Global and European setting

World economic activity

Economic momentum remarkably robust in the third quarter …

Since the referendum in the United Kingdom, in which the country voted to leave the European Union, observers increasingly perceived possible political risks to the global economy. Attention was centred on the threat that the uncertainty regarding the way forward could encourage enterprises and households to restrain their investment and consumption. Against that background, the global economy turned out to be remarkably robust in the third quarter. In the quarter ended, the advanced economies even showed somewhat accelerated growth, a development due mainly to the perceptible acceleration of US and Japanese economic growth. Real GDP in the euro area increased comparatively steadily. Within the group of emerging market economies, developments remained heterogeneous. The stable and relatively strong growth of Chinese economic output contrasted particularly sharply with the protracted problems faced by a variety of commodity-exporting nations. At the end of the period under review, however, there were increasing indications of economic improvement, at least in Russia.

… particularly in the United Kingdom

The considerable economic growth in the United Kingdom was particularly striking, as it contrasts not only with diverse downward scenarios but also with the general expectation that the economy would sour following the Brexit vote. A combination of different factors may have contributed to the robustness of the British economy. They include the rapid stabilisation of the financial markets following initial price fluctuations, a firming of confidence on the part of firms and consumers, and the expectation that the foreign trade regime would remain largely unchanged, at least in the short term. In addition, diverse metrics indicate that the heightened insecurity has lessened since the referendum. However, the lively economic activity in the second quarter already refuted the braking effect that many observers expected via this channel.[1] Therefore, the significance of political insecurity, in particular, on the operations of private actors in the short term may well have been overstated.

IMF confirms global growth projections

In view of the overall robust developments, the International Monetary Fund (IMF) staff, in the current (October) issue of its World Economic Outlook (WEO), confirmed the global growth projections for this year and next from their July survey round (+3.1% and +3.4% on the basis of purchasing power parity weights). Nonetheless, they again considerably lowered their estimation of real GDP growth in the USA, particularly for 2016. Earlier projections had probably not taken the rather sluggish economic activity in the first half of the year sufficiently into account.[2] It is also noteworthy that the staff rated the output gap in the USA this year considerably narrower than in April, despite repeated downward revision.[3] This was chiefly due to the perceptibly lower estimation of potential output; here, the IMF followed a revision pattern which had already been observed in the past.[4] The IMF staff recently assessed the outlook for some other economies a bit more favourably. They raised their growth projections for the euro area slightly for this year and next, and even revised their projections for Japan perceptibly upwards. Among the emerging market economies, Russia's outlook was less gloomy than before.

1 See Deutsche Bundesbank, Global and European setting, Monthly Report, August 2016, pp 20-21.
2 See Deutsche Bundesbank, Global and European setting, Monthly Report, May 2016, pp 11-12.
3 Whereas the staff lowered their projection for real GDP growth in 2016 from 2.4% in the World Economic Outlook in April to 1.6% as this report went to press, they raised their estimation of the output gap in the USA in the same year from -1.1% to -0.5%.
4 See Deutsche Bundesbank, On the reliability of international organisations' estimates of the output gap, Monthly Report, April 2014, pp 13-35.

Commodity markets in calmer waters

The calming of markets for their export goods suggests that commodity-exporting economies such as Russia are gradually stabilising. The spot price for a barrel of Brent crude oil has been fluctuating within a comparatively narrow band around US$50 since mid-August. After the OPEC member nations agreed on a new production target, prices initially picked up. However, growing doubts about the implementation of this target drove them back down. At the end of the period under review, the price of a barrel of Brent stood at US$48, which was more or less the same as its level three months earlier. Forward premiums also scarcely changed. The HWWI commodity price index excluding energy was similarly stable for a while. The lows experienced at the beginning of the year were clearly exceeded. As this report went to press, industrial commodity prices picked up considerably.

Accelerating consumer price inflation in industrial countries

At the consumer level in industrial countries, the dampening influence of the preceding fall in energy prices is gradually tapering off. In September, energy prices were only 2.7% lower than their previous year's level. In June, the year-on-year change had been -7.5%, and in September 2015 it had peaked at as much as -13.3%. The growth rate of consumer prices for the entire basket of consumer goods (headline inflation) accordingly rose from +0.6% to +0.9% between June and September. On the other hand, core inflation, which excludes food and energy prices, was still higher (+1.4%) at the end of the period under review, with only slight fluctuations. On the basis of current energy prices and their course in the previous year, headline inflation will probably return to normal in the coming months. The absence of renewed price declines, however, means that households' real income and therefore consumption might, in future, lack the stimulus they have experienced in the past few quarters.

