oil continued to fluctuate in the summer months within a corridor of between US\$70 and just over US\$80 per barrel. Owing also, in all likelihood, to the perceptible depreciation of the US dollar, the price of Brent rose distinctly in October on the month (+7%) yet failed to sustainably breach the upper barrier of the aforementioned price range. By mid-November, however, prices had climbed to US\$87 (€63½). The year-on-year price increase, denominated in US dollars, ran to 13¾% at last report. Forward quotations were not quite able to keep pace with the rising spot price in October, signalling somewhat smaller price increases for the future. The prices of other commodities went up quite sharply over the summer. Owing, above all, to cereals crop failures in eastern Europe, world market prices for food, beverages and tobacco rose by 16½% between July and October. Industrial raw materials prices, too, trended visibly upwards (+7¾%) in the light of robust global economic developments. Overall, in October the HWWI non-energy commodity price index, in US dollar terms, surpassed its July 2008 peak for the first time since then.

... but only moderate increase in consumer prices

Amidst higher crude oil prices, consumers in the US dollar area, in particular – but not so much households in countries whose currencies appreciated against the dollar – were charged higher energy prices in October. In the June-September period, however, the Consumer Price Index for the industrial countries rose by merely 0.3% overall after seasonal adjustment. Its year-on-year rise opened up from +1.1% to +1.3%. Excluding energy and food, inflation, at 0.8% at the end of the third quarter, was nearly as low as three months earlier. For the industrial countries as a group, there is currently no discernible danger of either inflation or deflation.

Selected emerging market economies

South and east Asian EMEs still with strong momentum

The south and east Asian emerging market economies (EMEs) maintained their powerful growth momentum in the summer. In China, year-on-year growth of real GDP was down in the third quarter from 10¼% to 9½%. However, quarter on quarter, aggregate economic growth is likely to have increased. According to the monthly indicators, domestic final demand was unable to fully maintain its growth rate on the year. Nominal retail sales continued to rise strongly, whereas growth in overall fixed investment came down somewhat from a high level. In the light of the slackening of growth in the industrial countries, exports lost a more significant amount of steam. Consumer price inflation in China has picked up considerably in recent months, from 2.9% in June to 4.4% in October, mainly on account of weather-related increases in food prices. India's economy, which in the spring saw real GDP grow by 10% on the year, has remained on its growth track in the past few months, although industrial output growth slowed up from 15¾% in the second quarter to 11% in the third. Consumer price inflation, despite declining once again after mid-year, remained high in September at 9.8%. One factor was that food prices continued their clear upward trend even though the monsoon season was precipitation-rich.

Slower growth in Latin America

The uptick in economic activity in some large Latin American countries is likely to have decelerated in the summer months. Moreover, the expansionary forces appear to have shifted, particularly in Brazil. Owing, in particular, to ebbing contributions from foreign demand, third-quarter industrial output was, after seasonal adjustment, down somewhat on the period. By contrast, retail sales grew by a very strong 3½% in real terms. This was attributable to exceptionally favourable developments in the labour market and a high level of consumer confidence. After treading water in the summer months, inflation rose perceptibly, to 5.2% in October. In Mexico, too, economic activity subsided from its level in the spring, which had witnessed real GDP growth (after seasonal adjustment) of no less than 3¼%. Manufacturing, which in the meantime has recovered a large percentage of its crisis-related losses, saw output expand in the summer by only ½%, compared with +1¾% a quarter earlier. It is noteworthy that Mexican exporters derived sub-par benefits from the high volume of US import activity in the 2010 Q2-Q3 period. Inflation in Mexico has trended slightly upwards in the past few months and stood at 4.0% in October.

