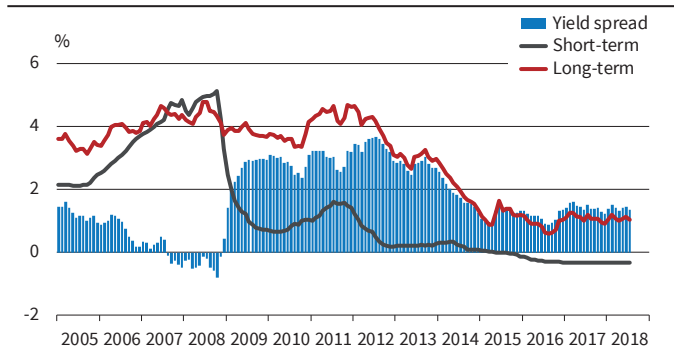


Financial Conditions in the Euro Area

Nominal Interest Rates^a

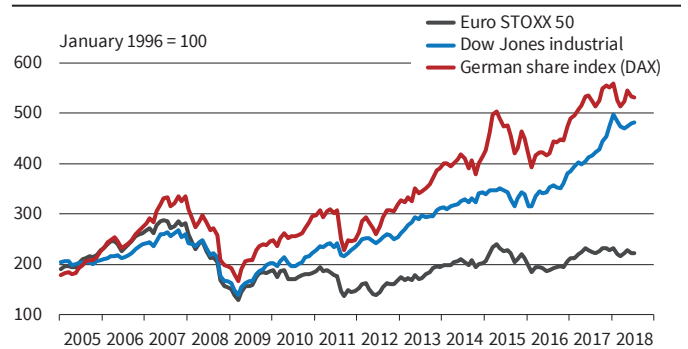


^a Weighted average (GDP weights).
Source: European Central Bank.

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In the three-month period from May 2018 to July 2018 short-term interest rates remained stable: the three-month EURIBOR rate amounted to -0.33% in May 2018 and -0.32% in July 2018. In comparison the ten-year bond yields declined from 1.08% in May 2018 to 1.04% in July 2018, whereas the yield spread also decreased from 1.41% to 1.36% in the same period of time.

Stock Market Indices

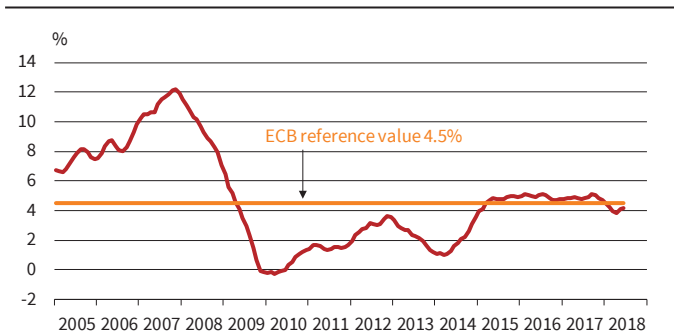


Source: Deutsche Börse; Dow Jones; STOXX.

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The German stock index DAX decreased in July 2018, averaging 12,582 points compared to 12,668 points in June 2018. Yet the Euro STOXX increased from 3,442 to 3,461 in the same period of time. The Dow Jones International also increased, averaging 24,942 points in July 2018, compared to 24,790 points in June 2018.

Change in M3^a

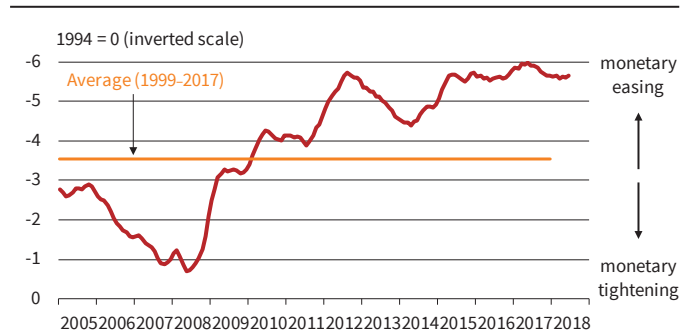


^a Annual percentage change (3-month moving average).
Source: European Central Bank.

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The annual growth rate of M3 decreased to 4.0% in July 2018, from 4.5% in June 2018. The three-month average of the annual growth rate of M3 over the period from May 2018 to July 2018 reached 4.2%.

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.
Source: European Central Bank; calculations by the ifo Institute.

