Global and European setting

World economic activity

Global economic growth remains subdued

As in the final quarter of 2015, global economic output at the start of 2016 probably expanded at no more than a subdued pace, with clearer signs than before of a shift in expansionary forces. The emerging market economies appear to have emerged from last year's distinct lull to stabilise of late. For instance, efforts in China to jump-start the economy appear to be bearing initial fruit. In Russia, the recessionary tendencies apparently diminished. By contrast, economic growth in key advanced economies remained muted. This may well have been triggered in part by flat demand in the emerging market economies. However, domestic influences were also at play regarding the virtual stagnation of the US economy in the first quarter; nonetheless, the underlying upward tendency appears to have remained intact. During the first quarter, the upswing in the United Kingdom lost some steam, and the Japanese economic picture showed hardly any improvement. The euro area, by contrast, saw its economic recovery continue with increased momentum, boosted by mild winter weather.

Stabilisation of commodity prices a precondition for the world economy to gather strength

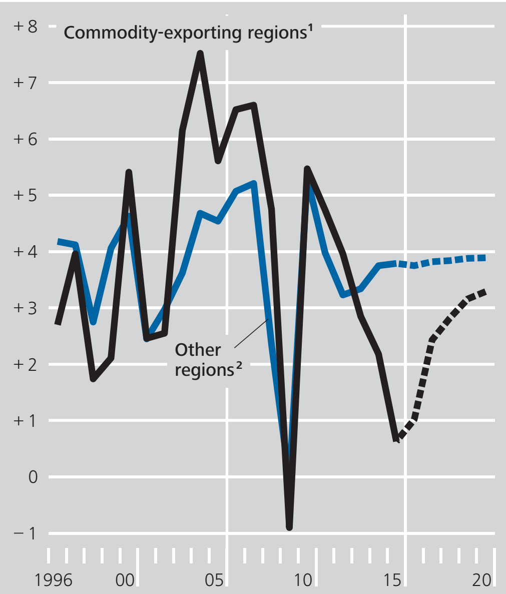
The slowdown in global economic growth last year was arithmetically attributable to commodity-exporting regions, which were forced to digest considerable adjustment costs as a result of the fall in prices of their key export goods.[1] Unsurprisingly, developments in the commodity markets in recent months have been regarded by many as a yardstick for the economic outlook, and not just for this group of countries. The latest stabilisation of commodity prices is paving the way for these export regions to return to normality and thus also for the world economy as a whole to gather strength.

IMF expects next to no further acceleration of global economic activity in 2016

A scenario of this kind underpins the staff projections in the World Economic Outlook, published by the International Monetary Fund (IMF) in April. The IMF's staff project that real gross domestic product (GDP) will bounce back in the Commonwealth of Independent States and Latin America in 2017, following two years of contraction. This turnaround is the key reason for the expected pick-up in global growth (calculated at purchasing power parities) from 3.2% this year to 3.5% in the coming year. The acceleration of global economic activity predicted for 2016 as late as this January has been delayed, which means that IMF staff had to once again make corrections to their earlier projection. These affected, for one thing, commodity-exporting economies, since the projections from the beginning of the year had still contained more favourable price assumptions. The projections for the industrial coun-

Economic growth by groups of countries*

Year-on-year percentage change in real GDP



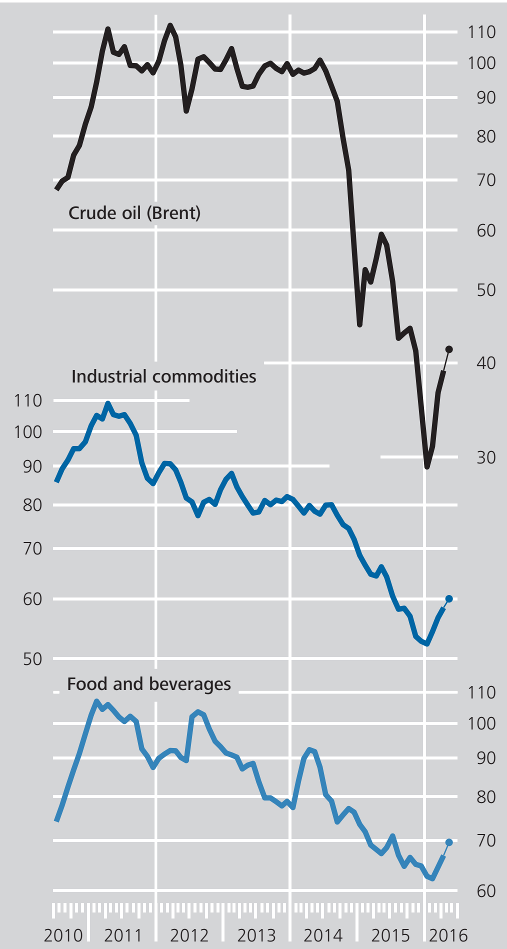
Sources: IMF World Economic Outlook (WEO April 2016) and Bundesbank calculations. * Based on the respective prior-year purchasing power parity weights. From 2016, IMF projections. **1** Commonwealth of Independent States, Latin America and the Caribbean, Middle East and North Africa (including Pakistan and Afghanistan) as well as Sub-Saharan Africa. **2** Advanced economies, Asian and European EMEs.

