

Cruising speed

After a slight acceleration in the first half of the year, euro-zone GDP is likely to rise by 0.5% (q-o-q) in both Q3 and Q4 before slowing down to 0.4% in Q1 2005. As is already being pointed out in Ifo-Insee-Isae business surveys, the business climate has been showing signs of slackening: IPI growth, after a weak performance in Q3 (+0.3%), is expected to rise by 0.6% in Q4 and to decelerate to 0.4% in Q1 2005. On the domestic demand side, private consumption growth is expected to stabilise at 0.3% per quarter until the beginning of next year, in line with the low level of consumer confidence recorded by the institutes. On the assumption that the current high peaks of oil prices are temporary, inflation (HICP) will probably ease from its peak in Q2 to 2.2% over the time-horizon of this forecast.

Industrial activity slowing down

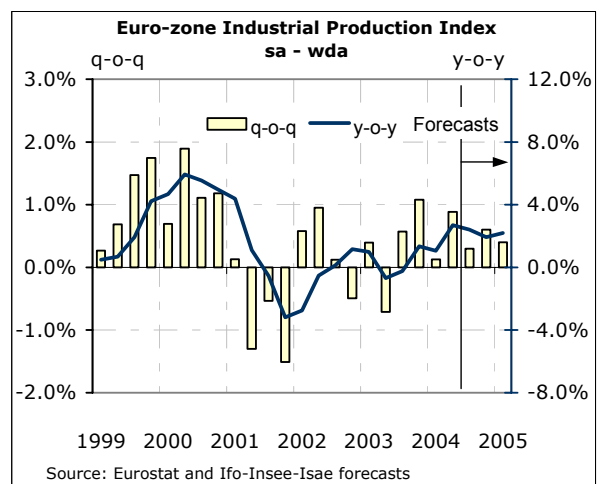
After its good performance in Q2, IPI growth is expected to decline slightly in the next three quarters. Indeed, the confidence business indicator of the manufacturing sector ceased accelerating in September after several consecutive months of improvement, in line with the awaited cooling of world activity. This pattern appeared particularly true in Germany, but also in France as regards judgements of business leaders on their past production; more irregular was the behaviour of confidence in Italy, where it was affected by the process of stock adjustment.

IPI is set to grow by 0.3% (q-o-q) in Q3, reflecting a weak performance in August, partly due to some exceptional events (e.g. temporary closure of automobile plants in France). It then would rise by 0.6% in Q4 before slowing down to 0.4% in Q1 2005, as a result of less buoyant world demand. The latest official data, especially for industrial orders in August in Germany, and the decline of production expectations since June in Ifo-Insee-Isae business surveys have already signalled this downward tendency.

Stabilised GDP growth

The pattern shown by industrial production would be partly reflected in the evolutions in GDP growth, after a short time-lag. GDP growth is expected to remain stable at

0.5% until the end of the year before returning to 0.4% at the beginning of 2005. Albeit less brisk, external demand would continue to stimulate euro growth until the end of 2004. In Q1, GDP growth would then be held back more in line with the moderate pace of domestic demand components. The average annual growth rate for 2004 would be 1.9% (on a working-day adjusted basis).



2004 Forecasts, % changes, sa - wda

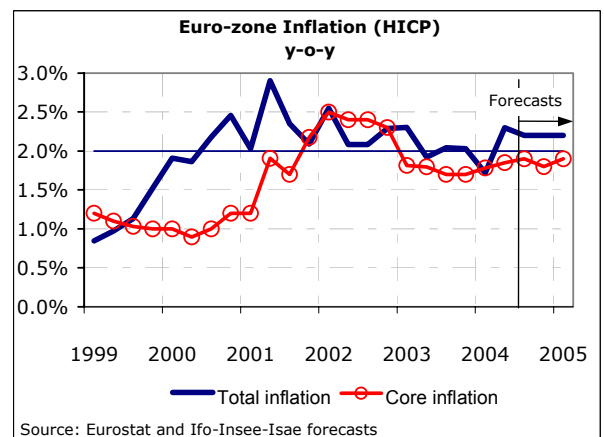
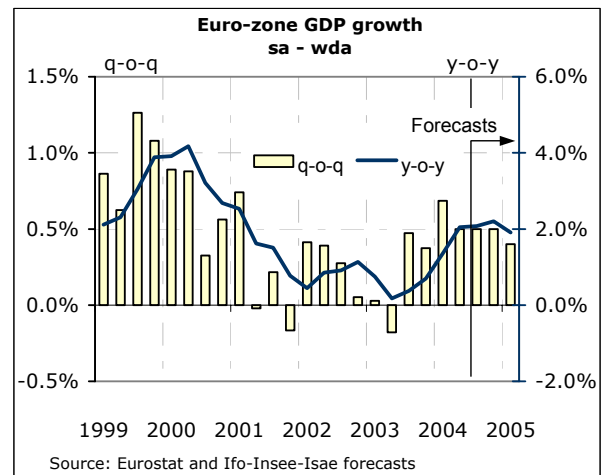
q-o-q y-o-y	Q2-2004	Q3 - 2004 estimations	Q4 - 2004 forecasts	Q1 - 2005 forecasts	2004 forecasts
IPI	0.9 2.7	0.3 2.4	0.6 1.9	0.4 2.2	2.0
GDP	0.5 2.0	0.5 2.1	0.5 2.2	0.4 1.9	1.9
Consumption	0.3 1.2	0.3 1.3	0.3 1.5	0.3 1.2	1.2
Inflation	2.3	2.2	2.2	2.2	2.1

Source: Eurostat and Ifo-Insee-Isae forecasts

On the demand side, differences between countries have emerged: France and Spain have benefited from particularly vigorous household consumption whereas this component of growth has lagged behind in Germany and to a smaller extent in Italy. The stabilisation of consumer confidence at a low level over the past months and the persisting high unemployment rate point only to moderate growth rates of 0.3% in coming quarters. Stronger consumption growth in France would then be offset by still weak households' expenditures in Italy, while Germany would follow a more uncertain pattern. However, the still-accommodating monetary conditions and the expected easing of inflation could sustain purchasing power and thus be a prop for consumption at the beginning of 2005.

Inflation set to head down despite the rise in oil prices

The combination of the decline in foodstuff prices thanks to the absence of unfavourable weather conditions and the stabilisation of tobacco prices should offset the recent rise in energy prices, on the assumption of a Brent price close to 40\$ a barrel until the beginning of 2005. Inflation is thus expected to ease from 2.3% (y-o-y) in Q2 to 2.2% in the next three quarters.



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

Next release:

Next forecast horizon:

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**January 13, 2005 (day of Eurostat GDP second release)
 2005 Q2**