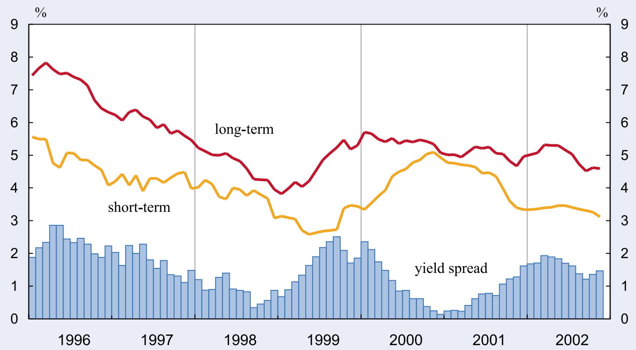
Financial Conditions in the Euro Area

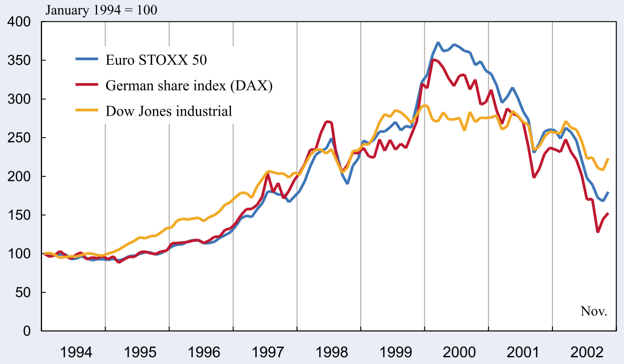
Nominal Interest Rates a)



a) Weighted averages (GDP weights).

Sources: European Central Bank.

Stock Market Indices

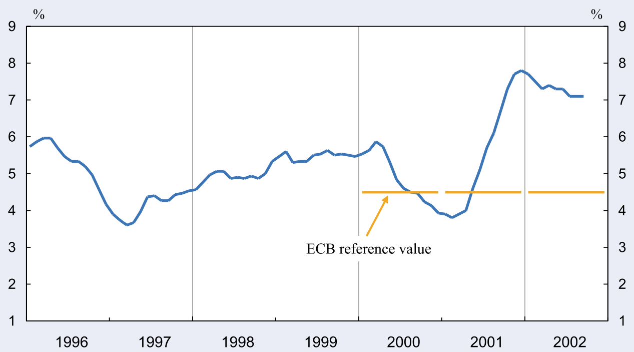


Source: Deutsche Bundesbank, Dow Jones & Co., Inc.

Short-term interest rates have been declining slowly until, on 5 December, the ECB finally cut key interest rates by 50 basis points to 2.75% for main refinancing operations. Long-term rates (ten-year government bond yields), which had declined to 4.5% between May and September, mainly due to flight-to-safety portfolio shifts from highly volatile stock markets, rebounded in October, to 4.6%. As a result, the yield spread widened to 1.5 percentage points.

In 2002, the major stock price indices moved closely together, with the Dow Jones Industrial index declining least. Stock prices may have bottomed out in October, when the Dow hit 8,048 and the Euro Stoxx 500 fell to 2,384.7. The German DAX had reached a low in September, at 2,769. All three indices rose again in November.

Change in M3 a)

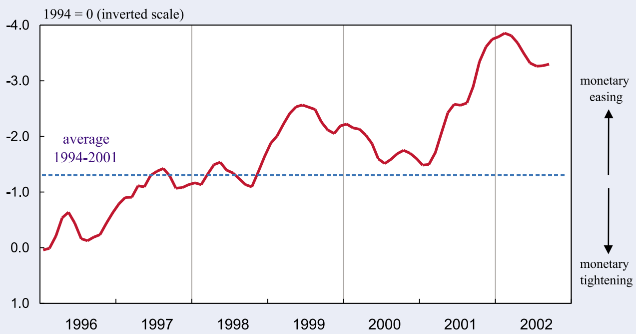


a) Annual percentage change (3-month moving average).

Sources: European Central Bank.

In the euro area, the growth of the broad money stock M3 has declined very slowly to an annual rate of 7.1% (3-month moving average). It thus still exceeded the ECB reference value by a wide margin.

Monetary Conditions Index



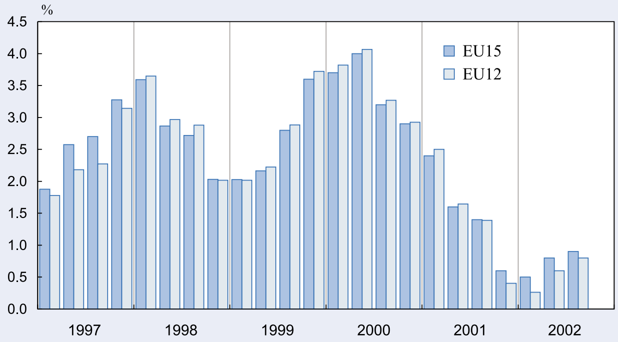
Note: MCI index is calculated as a (smoothed) weighted average of real short-term interest rates (nominal rate minus core inflation rate HCPI) and the real effective exchange rate of the euro.