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 11 November 2016, or 1 to 16 November 2016 for crude oil.
Deutsche Bundesbank

Selected emerging market economies

Stable growth in China, but housing market continuing to heat up

According to the official estimate, real GDP in China was up by 6.7% on the year in the third quarter of 2016. Thus, the Chinese economy maintained the pace of growth achieved in the first half of the year. Private consumption, boosted by a sharp rise in incomes, continued to provide the greatest contribution to growth on the expenditure side. Households also benefited from very moderate inflation. On the basis of the consumer price index, price inflation stood at 1.8% in the third quarter. Investment growth, on the other hand, appears to have remained anaemic. This affected housing construction as well as machinery and equipment. New building construction even declined noticeably, although real estate purchases were up by one-quarter from the previous year, and residential property prices rose sharply. The still extensive amounts of unsold property probably played a role in construction companies' caution. Furthermore, observers appear to be having doubts about the sustainability of the current property market boom. Quite a few local authorities have therefore switched to regulating the demand for housing by means of purchase and credit restrictions. The affected towns are experiencing a cooling of the housing market.

Strong GDP growth trend in India possibly overstated

In India, the statistical office reported economic growth of 7.1% on the year for the second quarter, which is as far as its estimations currently reach. However, the pace of growth may be overstated to some extent. Official figures also indicate an extremely strong expansion of the manufacturing sector. On the other hand, the indicator for Indian industrial production is showing only a low year-on-year growth rate in the second quarter.[5] Moreover, sentiment in the industrial sector was more on the subdued side, according to surveys. Consumer price inflation fell from 5.7% in the second quarter to 5.2% in the third quarter. The central bank responded in October by lowering the benchmark rate.

Continuing recession in Brazil

In Brazil, the available indicators point to a continuation of the severe recession into which the economy slid just over two years ago. Even though the downward momentum has since eased, hopes of stabilisation have not yet been fulfilled. Many observers expect recovery in the year ahead, albeit probably a rather weak one; this assessment is primarily grounded in the urgent need to bring Brazil's parlous public finances onto a more sustainable path. The government, therefore, recently announced that it would tighten its austerity drive and reform the pension system. Consumer price inflation averaged 8.7% for the third quarter, thus still far exceeding the central bank's target range. In view of falling inflation expectations, however, the bank slightly loosened its monetary policy in October.

Recession in Russia presumed over

In the third quarter, Russia's real GDP was down by 0.4% on the year, according to an initial official estimate. This compares with a fall of 0.6% in the second quarter. After adjustment for seasonal variations, economic activity viewed over the period may actually have expanded slightly. This would mean that the deep recession experienced by the country since the second half of 2014 might be over. The sectors most affected by the economic crisis included the construction and manufacturing sectors. Energy production, on the other hand, proved robust, with oil production recently even reaching a new record high. The recovery of oil prices since the beginning of the year also caused the rouble to stabilise. This meant that consumer price inflation eased again during the past few months. In October, it stood at 6.1%, compared with 12.9% at the end of 2015.

