Global and European setting

World economic activity

Slight increase in global growth in the first quarter

In the first quarter of 2013, real global gross domestic product (GDP) is likely to have expanded at a somewhat faster pace than in the previous quarters. This was chiefly because the industrial countries distinctly stepped up their aggregate output, which had practically stagnated in the last quarter of 2012. However, China and other major emerging market economies were unable to maintain the strong momentum they had built up in autumn. All in all, the underlying cyclical trend shown by the global economy last quarter remained rather subdued.

Industrial countries back on growth track overall

Among the major industrial countries, the USA and Japan, in particular, significantly increased their growth rates. Economic output in the UK likewise had an upward tendency following a period of negative growth. The more favourable economic developments in these three countries were due, for example, to a decrease in the importance of special factors which had constrained growth during the autumn quarter. The euro area saw its cyclical downturn continue, but the quarter-on-quarter contraction was significantly less pronounced than in the last quarter of 2012. This was largely due to the fact that the German economy grew slightly after contracting considerably. Real GDP in the United States, Japan, the United Kingdom and the euro area taken together, for which initial provisional data are available, was just under ½% higher than its level of the autumn quarter after seasonal adjustment and ½% higher year-on-year.

No further cyclical improvement likely in spring

The available leading indicators signal that the economy is unlikely to gain additional traction during the current quarter. The perceptible increase in the global Purchasing Managers' Index for manufacturing at the start of the year gave way to a significant decline in April, putting the index only barely above the expansion threshold. The index for the services sector reveals that growth remains sound but is less dynamic. This is borne out by the fact that, following a distinct improvement in January and February, survey indicators for business sentiment in Europe's industrial countries have mostly fallen again. Global economic growth is likely to be rather muted in the second quarter despite the fact that the sharp drop in crude oil prices is boosting purchasing power in consumer countries.

Further slight downward revision of IMF forecast

In light of the fairly subdued global economic trend, in its April spring forecast, the IMF once again revised the global growth estimate for 2013 downwards somewhat from the January forecast by -0.2 percentage point to 3.3%. An increase of 4.0% is still expected in 2014. Among the advanced economies, the outlook for the euro area and the USA was assessed somewhat less favourably. The downward revision for the USA was justified on the grounds of the automatic spending cuts which started on 1 March 2013. By contrast, the forecasts for both years were revised upwards slightly to 1.6% and 1.4% respectively for Japan; this was mainly due to Japan's more expansionary economic policy. Growth expectations for the group of emerging market economies were also scaled back slightly for 2013. The outlook for real global trade was assessed somewhat more cautiously again this year; an increase of 3.6% is now expected, to be followed, however, by growth of 5.3% in 2014.

Commodity prices reflect cyclical fluctuations

The change in the velocity of the cycle in the global economy has also affected prices in the international commodity markets. The considerable increase in the price of industrial commodities on average over the winter months compared to the previous quarter is therefore likely to have been due to the initially elevated levels of demand; the price of Brent crude oil also rose perceptibly. By contrast, the tensions on the food, beverages and tobacco markets

World market prices for crude oil, industrial commodities and food, beverages and tobacco

US dollar basis, 2010 = 100, monthly averages, log scale

Sources: Thomson Reuters and HWWI. • Average of 1 to 10 May or 1 to 15 May 2013 (crude oil).
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eased further as crop prospects improved. However, in light of fresh concerns about the economy, prices for industrial commodities and crude oil have fallen markedly again since mid-February. As this report went to press, the price of a barrel of Brent stood at US$101½, at times having even slipped below the US$100 mark, compared with US$117 three months previously. Prices on the futures market did not fall as sharply as the spot price, causing the discounts on Brent futures to shrink noticeably.

Consumer price inflation down further

The further decrease in consumer price inflation in the industrial countries is due not least to the recent decline in the price of crude oil. At 1.4% in March, the Consumer Price Index for this group of countries recorded its smallest year-on-year increase since November 2010, while energy prices were barely any higher than twelve months previously. In a comparison of quarterly averages, the year-on-year rate of inflation for the entire basket of consumer goods fell from 1.8% in autumn 2012 to 1.5% in winter 2013. The corresponding rate for the basket of goods excluding energy and food remained unchanged at +1.4%, however.