Deutsche Bundesbank

1 See Deutsche Bundesbank, The slowdown in global economic growth and the decline in commodity prices, Monthly Report, November 2015, pp 16-17.

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 6 May 2016, or 1 to 12 May 2016 for crude oil.
Deutsche Bundesbank

tries were reduced as well. The slump over the period spanning the fourth quarter of 2015 and the first quarter of 2016 dashed hopes of an immediately imminent acceleration of activity by this group of countries. Looking specifically at the United States, the current data might even force the IMF to revise its growth projections further downward for 2016. As for the world as a whole, this raises the question as to whether or not the repeated downward revisions to the projections in the past few years are due to a fundamental overstatement of the forces of growth.[2]

Commodity prices up, in some cases considerably

During the reporting period, the free-fall of commodity prices came to a halt on a broad scale. On a monthly average for April, the HWWI price index (on a US dollar basis) for food and beverages was up since January by over 6%, whereas its counterpart for industrial commodities rose by nearly 12%. Over the same period, the spot price of Brent crude oil climbed by as much as one-third. However, it was still down considerably on the year. At the end of the period under review, a barrel of Brent was quoting at US$47½. The prices for forward deliveries failed to keep pace with the increase in spot prices, causing forward premiums to decline considerably. It is entirely possible that the crude oil glut was no longer perceived as being quite so overwhelming. Talks between major oil-producing countries aimed at capping output, despite the initial absence of results, may have contributed to this perception. Visible, albeit slow progress in adjusting output in the United States and output shortfalls elsewhere also played a role.

Consumer price inflation somewhat stronger

At the consumer level, average energy prices for the first three months of 2016 were perceptibly lower than in the closing quarter of the preceding year. However, they had dropped considerably more sharply at the turn of 2014-15, narrowing their negative annual growth. It was primarily owing to this effect that inflation in the industrial countries picked up from +0.3% in the fourth quarter of 2015 to +0.7% in the first quarter of 2016. Core inflation, which excludes food and energy products, picked up only slightly, from +1.4% to +1.5%.

Selected emerging market economies

According to the official estimate, in China real GDP was up in the first quarter of 2016 by 6.7% on the year. The Chinese economy thus

2 See Deutsche Bundesbank, The global growth forecast revisions in recent years, Monthly Report, November 2014, pp 12-15.

Economic growth in China supported by revival of investment activity

largely maintained its growth rate from the final quarter of 2015.[3] Although no information is yet available on the expenditure-side components of growth as at the beginning of the year, the monthly indicators appear to show investment, which in the past year had only shown relatively weak growth, once again beginning to play a greater role. This is evinced, in particular, by strong growth in construction activity, which is attributable to an improvement – brought about largely by government stimulus measures – in the residential real estate market following a considerable slowdown in previous years. The attendant recovery of iron ore and steel prices helped weaken the deflationary tendencies at the producer level. The past few months have seen a perceptible increase in consumer price inflation, from 1.6% in December to 2.3% in March, for which a pronounced increase in the prices of various foodstuffs can be singled out as a reason. Core inflation, which excludes such goods as well as energy products, remained unchanged at 1.5% throughout the reporting period.

India's economy showing sustained strong growth

In the past quarter, India's economy is likely to have continued its rather strong growth. In the final quarter of 2015, the most recent for which quarterly national accounts data are available, real GDP was up by 7.3% on the year. The sharp rise in India's demand for oil is evidence that its economy is running briskly. Over the past year, this demand surged by just under 6%, according to an estimate by the International Energy Agency. In the first quarter of 2016, crude oil imports were even up by 13% on the year. However, owing to lower oil prices, the corresponding expenditure on imports was down sharply. Cheaper energy prices are a major reason why inflation – by India's standards – is muted; in the first quarter of the year, the inflation rate held steady at 5.3%.