USA

Noticeable acceleration of growth in the third quarter

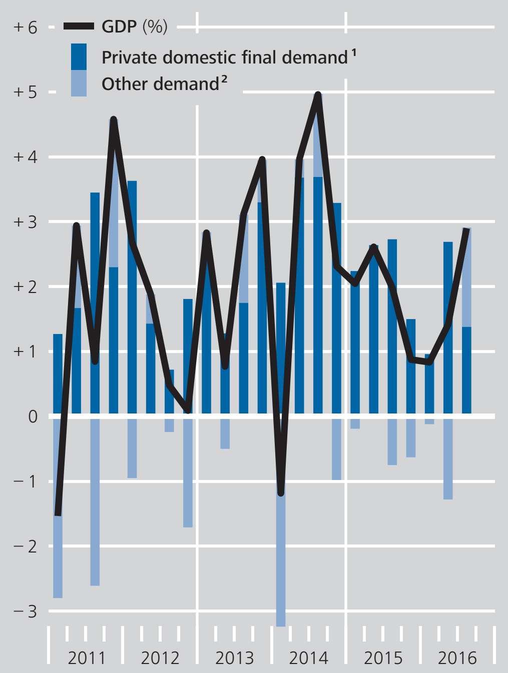
In the United States, the economic upswing continued to accelerate in the third quarter of 2016. Real GDP is initially estimated to have picked up by 0.7% (after seasonal adjustment) from the second quarter, in which it had expanded by 0.4%. Meanwhile, the underlying pace of economic activity probably remained moderate. This is suggested by the fact that private domestic final demand rose more sluggishly in the quarter ended. In particular, and in accordance with expectations, the previously strong growth of private consumption was not repeated to the same extent. Moreover, expenditure on capital goods was slightly re-

5 The sub-index for manufacturing output fell by as much as 0.6%. However, the national accounts reveal a 9% growth in real value added for this sector.

duced yet again. A key factor in the higher growth in GDP was the rebound in inventories. In addition, although exports rose sharply, this was caused by a ratcheting-up of exports of food products, animal feed and beverages.[6] This is another reason why the recent high pace of economic growth is expected to be difficult to maintain in the coming quarters. The moderate rise in employment over the past few months, which was admittedly high enough to keep the unemployment rate and labour force participation stable at a low level, is consistent with this picture. Price inflation, meanwhile, accelerated noticeably as measured by the consumer price index. Headline inflation climbed from 0.8% in July to 1.6% in October, while core inflation fell slightly to 2.1% in the period under review. The US Federal Reserve decided against a further normalisation of its decidedly accommodative monetary policy stance.

Contributions to US quarterly real GDP growth

Percentage points, seasonally adjusted, annualised rate



Source: Bureau of Economic Analysis. **1** Private consumption and private gross fixed capital formation. **2** Government demand, inventory changes and net exports.
Deutsche Bundesbank

Japan

Fairly robust growth, but inflation easing

In the third quarter, the Japanese economy was able to follow up on the comparatively lively first half of the year. According to a provisional estimate, seasonally and price-adjusted GDP rose by 0.5% quarter-on-quarter, so that aggregate GDP growth was actually significantly higher than in the second quarter (+0.2%). In arithmetic terms, growth in the third quarter was almost exclusively attributable to foreign trade, whereas domestic demand scarcely expanded at all. While strong overall economic activity in the third quarter caused unemployment to fall to 3.0%, its lowest level in over 21 years, upward pressure on prices continued to subside. Annual growth of the GDP deflator even returned slightly into negative territory for the first time since the end of 2013, and the inflation rate for the basket of consumer goods excluding energy and food products dropped to zero in September. This situation prompted the Bank of Japan to realign its monetary policy, so that in future it will combine monetary policy measures with the aim of controlling the yield curve at both the short and long ends, following adoption by the government of a comprehensive package of fiscal stimulus measures.