Russian economy under considerable strain owing to exceptional heat and fires

In the third quarter of the year, the Russian economy came under considerable strain as a result of an exceptionally hot summer and a wave of large forest and bog fires. Severe farm output losses, particularly in cereals, were one result. Another upshot was that business in some parts of the country was, at times, hampered significantly by the fire-related smog. This caused year-on-year real GDP growth to diminish from 5¼% in spring to 2¾% in summer, according to the initial official estimate. Given the continuing favourable underlying conditions, including the rather high price of oil, however, the final quarter of 2010 could see a return to stronger growth in economic output. The crop failures have driven up food prices considerably in Russia; this has also led to a noticeable rise in overall consumer price inflation, which stood at 7.5% in October

USA

GDP growth in Q2-Q3 period weaker but domestic demand with greater momentum

In the July-September period, the US economy remained on the moderate growth path onto which it had embarked in the second quarter. Real GDP growth of an annualised rate of 4½% in the 2009 Q4-2010 Q1 period was followed by a slowdown in the Q2-Q3 period to 2%. However, the slowdown masks a persistently high momentum of real domestic demand, which grew by an annualised rate of 4½% over the Q2-Q3 stretch, thereby even outdoing its growth over the preceding six-month period despite a considerable reduction in support from the inventory cycle. The reduction in GDP growth is therefore due not to domestic demand but to foreign trade. Whereas real imports of goods and services skyrocketed, export growth dwindled. However, the US economy has thus generated key stimuli for a continuation of the global recovery process.

Households' gross fixed capital formation trod water in summer …

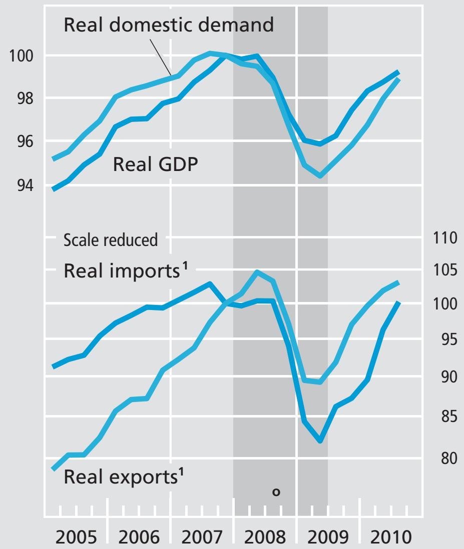
If – staying purely within the summer half-year – one compares the third quarter with the second, real GDP rose once again by ½% after seasonal adjustment. However, growth of domestic final demand, at ½%, was down slightly from its earlier pace (+1%). This was primarily because households' gross fixed capital formation failed to maintain its spring pace, especially because households cut back their residential construction investment sharply (-8¼%). This setback, however, has to be placed in the context of the expiry of tax incentives for house purchases, which had previously given the private housing market a temporary boost. Of late, a variety of indicators have been pointing to a stabilisation of the situation in the housing market. Investment in commercial construction went up slightly in the summer quarter for the first time in two years. Inventory investment likewise generated positive stimuli. Foreign trade once again depressed GDP growth sharply, though not by as much as in the spring.

… household consumption increased moderately

Household consumption was up by a seasonally adjusted ½% on the quarter, a slow pace compared with previous periods of recovery. This was due mainly to the rather muted growth of household income owing to the sluggish recovery in the US job market. The sluggishness of this recovery has recently been attributed by various commentators to structural rigidities in the US economy. A closer look reveals, however, that muted demand for labour among firms is by far the more important factor (see box on pages 18-19). The sharp reduction in public-sector jobs had a particularly damaging impact. In a situation of tight budgets, especially affecting municipalities, the public sector shed more than 140,000 jobs during the summer months. In addition, 334,000 temporary jobs created for the census expired. By contrast, non-farm employment in the private sector increased by 367,000 over the summer, which comes to an average of 122,000 jobs per month. In the light of these countervailing factors, the seasonally adjusted unemployment rate, at 9.6% in the third quarter, virtually held firm at the level of the preceding two periods. October was the first month since May in which a considerable number (151,000) of new non-farm jobs were created in net terms;[1] however, the unemployment rate, which is calculated in a separate survey of households, remained unchanged. Consumers' purchasing power was boosted in the summer quarter by consumer price developments. Owing to pronounced base effects in energy and food prices, the rate of inflation, at 1.2%, was one-third lower than before. Excluding energy and food prices, the rate of price increase held steady at 0.9%.

US GDP, domestic demand and foreign trade

Quarterly, seasonally adjusted, 2007 Q4 = 100, log scale



Source: Bureau of Economic Analysis. — 1 Goods and services. — o Recession as dated by the NBER (2008 Q1 to 2009 Q2).