Sources: European Central Bank, calculations by the Ifo Institute.

The monetary conditions index, which had declined continuously since March, indicating less monetary easing, stalled in September. The recent cut in key interest rates may increase monetary easing unless offset by the exchange rate of the euro.

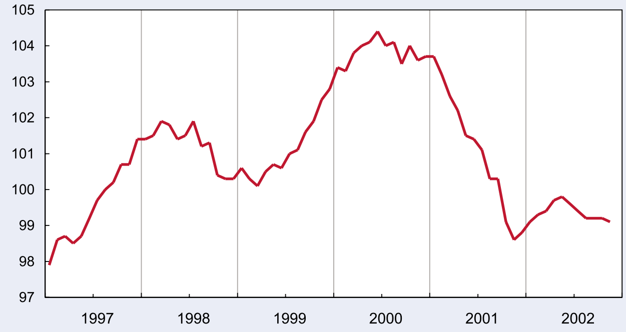
EU Survey Results

Gross Domestic Product in Constant 1995 Prices
Percentage change over previous year



Source: Eurostat.

EU Economic Sentiment Indicator
Index 1995 = 100, seasonally adjusted



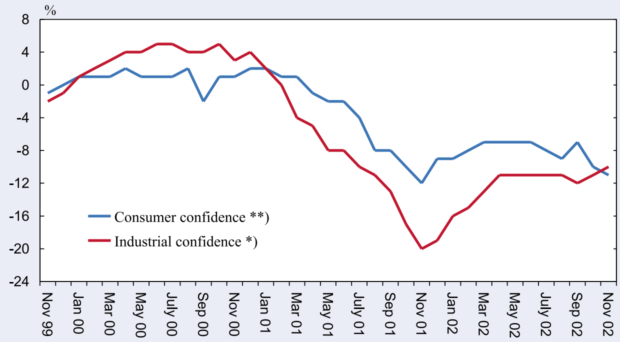
Source: European Commission.

Initial estimates for the third quarter of 2002 show GDP growth of 0.3% in the euro area and 0.4% in EU 15 compared with the preceding quarter. The same growth rates had been observed in the previous quarter. In a year-on-year comparison, GDP growth amounted to 0.8% in the euro area and 0.9% in EU 15, following rates of 0.6% and 0.8%, respectively, in the second quarter. Greece, the UK and Spain grew the fastest, the Netherlands, Germany and Italy the slowest. Private consumption rose faster than before in both areas, whereas investment remained roughly unchanged (after having declined six quarters in a row). Exports and imports rose equally by 2.2% in the euro area and by 1.5% and 1.6% in EU 15.

a) The new economic sentiment indicator is based on the industrial, construction, retail trade and consumer confidence indicators. Seasonally adjusted data.

The economic sentiment indicator for the EU declined slightly in November to a value of 99.1, after having stabilised at 99.2 between August and October. It rose in Belgium, Finland, the Nehterlands, Sweden, Greece, Italy and the UK. It remained unchanged in Denmark, Spain and France, but declined in Germany, Ireland, Portugal and Austria.

EU Industrial and Consumer Confidence Indicators
Percentage balances, seasonally adjusted



Source: European Commission.

* The industrial confidence indicator is an average of responses (balances) to the questions on production expectations, order-books and stocks (the latter with inverted sign).
** New consumer confidence indicators, calculated as an arithmetic average of the following questions: financial and general economic situation (over the next 12 months), unemployment expectations (over the next 12 months) and savings (over the next 12 months). Seasonally adjusted data.

Whereas the **consumer confidence indicator** continued to fall, the industrial confidence indicator continued to rise. The consumer confidence indicator decreased by 1 point, most in Germany (6 points) and Ireland (4), but also in Denmark and France (1). It increased slightly in the Netherlands, Austria, Portugal and Sweden (2) and in Italy, Finland and the UK (1).
The **industrial confidence indicator,** which increased by 1 point in the EU, increased in Finland (5 points), the UK (4), Luxembourg (3), Belgium, Denmark, Greece, Spain, the Netherlands, Sweden (2), France and Italy (1). It decreased in Austria (4), Portugal (3) and Ireland (2). In Germany, industrial confidence remained stable.

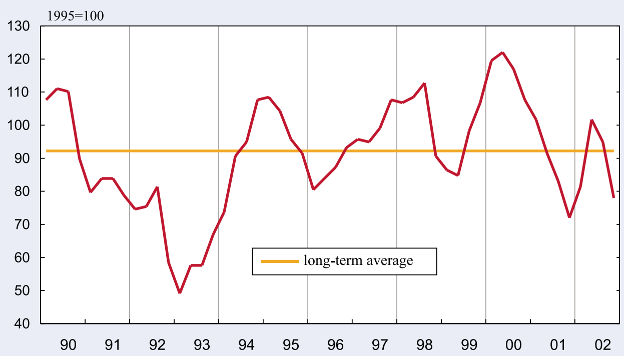
EU Capacity Utilisation and Order Books in the Manufacturing Industry

Source: European Commission.

