



KEY FIGURES

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Content

Foreword

European economy at a glance

1- Short-term indicators

Inflation rate

External trade

Money and Finance

Industrial production

2- Dossier of the month

European Union direct investment in Asia

Real producer prices of agricultural products

Gross Domestic Product per person in purchasing power

Foreword

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In February, the US dollar failed to hold on to all of January's gain against the Deutschemark, falling from 1.49 to 1.45, before ending the month higher at 1.47 (London closing rates).

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Broad money supply trends continued to differ sharply in the European Union of Fifteen at the end of 1995.

Foreign official reserves (excluding gold) reached a record level in ECU terms in the Belgium / Luxembourg Economic Union, Ireland, and Austria during 1995.

European Union of Fifteen industrial production was up by 3% in 1995.

In the "Dossier of the month" of this edition the first part is devoted to *European Union direct investment in Asia*, the second part to *Real producer prices of agricultural products*, and the third part to *Gross Domestic Product per person in purchasing power*.

European economy at a glance



	Period	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR 15
GDP, seasonally adjusted volume trends, T/T-1 %	III/95	:	0.5	0.1	:	0.5	0.2	:	2.0	:	0.3	0.0	:	0.2	0.3	0.4	0.5
GFCF, seasonally adjusted volume trends, T/T-1 %	III/95	:	1.8	-1.06	:	1.72	0.99	:	0.99	:	-2.64	2.4	:	1.97	3.99	-1.11	-0.1
Production index 1990=100 total, seasonally adjusted (1)	11/95	:	115.1	93.3	<i>101.6</i>	102.9	102.8	<i>165.5</i>	108.2	:	105.1	<i>112.3</i>	<i>99.9</i>	115.4	115.6	105.7	102.6
Consumer price index T/T-12 %	01/96	2.0	1.7	1.6	8.4	3.9	2.0	2.4	5.4p	1.1	1.9	<i>1.8</i>	2.5	0.5	2.0	2.9	2.8p
Conversion rate 1 ECU=... monthly average	02/96	38.8	7.31	1.89	312.1	159.2	6.50	0.81	2026	38.8	2.11	13.28	196.3	5.87	8.86	0.84	:
Exchange rate 1 USD=... monthly average	02/96	30.1	5.67	1.47	242.2	123.5	5.04	0.63	1572	30.1	1.64	10.31	152.4	4.55	6.88	0.65	:
Money supply, M1 T/T-12 %	11/95	<i>2.6</i>	:	4.3	12.8	3.5	2.1	13.6	0.6	:	8.9	<i>6.5</i>	7.4	9.9	:	:	:
Yield on public sector long-term bonds %	01/96	6.4	7.0	5.9	<i>15.8</i>	9.5	6.4	7.3	10.4	5.4	5.9	6.2	9.4	7.0	8.2	7.6	:
Unemployment rate seasonally adjusted %	12/95	10.3	6.1	8.6	:	22.2	11.6	14.6	126	4.0	<i>6.7</i>	:	7.3	17.0	9.7	8.6	10.9
Extra-EU Trade balance BN ECU	II/95	-0.2*	0.8	6.9	-0.9	-1.3	4.2	0.2	3.2	-0.2*	-5.4	0.9	-0.8	1.5	2.2	-5.4	5.8

Data in italics are not necessarily for the indicated period but are the latest available (usually the previous month or quarter)

* BLEU

(1) Excluding construction



**European Union of Fifteen
annual inflation down to
2.8% in January 1996**

Inflation rate

European Union of Fifteen annual inflation fell to 2.8% in January 1996 from 3% in December 1995. This is lowest average rate of inflation since January 1987 for what is now EUR15. A year before it was 3.1%. For the last three months of 1995 it was 3%. The rate has fallen steadily for more than five years from a peak of 6.4% in October 1990.

In January inflation was below the European Union of Fifteen average in ten Member States (the Austrian figure was not available but 1.8% in December). Lowest rate remained Finland's 0.5%, highest Greece's 8.4%. Sharpest fall between December and January was in the UK - from 3.2% to 2.9%.