United Kingdom

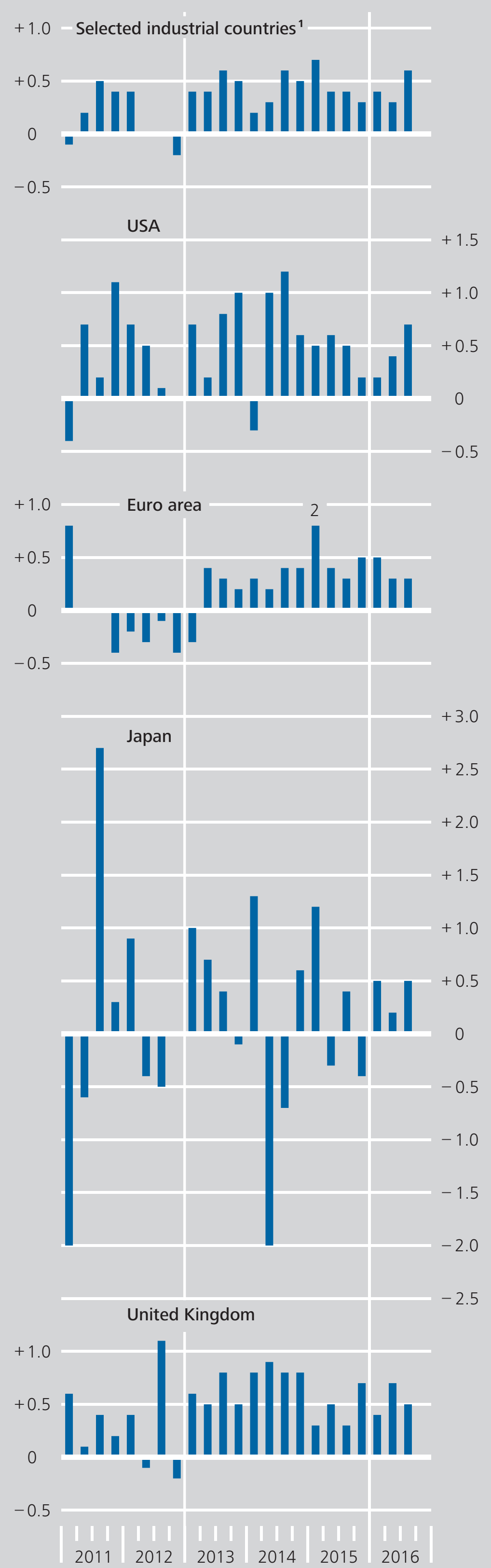
Economic activity decidedly robust

In the United Kingdom, according to a provisional estimate, real GDP increased by 0.5% on the quarter after adjustment for seasonal factors, therefore broadly maintaining the pace of the first half of the year. A key factor in this was the consistently robust expansion of the services sector, which is particularly significant for the UK economy. Manufacturing output, on the other hand, dropped noticeably in the third quarter after a steep rise in the preceding quar-

6 Just over three quarters of the entire increase in price-adjusted exports, by 2.4% on the quarter, fall into this category. Nominal data from external trade statistics indicate that the demand for soy beans, in particular, was unusually strong, which is probably connected with crop failures in other cultivation regions.

Aggregate output in industrial countries

Seasonally adjusted, quarterly percentage change



Sources: National statistics, Eurostat and Bundesbank calculations. **1** USA, euro area, Japan and United Kingdom. **2** Distorted by jump in Irish GDP.

Deutsche Bundesbank

ter. Construction activity, which had received very little new stimulus since the second quarter of 2015, declined sharply, albeit from a high level. Developments in both aggregate output and the labour market remained favourable, with unemployment falling to a new cyclical low of 4.8% in the third quarter. The inflation rate, as measured by the year-on-year change in the Harmonised Index of Consumer Prices (HICP), picked up from 0.6% in July to 0.9% in October. At the upstream stages, there are already indications of a further rise in inflationary pressure as a result of the sharp depreciation of pound sterling. The expected inflation prompted the Bank of England to decide against a further easing of monetary policy, despite the gloomier economic outlook.

New EU member states

Slower growth

Economic growth in the new EU member states (EU-6)[7] waned in the third quarter. This trend, which was relatively broadly based across regions, was driven mainly by a setback in industrial activity, which is likely to be only of a temporary nature, however. The positive business climate is pointing in this direction, in any case. All in all, the macroeconomic outlook for this group remains favourable. Consumption activity, in particular, is expected to remain brisk. This is supported by the fact that labour markets have continued to recover over the past few months. Furthermore, there were recently signs of stronger growth in wages. However, consumer prices might increase slightly in the near future as a result of energy costs. In the third quarter, HICP in this group of countries was still down 0.3% on the year. Excluding energy and unprocessed food, prices were up by 0.4% on the year.

7 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.

Macroeconomic trends in the euro area

Underlying pace of economic growth largely unchanged

Aggregate output in the euro area grew moderately in the third quarter. According to Eurostat's flash estimate, real GDP in the third quarter of 2016 was up by a seasonally adjusted 0.3% on the quarter and by 1.6% on the year. The growth rate declined slightly compared with the average of the first six months but the more favourable survey results posted recently promise somewhat stronger macroeconomic growth for the fourth quarter of 2016 and first quarter of 2017. Nonetheless, GDP growth in 2016 will probably fall short of the 1.9% seen last year. However, the relatively high GDP growth for 2015 is mainly due to a major revision of Irish GDP as a result of relocation of activities by multinationals (see the box on pages 16 and 17). The underlying pace of the euro area's recovery, which started in spring 2013, is therefore largely unchanged.