Continuation of severe recession in Brazil

Brazil appeared to remain mired in a severe recession in the quarter just ended. An official GDP estimate was still lacking as this report went to press, but industrial output was once again reduced considerably after seasonal adjustment compared with the final quarter of 2015. This represents a fall of nearly 12% on the year. The decline in output of capital goods, by just under one-third, was particularly precipitous. The extreme political uncertainty can be singled out as a major cause of the collapse in demand for investment; it could even have worsened in the light of the latest escalation of the political crisis. Consumer price inflation fell slightly in the past few months from a high level, from 10.7% in December to 9.4% in March. It looks like the monetary policy inflation target will again be overshot by a considerable margin in the coming months. With that in mind, the central bank held its policy rate steady at 14.25%.

Russia's slide probably weakened

The Russian economy's slide seemed to have weakened as this report went to press. In the fourth quarter of 2015, real GDP was down by 3.8% on the year. In the first quarter of 2016, this gap narrowed, according to a government estimate, to 1.4%. Should the recent oil market recovery turn out to be sustainable, the economic contraction will probably cease by year's end. Oil price movements are an exceedingly important factor for the Russian economy, which is specialised in energy exports (see the box on pages 14 to 16). Consumer price inflation continued to subside in the past few months, with annual inflation declining from 12.9% in December 2015 to 7.3% in March 2016.

USA

Weak start to the year

The economic upturn in the United States slowed down further at the beginning of the year. According to an initial official estimate, seasonally adjusted real GDP was up by only 0.1% from the final quarter of 2015, in which muted growth of 0.3% had been registered.

3 Viewed over the period, however, economic activity weakened according to calculations by the National Bureau of Statistics of China. These calculations show that seasonally adjusted economic output was up by 1.1% from the final quarter of 2015, in which it had picked up by 1.5%.

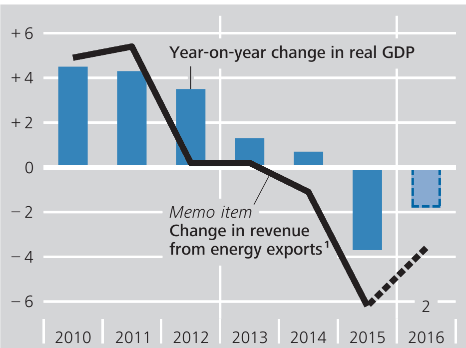
The economic crisis in Russia

Last year, the Russian economy slipped into a deep recession which is likely to resume this year. The economic crisis is probably due in part to the Ukraine conflict. In 2014 in particular, the geopolitical tensions associated with the conflict led to a massive rise in uncertainty. In addition, in the summer of 2014, Western states imposed economic sanctions on Russia which are still in place.[1] Russia responded with an embargo on the import of foodstuffs from the European Union, the United States and other countries, thus causing the price of comparable products on Russian markets to rise noticeably.

The fact that crude oil prices – including for the Russian brand, Urals – halved in US dollar terms from the middle of 2014 onwards is likely to have been of greater importance, however. Since then, the price of Russian natural gas has also fallen by a similar percentage. As one of the world's largest oil and gas producers, Russia depends on revenue from energy exports. From 2011 to 2014, annual revenue from energy exports averaged US$340 billion, equivalent to two-thirds of the total value of Russian exports of goods. Plummeting prices meant that revenue from the export of energy products shrank considerably in 2015; relative to Russia's gross domestic product (GDP) for the previous year, losses amounted to no less than 6%.

Economic growth in Russia

%



Sources: National statistics, IMF and Bundesbank calculations. **1** Year-on-year difference in relation to the nominal GDP in the previous year. **2** IMF forecast (GDP growth) and Bundesbank extrapolation based on data for 2016 Q1.

Deutsche Bundesbank

The state budget is a key channel through which the drop in energy prices has spilled over into the Russian economy as a whole. In 2014, export taxes and production levies on energy sources totalled RUB7.4 trillion, thus making up more than half of all central government revenue. Dwindling revenue receipts as a result of falling oil prices meant that total public expenditure had to be slashed by almost a tenth in real terms last year. Nonetheless, there was still a budget shortfall of 3½% of GDP at the end of the year, which was bridged mainly through withdrawals from the national reserve fund.