Selected emerging market economies

Slightly slower growth in China

According to a preliminary estimate by the National Bureau of Statistics, real GDP growth in China weakened slightly in the first quarter of 2013. The year-on-year figure rose by 7¾% compared with +8% in the final quarter of 2012, spelling an end to the faster growth rates observed in the autumn following a period of moderate growth lasting just under two years. Because exports appear to have picked up in recent months, the decreasing pace of aggregate growth may be attributable to a slowdown in domestic demand.[1] Fixed investment may have expanded somewhat more slowly. In addition, there are signs of a flatter upward trend in consumption; this is the result of reduced expenditure on luxury items as a result of the new government's anti-corruption campaign. Another factor to consider is that wage growth, which has been exceptionally strong for the last few years (see box on pages 13 to 15), has recently eased slightly. Although consumer price inflation rose to 2.4% in the first quarter, this still represented a fairly low level.

India on flat expansion path

In India, real gross value added, which the Indian authorities use as the most important measure of aggregate output, expanded in the fourth quarter of 2012 by 4½% year-on-year. Once again, the growth rate was lower than in the previous quarter. Although no national accounts data are available so far, the indicators appear to point to a certain pick-up in growth. However, the production of capital goods has

1 However, when interpreting the latest Chinese foreign trade data, it must be considered that the strong increases in exports to Hong Kong and Taiwan cannot be confirmed by these countries' import statistics. The Chinese customs authorities have announced an investigation of allegations of fraudulent declarations.

The development of labour costs in China and their impact on consumer prices in the industrial countries

According to various empirical studies, the availability of cheap imports of finished products from the emerging market economies brought about by their increasing integration into the international division of labour has dampened inflation rates in the advanced economies, seen in isolation.[1] However, the wage cost advantage of many emerging market economies appears to have shrunk recently. In China, in particular, there is mounting evidence that labour costs in the manufacturing sector have been rising considerably for some years now. One major pillar of China's export-oriented industrial sector, which is located predominantly in coastal regions, is made up by the army of migrant workers from rural regions, estimated to number over 200 million. They are often low-skilled and occupy the lower rungs of China's wage scale. Surveys of migrant labourers show that, between 2008 and 2012, their monthly earnings have gone up by a little more than 50% in real terms.

The strong wage growth in China, especially in the low-wage sector, is possibly due to a structural shift in the balance of power on the Chinese labour market. The last few years have seen mounting complaints from enterprises about a dearth of labour, something which appears to be borne out by the relevant official statistics. One explanation for the shortage could be that the rural labour reserve, from which the rising demand for labour in Chinese cities had been covered in the past, has now been largely absorbed.[2] According to the official statistics, millions of people are still employed in agriculture in China but are often assumed to be in "hidden" unemployment and thus, in principle, available to other sectors of the economy. However, it must be borne in mind that a large percentage of labourers still living in rural areas are already older and therefore not entirely willing or able to make a living far from home as, say, an industrial worker.[3] Moreover, the official household registration system *(hukou)* also restricts rural dwellers' mobility by preventing migrants from officially relocating to cities and thus obtaining access to social welfare benefits and education services.

The wages of Chinese industrial labourers occasionally rose markedly in the past. However, for a long time, these wage increases, taking into account unit wage costs, were offset or even overcompensated for by a sharp rise in labour productivity. Given the accelerated wage growth in the past few years – possibly in conjunction with diminishing productivity gains – unit wage costs in China are likely to be on the rise now. Consistent with this picture, Chinese exports have become more expensive in the past few years. The price index for US imports from China calculated by the US Bureau of Labor Statistics (BLS) is often used to analyse Chinese export prices since China

1 An OECD study estimates that the direct effect of cheap imports from China and other Asian emerging market economies has been to reduce inflation in the euro area by an average of 0.3 percentage point per year from 2000 to 2005 and 0.1 percentage point per year in the United States (1996 to 2005). See N Pain, I Koske and M Sollie (2006), Globalisation and inflation in the OECD economies, OECD Working Paper 524.
2 The argument that a labour surplus is a drag on wage growth until the surplus has been completely absorbed is based on the "Lewis model". See W A Lewis (1954), Economic Development with Unlimited Supplies of Labour, The Manchester School 22(2), pp 139-191. The point at which a labour-rich economy becomes a labour-shortage economy is also known as the Lewis Turning Point. Examples of such a developmental process are Japan (which reached the Lewis Turning Point in the 1950s and 1960s) and South Korea (which got there in the 1980s).
3 See H Li, L Li, B Wu and Y Xiong (2012), The End of Cheap Chinese Labor, Journal of Economic Perspectives 26(4), pp 57-74.