Private consumption more on the subdued side

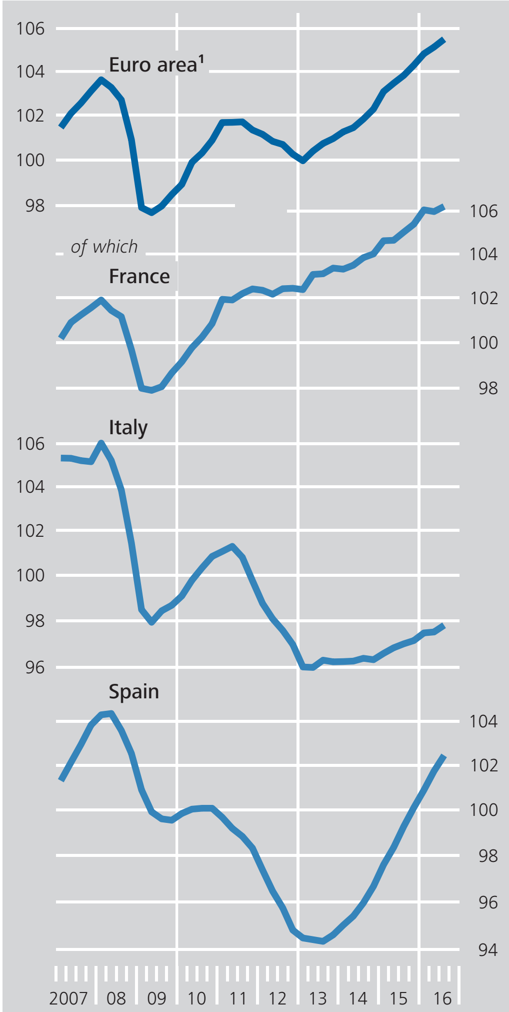
Private consumption in the euro area is likely to show only slightly stronger growth in the third quarter than in spring. In comparison with the previous quarter, retail sales were up by 0.4% after seasonal and price adjustment and new passenger car registrations rose by 0.5%. One reason for the somewhat more subdued growth in private consumption compared with the previous year is probably the increase in consumer prices, which is dampening real disposable income growth. Public consumption is likely to have made a positive contribution to growth again, in line with slightly expansionary fiscal policies in various member states.

Investment likely to be fairly brisk

Investment activity is likely to have provided a key impetus to growth in the third quarter, as it did in the second quarter.[8] Following the fluctuations in the first six months, which were due in part to weather conditions, construction investment appears to have gone back up markedly in the third quarter. This is suggested by the development in construction output. Investment in machinery and equipment should

Aggregate output in the euro area

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



Source: Eurostat. **1** Affected by jump in Irish GDP since 2015 Q1.
Deutsche Bundesbank

have held up well, too. Sales of capital goods in intra-trade showed an increase in any case.

Exports rising slowly

Global economic growth has remained restrained, as is reflected in the euro area's foreign trade: following a strong increase in the second quarter, goods exports to non-euro-area countries rose only marginally in the third quarter after seasonal and price adjustment. By

8 Eurostat's first publication from the beginning of September still showed a sideways movement in gross fixed capital formation for the second quarter. However, this has since been revised upwards to a distinct increase of 1.1% on the previous quarter after seasonal adjustment. One reason was an exceptionally strong increase in investment in Cyprus during this period.

The revision of the euro-area national accounts for 2015

According to the latest figures from Eurostat, real gross domestic product (GDP) in the euro area rose by 2% in 2015 (1.9% after adjustment for calendar-day variations), thus topping the previous figure by 0.4 percentage point. Although GDP revisions are standard practice because key data for measuring aggregate economic output are often available only with a considerable time lag, the extent of this revision at such an early stage was striking. On average of the period from 2004 to 2014, revisions of annual GDP growth rates for the euro area at a similarly early date amounted to only 0.04 percentage point (measured in terms of the mean absolute deviation).[1]

The new national accounts data would therefore seem to indicate that the euro-area economic upswing picked up considerably more steam last year than initially reported. Other key macroeconomic indicators are also now looking much more positive. For instance, according to the revised data, in 2015 labour productivity (measured here as real GDP per employed person) was up by 0.8% on the year instead of merely 0.5%, and unit labour costs rose by only 0.3% instead of 0.7%.

