Global and European setting

World economic activity

Global economic growth up only slightly …

Following a weak start to the year, global economic growth is likely to have picked up only sluggishly in the second quarter of 2015. The recovering US economy was a major reason why a marginal uptick was possible. Although the adjustment process in the oil industry persisted, the US economy managed to shake off other exceptional constraints. In China, the previously observed deceleration in macroeconomic growth did not continue in the second quarter. However, the risk of a "hard landing" is still high. The Chinese central bank's decision to devalue the renminbi against the US dollar may be regarded as a sign of this uncertainty. The recovery in the euro area continued despite the political turmoil in Greece. Elsewhere, however, the economic picture became gloomier. Russia's economy remained mired in recession, and the same could possibly apply to Brazil. As this report went to press, no official data on Japanese economic output for the second quarter were out yet. Following the sharp increase in the first quarter, however, a renewed cyclical setback in the quarter ended cannot be ruled out. All things considered, the pace of global economic expansion remained moderate compared with earlier rates.

… and industrial sector and global trade still exceptionally weak

The exceptionally weak performance of the industrial sector and global trade, which lasted into the second quarter, needs to be taken into account. According to data provided by the Dutch Centraal Planbureau, global industrial output in April and May held steady following slight growth in the first quarter. The volume of global goods trade even fell perceptibly once again. However, the decline was regionally broadly based, after having been heavily concentrated on Asian emerging market economies (EMEs) in the first quarter. It is noteworthy that, following both the severe earthquake in Japan in 2011 and the euro-area recession in 2012, the volume of global trade did not fall in similar measure. The current weakness is probably due primarily to developments in China and other EMEs, which are also associated with a longer-term growth slowdown.[1]

Moderate global economic growth expected to continue

The monetary policy stances grew even more accommodative over the past few months in a number of countries, not least China. This, combined with other factors – the positive effects of lower oil prices are frequently cited – will support the continuation of the moderate recovery of the world economy. Steady growth, however, is predicated on the absence of major disruptions, such as those caused by the financial markets. The macroeconomic consequences of the Greek crisis are likely to be largely confined to that country's economy.

IMF growth forecast for 2015 reduced somewhat

Consistent with such considerations, the International Monetary Fund (IMF) has revised its growth forecast from the April issue of the World Economic Outlook only slightly. As part of the usual July update, it even confirmed the predicted rise in global economic activity of 3.8% (purchasing power parity-weighted) for 2016. However, for the current year it was forced to reduce its growth forecast to 3.3%. In April, the IMF had still been expecting growth for 2015 to tick up slightly to 3.5% following annual actual growth rates of 3.4% for the 2012 to 2014 period. The recent downward revision fits into a pattern of downward revisions which have already been observed in the past few years.[2] This latest move was due mainly to the weak gross domestic product (GDP) performance of some advanced economies in the first quarter of 2015 which the IMF had not expected in April. The United States was a particular case in point. The IMF

1 See Deutsche Bundesbank, Slowdown in growth in the emerging market economies, Monthly Report, July 2015, pp 15-31.
2 See Deutsche Bundesbank, The global growth forecast revisions in recent years, Monthly Report, November 2014, pp 12-15.

Global industrial output and world trade

2010 = 100, seasonally adjusted, quarterly, log scale

Source: Centraal Planbureau. **1** OECD excluding Chile, Czech Republic, Hungary, Israel, Mexico, Poland, South Korea and Turkey, but including Cyprus.

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now expects real US GDP growth of only 2.5% this year, following forecasts of 3.1% in April and as much as 3.6% in January. By contrast, the projected increase in euro-area economic activity for 2015 has remained unchanged (+1.5%), with the projection for 2016 (+1.7%) up slightly from April. Looking at the group of EMEs and developing countries, the revisions were likewise confined within a narrow corridor, although some economies are showing conspicuous revisions in opposite directions. The IMF's assessment of the outlook for Russia is no longer quite so unfavourable, whereas for Latin America it has once again slashed its projections.