The Russian government's revenue losses would have been much greater still had the rouble not depreciated dramatically – almost in step with the oil price. However, the currency devaluation further fuelled inflation, which had already increased noticeably as a result of the ban on food imports. In March 2015, consumer price inflation peaked at 17%. The loss of purchasing power that this entailed forced Russian households to cut back their demand significantly. Overall, private consumption expenditure fell by just under 10% last year in real terms. Such a sharp contraction was

1 Sanctions include restrictions on the access of selected Russian banks, as well as defence and energy companies, to Western capital markets. They also encompass an embargo on the export of certain kinds of energy-related equipment and military goods (including dual-use items).

not seen even during the Russian crisis of 1998 or the global financial and economic crisis of 2009.

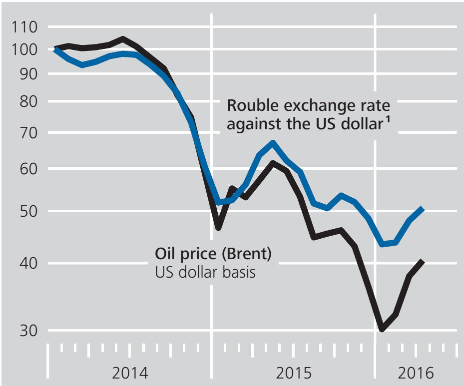
With Russian consumers keeping a tight hold on their purse strings, value added in manufacturing as well as in the various services sectors, first and foremost in the wholesale and retail trade, has suffered badly. Besides agriculture, the only industry to raise production perceptibly has been mining. Oil output even hit a post-Soviet high because oil companies were able to maintain investment thanks to sound profits (in rouble terms).[2] The robustness of these investments is likely to have been the key reason why aggregate gross fixed capital formation declined more moderately (7½%) than private consumption.

The slump in Russian domestic demand was accompanied by a dramatic decline in imports. In real terms, imports fell by no less than a quarter.[3] An important factor alongside the depreciation of the rouble may have been the Russian government's push to substitute imports with domestic production as part of a new development strategy.[4] By contrast, the embargo on the export of certain goods imposed by Western states and the countermeasures taken by Russia are likely to have been of lesser importance. At all events, Russian imports of goods from countries involved in the sanctions fell only slightly more sharply than imports from the rest of the world.[5]

Russian exports rose by just under 4% in real terms last year, primarily because the output of energy products was ramped up as mentioned above. Non-fuel exports shrank slightly according to an unofficial estimate.[6] Currency depreciation notwithstanding, Russian enterprises have evidently not yet been able to gain a stronger foothold on foreign markets. In terms of the

Oil price and rouble exchange rate

January 2014 = 100, monthly averages, log scale



Sources: Thomson Reuters Datastream and Russian central bank. **1** A decline indicates a depreciation of the rouble.
Deutsche Bundesbank

balance of trade, the strong curtailment of imports has, to a large extent, offset the price-related slump in export revenue. The Russian current account surplus, at US$70 billion, was actually slightly higher than in 2014.

The outlook for the Russian economy continues to hinge crucially on oil price developments. Although crude oil prices have picked up significantly in recent months, Russia's energy export revenue is forecast to drop perceptibly again in 2016 on an annual average. The government may even intensify its austerity policy as its reduced financial reserves mean that there is only

2 The fact that the oil price fall did not dent oil companies' profitability can be attributed not only to the depreciation of the rouble but also to particularities in the Russian tax system. See International Energy Agency, Russia robust through 2016, Oil Market Report, 13 November 2015, pp 27-28.
3 The sharp reduction in Russian imports also contributed to the weakness in world trade last year. See Deutsche Bundesbank, Recent trends in world trade in goods, Monthly Report, March 2016, pp 23-24.
4 The ban on food imports from the West mentioned earlier should certainly also be seen as part of this strategy.
5 Germany's revenue from exporting goods to Russia fell by a quarter in 2015. Adding lower income from exports of services and assets in Russia, Germany's losses amount to €9 billion.
6 See Gaidar Institute for Economic Policy, Russian Economic Developments No 4 2016, p 26.

limited scope to expand the budget deficit.[7] A potential removal of sanctions would probably only marginally improve the short-term prospects for Russia's economy as a whole. According to a World Bank estimate, economic growth would be merely 1 percentage point higher for a year in such a scenario.[8]

If the oil price does not rapidly return to its high level of the recent past, the Russian economy may be expected to experience only a weak recovery over the next few years – accompanied by subdued import growth.[9] It must, moreover, be borne in mind that potential growth has probably eased sharply in recent years. Even before the onset of the Ukraine conflict, unfavourable demographic trends and increasing state influence on economic activity had had an impact in this respect. As a final contributing factor, foreign direct investment in Russia has recently dried up almost completely – probably as a result of heightened political uncertainty. Such investment is, however, urgently needed, especially for the necessary diversification of the Russian economy. By contrast, Russia's strategy to strengthen its non-commodity sectors, ie import substitution, holds little promise of success in the long term.