Capacity utilisation in manufacturing rose from 80.9 in the third quarter to 81.3 in the fourth, hopefully signalling a true turnaround. Assessments of order books improved for the fourth time in a row, but they were still considered much too low. Order books improved significantly in Belgium, Denmark, Spain, Ireland, Finland and the UK, and more moderately in France, Italy and the Netherlands. They fell substantially in Luxembourg, Austria and Sweden.

EURO AREA INDICATORS

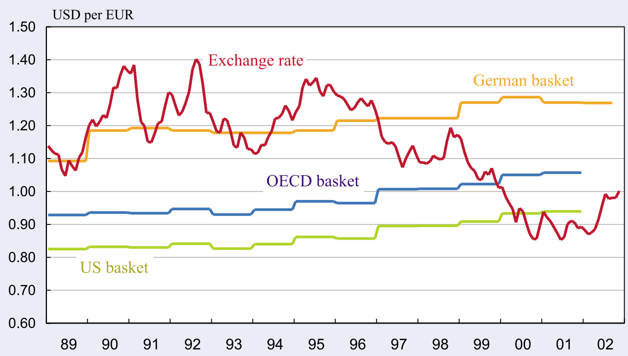
IFO ECONOMIC CLIMATE FOR THE EURO AREA



Source: Ifo World Economic Survey (WES) QIV/ 2002.

This indicator, which the Ifo Institute derives from its World Economic Survey (WES), continued to deteriorate to 78 in the fourth quarter, having peaked at 101.7 in the second quarter. The deterioration was primarily the result of the worsened assessment of current economic performance. Expectations for the next six months also declined, but remained mostly positive.

EXCHANGE RATES OF THE EURO AND PPPS



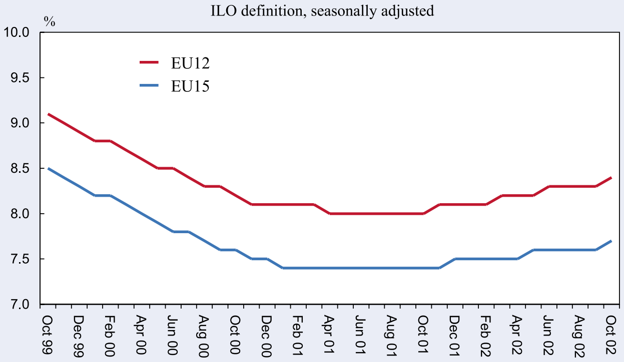
Sources: European Central Bank, Federal Statistical Office, OECD and calculations by the Ifo Institute.

a) BIS calculations; to December 1998, based on weighted averages of the euro area countries' effective exchange rates; from January 1999, based on weighted averages of bilateral euro exchange rates. Weights are based on 1990 manufactured goods trade with the trading partners United States, Japan, Switzerland, United Kingdom, Sweden, Denmark, Greece, Norway, Canada, Australia, Hong Kong, South Korea and Singapore and capture third market effects. Real rates are calculated using national CPIs. Where CPI data are not yet available, estimates are used.

In November and early December 2002, developments in exchange markets saw the euro appreciate against all major currencies. Particularly pronounced was the appreciation against the Japanese yen and, to a lesser extent, against the US dollar.

UNEMPLOYMENT RATE

ILO definition, seasonally adjusted

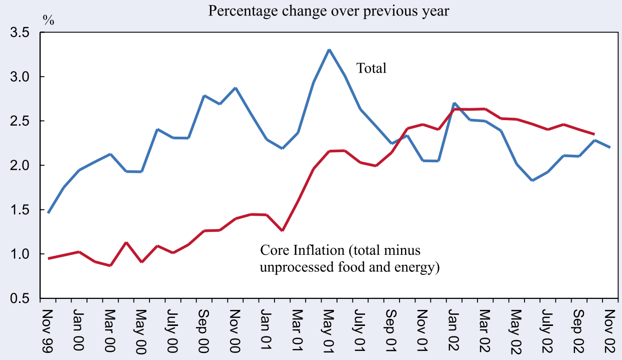


Source: Eurostat.

The unemployment rate continued its slow but steady rise in both, the euro area and the wider EU. In October it averaged 8.4% in the euro area and 7.7% in the EU 15 group of countries. A year earlier it had stood at 8% and 7.4%, respectively.

INFLATION RATE (HICP)

Percentage change over previous year



Source: Eurostat, Ifo Institute.

The year-on-year HICP inflation rate of the euro area, which had risen since June 2002 to reach 2.3% in October, declined to 2.2%, according to preliminary figures for November. It is likely to remain above 2% for some months, but is expected to decline below 2% in the course of 2003, conditional on relatively stable oil prices and on labour costs not accelerating further. Euro area core inflation (i.e. excluding unprocessed food and energy) has declined continuously since last April.