Price index for US imports of goods from China

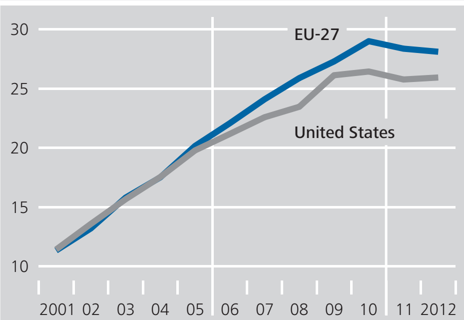
January 2007 = 100, monthly, log scale

Source: Bureau of Labor Statistics.
Deutsche Bundesbank

only reports a deflator based on unit values which, however, fails to take quality improvements into account.[4] According to the BLS indicator, published monthly since the end of 2003, Chinese export prices (denominated in US dollars) turned around and were rising after having fallen slightly up until early 2007. At a rate amounting to 7% in the past six years, prices for Chinese goods have not risen very much at all; moreover, this increase was lower than the increase in the prices of imports from other countries. It must also be borne in mind that not only labour costs but probably also

China's share of total imports of manufactured goods*

%



Sources: UN Comtrade, Eurostat (Comext) and Bundesbank calculations. * Sections 5 to 8 of the Standard International Trade Classification (SITC). For the EU-27, excluding intra-EU trade.
Deutsche Bundesbank

higher commodity prices and the nominal appreciation of the renminbi against the US dollar have contributed to an increase in the price of imports from China.[5]

The impact of the price of Chinese imported goods on inflation in the industrial countries is affected not only by the price effect in the narrower sense but also by whether, and how, the share of Chinese goods in total imports changes over time. Under the premise that Chinese goods, on average, are still much cheaper than those from other countries, a rising share of these goods in total imports – as has been seen in many advanced economies in the past – would, in and of itself, cause import prices to decline. However, the trend increase in the Chinese share of imports seems to have diminished, at least, with China's share of total European Union and US industrial goods imports more or less treading water in the past two years. This share has even been falling slightly for labour-intensive products, such as clothing, in particular. The "import share" effect therefore no longer appears to have been acting as a perceptible drag on import prices in Europe and the United States.

For the coming years, wage growth in China may be expected to remain high given the tight Chinese labour market, which will probably tend to be made worse by unfavourable demographic developments. Against this backdrop, the trend rise in the export prices of Chinese goods will probably continue. To what extent the higher prices of imported goods from China will pass through to consumer prices in the

4 Unit values show the price of exports as measured per weight unit or item.
5 See M Amiti and M Choi, Consumer Goods from China Are Getting More Expensive, September 2011, available online at http://libertystreeteconomics.newyorkfed.org/2011/09/consumer-goods-from-china-are-getting-more-expensive.html.

industrial nations will depend in key measure on the Chinese import content of private consumption. For the United States, at least, this share is apparently relatively small; a study put it at only 2% in 2010.[6] No data on the corresponding share for the euro area are available.

There are also potential indirect effects on consumer prices in industrial countries which need to be taken into account alongside those effects which pass through directly via the import price channel. There is evidence that growing competitive pressure from low-wage countries such as China acted in the past as a drag on the prices of domestically produced goods or imports from third countries as, for example, firms felt forced to offset higher costs by reducing their profit margins.[7] This price-stabilising effect could diminish in the future as Chinese export prices rise. Irrespective of this, continued robust economic growth in China could continue to drive up commodity prices, thereby causing inflation in the industrial countries to accelerate.