January rates in Member States, in ascending order of inflation, with corresponding figures for a year earlier, are as follows:

	<u>Jan. 1996</u>	<u>Jan. 1995</u>		<u>Jan. 1996</u>	<u>Jan. 1995</u>
	Jan. 1995	Jan. 1994		Jan. 1995	Jan. 1994
Finland	0.5 %	1.8 %	Sweden	2.0 %	2.9 %
Luxembourg	1.1 %	2.3 %	Ireland	2.4 %*	2.3 %*
Germany	1.6 %	2.2 %	Portugal	2.5 %	4.4 %
Denmark	1.7 %	2.3 %	UK	2.9 %	3.3 %
Austria	:	2.6 %	Spain	3.9 %	4.4 %
Netherlands	1.9 %	2.4 %	Italy	5.4 %p	3.9 %
Belgium	2.0 %	1.9 %	Greece	8.4 %	11.1 %
France	2.0 %	1.7 %	EUR 15	2.8 %p	3.1 %

* The index for Ireland is quarterly; November 1995/1994 and November 1994/1993.
p Provisional

External trade

8.4 bn ECU surplus in extra-EU trade in first half of 1995

The European Union of Fifteen trade surplus with the rest of the world reached ECU 8.4 billion in first half of 1995. The European Union of Fifteen trade balance with the rest of the world was positive for the fifth consecutive quarter. The surplus reached ECU 2.6 bn during first quarter 1995 and 5.8 bn during the second. Most pronounced surpluses in the first half were in Germany (12.1 bn), France (7.2 bn), Italy (5.4 bn) and new Member States: Sweden (4.3 bn), Finland (2.6 billion) and Austria (1.8 bn). Main deficits were for the Netherlands (11.1 bn - but many products are later re-exported to other EU countries) and the United Kingdom (9.6 bn). After strong rises in export and import values in 1994 (both up around 11%), growth rates declined last year, with exports and imports

up 10.3% and 5.8% respectively. European Union of Fifteen exports to the rest of the world grew by 12.4% (year on year) in first quarter 1995 and by 8.3% in the second quarter. Excepting the new Member States, Portugal (23.0%), France (14.5%) and Ireland (14.5%) showed highest growth in the first half. Only the United Kingdom had slightly declining exports (down 0.4%). After the strong rise in 1994, imports were up by only 5.8% in first half 1995 (4.5% in the first quarter and 7.0% in the second quarter). Increases were most pronounced for Ireland (16.3%) and Belgium-Luxembourg (14.8%). After a fall in the first quarter (-5.5%), United Kingdom imports recovered in the second quarter (up 5.2%). Greece (4.0%) and Denmark (4.1%) also had growth below average.

Money and Finance

Exchange rates

Dollar edges lower in February 1996

In February, the US dollar failed to hold on to all of January's gain against the Deutschemark, falling from 1.49 to 1.45, before ending the month higher at 1.47 (London closing rates). Similarly, against the Japanese yen, the dollar fell from 107 to 104, rising to 105 at end February. Exchange market intervention by the central bank of Japan helped to stem the decline. The dollar had begun the year at DM 1.43 and ¥ 103. These movements had little significant effect on intra-EU exchange rates. Against the Deutschemark, the French franc rate ended the month where it began, at 3.43. Sterling was more volatile, moving in a range of 2.23 to 2.27, before ending the month where it began at 2.25. The Spanish peseta, Portuguese escudo, and Greek drachma were steady throughout February, at around 84.2, 104, and 165 to the DM respectively. However, the Italian lira appreciated, falling below 1,060 for the first time

since a year earlier, while the Swedish krona rose to 4.59 by end month. By contrast, the Irish pound and Finnish markka both depreciated slightly, to 0.432 and 3.09 against the DM respectively.

The trend in official interest rate movements in the European Union of Fifteen remained downwards during February, as member states responded to signs of economic slowdown. Several countries eased their rates, including Germany, France, Austria, Belgium, the Netherlands, and Sweden.

Outside the European Union of Fifteen, on 28 February the Czech National Bank announced a widening of the band within which the koruna is allowed to fluctuate against a basket containing the DM and US dollar, from +/- 0.5% to +/- 7.5%. The aim is to stem the volume of capital inflows, which has boosted the money supply and therefore threatens to cause an upsurge in inflation.

Government bond yields

Market rally ends

The global bond market rally which began in early 1995 came to an abrupt halt in February 1996. The 10-year US Treasury bond yield jumped to 6.2% by the end of February from 5.6% a month earlier. The Japanese 10-year government bond yield, having reached a record low of 2.6% in December 1995, rose to 3.4% by end February. All European markets suffered a setback in February, affected by the extent to which yields had fallen over the previous year.

The yield on 10-year German Bunds, having fallen below 6% in January, ended February at 6.4%, 0.6 percentage points higher than a month earlier. Other European government bond yields showed a similar sharp turnaround. However, the higher-yielding bonds of Italy, Spain, and Portugal generally performed better than lower-yielding bonds, the Italian 10-year yield for example rising 0.4 percentage points during February, to 10.3%.