7 At the end of 2015, the resources remaining in the national reserve fund totalled US$50 billion, which is approximately the size of the budget deficit recorded last year.
8 See World Bank, Russia Economic Report No 35, April 2016, p 32.
9 Based on the current IMF World Economic Outlook forecast, Russia's import volume will not be back at 2014 levels even by 2021, the end of the medium-term forecast horizon.

One reason for the renewed slowdown was the corporate sector's extreme reluctance to invest. In the oil industry, in particular, investment spending was once again slashed considerably.[4] Another braking factor was that, moreover, household consumption only grew sluggishly in the first quarter, with households' spending not growing fast enough to keep pace with income gains. This caused the saving ratio to climb somewhat to 5.2%. In the preceding one-and-a-half years, this ratio had remained remarkably stable despite the sharp decline in the price of energy-intensive goods and services; this is a sign that the attendant additional leeway for spending was nearly fully utilised.[5] The latest rise in the saving ratio is attributable to a major extent to reduced spending on new passenger vehicles and therefore probably not a sign of a general postponement of purchases (see the box on pages 18 and 19).[6] The framework conditions for household consumption also appear to have remained favourable. In April, the unemployment rate held steady near its cyclical trough. The only factor that stopped it from continuing to decline in the period spanning the fourth quarter of 2015 and first quarter of 2016, amidst robust employment growth, was an increase in labour force participation. Given the continued significant annual decline in fuel prices, consumer price inflation remained modest throughout the reporting period; in March, it stood at a

4 In the first quarter of the year, real investment expenditure by the oil industry, according to a Bundesbank estimate, collapsed by around one-third. Arithmetically, three-quarters of the 1.5% quarterly decline in total commercial investment is attributable to this correction.
5 Although during the period from the second quarter of 2014 to the end of 2015 households' saving ratio picked up slightly by 0.2 percentage point to 5.0%, the percentage share of energy-related consumer spending in disposable income dropped over the same period by 1.3 percentage points.
6 In the first quarter of 2016, households curbed their real spending on new vehicles by 7% compared with the previous quarter, in which such spending had already dropped by nearly 3%. Around two-thirds of the gradual slowdown in quarterly household consumption growth, which amounted to 0.3 percentage point since the third quarter of 2015, can be explained by this development.

rate of 0.9%. The core inflation rate, which excludes energy and food, was 2.2% in the same month, though, which means it has been above the 2% mark since December. During the year to date, however, the US Federal Reserve has not made any further moves to normalise its monetary policy stance.

Japan

Economic activity unlikely to have picked up in the first quarter

Japan's economy got the year off to a weak start and threatened, given the already perceptible GDP contraction in the fourth quarter of 2015, to slip into a technical recession.[7] In the first quarter, industrial output, which often moves closely in sync with aggregate output, fell well short of its level a quarter earlier. On the demand side, household consumption indicators at least appeared to cautiously point upwards. This was reflected in a perceptible increase in real imports of goods. Since, at the same time, goods exports were down slightly in terms of quantity, net exports could well have arithmetically dampened aggregate growth. Irrespective of the volatility of a host of economic data, the labour market remained visibly robust. In the first quarter, the unemployment rate dropped to a new cyclical low (3.2%). The inflation rate for the basket of consumer goods excluding energy and food, at 0.7% in March, was slightly lower than a month earlier. Nonetheless, at the end of April the Bank of Japan refrained from loosening the monetary policy reins any further. In connection with efforts to repair the damage caused by the latest earthquake in the south of Japan, the adoption of a supplementary budget was being debated.

United Kingdom

Economic activity slightly weaker

The cyclical upswing in the United Kingdom recently lost some steam. According to a provisional estimate, real GDP, after adjustment for the usual seasonal variations, was up in the first quarter by 0.4% compared with the fourth quarter of 2015. This means that the economy did not quite keep pace with the previous period's growth rate. The slowdown was broadly based, with growth in value added in the services sector, the backbone of the UK economy, slowing down compared with the previous period. Output in construction and the production sector even contracted; oil and gas production, in particular, saw renewed cutbacks. On the other hand, the labour market remained visibly robust throughout the reporting period. The unemployment rate in the three-month period ending in February held firm at its cyclical low point of 5.1%. Annual Harmonised Index of Consumer Prices (HICP) inflation excluding energy and unprocessed food continued to pick up in the past few months, though it, too, remained subdued in March (+1.2%). Against this background, the Bank of England has not raised its policy rates to date.