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Japan

Japanese economy still on path to recovery

The Japanese economy remained on its mainly steep, albeit somewhat uneven, path to recovery. Aggregate output, according to the initial estimate, was up in the third quarter by a seasonally adjusted 1% from the spring quarter, in which it had picked up by ½%. Growth of 4½% on the year was achieved. It is worth noting that, although the figure was 6% higher than its nadir in the winter of 2009, it was still 3% below its cyclical peak in the first quarter of 2008. The good third-quarter result was supported by Japanese domestic demand. Foreign trade, by contrast, provided no net input. Household consumption, in particular, saw strong growth. This reflected, in some cases, front-loading effects as a result of the financial

1 If the sharp upward corrections for August and September are taken into account, employment grew by a total of 0.9 million since the beginning of the year, or an average of 87,000 persons per month.

Are structural dislocations preventing a more rapid recovery of the US labour market?

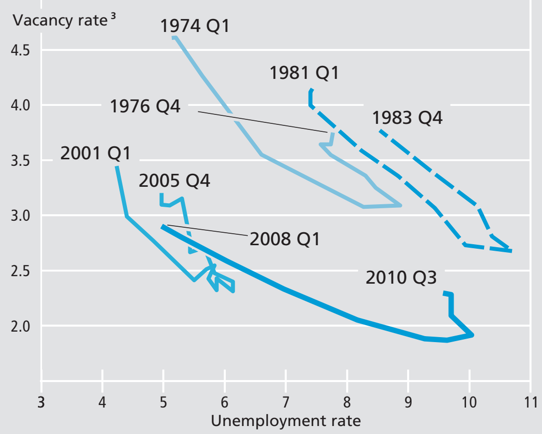
The recovery of the US labour market has failed to pick up steam thus far and is thus likely to have been a drag on the upturn in household consumption and, ultimately, also on aggregate output growth in comparison with earlier periods of expansion.[1] At 9.6%, the US unemployment rate was only ½ percentage point below its peak one year previously. The sluggish recovery of the labour market is frequently attributed to an increase in structural unemployment, which – so the reasoning goes – came about, in terms of both region and industry, mainly as a result of problems in the real estate market.

Proponents of this theory point, in particular, to a clear rise in vacancies in recent quarters which they claim has not been matched by a decline in unemployment. They believe this indicates that businesses are having difficulty finding suitable candidates from the pool of unemployed workers and expect a mismatch of this nature between labour supply and demand to be demonstrated by an outward shift in the Beveridge curve, which depicts the equilibrium between vacancies and unemployment in the labour market. By contrast, cyclical fluctuations would be illustrated by a movement along a given Beveridge curve.

One empirical problem in this regard is that the Bureau of Labor Statistics' (BLS) time series for the number of vacancies, on which such argumentation is usually based, only dates back to the end of 2000.[2] It is therefore virtually impossible to paint a typical picture of cyclical developments. Barnichon and Figura (2010) have constructed a composite indicator for the number of vacancies, which can be used to compare employment across cycles.[3] This shows that, in incipient phases of recovery, the Beveridge curve is by no means stable but regularly moves counter-clockwise. This is due to the time-lag between advertising a vacancy and filling it, which means that the number of vacancies at the start of a recovery phase initially rises faster than unemployment can fall before the momentum adjusts accordingly.[4]

Beveridge curves for selected periods

As a percentage, seasonally adjusted, quarterly



The inflection observed in the Beveridge curve, in and of itself, does not necessarily indicate an unusually high level of structural friction in the US labour market at present. However, the surrounding dataset does not appear to confirm the mismatch hypothesis of late. The number of vacancies is still low; in relation to the sum of payroll employment and vacancies, it amounted to 2.2% in September, still short of the low from the previous cycle. Nor are businesses complaining about a shortage of qualified applicants. In a regular survey of small businesses conducted, 28% of respondents in October 2010 indicated that few or no qualified applicants were replying to vacancy advertisements, compared with 46% in October 2007. Firms citing employee qualifications as the single most important problem at present even fell to a historic low of 3%.[5]

A rise in unemployment caused primarily by adjustment problems in the real estate market should also lead to a wider dispersion of relevant labour market variables broken down either by region or industry. However, this has not been observed. The (weighted) standard deviation of unemployment rates across all 50 states (and the District of Columbia) may have gone up sharply in the recent recession, yet it should not be forgotten that the level of unemployment also soared. Thus, the coefficient of variation – the ratio of the standard deviation to the national unemployment rate – does not show an exceptional rise for the most recent recession. According to this measure of dispersion, regional shifts are only gradual and occur primarily in phases of expansion.[6] In past years, the dispersion was on an upward trend, albeit starting from a very low level.