Industrial commodity and crude oil prices down

Following a relatively calm second quarter, the prices of key commodities fell considerably in July. Concerns about the persisting global industrial slump are likely to have played a role. The HWWI index for industrial commodities (on a US dollar basis) in July stood 6% below its April level, with the prices of non-ferrous metals falling particularly sharply. In the same month, the spot price of a barrel of Brent crude dropped back below the US$60 mark. The markets were under the spell of evidence indicating that capacity adjustments in North American oil production were potentially nearing an end. Agreement reached in international negotiations with Iran will probably have had a similar impact. At last report, the spot price of Brent was US$49¼ per barrel. Forward deliveries were once again commanding greater premiums than three months previously. Unlike industrial commodities and crude oil, food and beverages temporarily became more expensive towards the middle of the year, when crop prospects took a turn for the worse owing to the impact of inclement weather.

Industrial countries' consumer price inflation low throughout reporting period

Consumer prices in the industrial countries trended back upwards as the second quarter progressed. A role was played by energy prices, which in June were well above their nadir of January. Nonetheless, annual price inflation for the entire basket of consumer goods still fluctuated around the zero line. It is likely to perceptibly move away from this barrier only towards the end of 2015, once the preceding fall in energy prices has gradually exited the comparison and if no renewed markdowns occur. Excluding energy and food, the annual increase in the price of the basket of consumer goods remained restrained. Core inflation, at +1.1% in June, was even minimally lower than in March.

Selected emerging market economies

Stabilisation of growth in China

In China, the previously observed moderation of growth did not continue in the second quarter. Real GDP growth stood at 7% on the year, which was just as high as at the beginning of the year. Whereas the industrial and construction sectors have continued to cool off, some services sectors grew at a faster pace. Over the past few weeks, prices on the Chinese equity markets plummeted dramatically, prompting the government to take a raft of measures to stabilise the markets. However, the price slide is not expected to have much of an impact on the real economy. This does not alter the fact, however, that the Chinese economy is probably still facing considerable downside risk from another direction: specifically, the high level of domestic borrowing.[3] Consumer price inflation remained moderate in the second quarter, averaging 1.4%. In May and June, the Chinese central bank reduced its deposit and lending rates, which are the rates of policy concern to commercial banks. Following the central bank's announcement in mid-August to make the exchange rate mechanism more flexible, the renminbi depreciated considerably against the US dollar.

Revival of economic activity in India

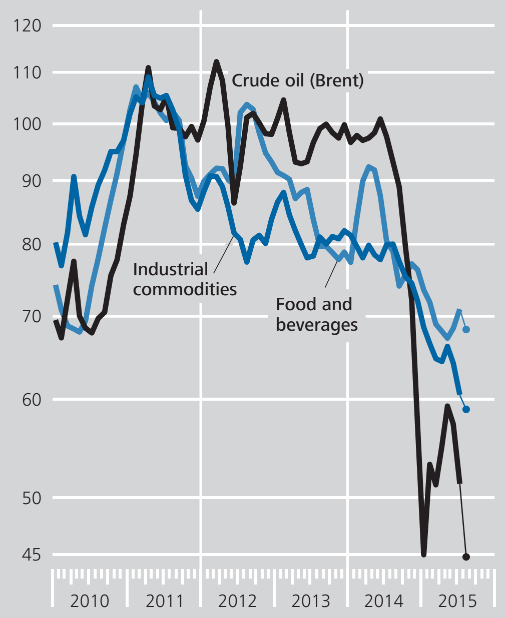
In the first quarter, the most recent for which data from the national statistics office are available, India's economy appears to have picked up steam. According to the official estimate, real GDP was up by 7½% on the year following growth of 6½% in the closing quarter of 2014. Manufacturing was the main driver of aggregate economic acceleration. Inflation, averaging 5.1% in the second quarter, remained low by long-term standards. This was due mainly to the dampening of pressure on food prices, which occupy a large share of the basket of goods. The Reserve Bank of India subsequently reduced its policy rate once again in early June.