New EU member states

Slower growth

Economic growth appears to have tailed off considerably in the first quarter of the year in the new EU member states (EU-6).[8] Poland and Hungary even saw a period-on-period contraction of real GDP after seasonal adjustment. However, the underlying cyclical upward tendency in the region is likely to have remained intact, as is evinced, amongst other things, by the progressively improving labour market. In the past few months, the unemployment rate fell in all countries in the region. In Poland and the Czech Republic it had dropped back to its level prior to the outbreak of the global financial and economic crisis as this report went to press, while in Hungary it is already well below its pre-crisis level. In addition, the favourable price developments enhanced private households' purchasing power and consumption. In

7 As this issue of the Monthly Report went to press, no official estimate of Japanese GDP for the first quarter of 2016 was available yet.
8 This group comprises the non-euro-area countries that have joined the EU since 2004, ie Poland, the Czech Republic, Hungary, Bulgaria, Romania and Croatia.

The importance of the automobile market to the US economy

The sluggishness of private consumption in the United States in the first quarter of 2016 is mainly attributable to a sharp drop in household demand for automobiles. Since fleet business also flagged, the number of passenger cars sold in the winter fell short of the previous quarter's figure by almost 4% in seasonally adjusted terms, according to data from the Bureau of Economic Analysis (BEA). In the current upswing, similarly sharp declines to those seen recently were only recorded in autumn 2009, after government purchase incentives expired, and in spring 2011, in the aftermath of the Tōhoku earthquake in Japan, which resulted in production losses and supply bottlenecks around the world. The current weakness should be viewed in connection with the unusually steep increase in the period spanning the second and third quarters of 2015, when total sales figures went up by 6.5%.[1]

Unlike the episodes in which automobile sales figures quickly returned to their steep growth path once dampening external influences had dissipated, a resumption of the dynamic upward trajectory seems doubtful at present. At the end of 2014, sales figures actually regained roughly the level around which they had fluctuated, with no clear trend, in the nine years prior to the global financial and economic crisis. In addition, the crisis-related decline in the number of registered automobiles per 1,000 inhabitants should also have recovered in the meantime.[2] Given the high motorisation rate, sales market growth over the medium term is thus likely to be little stronger than the increase in the number of potential owners. As the monetary policy stance normalises, rising interest rates or higher credit constraints could ultimately place an additional strain on the automo-

Development and macroeconomic significance of the US automobile market

Seasonally adjusted and annualised, quarterly data

Sources: BEA, Board of Governors of the Federal Reserve System, NBER and Bundesbank calculations. **1** Including medium and heavy trucks. **2** Averaged over business cycle expansions.
Deutsche Bundesbank

1 It is possible that the early Easter also dampened passenger car sales. In past years, March automobile sales have often proved to be weak when Easter falls in that month.
2 In 2014, the last year for which data on the number of registered vehicles are available, the motorisation rate still fell ½% short of the pre-crisis figure of 820 automobiles per 1,000 inhabitants. Last year, however, this mark is likely to have been exceeded again owing to high sales figures, factoring in the assumption of an average depreciation rate.

bile market.[3] In line with these considerations, the forecasts made by analysts and bank economists about the development of sales figures in this year and the next are currently restrained.

Measured by the number of vehicles manufactured, US automobile production performed relatively robustly at the start of the year, despite the sluggishness of domestic sales. However, from as early as the end of 2014, it has been unable to build on the substantial growth rates seen in the first years of the current upturn; the waning momentum in the global automobile market is likely to have been another contributing factor in this.[4,5] A renewed acceleration seems unlikely at present, particularly in view of the outlook for domestic demand. As a result, a not insignificant pillar of the US economic recovery is likely to lose importance. On average, the automotive sector had contributed just over ¼ of a percentage point to annual GDP growth since mid-2009.

3 Financing terms play a prominent role for the automobile market, as in the current upswing, too, the recovery in sales figures was accompanied by a steep rise in auto loan originations. In contrast to the general trend of deleveraging, the ratio of the value of outstanding auto loans to the level of disposable household income has once again reached the 2007 level, at almost 8%. See A Haughwout et al. (2015), Just released: new and improved charts and data on auto loans, Liberty Street Economics, Federal Reserve Bank of New York, http://libertystreeteconomics.newyorkfed.org/2015/11/just-released-new-charts-new-data-on-auto-loans.html
4 Exports, which amounted to 16% of gross value added in the automotive industry in 2014, recently fell short of their level in that year by around 15% in price-adjusted terms. Canada is by far the most significant importer of US-produced automobiles.
5 See Deutsche Bundesbank, Developments in global car sales and implications for the world economy, Monthly Report, November 2015, pp 12-14.

the first quarter, consumer prices were down by 0.5% on the year in the group of countries under observation. HICP inflation rates ranged from -2.0% in Romania and -0.3% in Poland to +0.4% in the Czech Republic and Hungary. Excluding energy and unprocessed food, prices in the region were up by only 0.3%. Owing to the minimal price pressure, Hungary's central bank once again reduced its policy rates.