6 Although goods originating in China made up 2¾% of total consumer spending in 2010, a large share of value added for these goods – more than one-half – was produced in the United States, such as transportation or retail activities. The study also takes account of the fact that some products labelled "Made in USA" contain Chinese intermediate goods. However, Chinese intermediate inputs that go into imports from other countries are apparently not included. See G Hale and B Hobijn (2011), The U.S. Content of "Made in China", Federal Reserve Bank of San Francisco Economic Letter, No 25.
7 For more see S Eickmeier and M Kühnlenz (2013), China's Role in Global Inflation Dynamics, Deutsche Bundesbank Discussion Paper No 07, and B Mandel (2013), Chinese Exports and U.S. Import Prices, Federal Reserve Bank of New York Staff Reports No 591.

risen again of late. Over the next few months, investment demand is likely to gather more pace because the Indian central bank has cut its policy rate in three stages since the beginning of the year. The improved outlook for inflation was cited as the reason for the monetary easing. Although consumer price inflation has slowed down somewhat at the current end, it was nonetheless still very high in April at 9.4%.

Economic activity in Brazil also lacking momentum at beginning of year

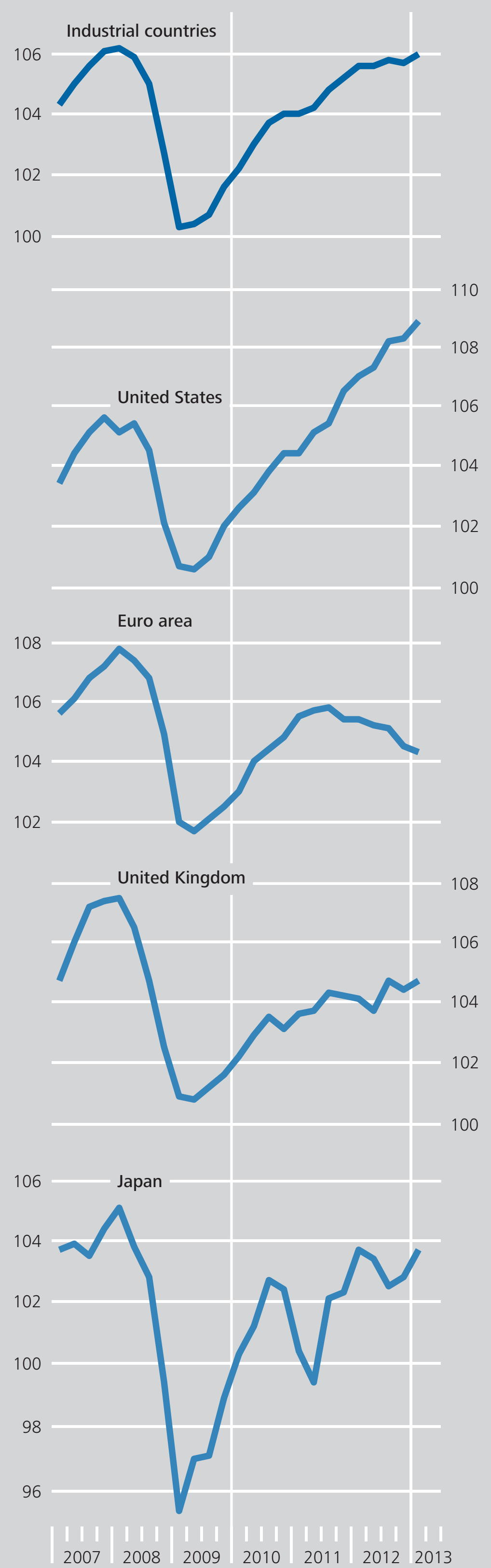
Real GDP in Brazil, which had expanded in the fourth quarter by a seasonally adjusted ½% quarter-on-quarter, is likely to have once again shown only relatively subdued growth in the past quarter. This estimate is based on the available monthly economic indicators, which point to slower private consumption growth and a reduction in real exports. The Brazilian central bank raised its policy rate slightly after taking a very loose monetary policy stance, especially last year. This step had become necessary because the inflation rate had risen to 6.6% in March, exceeding the upper end of the central bank's target corridor of 6.5%.

Russia still in midst of economic slump

In Russia, real GDP growth decelerated again year-on-year in the first quarter of 2013. According to an advance estimate by Russia's economic ministry, production expanded by 1% on the year, compared with +2% in the fourth quarter of 2012. The economic slump, which has already lasted a year and a half, is primarily due to a levelling-out in investment growth. This appears to be particularly pronounced in the commodity sector, which is facing greater competition in the international natural gas market as a result of rapidly growing shale gas production in other areas of the world. Furthermore, private consumption in Russia is also likely to have lost momentum at the beginning of the year. One reason for this may have been that higher levels of inflation curtailed households' real spending power. The rate of inflation rose from 6.6% in the fourth quarter of 2012 to 7.2% in the first quarter of 2013.