Economic output contracting in Brazil

The available indicators for the quarter ended are pointing to a renewed contraction of Brazilian economic output. Real GDP had already fallen by ¼% in the first quarter after seasonal adjustment. Whereas exports rose strongly, household consumption and investment fell off considerably. Falling commodity prices and extensive structural problems are besetting the Brazilian economy. The economic reforms promised by the government are thus far being implemented only very slowly. Subsidies for public goods were cut in order to consolidate public budgets. This caused consumer price inflation to go up further despite the recessionary tendencies. Inflation in the second quarter averaged 8.5%, thus surpassing the upper limit of the central bank's inflation target band of 6.5%. Against that background, the policy rate was raised once again in the past few months and now stands at 14¼%.

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

US dollar basis, 2011 = 100, monthly averages, log scale



Sources: Thomson Reuters and HWWI. • Latest figures: average of 1 to 7 August 2015, or 1 to 12 August 2015 for crude oil.

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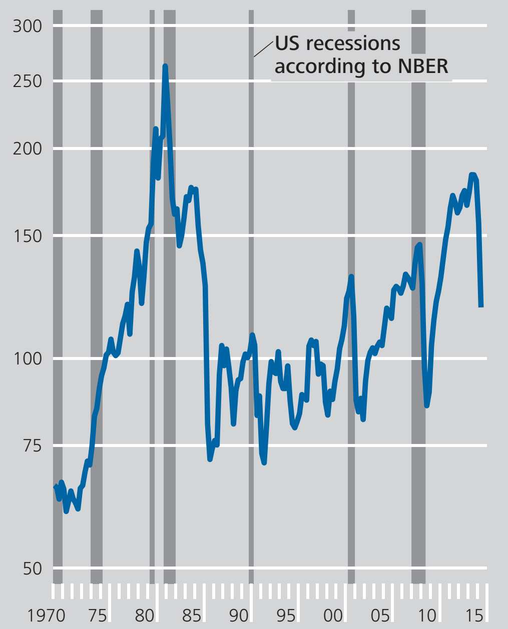
Russian economy in sustained slump

The recession into which Russia was driven by falling oil prices and international sanctions continued in the quarter ended. According to a preliminary estimate by the Russian Federal State Statistics Service, economic output contracted by 4½% on the year following a decline of 2¼% in the first quarter. Manufacturing and construction saw activity decline especially drastically. Imports of goods on a US dollar basis were down by nearly 40% in terms of value from the same period a year earlier. Consumer price inflation, though down slightly from its early-year record highs, still averaged

3 See Deutsche Bundesbank, The international ripple effects of a severe economic slowdown in China, Monthly Report, July 2015, pp 29-30.

Real gross fixed investment* by the US oil industry

2009 = 100, seasonally adjusted, quarterly, log scale



Source: Bundesbank calculations based on data from the Bureau of Economic Analysis. * Approximated aggregate of real commercial investment in structures used for petroleum and natural gas exploration and of real commercial investment in mining and oilfield machinery.
Deutsche Bundesbank

just under 16% in the second quarter. Against this background, the central bank gradually cut its policy rate to 11%.

United States

Return to moderate expansionary path

US GDP rebounded considerably in the second quarter. According to an initial official estimate, and after seasonal adjustment, real GDP was up by just over ½% from the previous quarter, for which, following a revision, weak growth is now being reported. Statistically, the acceleration compared with the first quarter is attributable primarily to net exports, which ceased to strongly dampen GDP growth. Exports of goods and services grew faster than imports in the second quarter. In addition, household consumption resumed rapid growth, having probably been dampened by inclement weather conditions in the preceding quarter.[4] However, private gross fixed capital formation rose only marginally as this report went to press. Although real expenditure for private residential investment continued to tend considerably upwards, commercial construction activity was scaled back somewhat. The oil and gas industries even slumped at an accelerated pace. Investment in machinery and equipment was cut back more sharply than commercial construction expenditure. In the second quarter the US economy, on the whole, returned to its moderate expansionary path, which is now somewhat flatter following the latest comprehensive revision of the national accounts.[5] The upturn is expected to persist in the second half of the year because, amongst other things, the adjustments in the oil industry which are weighing on economic activity are likely to expire. Unemployment in July held steady at its cyclical low (5.3%). Measured in terms of the consumer price index excluding energy and food, annual percentage inflation remained moderate in June (+1.8%).