Macroeconomic trends in the euro area

Accelerated pace of growth in the first quarter

The euro-area cyclical recovery continued at the beginning of the year. According to Eurostat's second estimate, real GDP in the first quarter of 2016 was up after seasonal adjustment by 0.5% from the final quarter of 2015 and by 1.5% on the year.[9] This means that the pace of aggregate growth has increased somewhat. Owing to the somewhat weak global economy and the gloomier sentiment within the euro area, this increase is noteworthy. The mild weather conditions could have had a positive impact. In addition, fluctuations in quarterly growth figures are not unusual. However, potential data revisions also need to be taken into account; developments in the past few quarters now look somewhat more favourable today than they had initially appeared to be.[10]

Growing significance of domestic driving forces

One sign that the euro-area economy is firming to some degree is that the domestic forces of growth have gained in significance over the course of last year, especially household consumption, which benefited from lower energy prices as well as from the gradual improvement in the labour market. Households' saving ratio remained largely unchanged. Real income

9 A Eurostat flash estimate which was already published just 30 days after the end of the quarter had reported GDP growth of 0.6% (instead of 0.5%).
10 It appears likely that, for the final quarter of 2015, the quarterly growth rate will be revised from 0.3% to 0.4% owing to new country figures.

Real GDP in the euro area

Seasonally adjusted

Source: Eurostat.
Deutsche Bundesbank

gains therefore benefited private consumption. Corporate investment subsequently underwent a revival as well, following a first half of 2015 in which export had still been providing key stimuli. These underlying trends persisted in the first quarter of 2016. Despite a renewed clouding-over of consumer confidence, private consumption is likely to have expanded considerably. At all events, real retail sales grew by a seasonally adjusted 0.7% from the fourth quarter, and new passenger car registrations were up by 3%.

Further rise in investment

During the first-quarter months, investment is likely to have gone up further. The capital goods industry's domestic sales picked up by 0.9% on average over the January-February period after adjustment for seasonal and price variations. Construction output rose considerably at the start of the year, with the weather conditions playing a role. There are a couple of major factors behind the increase in investment: capacity utilisation in the manufacturing sector is now back above its long-run average, and some member states now have a very favourable funding environment and fiscal investment incentives. At the same time, there are signs of an incipient recovery of residential real estate market prices.

Global trade's stimuli still modest

Much as in the second half of 2015, the global economy probably only provided little in the way of stimuli for the euro area at the beginning of the current year. Although the sharp drop in exports to non-euro-area countries in January was subsequently partly offset, the average of the first two months of the year nonetheless failed to return to the previous quarter's levels. Over the same period, exports in intra-euro-area trade rose, in line with the improved domestic activity in the euro area, by 0.7% after price and seasonal adjustment.

Lively industrial activity

Industrial activity was quite lively in the first quarter of 2016. Industrial output was up by a seasonally adjusted 0.9% compared with the fourth quarter of 2015. Capital goods output rose by 1.9%. The production of intermediate goods and consumer goods likewise climbed perceptibly. The additional output was sold almost entirely within the euro area, with sales to non-euro-area countries remaining virtually unchanged after adjustment for price variations. Energy production was weak, not least owing to the quite mild winter weather conditions.

Favourable economic trend in most euro-area countries

The aforementioned tendencies were visible in most euro-area member states. In the first quarter, the economic recovery in France firmed, with GDP up by 0.5% from the previous quarter. Private consumption expenditure rebounded particularly dynamically from its fourth-quarter setback. The situation improved slightly in Italy. Aggregate output rose by 0.3% after adjustment for seasonal variations. The brisk recovery in Spain continued at the same pace, with growth coming in at 0.8%. Construction investment also showed a strong resurgence. The heightened political uncertainty in Spain does not seem to have had a perceptible impact on its economy thus far. Developments were predominantly positive in the rest of the euro area as well. In some smaller member states, particularly Ireland and Malta, economic activity probably remained very brisk. The situation remained tense in Greece, however, where the measures initiated under the adjustment programme curbed private consumption.