The revision of the euro-area figures for 2015 can be attributed almost entirely to a revision of national accounts data for Ireland.[2] Ireland's Central Statistics Office retroactively revised the estimate of domestic price-adjusted economic output in 2015 by as much as 16%, pushing annual GDP growth up from just under 8% to 26%. Despite the fact that the Irish economy accounts for a relatively small share of aggregate euro-area output (just under 2% in 2014), this adjustment has increased Ireland's contribution to euro-area GDP growth in 2015 to ½ percentage point. The revision increased Irish labour productivity growth from 5% to 23%, while the new figures put the fall in unit labour costs at 17%. This has changed these indicators accordingly for the euro area as well.

As Eurostat explained in a press release issued in July of this year, the relocation of economic activities from outside the euro area to Ireland was the reason for the Irish GDP revision.[3] A few multinationals shifted part of their (intangible) capital stock to Ireland.[4] These companies appear to be selling goods manufactured abroad to non-euro-area countries on a large scale, in what is known as offshore contract manufacturing.[5] Firms domiciled in Ireland place a manufacturing order with a foreign company. According to ESA 2010, which is the accounting framework currently in effect, the sale of the goods to third countries is

1 The data are based on the OECD's real-time database, with the annual growth rates according to data from March and from September of the following year being compared with one another. Major revisions are usually undertaken only once the annual surveys have been incorporated into the national accounts, which is typically one-and-a-half years after the end of the reporting year.
2 Although, according to the OECD's real-time database, GDP growth rates were revised for some other euro-area countries (Finland, Germany and Slovenia) as well, these changes were much smaller, ranging from 0.04 (Germany) to 0.8 (Slovenia) percentage point, and moreover were downward revisions (with the exception of Germany).
3 See Eurostat, Irish GDP revision, 21 July 2016. A relocation of business from another euro-area country to Ireland would have had no impact whatsoever on euro-area GDP.
4 The national accounts revision increased the Irish capital stock by nearly 40% or €300 billion. This must be viewed in the context of multinationals' activities: external debt in connection with foreign direct investment (FDI) rose from less than €200 billion in 2014 to over €500 billion over the course of 2015.
5 See Eurostat (2015), Manual on the changes between ESA 95 and ESA 2010, p 60, and IMF, Ireland – staff report for the 2015 Article IV consultation, March 2015, p 5.

recorded as an Irish export in the national accounts as the products are regarded as being owned by the company domiciled in Ireland until their sale.

However, these multinationals' transactions do not show up in the traditional foreign trade statistics, which measure cross-border physical goods trade, as the goods do not actually cross the Irish border. The discrepancy between the national accounts and the foreign trade statistics is correspondingly large: Irish goods exports (in nominal terms) as measured by the foreign trade statistics rose by a little over 20% in 2015, whereas according to the national accounts they went up by 70%.[6]

The effect of these exports on GDP is offset in part in the national accounts by services imports as payments are due for the processing services performed abroad. Imports of services did indeed rise sharply in terms of value last year, by 35%.

On balance, however, the difference between the additional export and import values yielded a sizeable surplus. This was attributed to domestic value added, especially in manufacturing, where (both nominal and real) gross value added more than doubled on the year. By contrast, labour input rose only relatively little, with employment up by just 4%. Nonetheless, the absolute increase in net value added in euro was only half as large because write-downs on the enlarged capital stock likewise climbed sharply.

The very strong growth in Irish GDP in 2015 is thus in considerable measure a reflection of a level shift owing to a relocation of multinationals' business activities and thus cannot be interpreted in terms of cyclical importance. The revised euro-area GDP growth rate for 2015 accordingly reflects a picture of the cyclical trend which is biased upwards. This needs to be taken into consideration in future studies of euro-area economic activity and its determinants.