Japan

Economic recovery still unstable

As this report went to press, GDP figures for the second quarter had not yet been published. However, what the available information does indicate is that Japan's economic recovery appears to have remained unstable. The latest reported first-quarter figures showed seasonally and price-adjusted quarterly GDP growth of 1%. This was driven primarily by a sharp slowdown in destocking, the continuation of which seems doubtful. In fact, a renewed cyclical setback in the quarter ended cannot be ruled out. The perceptible cutback in industrial production compared with the first quarter would be consistent with this picture. On the demand side, this may be associated with a decline in external transactions; real goods exports, according to the monthly indicators, fell perceptibly faster than imports. In addition,

4 See Deutsche Bundesbank, The effect of one-off factors on real GDP growth in the USA in the first quarter of 2015, Monthly Report, May 2015, pp 15-18.
5 The growth rate for 2013, in particular, was revised downward, from 2.2% to 1.5%.

household consumption is likely to have sputtered, whereas private gross fixed capital formation has probably continued its growth. Irrespective of the fluctuations in the monthly and quarterly figures, the Japanese economy's underlying muted upward trend has probably remained intact. This is also indicated by the decline in the unemployment rate to 3.3% on average over the second quarter, its lowest rate since 1997. With the disappearance of the VAT effect from the annual comparison, consumer price inflation slid from 2.3% in March to 0.4% in June. Excluding energy and food from the basket of goods, the decline in inflation was somewhat less pronounced.

United Kingdom

Increased oil production and higher growth in the services sector

The UK economy again expanded with more momentum in the second quarter. According to a preliminary estimate, seasonally adjusted real GDP rose by ¾% from the first quarter, in which it had grown by just under ½%. A key reason for this was a surge in oil and gas production, which might have been linked to changes in tax legislation. Excluding this sector, GDP growth was only a little higher than in the previous quarter, partly because the manufacturing sector's output even shrank and construction output continued to hover at 2014's third-quarter level.[6] By contrast, growth accelerated in the services sector, which not only generates the greatest portion of value added for the UK economy, but is also the only large segment in which output surpasses the pre-crisis level. The recovery in the labour market nonetheless faltered. National figures put the standardised unemployment rate at 5.6% in the second quarter, marginally up from the previous quarter. Greater wage growth could have played a role in this. On the other hand, consumer price inflation remained weak. Looking at the Harmonised Index of Consumer Prices (HICP), the UK basket of goods excluding energy and unprocessed food saw a year-on-year price rise of just 0.6% in June.

New EU member states

Economic upward trend continuing

In the new EU member states (EU-6)[7] as a group, economic output continued to expand at a somewhat more moderate pace in the second quarter, following substantial growth in the first quarter, when real GDP had risen by 1¼% on the period after seasonal adjustment. In four out of the five EU-6 states that have so far published initial seasonally adjusted figures for GDP growth, aggregate output recorded a continued distinct increase from the previous period. In Romania, however, economic activity was practically at a standstill at the end of the period under review. Data for Croatia are not yet available. As before, the key engine of the economy was domestic demand, especially private consumption, which benefited from the improved labour market situation and increased purchasing power coupled with falling prices. The unemployment rate for this group of countries as a whole was a seasonally adjusted 7.8% in the second quarter, significantly down from the prior-year figure of 8.7%. After recording its lowest rate in the first quarter (-0.8%), HICP inflation for the EU-6 remained in negative territory in the second quarter, too (-0.2%). The individual rates ranged from -0.7% in Poland and +0.4% in Hungary and Romania through to +0.7% in the Czech Republic. Given the persistently weak price trend, the central banks of Romania and Hungary once again cut their policy rates.