Aggregate output in industrial countries*

2005 = 100, seasonally adjusted, quarterly, log scale



Sources: National statistics, Eurostat and Bundesbank calculations. * The United States, euro area, United Kingdom and Japan.

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USA

Moderate growth rate resumed

After virtually stagnating in the final quarter of 2012, the US economy resumed its path of moderate growth in the winter months. Not taking into account seasonal and calendar effects, real GDP rose considerably on the period in the first quarter (+½%). This was chiefly due to the fact that inventory investment no longer significantly slowed aggregate growth, but encouraged it instead. As in the previous quarter – but in reverse – the economic momentum resulting from inventory changes was somewhat diminished by the calculated impact of foreign trade. While these rather technical countermovements were to be expected, it is remarkable that public sector demand once more significantly curbed the increase in real GDP. Because this effect can be broadly attributed to defence spending, it is not clear to what extent it is already a consequence of the automatic spending cuts (known as "sequestration"), half of which also affect other discretionary federal spending, and which only came into force at the beginning of March. The ongoing reduction in the country's overseas military presence may also have played a role.

Households bucking higher taxes and duties

On the other hand, the robustness of private domestic final demand, which expanded almost as strongly as in autumn in real terms (+¾%), should be highlighted. Although neither industrial gross fixed capital formation nor spending on residential construction could maintain their pace of the previous quarter, household consumption grew at its strongest rate in two years. Given the extensive increases in social security contributions and taxes at the beginning of the year, this may seem surprising at first. However, the preceding cut in contribution rates was designed to be temporary right from the start. With households behaving in a forward-looking manner, this cut is therefore likely to have had only a moderate impact on consumption. In addition, the tax increases especially affected those on higher incomes whose consumption does not vary in close relation to their current earnings. On balance, the extensive fiscal measures reduced the household saving rate to its lowest level since the end of 2007. In the previous quarter, extraordinary dividends paid out in anticipation of the changes in tax legislation had significantly increased the saving rate. Households' propensity to consume was supported by the continued improvement in the labour market. The unemployment rate decreased slightly to 7.7% on average over the winter months. Furthermore, consumer price inflation fell. As measured by the consumer price index, headline inflation fell from 1.9% in autumn to 1.7% in winter. Excluding food and energy from the basket of goods, core inflation remained at 1.9%.

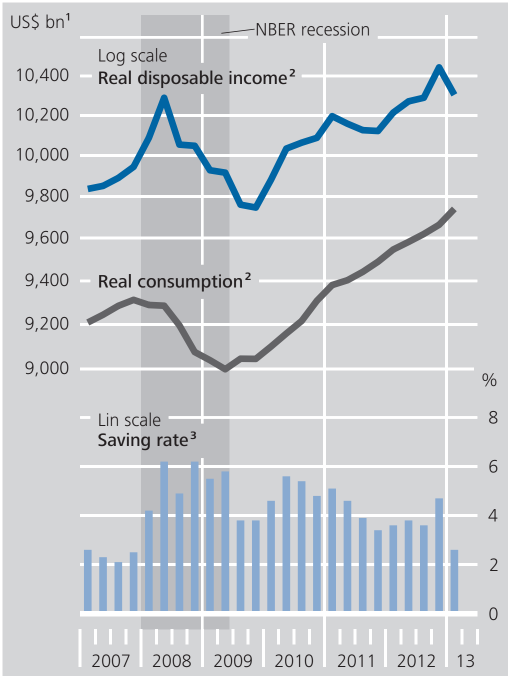
Japan

Cyclical weakness overcome

In Japan, real GDP was up by a seasonally adjusted +1% in the first quarter, its strongest quarter-on-quarter growth in a year. It was private households, whose consumption showed strong growth, which were particularly instrumental in overcoming the economic slump. Sales of motor vehicles, in particular, were driven not only by consumers' increased propensity to spend but also by the introduction of new models and the subsiding of dampening effects following the discontinuation of government incentives to buy cars. In addition, both private residential construction expenditure and public gross fixed capital formation continued to trend upwards, the latter driven by a variety of economic policy measures. By contrast, enterprises remained reluctant to invest, even though export-oriented firms were apparently already benefiting from the revival of key sales markets and the yen's depreciation. Real exports of goods and services skyrocketed; on the other hand, import growth was relatively sluggish given the dynamics of domestic demand and the low level of the previous quarter following the introduction of a tax on energy commodities. The labour market likewise swung onto a path of recovery. Although the unemployment rate was still unchanged on average over the winter months,