Key macroeconomic indicators for Ireland and the euro area for 2015 before and after the revision to the national accounts*

Year-on-year percentage change

	Ireland		Euro area	
	July	Oct	July	Oct
Gross domestic product	7.8	26.3	1.6	1.9
Productivity (GDP per person employed)	5.1	23.2	0.5	0.8
Exports of goods and services	13.8	34.4	5.1	6.1
Imports of goods and services	16.4	21.7	5.9	6.1

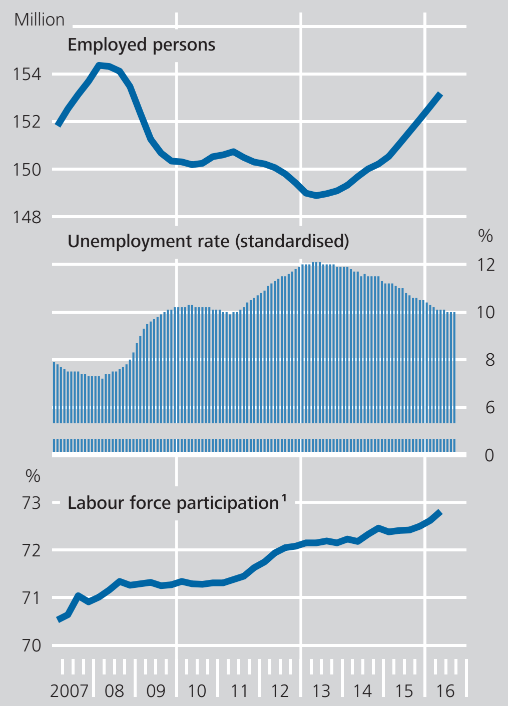
* Data for Ireland based on the OECD's real-time database. Data for the euro area according to Eurostat. Annual rates of change calculated from price-adjusted and seasonally adjusted data.

Deutsche Bundesbank

6 The volume index for Irish goods exports rose by 12% in the foreign trade statistics, whereas according to the national accounts real goods exports picked up by 55%.

Labour market in the euro area

Seasonally adjusted



Sources: Eurostat and Bundesbank calculations. **1** The labour force (employed persons and unemployed) as a proportion of the population, in the age group 15 to 64 in each case.
Deutsche Bundesbank

contrast, imports from non-euro-area countries recorded a marked increase.

Industrial activity on moderate expansionary course

Following the weak previous quarter, industrial output returned to the flat growth path it had embarked upon at the beginning of 2013. In the third quarter of 2016, industrial production rose by a seasonally adjusted 0.4% on the quarter, which resulted in a year-on-year increase of 1.1%. The expansion in output was broadly based but, above all, significantly more consumer goods were produced in line with the generally favourable consumer environment. The production of energy, intermediate goods and capital goods was up moderately.

GDP growth regionally broad-based

The economic situation improved in all euro-area countries in the third quarter, albeit to varying degrees. The French economy continued on its moderate growth path. GDP increased by a seasonally adjusted 0.2% in the third quarter in comparison with the second quarter, when it had declined slightly. While private consumption once again moved sideways and corporate investment still tended to be weak, government consumption and public investment increased perceptibly. Exports picked up significantly as well. The very steep growth in imports contributed to a considerable build-up of inventories. Aggregate output in Italy in the third quarter rose by 0.3% compared with the preceding quarter, which had seen a stagnation in economic output. In addition, the revised GDP data published by the Italian statistical office in September now appear slightly less unfavourable for the previous years. According to the latest data, the recession ended already in mid-2013 and not at the beginning of 2015. This was followed by a fairly lengthy phase of extremely weak growth. In Spain, the robust recovery continued at an only slightly slower pace recently. In the third quarter, GDP rose by a seasonally adjusted 0.7% on the quarter. The economy was also supported by a very good summer in the tourism sector again. The steady increase in industrial output over the past few quarters may have triggered investment in machinery and equipment. The other euro-area countries also saw an increase in economic output. Growth recorded in the Netherlands, Portugal, Slovakia and Cyprus was, in fact, quite strong.

Rise in employment alongside decline in unemployment rate

Labour market developments in the euro area have been characterised by a slow decline in the unemployment rate alongside a distinct rise in employment. This is mainly due to steadily growing labour force participation among women. The seasonally adjusted standardised unemployment rate for the euro area decreased slightly to 10.0% in the third quarter. While unemployment showed a clear decline in Spain and the Netherlands, it trod water in Italy and rose distinctly in France. Employment showed a quarter-on-quarter rise of 0.4% after seasonal adjustment in the second quarter of 2016 – the latest quarter for which data are available. Employment was up throughout the euro area, excluding Finland. However, the improvement in the labour market situation has not yet sufficed to strengthen wage growth.