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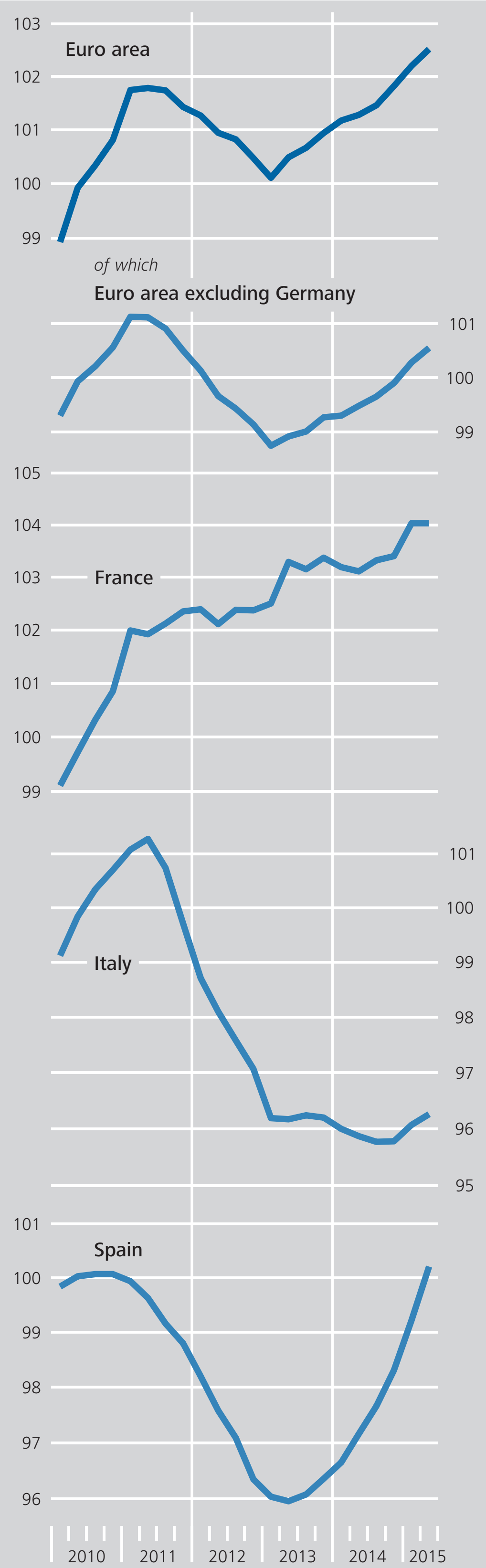
6 An earlier GDP estimate had already revised the assessment of the pronounced bout of weakness in the construction sector, which had previously been reported for 2014 Q4 and 2015 Q1, to indicate stagnation. A significant reason for this was the use of new deflators, after the original underlying construction price and cost indices were suspended and the interim estimates had proven to be uncertain. The current procedure is merely an interim solution. See K Davies (2015), Impact of Interim Solution for OPIs on ONS Outputs, Office for National Statistics, available from http://www.ons.gov.uk.
7 This group comprises the non-euro-area countries that have joined the EU since 2004.

Aggregate output in the euro area

Real GDP, 2010 = 100, seasonally adjusted, quarterly, log scale



Source: Eurostat.
Deutsche Bundesbank

Macroeconomic trends in the euro area

Economic recovery continues

The economic recovery in the euro area continued in the second quarter, largely unaffected by events in Greece. According to Eurostat's first official estimate, second-quarter real GDP grew by a seasonally adjusted ¼% on the period, exceeding the prior-year figure by 1¼%. The statistical information available thus far indicates that the economic picture was predominantly positive, both by country and by sector and expenditure components. Divergent developments were only seen in a small number of areas.

Further expansion of economic output in most member states

Economic growth was once again especially strong in Spain, climbing 1% from the preceding quarter. GDP rose by ½% in Germany and by ¼% in Italy. In France, aggregate economic activity stagnated, after having picked up significantly in the first quarter. Most other economies generated fairly robust growth. In the case of the Netherlands, which had seen a sharp lift in economic output in the preceding 12 months, the recent slowdown in GDP growth did not signal a cyclical reversal, but rather stemmed from the court-ordered cutbacks in gas production after the Groningen region experienced a spate of small earthquakes. With a ½% drop in GDP in Finland, the recession caused by industrial structural change and the slump in business with Russia continued for the fourth consecutive quarter. In Greece, real GDP went up by ¾% in the second quarter, after seasonal adjustment. However, the intensifying sovereign debt crisis is likely to place heavy strains on the Greek economy in the current quarter (see the box on pages 17 to 19).