Household income, consumption and saving in the USA

Seasonally adjusted, quarterly



Source: Bureau of Economic Analysis. **1** At previous-year prices, reference year 2005. **2** Adjusted using the PCE deflator. **3** Saving as a percentage of disposable income.
Deutsche Bundesbank

there was distinct growth in employment. By contrast, the fight against the mild deflation has not yet seen any progress. The negative year-on-year consumer price index rate expanded in the first quarter to -0.6%, and core inflation, too, slid further into negative territory, at -0.8%.

United Kingdom

Return to rather flat growth path

Over the winter months, the UK economy recouped the distinct decline in its output over the last quarter of 2012. The rise in real GDP of ¼% on the period after seasonal adjustment was supported nearly entirely by services; the gross value added of this sector, which now makes up nearly three-quarters of aggregate output, rose by just over ½%. This sector thus surpassed its cyclical peak of the beginning of 2008 by ¾%; however, aggregate output was 2½% below pre-crisis levels. Whereas manufacturing output fell slightly once again, value added in mining surged in the winter months, owing mainly to a return to normalcy of oil and gas production following cutbacks in the previous quarter due to unscheduled maintenance works. The long-run trend in energy commodity production, however, is pointing downwards. By contrast, although the strong decline in construction output may well also reflect the impact of inclement weather, the UK Office for National Statistics, however, has determined that the impairment to GDP growth caused by the cold winter weather was probably only minimal. Consumers continued to face a bleak price climate. Inflation as measured by the Harmonised Index of Consumer Prices (HICP) averaged 2.8% over the winter months, and was thus even slightly higher than a quarter previously. The harmonised unemployment rate held firm at 7.7%.

New EU member states

Listless business activity

Business activity in the new EU member states (EU-7)[2] was listless in the first quarter. Although real GDP in Hungary grew again markedly on the period following a relatively long slide, the Polish economy continued to tread water while, in the Czech Republic, the recession intensified. The weak performance of construction output is likely to have been one of the key factors depressing aggregate output in the latter two economies. Given listless business activity in the region, the labour market situation has grown even worse in many places. In the reporting quarter, the aggregate unemployment rate, at a seasonally adjusted 9.7%, stood slightly above its previous peak of the winter of 2010. Inflation in the EU-7, as measured by the HICP, continued to trend downwards in the past few months and averaged 2.0% in the first quarter, its lowest level since the start of the time series in 1998.

Macroeconomic trends in the euro area

Euro-area economic slide slowed down

The recessionary trend in the euro area, which had accelerated significantly in the last quarter of 2012, diminished markedly in the first quarter of 2013. Aggregate output fell by a seasonally adjusted ¼% from the autumn quarter, in which it had dropped by just over ½%. Account also needs to be taken of the effects of the inclement weather in the northern part of the euro area, which prevented a better performance. Aggregate output in the euro area was 1% below its level of a year earlier. The slowdown of the slide was regionally quite broadly based, judging by provisional data for 13 of the 17 member states. An important contribution was made by the turnaround in Germany from a perceptible contraction to a slight growth of real GDP. Belgium likewise reported marginal GDP growth, whereas Slovakia posted a perceptible increase of +¼% after seasonal adjustment. Austria's output remained unchanged. GDP contracted moderately in the Netherlands, Finland, France and Portugal, and more strongly in Italy and Spain (each -½%), Estonia (-1%) and Cyprus (-1¼%). Greece's economy, for which no more seasonally adjusted data are being published until further notice, saw a contraction in output of 5¼% on the year, following -5¾% in autumn 2012. The renewed poor performance of the peripheral countries in the first quarter is due, for one thing, to the continuing adjustment processes; however, the easing of tensions in the financial markets following their intensification in the summer months has only just begun to be reflected in improved consumer and investor confidence. Another reason is that, in the first quarter, non-euro-area countries did not generate any meaningful expansionary stimuli which could have contributed to an improvement in business activity.