1 See Deutsche Bundesbank, The current economic upturn in the United States in comparison with earlier phases of recovery, Monthly Report, August 2010, pp 18-19. — **2** Job Openings and Labor Turnover Survey (JOLTS). — **3** This analysis uses Barnichon and Figura's composite help-wanted index for the period from 1995 to 2006. Figures for the current end have been determined using an estimate based on JOLTS data. The Conference Board's help-wanted advertising index has been used for the period prior to 1995. The resulting index was then converted into the number of vacancies using JOLTS data and set against the sum of (non-farm) payroll employment and vacancies to calculate a ratio. See R Barnichon and A Figura (2010), Building a Composite Help-Wanted Index, forthcoming in Economics Letters. —

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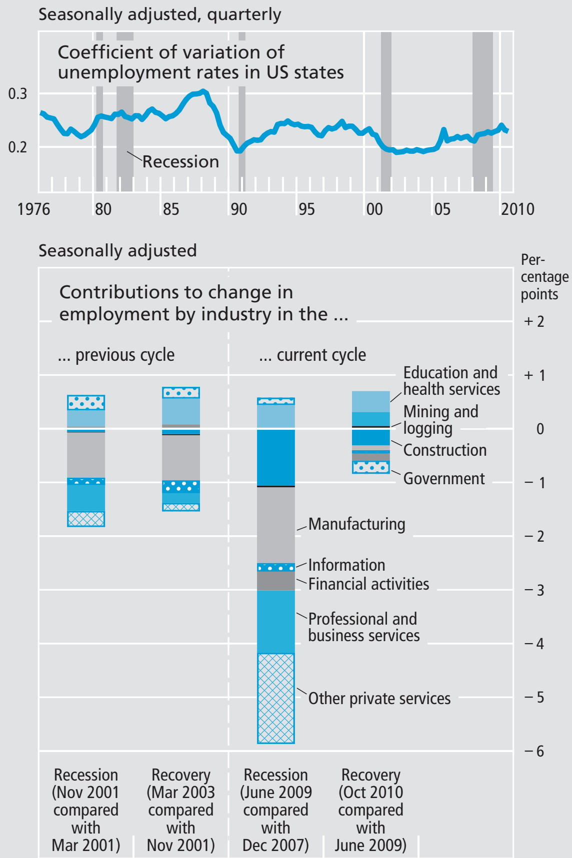
In the case of a pronounced structural change across industries, one would expect job cuts during the recession to be concentrated on a small number of industries and for these cuts to then continue at a similar pace during a period of overall economic recovery. This situation arose at the beginning of the millennium following the end of the New Economy boom when the manufacturing sector and some service occupations were forced to undergo a painful process of adjustment. Manufacturing alone contributed ¾ percentage point to the total fall in employment of 1¼% during the 2001 recession. In the first 16 months of the subsequent overall economic recovery, a period that has been used for purposes of comparison with the current situation, 1.1 million jobs were lost, which is just as many as during the downturn. In the information industry, almost twice as many jobs were cut.

By comparison, the sharp drop in overall employment during the last recession (5¼%) was not just much more severe but also affected an extremely large number of industries. In addition to construction and manufacturing, jobs were axed in large numbers in many private sector service occupations. Moreover – unlike the situation at the beginning of the millennium – there is a major difference in the figures recorded in the various industries prior to and after the cyclical low. On balance, construction continued to shed jobs between June 2009 and October 2010; however, this came to a halt at the end of the period under review. Sharp cuts during the recession may mean that the necessary adjustments in this industry have already been made. The situation in financial services, where employment had proved to be relatively robust, also appears to have stabilised over the past few months. In other sectors, particularly manufacturing, there has been a trend towards adding jobs since the beginning of the year. Overall, private sector (non-farm) employment in October 2010 was ¼% higher than in June 2009 when the recession ended. In the previous cycle, similar growth was not recorded until May 2004 – 30 months after the end of the economic downturn. Notably, however, the government sector – unlike in earlier phases of recovery – is currently exerting a negative impact on the labour market upswing, in particular owing to the tense financial situation of local governments.