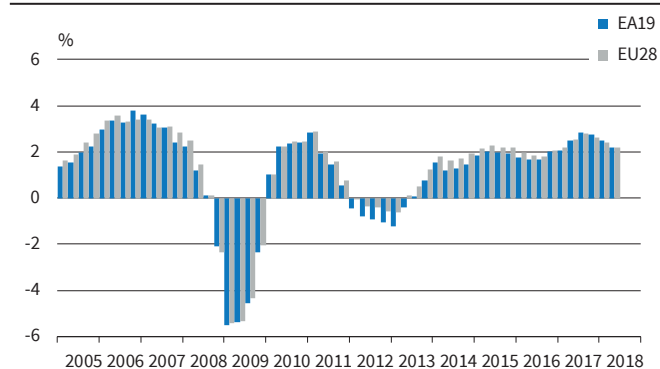
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Between April 2010 and July 2011 the monetary conditions index remained rather stable. This index then continued its fast upward trend since August 2011 and reached its first peak in July 2012, signalling greater monetary easing. In particular, this was the result of decreasing real short-term interest rates. In May 2017 the index reached the highest level in the investigated period since 2004, but its downward trend thereafter stopped in April 2018.

EU Survey Results

Gross Domestic Product in Constant 2010 Prices

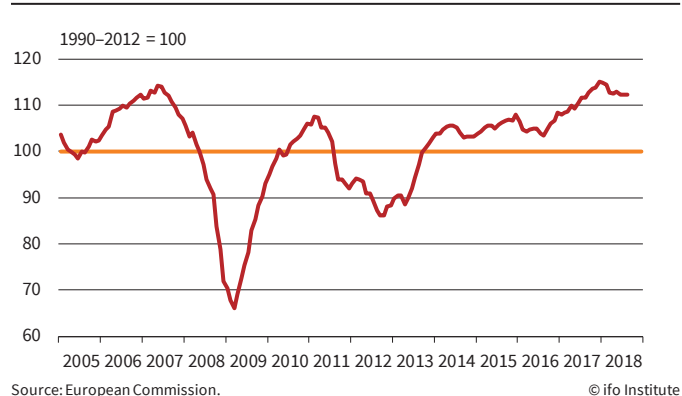
Percentage change over previous year



According to the Eurostat estimates, GDP grew by 0.4% in both the euro area (EA19) and the EU28 during the second quarter of 2018, compared to the previous quarter. In the first quarter of 2018 the GDP had also grown by 0.4% both in the euro area and in the EU28. Compared to the second quarter of 2017, i.e. year over year, seasonally adjusted GDP rose by 2.2% in both the EA19 and the EU28 in the second quarter of 2018.

EU28 Economic Sentiment Indicator

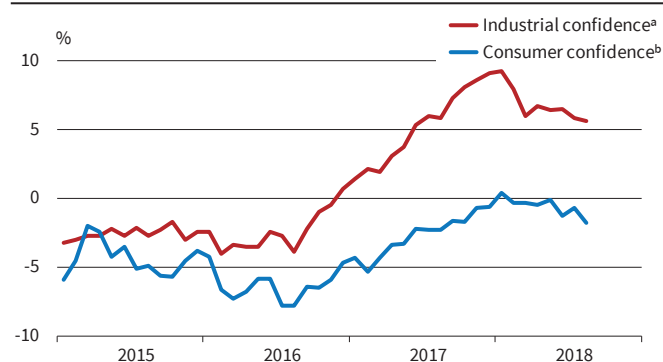
Seasonally adjusted



In August 2018 the Economic Sentiment Indicator (ESI) decreased in the euro area (by 0.5 points to 111.6), while it remained stable in the EU28 (at 112.3). In both zones the ESI stands above its long-term average.

EU28 Industrial and Consumer Confidence Indicators

Percentage balance, seasonally adjusted

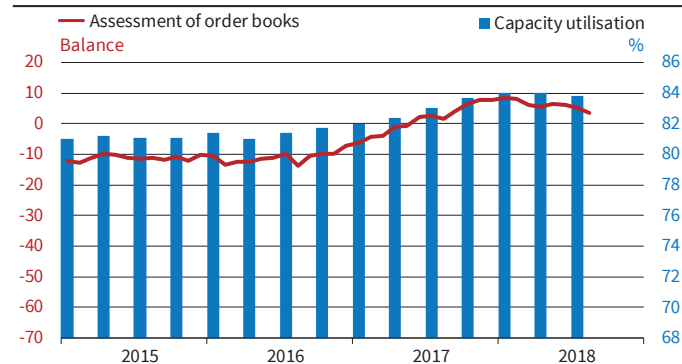


In August 2018, the *industrial confidence indicator* decreased by 0.2 in the EU28 and by 0.3 in the euro area (EA19). The *consumer confidence indicator* also decreased by 1.1 in the EU28 and by 1.4 in the EA19.

^a 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).

^b 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.

