

## A moderate growth

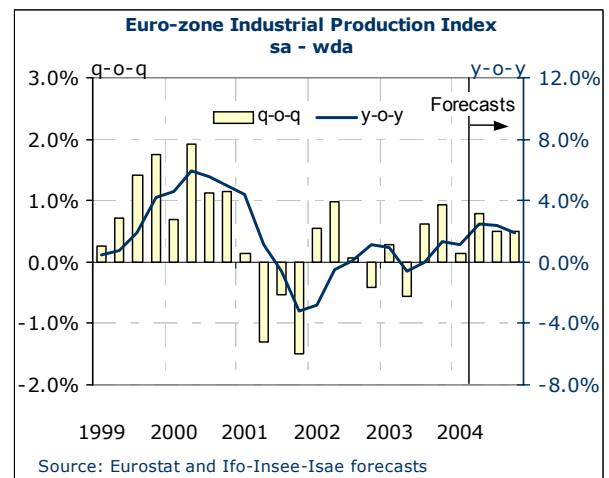
*After a better-than-expected first quarter, euro-zone GDP is expected to return to more moderate growth rates in the remaining quarters of the year: 0.5% in Q2 and 0.4% in Q3 and Q4. The stimulus of foreign demand, still significant in Q2, is likely to weaken in H2 2004, while domestic demand will probably start to show signs of strengthening only in the final part of the year: private consumption, following the strong rebound in Q1, is expected to rise by a modest 0.3% in both Q2 and Q3, before improving slightly in Q4 (0.4%). Provided that the dollar price of oil falls towards \$31 dollar/barrel by Q4, inflation (HICP) is expected to ease gradually, to stand at 2.2% in Q3 and 2.1% in Q4.*

### Industrial activity accelerating in Q2, before moderating in the following two quarters

Following a weak Q1, industrial activity is estimated to have accelerated in Q2, boosted mainly by continuing healthy foreign demand. Industrial production can then be expected to moderate in the second half of the year, in line with a weakening of the stimulus coming from the international environment. The latest business survey indicators are improving in the euro zone as a whole, although with differences from one major country to another: business confidence is heading persistently upwards in France, while a more uncertain pattern seems to characterise Germany and Italy.

Industrial production is estimated to have risen by 0.8% (q-o-q) in Q2; it is expected to grow by 0.5% (q-o-q) in both Q3 and Q4. The annual average increase in 2004 would be 2.0%.

thought to have risen by 0.5% (q-o-q) in Q2; it is expected to increase by 0.4% in Q3 and Q4. The average annual growth rate for 2004 would then be 1.8% (on a working-day adjusted basis).



### A more balanced GDP growth

After its larger-than-expected rise in Q1, GDP seems to have decelerated slightly in Q2 under the influence of subdued domestic demand, a factor that more than offset solid exports. This easing of growth is expected to continue in H2 2004: the slight decline in foreign demand would be balanced by a gradually strengthening domestic demand by year-end. GDP is

**2004 Forecasts, % changes, sa - wda**

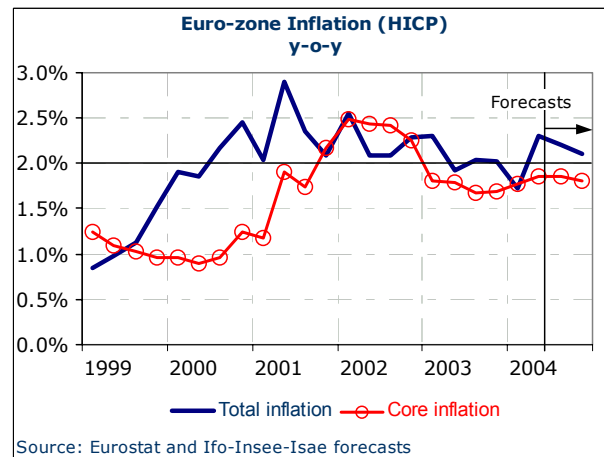
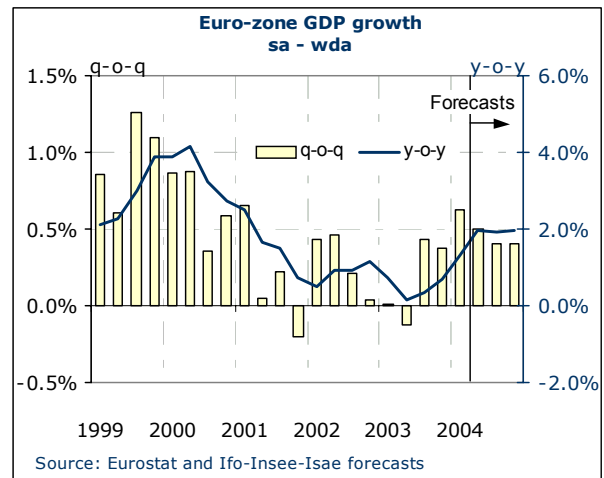
q-o-q y-o-y	Q1-2004	Q2 - 2004 estimations	Q3 - 2004 forecasts	Q4 - 2004 forecasts	2004 forecasts
IPI	0.1 1.1	0.8 2.5	0.5 2.4	0.5 1.9	2.0
GDP	0.6 1.3	0.5 2.0	0.4 1.9	0.4 1.9	1.8
Consumption	0.6 0.9	0.3 1.3	0.3 1.4	0.4 1.6	1.3
Inflation	1.7	2.3	2.2	2.1	2.1

Source: Eurostat and Ifo-Insee-Isae forecasts

On the demand side, after the strong rebound seen in Q1, consumption should resume a more modest pace in the subsequent quarters. Signs of sluggishness are coming from retail sales in the euro zone as a whole, especially in Germany, and from persistently weak consumer confidence in France and Italy. In Q4, consumption would mildly accelerate (0.4% after 0.3% in Q2 and Q3), bolstered by the higher disposable income resulting from the stronger activity growth in the beginning of the year.

### Inflation could be heading down towards 2% by year-end, provided the oil price falls from current highs

On the assumption of a decrease in the Brent price to around \$31 in the last quarter of the year, combined with a euro/dollar exchange rate in the neighbourhood of 1.20 on average in the second half of the year, inflation should gradually slow down over the next six months, easing from 2.3% in Q2 to 2.1% in Q4. This deceleration would reflect the diminishing upward pressure on the consumer price index coming from the energy component, the subdued inflation of manufacturers in the absence of second round effects of oil prices, and the slowdown in prices of foodstuffs in Q3. The average rate of inflation would then be 2.1% in 2004.



### 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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**October 14, 2004 (day of Eurostat GDP second release)**  
**2005 Q1**