Sluggish energy production

On the output side, slightly positive impetus emanated from the manufacturing sector in the second quarter. Production of capital goods increased markedly, for instance, and production of intermediate goods also rose, albeit on a smaller scale. While output of consumer goods stagnated, energy production declined considerably, partly owing to the forced cut-

The economic situation and outlook in Greece

Greece's economic situation is likely to have deteriorated considerably in mid-2015 after previously appearing to have stabilised and having even shown signs of a gradual recovery. Given the heightened uncertainty surrounding the course of government, the considerable loss of consumer and business confidence and the capital flight this sparked, the forced closure of banks at the end of June as well as the introduction of capital controls, greater aggregate losses can be expected for 2015 as a whole. The European Commission recently estimated a decline in real gross domestic product (GDP) of between 2% and 4%.[1]

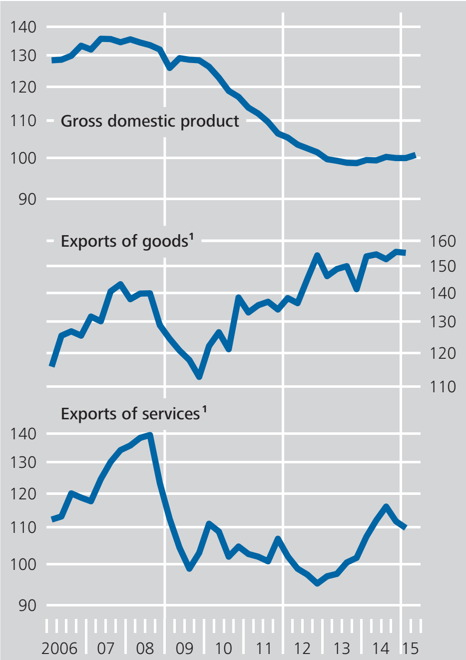
It was not until early 2014 that Greece ended the economic downturn which began in 2008 and caused economic output to sink by one-quarter and the number of employed persons to drop by one-fifth. In the second half of 2013, the economy seemed to be gradually stabilising at a low level, primarily on account of foreign trade, which profited from the improved price competitiveness in particular. The real exchange rate based on unit labour costs, for example, had improved in the previous five years by almost one-fifth in total, and the loss of competitiveness that had accumulated between 2001 and 2009, measured in terms of this rate, was largely corrected. The turnaround in foreign trade was particularly pronounced in the case of exports of services in 2013, which is consistent with the steep rise in the number of tourists and in income generated in the tourism sector. Exports of goods had already recovered in the preceding years. In other sectors, the decline in industrial output and drop in retail sales were at least halted. The current account recorded a small surplus in 2013, and the government budget ended with a positive primary balance according to the programme definition of 1% of GDP.[2] Four years earlier, these accounts both accrued deficits of more than 10% of GDP.

Following its stabilisation, the Greek economy was starting to show signs of a gradual recovery in 2014. As in 2013, this was mainly due to increased export activity fuelled by the improved competitive position and the economic recovery in the euro area. Exports of services rose by almost 13% in real terms, and exports of goods saw growth of 6%. At the same time, private consumption also recovered somewhat, and gross fixed capital formation increased markedly. Although construction expenditure continued to decline, investment in machinery and equipment – starting from a very low base – picked up. The assistance provided by the EU is also likely to have played a major part in this. For example, Greece's mandatory own contribution to projects financed by EU structural funds was lowered from an average of 22% before the economic crisis began to 5%; this considerably expanded the investment options available to the financially constrained country. On the output side, the upswing was concentrated on wholesale and retail trade and on accommodation and restaurant services, whose real value added increased by almost 7% on the year. In addition, industrial activity picked up over the course of the year, and the number of

1 See European Commission, Assessment of the Commission, in liaison with the ECB, of the request for stability support in the form of an ESM loan, 10 July 2015, p 7.
2 The primary balance calculated in accordance with ESA 2010 was -8.3% of GDP in 2013. However, the balance reported here (calculated in accordance with the programme definition) is adjusted, in particular, for expenditure in connection with bank recapitalisation. See also the box on pp 62-66.