All in all, there is much to suggest that the demand for labour has had a major impact on employment growth over the past few years.[7] Extensive job cuts during the recession were exceptionally broadly based, in terms of both region and industry, and – unlike the previous "jobless" recovery – employment levels stabilised rather promptly in many areas once aggregate demand had begun to recover. Moreover, the concern that unemployment – which, initially, was to a large extent cyclically induced – might evolve into structurally entrenched underemployment does not necessarily follow from the latest developments on the labour market, either.

Labour market indicators for the significance of structural change by region and industry



4 See B Hansen (1970), Excess Demand, Unemployment, Vacancies, and Wages, Quarterly Journal of Economics, Vol 84, No 1, pp 1-23, as well as O J Blanchard and P Diamond (1989), The Beveridge Curve, Brookings Papers on Economic Activity, Vol 1989, No 1, pp 1-60. — **5** See National Federation of Independent Business (NFIB), Small Business Economic Trends, November 2010. — **6** A temporary jump in autumn 2005 is due to the devastation, mainly in the state of Louisiana, caused by hurricanes Katrina and Rita. — **7** See R Barnichon and A Figura (2010), What Drives Movements in the Unemployment Rate? A Decomposition of the Beveridge Curve, Board of Governors of the Federal Reserve System, Finance and Economics Discussion Series, No 48.

incentives to purchase fuel-efficient cars that ended in September, which means that the coming quarters are likely to witness a countermovement of sorts. The improved situation in the labour market is also likely to have provided a perceptible boost to economic activity. The unemployment rate fell from 5.3% in June to 5.0% in September. Private residential investment continued its roller-coaster ride. Households sharply stepped up their spending on construction in the summer after having curbed it significantly a quarter earlier. Commercial investment remained on a steep upward path. Inventory movements, moreover, made a slightly positive contribution to growth, whereas public-sector demand continued to contract.

Consumer prices continued to fall in the summer months. Year-on-year consumer price inflation narrowed only slightly from -0.7% in June to -0.6% in September. Excluding energy and food, the rate remained unchanged in September at -1.5%.

United Kingdom

Strong cyclical recovery of UK economy continued in summer

The UK economy, which had already seen real GDP grow by a seasonally adjusted 1¼% in the spring, continued its cyclical upturn in the third quarter, growing at a rate of ¾%. This represents an increase of 2¾% from the sharply depressed level of a year earlier. However, this was still nearly 4% below its cyclical peak in 2008. One key reason for the growth of activity being somewhat slower than in the spring was – seen from the output side – that growth in the manufacturing industry was down by nearly one-half, to just over ½%. Another was that, in the light of the expiring weather-related catch-up effects, growth in the construction sector likewise slowed down noticeably in the summer; however, at +4%, it remained strong. Gross value added in the services sector maintained its vigour (+½%). However, the cyclical upturn does not appear to have had a lasting impact on the labour market just yet. Although the standardised unemployment rate, which in the United Kingdom is published with a considerable delay, was, at 7.7% in July, somewhat lower than its peak at the beginning of the year, the number of applicants for unemployment benefits went back up slightly in the summer months. Consumer price inflation had increased slightly further as this report went to press; in October, headline inflation stood at 3.2% and core inflation was reported at 2.7%.

New EU member states

Aggregate economic growth once again quite high

Economic output in the new EU member states (EU-8), having already gone up by a seasonally adjusted 1% on the period in the second quarter, is likely to have experienced a further significant rise in the summer. One indication of this is that the industrial output of the entire group of countries once again rose strongly, by 3¼%. Admittedly, the industrial production of most of these countries still fell well short of pre-crisis levels; in Bulgaria it was off by as much as 17¾%. The labour market continued to ease slightly, in a trend that had begun in most countries in the spring. The aggregate unemployment rate for this entire area fell from 9.7% to 9.5% in the third quarter. Consumer price inflation averaged 3.4% in the July-October period, which was perceptibly higher than in the second quarter. A VAT increase in Romania at mid-year was one of the key factors in this development.

