

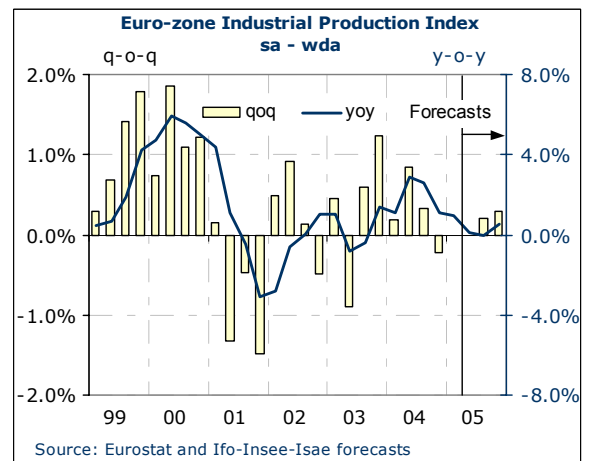
Growth remains modest

After the temporary improvement in Q1 2005, GDP is expected to grow modestly by 0.2% in Q2, and to gradually strengthen in Q3 (0.3%) and in Q4 (0.4%). Industrial production would still remain flat in Q2 and increase slightly by 0.2% in Q3 and by 0.3% in Q4 owing to some improvement in domestic demand and in exports. This prospect is supported by business surveys provided by Ifo, Insee and Isae, which have recently stopped deteriorating after showing continuous signs of slackness. Consumer expenditure is expected to rise with low rates of 0.2% in Q2, 0.3% in Q3 and 0.3% in Q4, as consumption is still hampered by high levels of unemployment combined with high oil prices. Due to the recent depreciation of the euro and the high level of oil prices, which are expected to remain between \$52 and \$55/barrel until the end of the year, inflation would stay at 2.0% in both Q3 and Q4.

Industrial production would remain moderate

Industrial production in the euro-zone stagnated in Q1 2005 (0.0%) in line with a slowdown in domestic demand and exports. The slackness of industrial output is likely to continue in Q2 (0.0%), as past business survey indicators have fallen continuously. However, a modest improvement of industrial production would emerge in Q3 (0.2%) and in Q4 (0.3%). Latest business surveys for France have showed a moderate upswing while in Italy and in Germany, business leaders' expectations have stopped deteriorating. It points out a slight improvement in domestic demand, despite the hike in oil prices, and a strengthening of exports, stimulated by the depreciation of the dollar/euro exchange rate.

unemployment, which is reflected in moderate wage agreements. Moreover, consumer confidence stagnates at a low level, also in the light of high oil prices. Under these circumstances, private consumption would rise by 0.2% in Q2, by 0.3% in Q3 and by 0.3% in Q4.



GDP would accelerate only gradually

Real GDP increased by 0.5% in Q1 2005, but the upswing came along with a setback in private consumption and investment accompanied by a downturn of exports and imports. Real GDP growth is expected to rise only marginally in the course of the coming quarters.

Private consumption would develop modestly as expenditure environment remains unfavourable. Disposable income is still dampened by the high level of

2005 Forecasts, % changes, sa - wda

q-o-q	y-o-y	Q1-2005	Q2 - 2005 estimations	Q3 - 2005 forecasts	Q4 - 2005 forecasts	2005 forecasts			
IPI	0.0	0.9	0.0	0.1	0.2	0.0	0.3	0.5	0.4
GDP	0.5	1.4	0.2	1.1	0.3	1.1	0.4	1.4	1.2
Consumption	0.3	1.3	0.2	1.4	0.3	1.4	0.3	1.1	1.3
Inflation		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Source: Eurostat and Ifo-Insee-Isae forecasts

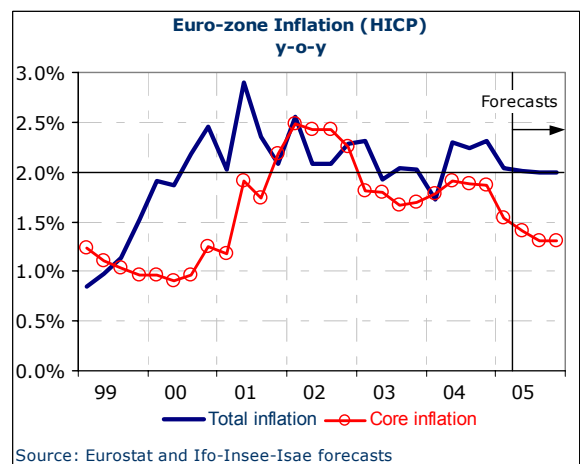
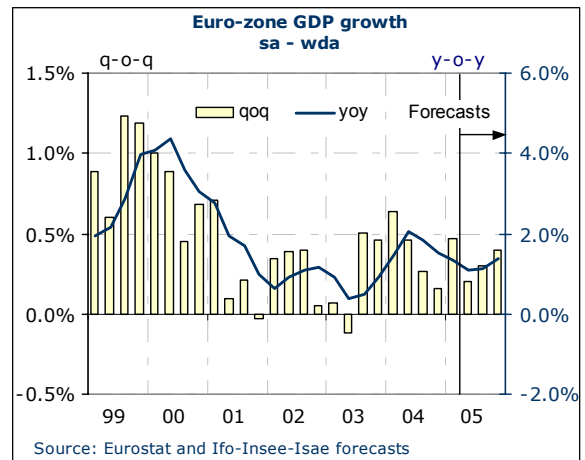
Private investment would improve slightly in a favourable environment of low interest rates. Particularly, investment in

equipment is expected to recover in the coming quarters. Exports would show an accelerating upturn owing to the depreciation of the dollar/euro exchange rate, thereby constituting the main contribution to growth.

Overall, real GDP is expected to increase by 0.2% in Q2, followed by 0.3% in Q3 and 0.4% in Q4. On the grounds of this quarterly profile, GDP would rise by 1.2% on average in 2005.

Inflation would remain at 2.0%

The recent hike in oil prices and the depreciation of the euro are the main forces keeping inflation at its current level. Under the assumption that oil prices remain between \$52 and \$55/barrel and that the dollar/euro exchange rate fluctuates around 1.20 in the second half of the year, inflation would remain at 2.0% in both Q3 and Q4. Tensions would be kept in check by persisting low growth of domestic demand and the further widening of the output gap in the euro-zone until the end of this year. This tendency is reflected in core inflation which would fall below 1.5% from Q2 on.



Methodological note

This publication is jointly produced by the German Ifo Institute, the French Insee institute and the Italian Isae institute. The forecasts are built up with the help of different forecasting tools shared by the three institutes, using time series models based on business surveys by national institutes, Eurostat and the European Commission.

A joint two-quarter-ahead forecast will be made on a quarterly basis for industrial production, GDP, consumption and inflation for the euro-zone. The release of the forecast coincides with the quarterly national accounts second release by Eurostat.

More in-depth economic diagnoses for each country (Germany, France, Italy), can be found in:

- [Ifo Konjunkturprognose](#), Ifo
- [Conjoncture in France](#), Insee.
- [Abridged Quarterly Report](#), Isae

Contacts:

Gebhard Flaig +49 (0) 89 92 24 1379
 Karine Berger +33 (0) 1 41 17 60 59
 Sergio De Nardis +39 (0) 64 44 82 310

Next release:

October 13, 2005 (day of Eurostat GDP second release)

Next forecast horizon:

2006 Q1