No cyclical turnaround in sight for spring quarter

Following a promising start to the year, the survey-based economic indicators for the euro area slumped again, indicating that the euro area was entering the second quarter on more of a rocky note. The Purchasing Managers' Index (PMI) for manufacturing remained perceptibly below the expansion threshold in April, especially the output component. Moreover,

2 This group comprises the non-euro-area countries that joined the EU in 2004 and 2007.

industrial confidence, as measured by a survey commissioned by the European Commission, sagged yet again, becoming further removed from its long-term average. Against this background, a major cyclical recovery should not be expected in the spring, even though the elimination of the adverse effects of inclement weather and possible catching-up effects will possibly have a slight positive effect on GDP.

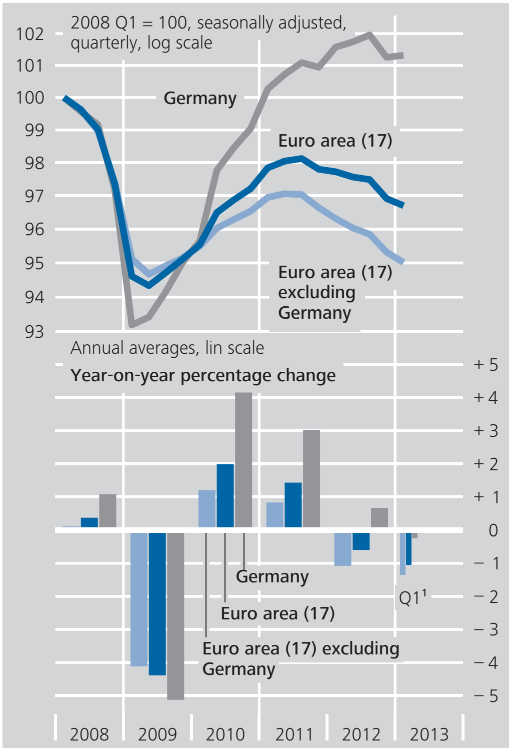
Construction output falling sharply but industrial output up slightly

In the first quarter, it was once again a sharp decline in construction output which acted as a drag on real GDP; contributory factors include not only the continuing adjustment process in this sector, too, but also – as mentioned earlier – the unusually long and severe winter north of the Alps. Construction output, averaged over the January to March period, dropped by no less than 3¼% from the autumn quarter, after seasonal adjustment. By contrast, industrial output in the first quarter of 2013 rose slightly on the period (+¼%) but was off its previous year's mark by 2½%. Broken down by category of goods, the euro area's production of durable goods and capital goods in the first quarter, after seasonal adjustment, was roughly on a par with the preceding three-month period, whereas that of non-durables and intermediate goods each fell by ¼%. By contrast, energy production rose by 1½% over the same period, owing above all to the extended period of frost; it was therefore the sole factor behind the rise in industrial output. Following a slight increase from October to January, capacity utilisation in the manufacturing industry remained unchanged in April, thus staying well below its long-term average.

Contraction of domestic demand abated

On the demand side, it was particularly weaker contraction of domestic demand which was probably responsible for the slide abating in the first quarter. Private consumption was marked anew by a drop in new car registrations – which fell by a seasonally adjusted 3% on the period and 11¼% on the year. On the other hand, real retail sales (excluding cars) rose moderately from their depressed level in the autumn period. Given that the output of capital goods remained unchanged, investment in

Real GDP in the euro area



1 Year-on-year rate calculated using seasonally adjusted data.
Deutsche Bundesbank

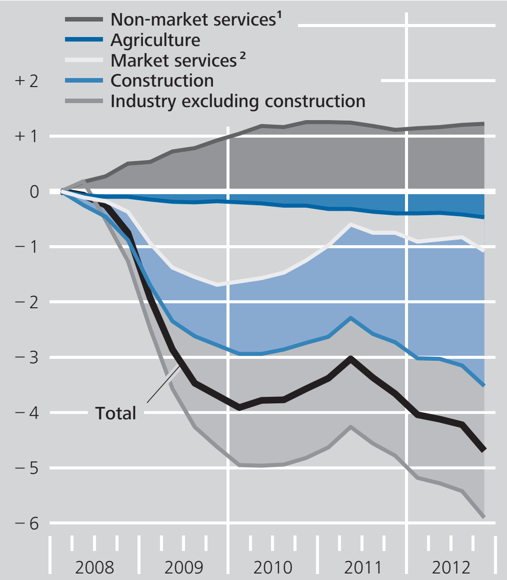
new machinery and equipment could have stabilised. The structural and cyclical slide in construction investment is likely to have been overstated somewhat by the adverse impact of the inclement weather. Nominal goods exports to non-euro-area countries rose by a seasonally adjusted ½% in January-February compared with the fourth quarter, whereas imports fell by ¼%. This indicates that net exports made a marginal positive contribution to growth.