Macroeconomic trends in the euro area

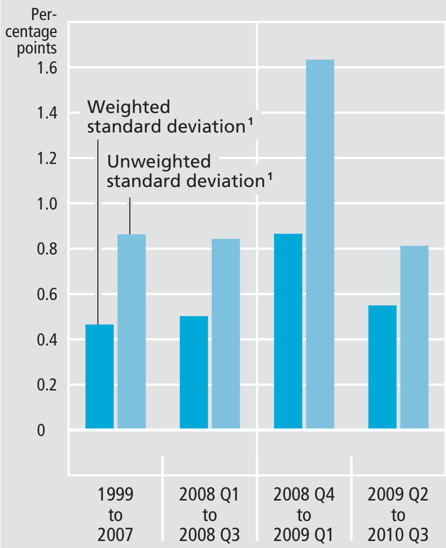
Growth continued in summer months but at visibly more moderate pace

Following strong growth in spring 2010, the euro area maintained its upswing in the summer months at a much more moderate pace. The seasonally adjusted period-on-period growth of real GDP dropped by virtually one-half to just under ½% according to Eurostat's flash estimate. This slowdown, for one thing, represents a return to normality: the very good spring result was overstated by special factors, such as weather-related catch-up effects in construction. Another factor was the relative paucity of stimuli from world trade after the midpoint of the year; in terms of real cross-border goods transactions, it rose after seasonal adjustment by only 1¼% in July-August from the spring quarter. In addition, the expansionary effects of government economic stimulus packages have probably either dwindled or expired altogether. Aggregate output in the euro area in the third quarter was still 3¼% below its cyclical peak in early 2008, which, according to the latest IMF forecast, is not likely to be reattained until sometime in 2012 at the earliest.

Cyclical divide in the euro area

GDP growth in the euro area was strongly supported by Germany in the third quarter as well. Seasonally adjusted growth in France (+½%) and Italy (+¼%) was once again below that of Germany (+¾%), yet the gap was no longer quite as large as in the spring. Momentum remained sluggish in the peripheral countries. Economic output in Portugal rose in the summer in lockstep with the euro area as a whole; however, in Spain, it stagnated following sluggish growth in the first two quarters. Aggregate output in Greece dropped by 1% from the already depressed level of a period earlier. (No third-quarter GDP results for Ireland are available yet.) Structural adjustment processes, such as in construction or the financial sector, and increased efforts by governments to consolidate public budgets, the primary aim of which is to regain lost financial market confidence as quickly as possible, are the main reasons for the underperformance of the peripheral countries. On the whole, however, the heterogeneity within the euro area with

Heterogeneity of euro-area growth



Source: Eurostat and Bundesbank calculations. — 1 Standard deviation of the seasonally adjusted quarterly growth rates of GDP for the euro-area member states; average values for the periods given.

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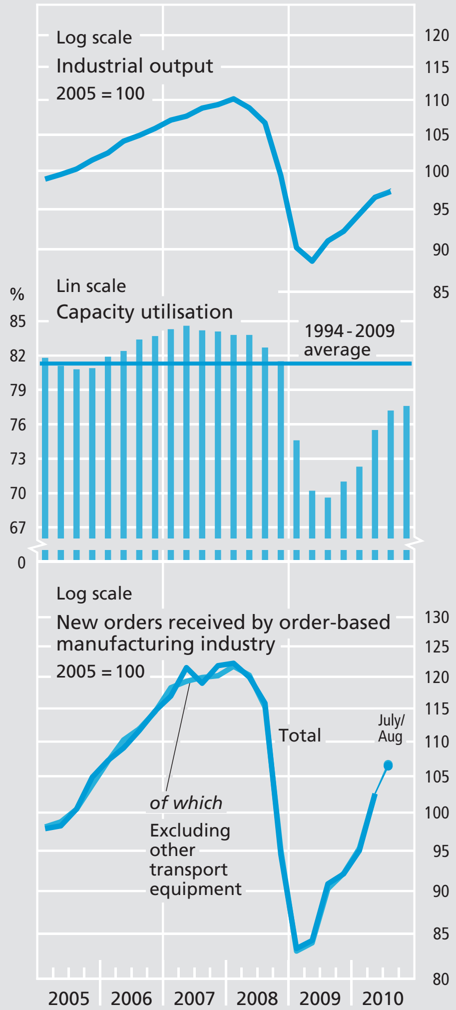
Selected indicators of industrial activity in the euro area