Hourly wages still showed only a subdued year-on-year rise of +1.2% in the second quarter.

Annual HICP inflation up quite significantly and positive again; core inflation moving sideways

In the third quarter of 2016, consumer prices in the euro area were up by a seasonally adjusted 0.3% on the quarter, which once again constituted a marked rise. Energy had a weaker influence on inflation than before; this was because, although crude oil prices rose again at the end of the quarter, on a quarterly average they were up only slightly from the second quarter. By contrast, food prices increased in the third quarter in a similarly strong fashion as they had done in the second quarter. In addition, prices of services rose by a significant 0.4%. The price trend for industrial goods excluding energy remained flat. Annual HICP inflation showed a fairly steep increase of 0.4 percentage point to +0.3% overall. This was partly due to the decline in energy prices in the third quarter of 2015 and also to weaker food price inflation. By contrast, despite the recent fairly significant price increases for services, inflation excluding energy and food remained unchanged at 0.8% – due to a dampening baseline effect of industrial goods as well. Broken down by country, in the third quarter inflation was below 0.5% only in Italy and the Netherlands and was negative only in Cyprus.

Slight increase in inflation in October due to energy

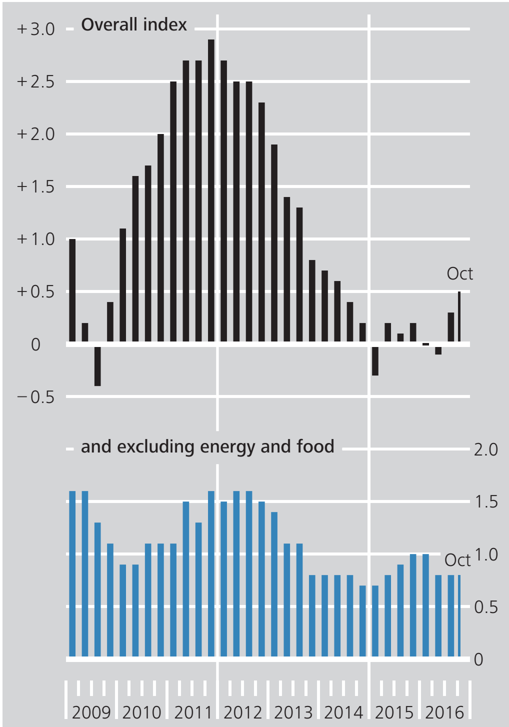
In October, consumer price inflation in the euro area showed a slight month-on-month increase to 0.2% after seasonal adjustment. This was due chiefly to energy, which became progressively more expensive following the pick-up in crude oil prices. The price trend for other goods and services was flat, however. Annual headline HICP inflation was up slightly on the month to 0.5%. The increase was curbed slightly by the fact that food prices saw a sharper increase in October 2015 than this year. Excluding energy and food prices, the annual inflation rate was unchanged at 0.8%.

The forward-looking sentiment indicators are pointing to a distinct improvement in sales prospects for the euro-area industrial sector in the coming months. Sentiment in the services sector has also rebounded. One reason for this may be that the widely feared negative effects of the referendum in the United Kingdom have not materialised up to now. Despite a slight setback, consumer confidence in the euro area is still well above the long-term average. In view of the gradual improvement in the labour market, private consumption is likely to be an important pillar of economic activity in the coming quarters, too. However, growth may be down from last year, in which falling energy prices had provided additional stimulus. Investment should gain momentum in light of the stable earnings and capacity utilisation in the manufacturing sector, which rose significantly from July to October, reaching the highest level since mid-2011. Overall, the economic recovery in the euro area appears to be moderate but fairly robust, and the output gap is slowly closing.

Continuation of aggregate economic growth path towards the end of the year

Consumer prices in the euro area*

Year-on-year percentage change, quarterly



Source: Bundesbank calculations on the basis of data provided by Eurostat. * Harmonised Index of Consumer Prices (HICP).
Deutsche Bundesbank