Money supply

Sharp differences in trend

Broad money supply trends continued to differ sharply in the European Union of Fifteen at the end of 1995. In Germany, the Netherlands, and Italy, the rate of growth gradually increased in late 1995, but remained fairly weak. German M3 ended the year 3.7% higher than a year earlier, while M2 in the Netherlands grew 4.4% in the course of the year, and Italian M2 by 2.7%. M3 growth in France and Austria was fairly steady for most of 1995: the increase was 3.8% for France in the year to November, and 4.3% for Austria in the year to October. Much higher growth rates in broad money supply were recorded in the latter half of 1995 for Greece,

Ireland, and the UK. Comparing mid-1995 to the end of the year, M3 growth accelerated in Greece from 4.4% to 10.5%, and in Ireland from 9.7% to 14.1%, while M4 growth in the UK rose from 6.2% to 10.1%. Over the same period, growth in the Spanish ALP monetary measure edged lower from 10.3% to 9.2%, while Portugal's L-measure grew 9.2% in the year to October, down from a peak of 14% in March 1995. By contrast, M3 growth was close to zero in Finland and Sweden in late 1995, and remained slightly negative in Belgium, while the Danish money stock grew only 2.5% in the year to November.

Record levels in the BLEU, Ireland, Austria

Foreign official reserves

Full year data for 1995 are now available for several European Union of Fifteen countries. Foreign official reserves (excluding gold) reached a record level in ECU terms in the Belgium / Luxembourg Economic Union, Ireland, and Austria during 1995. For Belgium / Luxembourg, the peak was 12.6 bn in June 1995. Ireland's reserves reached a peak in September 1995 of 6.6 bn, and Austria 17.4 bn in August 1995. Germany's reserves edged higher to ECU 64.7 bn at end 1995, compared with 62.9 bn at end 1994, but well below the August 1993 peak of

90.4 bn, at a time of crisis in the EMS exchange rate mechanism. Spain's end-year reserves have fallen for four consecutive years to 26.4 bn in December 1995, although the level has been slowly rising in recent months.

Meanwhile, Japan's end-year reserves have risen for four consecutive years in ECU terms, to a world record 139.4 bn in December 1995, compared with 102.3bn at end 1994. US reserves stood at ECU 57.2 bn in November 1995, down from a peak of 59.3 bn in July, but 5.8 bn higher than at end 1994.

European Union of Fifteen industrial production 3% up in 1995

Industrial production

European Union of Fifteen industrial production was up by 3% in 1995. This was down on the 4.9% rise between 1993 and 1994. There was growth in all Member States. Highest was Sweden's 10.5%. Next came the other two new Member States: Austria with 9% and Finland, 7.5%. Highest growth in the former 12 European Union countries

was Italy's 5.6%. Germany recorded the lowest rise, 0.5% - in '94 it was 3.8%. Seven of the 14 for which data are available had increases above the European Union average. (Irish data are not available).

Producer prices were up 3.8% in 1995 compared to a rise of 2% in 1994.

Annual growth in industry (%)

	Production		Producer prices	
	1994	1995	1994	1995
EUR 15	4.9	3.0	2.0	3.8
Belgium	1.8	3.0	1.3	2.2
Denmark	10.7	3.9	0.7	3.7
Germany	3.8	0.5	0.7	1.7
Greece	1.0	2.5	7.2	9.4
Spain	7.5	4.8	4.3	6.4
France	3.4	2.3	0.2	2.2
Italy	6.2	5.6	3.7	7.9
Luxembourg	5.9	*	2.0	3.4
Netherlands	2.9	1.5	0.7	2.9
Austria	4.6	9.0	:	:
Portugal	-0.3	3.4	:	:
Finland	10.7	7.5	1.9	1.8
Sweden	10.6	10.5	4.3	8.0
UK	5.0	2.2	2.5	3.8

* Cannot be computed yet

: No index exists yet

Dossier of the month

European Union direct investment in Asia

European Union of Twelve investment in Asia up 2.2 bn ECU in 1994 to 2.8 bn

European Union of Twelve direct investment in Asia (excluding the Near and Middle East) totalled 2.8 bn ECU in 1994. This is a 2.2 bn rise on the 1993 figure largely due to

increased investment in mining and quarrying (which includes the extraction of petroleum and gas) and manufacturing.

Malaysia, Philippines and Thailand take 42%

Japan accounted for 9% (253 million ECU) of the total.

Malaysia, the Philippines and Thailand took 42% (1.2 bn).