Seasonally adjusted, quarterly



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regard to growth since the beginning of the upswing in spring 2009 – measured in terms of both the weighted and unweighted standard deviation – corresponds roughly to the 1999-2007 average. The hierarchy, though, has changed considerably. The growth rates of some formerly fast-growing peripheral countries have now fallen below the euro-area average, while Germany has assumed the function of economic locomotive.

Continued upward trend in industrial activity

Industrial activity contributed much less to aggregate euro-area growth in the summer quarter. After adjustment for seasonal and calendar variations, output was up by ¾% from the second quarter, in which it had climbed by 2¼%. Whereas the production of capital goods surged (+2½%), manufacturers of intermediate goods reported only slight growth (+½%). Consumer goods output remained unchanged, and energy production was down by ½%. This slower industrial growth is consistent with the fact that the rise in capacity utilisation in the July-October period was much lower than in the preceding three-month periods since the beginning of the economic recovery. The gap compared with its long-term average was still very wide at last report; it was relatively narrow in Germany but mostly very pronounced in the peripheral countries. Euro-area industrial activity is likely to keep pointing upwards in the last quarter of the year as well. New orders received by industry were up in July-August by 3¾% from their second-quarter levels; this increase amounts to 4% excluding other transport equipment, in which large orders are more frequent. Sentiment in the industrial sector has improved recently too.

Growth not yet broadly supported by demand

Whereas household consumption in the peripheral countries was hampered by the continued economic slump and tax increases as part of the necessary measures to consolidate public budgets, the rest of the euro area saw consumption increase. In the euro area as a whole, real retail spending was ½% higher than in the second quarter. Car sales, which had slumped by a total of 15% in the first two quarters following the expiry of the car scrappage schemes, stabilised at around the same level as in the spring. The picture is mixed for investment. Whereas the sharp increase in the production of capital goods indicates continuing brisk growth in investment in machinery and equipment, construction output in July-August was 2% lower than in the second quarter, which was characterised by catch-up effects. Exports of goods to non-euro-area countries once again formed a key pillar of the economy; the July-August average in real terms surpassed a distinctly elevated spring level by 1½%. Real imports of goods, at 1¼%, did not pick up quite as sharply.

Labour market situation remains difficult

The situation in the euro-area labour market has stabilised, at best, but not improved. On average over the summer months, the number of unemployed, at 15.9 million, stood virtually still at the previous quarter's level, and unemployment held steady at 10.0% after seasonal adjustment. However, this obscures major differences among the various countries. While unemployment was on the decline in Germany, Italy, Austria, Portugal and Finland, it was on the rise above all in Spain and Ireland but also in Belgium. Euro-area employment in the second quarter – more recent figures are not available – was level with its figure for autumn 2009. Average unit wage costs in the euro area fell slightly (-¼%) after remaining unchanged in the first quarter.

Moderate rise in consumer prices

Consumer price inflation in the euro area eased up somewhat in the summer quarter. At a seasonally adjusted 0.4% on the period, it was muted on the whole, despite the rise in VAT rates in various member states (Finland, Ireland, Portugal and Spain). This was mainly because, due to the appreciating euro and the continued decline in quarterly averages of crude oil prices, energy prices did not rise any further. Food prices, however, continued their ascent. The prices of other goods (excluding energy and food) rose once again after seasonal adjustment, especially services. The aforementioned increases in indirect taxes may have been a contributory factor in this development. Year-on-year headline HICP inflation was up from +1.4% in June to +1.9% in October.

Euro-area consumer prices

Year-on-year percentage change

Item	2010 Q1	Q2	Q3
HICP, total	1.1	1.5	1.7
of which			
Energy	4.8	8.1	7.3
Unprocessed food	– 0.8	0.7	2.3
Processed food	0.6	0.8	0.9
Industrial goods	0.1	0.3	0.5
Services	1.5	1.2	1.4

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