Gradual improvement in the labour market

The gradual improvement in the labour market continued in the first quarter. The standardised unemployment rate fell to 10.2% by March, 1.0 percentage point below its level one year earlier. Employment rose continuously during the past year; by the last quarter of 2015, it had picked up by 1.2% on the year. Although upward wage pressure remained muted on the whole, it accelerated slightly in 2015 compared to the previous year. Measures to reduce non-wage labour costs in several member states kept the growth in hourly wage costs very moderate, at 1.3% on the year in the fourth quarter of 2015.

Consumer prices falling fairly steeply

In the first quarter of 2016, euro-area consumer prices dropped by quite a strong 0.4% after adjustment for seasonal variations, after having fallen slightly in the fourth quarter of 2015 and after remaining unchanged in the quarter before that. The main reasons for this included considerably lower crude oil prices but also a sharp drop in food prices. The prices of (non-energy) industrial goods and services rose at a similarly moderate pace to the preceding quarter. Annual HICP inflation fell slightly to 0.0%. HICP inflation excluding energy and food, by contrast, held steady at 1.0%.

Distinct increase in prices of durable industrial goods, services price inflation quite flat across the board

Industrial goods inflation excluding energy remained largely unchanged throughout the reporting period, yet this masks notable variations in several different segments. The annual percentage change in the prices of durable industrial goods (eg furniture and data processing equipment), for instance, rose significantly since the turn of 2014-15 from -0.8% to +0.9% in the first quarter of 2016. In the case of semi-durable consumer goods (such as clothing or crockery), inflation likewise accelerated sharply, by 0.8 percentage point to 0.5% at the end of the period under review. Non-durable consumer goods, however, have seen their prices contract on a year-on-year basis since early 2013. This is less likely to have been a function of the euro's depreciation. The same is also probably the case for services, which since mid-2013 have seen a largely unchanged annual inflation rate of just over 1% but were recently exposed to major volatility – including for calendar-related reasons.

A flash estimate by Eurostat showed that, in April 2016, euro-area consumer prices re-

Economic indicators for the euro area

Seasonally adjusted, quarterly averages, log scale

Sources: Eurostat, ECB and Bundesbank calculations. **1** Nominal export and import data according to foreign trade statistics (intra and extra trade). Price-adjusted using the producer price index (exports) or the import price index.
Deutsche Bundesbank

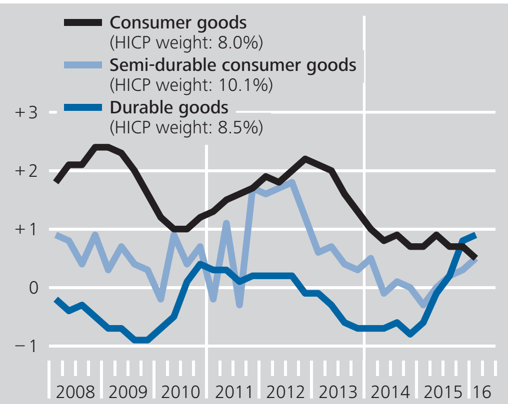
Indicators of the labour market situation in the euro area

%, seasonally adjusted, quarterly averages

Source: Eurostat.
Deutsche Bundesbank

Consumer prices for industrial goods in the euro area*

Year-on-year percentage change



Source: Eurostat. * Excluding energy.
Deutsche Bundesbank

Services prices down in April, probably because of early Easter

mained virtually unchanged compared to the previous month in seasonally adjusted terms. Consumers had to pay much the same amounts as in March for non-energy industrial goods. Prices for energy and food products rose moderately, thus compensating for contracting services prices; one reason for the latter is probably the early date of Easter this year. Owing to that effect, annual headline HICP inflation slid back into negative territory (-0.2%). HICP inflation excluding energy likewise fell quite considerably, to 0.7%.

Probably slightly weaker activity at the current end

Economic activity in the euro area will probably decelerate in the second quarter, following a first quarter in which the weather conditions had a beneficial impact. This is also indicated by a dip in sentiment at the beginning of the year, and a drop-off in capacity utilisation in the industrial sector in April is pointing in the same direction. Although favourable funding terms and the steadily improving labour market situation are still supporting domestic demand, the global economy is not expected to provide much in the way of stimuli for the time being. That is why, despite the good start to the year, the underlying cyclical trend will remain on only a moderate upward trajectory. Consumer price inflation in the euro area may be expected to start out weak. Since the impact of energy is still putting a damper on inflation, it will not be until the end of 2016 that headline HICP inflation climbs towards the 1% mark.