

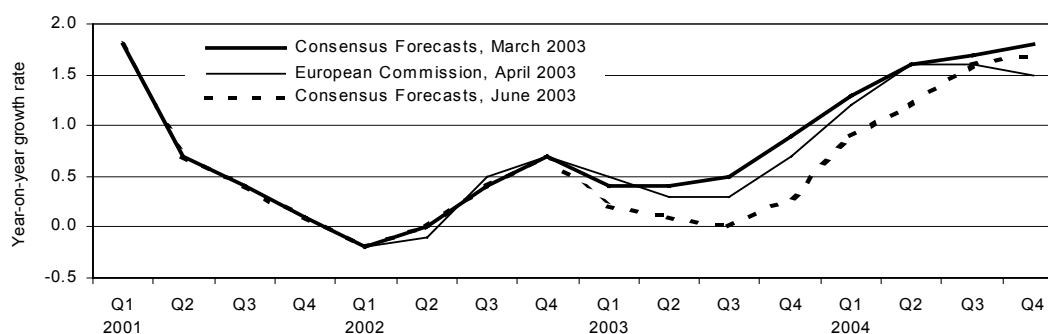
Expenditure structure of gross domestic product in the euro-zone, a comparison of forecasts									
Real growth rates, %	2002 estimate	2003 forecast				2004 forecast			
		EC April 03	Consensus Forecasts			EC April 03	Consensus Forecasts		
			March 03	May 03	July 03		March 03	May 03	July 03
Gross domestic product	0.8	1.0	1.1	1.0	0.6	2.3	2.1	2.0	1.7
Private consumption	0.5	1.2	1.2	1.1	1.2	2.0	1.9	1.8	1.7
Government consumption	2.7	1.6	1.4	1.5	1.3	1.5	1.3	1.4	1.4
Gross fixed cap. formation	-2.6	0.3	0.2	0.0	-1.0	3.2	2.8	2.7	2.4
Exports of goods & serv.	1.2	3.1	3.9	3.1	1.6	5.7	5.5	5.0	3.9
Imports of goods & serv.	-0.4	3.6	4.0	3.6	3.4	6.0	5.8	5.6	4.7

Sources of data: European Commission (April 2003), Consensus Forecasts (March, May, July 2003).

The **EU-15** and the **euro-zone** economy recorded 0.1% economic growth in the **first quarter** of this year over the preceding one, according to the Eurostat third release figures. Year-on-year growth was 1.1% and 0.9%, respectively, 0.3 of a percentage point lower than in the preceding quarter. According to July's forecasts from the European Commission's model, the **second and third quarters** are expected to see modest quarterly growth, ranging between 0.0% and 0.4%, while the Commission has announced to revise economic growth forecasts for the euro-zone for 2003 from 1% to 0.7%, though the Commission still believes that the scenario of a gradual recovery in the second half of the year is the most likely one. This recovery, however, is likely to be modest, as suggested by the latest Consensus forecasts (see table). The biggest **discrepancy from its spring forecasts for the euro-zone** can be seen in **investment consumption and exports of goods and services**. The European Commission estimates (Quarterly Report on the Euro area II/2003) that the main reason for the weak export demand seen in the last quarter of 2002 and the first quarter of this year was low economic activity in the world, but it also points out that even if the global economy recovers, exports may be a weaker lever of economic growth than expected because of the strong euro. July's Consensus forecast of export growth is 1.5 percentage points lower than the Commission's spring forecast and 2.3 percentage points lower than the March Consensus forecast. Investment consumption is not expected to recover this year and might record a fall for the third year in a row (-0.6% in 2001 and -2.6% in 2002). Contrary to expectations, the industrial confidence indicator (excluding construction) has still not improved since the end of war in Iraq and it dropped markedly in July; according to the quarterly survey in manufacturing, capacity utilisation was about 80% from April to July. In the euro-zone, the volume of **industrial production** (excluding construction) dropped by 0.9% in May over April, according to seasonally adjusted figures, which was the biggest fall this year. May also saw a fall in year-on-year terms for the first time this year, down 1.3%. These developments led to a downward adjustment of industrial production growth forecasts, down from March's 1.0% to July's 0.4% (Consensus). Contrary to business indicators, the consumer confidence indicator and the retail trade confidence indicator improved. Expectations that **private consumption** will strengthen more this year than in last year (up 1.2%) remain unchanged. The forecasts of **imports of goods and services** and **government consumption** were downgraded much less than the forecasts of exports and investment consumption (see table).

After stagnating in the last quarter of 2002, **Germany's** gross domestic product dropped by 0.2% in the first quarter of 2003 (measured quarter on quarter). Year-on-year growth was 0.2%, 0.5 of a percentage point weaker than in the preceding quarter. The Consensus forecast of annual economic growth, which stood at 0.7% in March, was corrected to 0.1% in July (the European Commission's spring forecast was 0.4%), while the IFO institute expected in June that the German economy will stagnate. As seen in the euro-zone, the expected slowdown is the result of the downgraded forecast of **investment consumption** (-1.3%, IFO), which will contract for the third year running, mainly due to the ongoing negative trends in construction (-3.0%), while investment in machinery and equipment should rise by about 1%. Expectations about growth in **private consumption** and **imports** of goods and services have improved since spring (1% and 4.6%, respectively); however, since **exports** of goods and services should be lower than anticipated (2.5%), the negative contribution of international trade to economic growth will increase.

Graph: Comparison of economic growth forecasts for Germany by quarters, % year-on-year growth rates



Source of data: European Commission (Economic Forecasts, Spring 2003), Consensus Economics (March, June 2003).