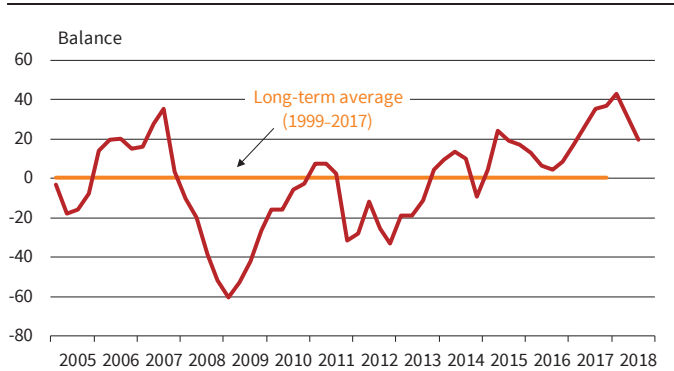
EU28 Capacity Utilisation and Order Books in the Manufacturing Industry



Managers' assessment of *order books* reached 3.5 in August 2018, compared to 5.0 in July 2018. In May 2018 the indicator had amounted to 6.0. *Capacity utilisation* reached 83.8 in the third quarter of 2018, remained rather stable compared to the second quarter of 2018.

Euro Area Indicators

ifo Economic Climate for the Euro Area

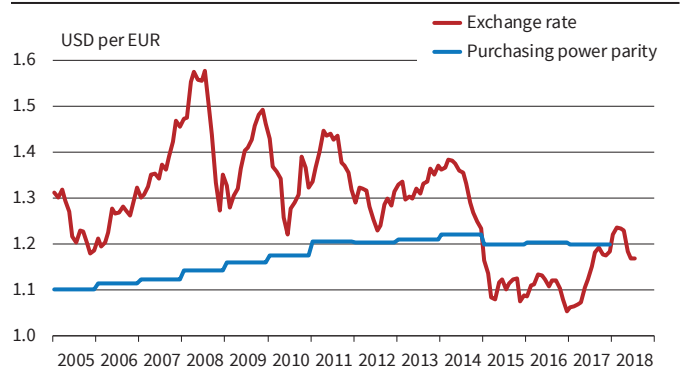


Source: ifo World Economic Survey (WES) III/2018.

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The ifo Economic Climate for the euro area (EA19) fell from 31.1 balance points last quarter to 19.6 balance points in the third quarter of 2018. Although experts' assessments of the current economic situation only deteriorated slightly, their economic expectations clouded over significantly, dropping to their lowest level since the end of 2012. This signals an economic slowdown in the euro area.

Exchange Rate of the Euro and Purchasing Power Parity

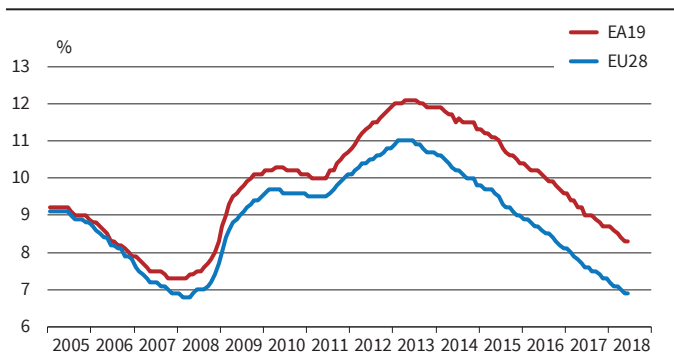


Source: European Central Bank; OECD; calculations by the ifo Institute.

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The exchange rate of the euro against the US dollar averaged approximately 1.17 \$/€ between May 2018 and July 2018. (In April 2018 the rate had amounted to around 1.23 \$/€.)

Unemployment Rate



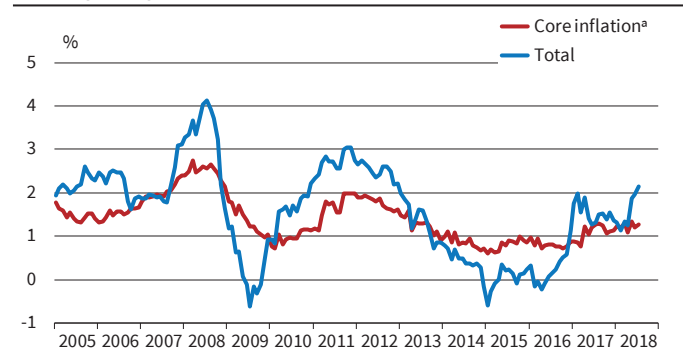
Source: Eurostat.

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Euro area (EA19) unemployment (seasonally adjusted) amounted to 8.3% in June 2018, stable compared to May 2018. EU28 unemployment rate was 6.9% in June 2018, also stable compared to May 2018. In June 2018 the lowest unemployment rate was recorded in the Czech Republic (2.4%) and Germany (3.4%), while the rate was highest in Greece (20.2%) and Spain (15.2%).

Inflation Rate (HICP)

Percentage change over previous year



^a Total excl. energy and unprocessed food.

Source: Eurostat.

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Euro area annual inflation (HICP) was 2.1% in July 2018, down from 2.0% in June 2018. Year-on-year EA19 core inflation (excluding energy and unprocessed foods) amounted to 1.3% in July 2018, again down from 1.2% in June 2018.