Real GDP, exports of goods and services in Greece

2000 Q1 = 100, log scale



Source: Eurostat. **1** As defined in the national accounts.
Deutsche Bundesbank

However, a stable policy regime would have been essential in order for the recovery process to continue in this way. But by the second half of 2014, uncertainty about the economic policy course had already gained momentum.[4] The heightened loss of confidence was accompanied by a slowdown in growth. Exports, in particular, were hit hard; private consumption remained virtually unchanged. Gross fixed capital formation held up comparatively well. In addition, public consumption rose significantly in the first quarter with the implementation of a number of the new government's pre-election promises. The latest data show that real GDP stagnated in the first quarter of 2015 and, according to a flash estimate, grew by a seasonally adjusted 0.8% in the second quarter.[5] Additional tourism revenue is also likely to have played a major role. Industrial output, by contrast, fell by almost 4% after adjustment for seasonal variations.

employed persons also started to rise again. However, the economic improvement was fragile in that only parts of the economy were affected; in other industries, the situation stabilised at most, and the aggregate downward trajectory in prices persisted. Although real economic output rose by 0.8% in 2014, GDP fell by 1.8% at current prices.

The beginnings of positive growth in 2014 offered hope that the economic recovery would continue to firm up in 2015. It was thought that the economy would receive additional stimulus from the devaluation of the euro and the persistent drop in the price of oil. At the beginning of 2015, the European Commission had therefore forecast GDP growth of 2.5% to be driven mainly by exports and an upswing in investment.[3]

The introduction of capital controls and the closure of banks after the expiry without replacement of the second assistance programme at the end of June are likely to have significantly impaired further aggregate growth. July surveys indicate that the assessment of the current situation and the expectations of consumers and enterprises have deteriorated considerably. Restrictions on payment transactions are likely to negatively impact domestic and foreign trade. Owing to difficulties in acquiring intermediate goods, industrial productive activity is expected to have slowed again. Hardly any

3 See European Commission (2015), European Economic Forecast, Winter 2015, pp 75-76.
4 See the box on pp 62-66.
5 With the publication of the flash estimate for GDP growth in the second quarter, the preceding quarters were revised slightly upwards. According to this estimate, economic output in the fourth quarter of 2014 and the first quarter of 2015 did not contract, as previously reported, but remained virtually unchanged. Details on the composition of the growth are not yet available.

new investment projects appear to have been initiated. The effects on tourism, which got off to a very good start in the new year, remain to be seen. As in the previous year, bookings had increased and prices had recovered further. However, the crisis in July may have negatively affected the current season.

How quickly Greece is able to halt and reverse the renewed recessionary development is likely to depend on more than just the resumption of payments. It is essential that confidence in the continued improvement of the general economic climate is restored by way of credible reform efforts. Some foundations for this have been laid in recent weeks with the agreement in principle reached between Greece and its creditors on the country's return to the path of reform. However, uncertainty continues to surround the political support for the necessary and far-reaching reform process.

With favourable developments and the commencement of a third assistance programme[6] this summer, the economic situation should gradually improve. Although the starting conditions for a successful new programme have significantly worsened this year, it should be taken into account that substantial adjustments have already been made to wages and prices, public finances and the current account balance in recent years. If payments and lending operations gradually return to normal, this should eliminate the interruptions in production that these adjustments have caused. Greece should then start to feel even more of the positive effects from the tourism industry and the extensive investment projects being financed by European structural funds.

Confidence indicators in Greece

Monthly, balances of positive and negative survey responses

Source: European Commission.
Deutsche Bundesbank

6 See the box on pp 62-66.

Economic indicators for the euro area

Seasonally and calendar-adjusted, quarterly averages, log scale

Source: Eurostat.
Deutsche Bundesbank

backs in gas production in the Netherlands. As a consequence, overall industrial production even remained somewhat down from the previous period in seasonally adjusted terms. This is consistent with the fact that industrial capacity utilisation could not be lifted between April and July, staying close to the multi-year average. In the construction sector, the available data show that economic output in April and May recorded a marginal seasonally adjusted decrease from the first quarter; the year of stagnation in this sector has not yet been overcome.