Labour market situation deteriorated further

The euro-area labour market continued to be affected by the recession in the 2012 Q4 and 2013 Q1 period, with employment in the euro area falling in the fourth quarter of 2012 by around 1.1 million persons on the year, implying a seasonally adjusted decline of 0.3% compared with the summer period. Euro-area employment fell by 0.6% on average for 2012, and was even 3.1% below its pre-crisis level of late. Although employment rose, in some cases quite strongly, in Germany, Belgium and Austria, there were considerable job losses in the peripheral countries

Euro-area employment by sector

Change in the number of persons in work compared to 2008 Q1 in millions; seasonally adjusted



Source: ECB. **1** NACE Rev 2, sections O-U, of which public administration and defence, education, human health and social work activities, and arts, entertainment and recreation. **2** NACE Rev 2, sections G-N, of which trade, transportation and storage, accomodation and food service activities, information and communication, financial and insurance activities, real estate activities, and professional, scientific and technical activities.

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and France. Downsizing was particularly severe in Spain, which has seen net job losses of 3.5 million since the outbreak of the crisis in 2008, compared with 4.7 million jobs lost in the entire euro area. It must be noted in this context, however, that the euro-area aggregate includes the 1.7 million new jobs added in Austria, Belgium and Germany. The standardised unemployment figure rose to 19.2 million people by March 2013, after seasonal adjustment; this was 1.8 million more than a year earlier. The seasonally adjusted unemployment rate stood at 12.1%. Relatively few members of the labour force were affected by unemployment in Austria and Germany, where the rates were 4.7% and 5.4% respectively. In Ireland and Cyprus, by contrast, somewhat more than 14% of the labour force were without work; the figure was 17.5% in Portugal, and more than one-quarter of the labour force in Greece and Spain were unemployed.

Moderate rise in consumer prices

Euro-area consumer price inflation did not diminish any further in the first quarter of 2013. As in autumn 2012, it was a seasonally adjusted 0.4% quarter-on-quarter. Whereas energy prices rose quite considerably, unprocessed food price inflation diminished. The prices of (non-energy) industrial goods and services continued to rise at a moderate pace. Annual HICP inflation fell once again, from 2.3% to 1.9%, and thus approached the annualised quarterly rate of 1.6%. In April, annual HICP inflation fell distinctly from 1.7% to 1.2%. Factors included a sharp drop in energy prices – as a result of low crude oil prices – and the early Easter holiday. For those reasons, the prices of services, in particular, were raised in March already, unlike a year earlier. This increased the year-on-year inflation rate in March and reduced it in April.

Government involvement currently quite substantial

Government measures are currently having a considerable impact on consumer price developments. Given distressed public budgets, the rates of indirect taxes and the prices of government services in the crisis countries, in particular, were increased, in some cases considerably. In the euro area as a whole, such measures are likely to have contributed more than ½ percentage point to the annual inflation rate in the first quarter. Since they are not of any major relevance in Germany, and also because measures which accelerate upward price pressures were countered by dampening measures such as the abolition of the surgery visit charge, this also affects euro-area inflation differentials. Whereas German headline inflation, at 1.8%, was even slightly lower than in the euro area as a whole, a different picture emerges if government involvement is factored out of the equation. Market-driven inflation in Germany – which also takes into account the bias caused by the hotel services sub-index[3] – is likely to have been stronger than in most other countries in the first quarter of 2013. The macroeconomic adjustments currently under way in the euro area would therefore increasingly show up in consumer prices, too.

3 See Deutsche Bundesbank, The contribution of the accommodation services sub-index to explaining the current deviations between CPI and HICP inflation rates, Monthly Report, April 2013, p 7.