European Union of Twelve invested 7.5 bn ECU in Asia 1990-1994

Between 1990 and 1994 the European Union of Twelve invested 7.5 bn ECU in Asia. Malaysia, the Philippines and Thailand absorbed 3.3 bn or 44%. Direct Investment to these three countries rose by a factor of 3.5 during this period - to 1.2 bn in 1994. In contrast to European Union of Twelve disinvestment in other Asian economies, there was

none in these countries in this period.

Nearly three-quarters (5.5 bn ECU) of European Union of Twelve investment in Asia between 1990 and 1994 was in mining and quarrying (including extraction of petroleum and gas) and manufacturing. Investment in financial intermediation was 19.3 % of the total or 1.45 bn.

1.4 bn disinvestment in transport and telecommunications- blip or trend

Over this period European countries have been disinvesting in transport and telecommunications - to the tune of 1.4 bn ECU. Only data on the stock of

European Union of Twelve investment in Asia or a longer series of statistics will determine whether this is a blip or a trend.

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1994

Table 1

European Union Direct Investment in Asia 1990-94: Main Receivers (ECU millions)

	1990	1991	1992	1993	1994
PRIMARY SECTOR	243	328	320	594	1210
Agriculturing and fishing	-7	27	2	-17	4
Mining and quarrying	250	301	318	611	1206
SECONDARY SECTOR	48	1419	1025	-540	824
Manufacturing	48	1419	1025	-540	824
TERTIARY SECTOR	732	-68	-123	515	720
Electricity, gas and water	1	3	5	21	9
Construction	15	76	2	-6	-1
Trade and repairs	655	-193	-83	101	72
Hotels and restaurants	5	3	-66	4	0
Transports, communication	-420	-97	-468	-120	-221
Financial intermediation	267	17	323	423	420
Real estate & business act.	201	70	130	88	398
Other services	9	55	34	4	43
NOT ALLOCATED	23	46	63	53	78
ALL SECTORS, TOTAL	1046	1726	1284	622	2833

1. Figures for 1990 to 1994 are for the then 12 Member States and exclude reinvested earnings.
2. Data for Total Asia exclude the Near and Middle East and include the following countries: Afghanistan, Bangladesh, Brunei, Bhutan, Myanmar, China, Hong Kong, Indonesia, India, Japan, Kyrgyzstan, Cambodia, North Korea, South Korea, Kazakhstan, Laos, Sri Lanka, Mongolia, Macao, Maldives, Malaysia, Nepal, Philippines, Pakistan, Singapore, Thailand, Tajikistan, Turkmenistan, Taiwan, Uzbekistan and Vietnam.
3. To improve economic analysis, a distinction has been drawn between the Asian countries at the first wave of industrialisation - Hong Kong, South Korea, Singapore and Taiwan, collectively known as NICs1 (Newly Industrialising Countries first wave) - and the three countries at the second wave of industrialisation, Malaysia, Philippines and Thailand, known as NICs2.
4. There is of course a relationship between the target countries and economic activity sectors.
 - a. Investment in the primary sector (includes petroleum) is concentrated to a large degree in NICs2 countries.
 - b. Investment in the secondary sector (manufacturing) is evenly divided between NICs1 and NICs2.
 - c. Investment in the tertiary sector is largely dominated by Japan. Although, investment in Financial Intermediation is strong in Hong Kong and Singapore.
5. Further information on Foreign Direct Investment, may be found in the Eurostat "European Union Direct Investment - 1984-1993" publication and diskette.

Real producer prices of agricultural products

European Union of Fifteen real agricultural prices almost unchanged in 1995

Real agricultural producer prices (output) in the European Union of Fifteen* are forecast to remain almost unchanged (-0.2%) last year compared to 1994.

Real prices stabilised in 1994 after falling by 15.2% from 1990.

Real prices for crop products are forecast to increase by 2.7%. Strong rises are expected for olives and olive oil (11.8%) and wine must and wine (11.2%). There should be more moderate rises for root crops (7.6%) and fruit (6%). The root crops' rise is due mainly to potatoes for consumption (up 15.6%).

In contrast, falls are anticipated for fresh vegetables (down 2.9%) and cereals and rice (0.7%) - mainly the result of a 2.6% price fall for soft wheat.

Real prices for animals and animal products are expected to fall by 2.8%. This is forecast for all groups except pigs: notably milk (down 1.5%), cattle excluding calves (8%), poultry (8.8%) and eggs (11%). Although up 3.7%, the pig index remains at a low level, 76.4 compared to 100 in 1990.