Growth stimulus mainly from private consumption and exports

On the expenditure side, the recovery in the euro area is being supported in equal measure by external and internal demand. Private consumption is benefiting from the stabilisation and gradual improvement of the labour market situation as well as from the low magnitude of price increases. In the second quarter, real retail sales recorded a seasonally adjusted increase of ¼% from the first quarter, exceeding the figure from one year earlier by 2%. In seasonally adjusted terms, new passenger car registrations built on the healthy result of the first quarter, growing by 7% year-on-year. Business investment was probably also a renewed source of growth stimulus, as suggested by the higher output of capital goods. After seasonal adjustment, the value of goods exports to non-euro-area countries climbed by 2½% in April-May as against the first-quarter average. Given an increase in export prices of just 1½%, this export success can be explained by a significant volume effect. The value of imports rose by 1¾% in April and May, but there was a price component of 2%. Adjusted for prices, imports of goods probably did not increase compared with the previous quarter.

Economic recovery expected to continue

Forward-looking economic indicators suggest that the economic recovery will continue into the third quarter. New orders in the industrial sector in May confirmed the higher figure of the previous month. The average of both months surpassed the first-quarter average by 2½%. The more current indicators of sentiment also point to sustained growth. In July, the composite Purchasing Managers' Index was still well inside expansion territory. The European Commission surveys, too, corroborate this robust assessment of the situation. The confidence indicators for industry and services even went up slightly in July – despite a drastic worsening of sentiment in Greece. However, consumer confidence recently subsided a little.

Slight improvement in the labour market; wage inflation strengthening

The gradual improvement in the labour market situation continued in the second quarter, albeit with reduced intensity. After seasonal adjustment, the unemployment rate declined by 0.1 percentage point from the first quarter to 11.1%, following decreases of 0.2 percentage point in each of the two preceding quarters. Unemployment abated slightly in most countries, although it rose somewhat in Finland, Austria and Italy.[8] In the first quarter, the

8 Data on unemployment in Greece are not yet available for the second quarter.

reduction in unemployment was accompanied by a low increase in employment. The number of persons in work rose by a seasonally adjusted 0.1% from the previous period, and by 0.8% on the year. In line with the brightened labour market situation, wage cost growth accelerated in the first quarter, reaching the still moderate level of 2.2% compared with the previous year.

Significant consumer price inflation underway, but year-on-year rates very low

Measured by the HICP in the euro area, and after seasonal adjustment, consumer prices in the second quarter of 2015 climbed by a fairly considerable 0.5% from the first quarter, following negative rates in the two preceding quarters. This was again mainly owing to higher fuel prices. But even when energy is excluded from the calculation, consumer price inflation continued to accelerate slightly from the previous quarter, to 0.3% after seasonal adjustment. The increase in price inflation was fairly evenly spread across food, services and other industrial goods (excluding energy). The annual rate of increase in the latter was positive for the first time since the third quarter of 2014, probably thanks in large part to the depreciation of the euro. Overall, too, annual HICP inflation moved into positive territory (+0.2%). Excluding energy, it rose to 0.8%, having stood at 0.6% in the three preceding quarters.

HICP excluding energy up in almost all countries

In almost all euro-area countries, annual HICP inflation excluding energy was higher in the second quarter than in the first. This primarily applies to the majority of the (former) programme countries. In most other member states, too, inflation excluding energy now appears to be back on a slight ascending trajectory. This development owes partly to the fact that, in the countries that were not hit as hard by the crisis, the decline in annual inflation in industrial goods prices was halted and recently reversed to become an upward drift. Services prices, on the other hand, have been moving sideways year-on-year for some time now.

Consumer prices no higher in July, mainly on account of energy

In July 2015, consumer prices in the euro area remained unchanged against June after seasonal adjustment, because the comparatively steep rise in other industrial goods and in services was offset by a drop in energy and food prices. Year-on-year inflation therefore held steady at 0.2% as well. Excluding energy and food, however, it rose by 0.2 percentage point to 1.0%.