* Excluding new German Länder

Steep falls for Austria and Finland

Across Member States, the UK is expected to show a 4.4% rise in the real index of producer output prices. Only other countries forecast to rise are Greece (0.9%), Portugal (1.2%), Italy (2.4%) and Spain (3.1%). New Members Austria and

Finland are expected to register large falls of 23.2% and 26.3% respectively. The report says these will be compensated for by national and European Union of Fifteen subsidies. Otherwise, the largest fall is Belgium's 4.9%.

Table 1
European Union of Fifteen index of real producer prices of agricultural products
(% change forecast between 1995 and 1994)

	Crop products	Animal products	Total
EUR 15	2.7	-2.8	-0.2
B	-6.1	-4.2	-4.9
DK	1.5	-2.7	-1.2
D (1)	1.3	-2.8	-1.6
GR	2.8	-4.0	0.9
E	6.9	-3.0	3.1
F	0.2	-3.5	-1.1
IRL	4.1	-1.1	-0.5
I	5.4	-2.0	2.4
L	-1.1	-0.6	-0.7
NL	-5.7	-1.5	-3.5
A	-20.2	-24.1	-23.2
P	6.7	-4.7	1.2
FIN	-33.9	-23.3	-26.3
S	6.6	-6.3	-3.0
UK	9.1	3.3	4.4


(1) Data for the Federal Republic of Germany refer to boundaries prior to 3 October 1990, including West Berlin

Terms of trade rise by 0.7%

Real purchase prices of the means of agricultural production (input) are forecast to fall by 0.9%, continuing the trend of recent years. As a result real agricultural terms of trade are expected to rise only slightly by 0.7%. Largest rise is expected to

be the UK's 5.4% and the biggest falls in Sweden (6%), Finland (7.4%) and Austria (22.4%). Real terms of trade fell from a base of 100 in '90 to 89 in 1993 and partly recovered in 1994 to 91.7 with a further rise to 92.3 anticipated for 1995.

Table 2
Real agricultural terms of trade
% change forecast between 1995 & 1994

	1995/1994	
EUR 15	0.7	
B	-3.7	
DK	-1.1	
D (1)	-1.1	
GR	3.0	
E	3.7	
F	-1.0	
IRL	-0.4	
I	2.4	
L	0.1	
NL	-2.5	
A	-22.4	
P	3.4	
FIN	-7.4	
S	-6.0	
UK	5.4	

(1) Data for the Federal Republic of Germany refer to boundaries prior to 3 October 1990, including West Berlin

GR	3.0
E	3.7
IRL	-0.4
I	2.4
L	0.1
NL	-2.5
A	-22.4
P	3.4
FIN	-7.4
S	-6.0
UK	5.4

(1) Data for the Federal Republic of Germany refer to boundaries prior to 3 October 1990, including West Berlin

Gross Domestic Product per person in purchasing power

Seven regions top 1½ the European Union of Fifteen average

The report gives 1993 GDP per person in purchasing power for regions in what are now the European Union's 15 Member States. Seven regions - three of them embracing national capitals - are more than one-and-a-half the European Union average (100). Hamburg (190) tops the "league table" with nearly twice the average,

although the large number of non-residents working there is a factor. Brussels (182) is not far behind. Number three is Ile de France (166) with Darmstadt (164) next. Vienna (161) is in fifth place, followed by two other German regions, Oberbayern (158) and Bremen (154). Luxembourg, the country, not broken down into regions, is 160.

GDP per head 1993 in PPS:

Regions above 1½ times European Union of Fifteen average

EUR 15	100
Hamburg	190
Brussels	182
Ile de France	166
Darmstadt	164
Vienna	161
Oberbayern	158
Bremen	154

Only six now under half European Union average

The report highlights improvements in 1993 in regions with the lowest GDP per person. Only six are now under half the EU average - all in Greece or Portugal (1). Lowest in the European Union are Portugal's Alentejo and the Azores (both 42). The five new German Länder, which were under 50% in 1992, are above it in 1993. No regions are now under 40%. No region in Greece, Portugal or Spain reaches the EU average, although several in Spain come close, notably Baleares (99) and Madrid (97).

The Swedish figures, presented for the first time, show no large regional variations. All regions are close to the European Union average but only Stockholm (119) above it. Grampian in Scotland boasts 134, the UK's second highest region after Greater London (144). Northern Ireland (79), in the UK, closely matches the Republic of Ireland (81).

(1) The French Overseas Departments were 48 in 1991, latest year available.

**GDP per head 1993 in PPS:
Regions below half European Union of Fifteen average**

Alentejo (Portugal)	42
Azores (Portugal)	42
Madeira (Portugal)	45
Ipeiros (Greece)	46
French Overseas Departments *	48
Voreio Aigaio (Greece)	49
Centro (Portugal)	49

EUR 15 100

* 1991 data

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