

## Box 8

### Comparison with December 2000 projections

The major changes to the projection assumptions in relation to the Eurosystem Staff macroeconomic projections published in the ECB's Monthly Bulletin in December 2000 relate to the downwards revision to the world growth outlook. In particular, the growth of the external export markets of the euro area has been revised downwards to 5¾% in 2001, and to 6% in 2002, compared with the previous assumptions of 8% and 7½% in 2001 and 2002 respectively. Other important changes in the assumptions concern oil prices, which are now lower in 2001 than had previously been assumed, and both short-term and long-term interest rates, which are now somewhat lower.

The outcome for real GDP growth in 2000 was in the centre of the estimated ranges given in the December 2000 issue of the Monthly Bulletin. However, principally as a result of the downwards revision to world trade growth, the ranges for real GDP growth over the projection horizon have now been revised downwards. In 2001, the range for real GDP growth is now placed at the lower end of the previous projection range, whereas, for 2002, the whole projection range is now 0.4 percentage point lower than in the December 2000 issue.

Turning to the projections for overall HICP inflation, the outcome for last year was at the centre of the estimated range given in December. Despite the assumed decline in oil prices, the range for HICP inflation in 2001 is now in the upper part of the previous range. This is largely the result of the previously unexpected increase in food prices, owing to the outbreak of animal diseases. By contrast, the HICP range for 2002 is now almost exactly the same as that shown in December 2000. Despite some carry-over effects from food prices on 2002 inflation rates, the projected slackening of the pace of real GDP growth is expected to result in slightly weaker underlying domestic inflation pressures in 2002.

### Comparison of macroeconomic projections

*(average annual percentage change)*

#### Ranges based on average absolute errors of previous projections

	2000	2001	2002
HICP - June 2001	2.4	2.3 - 2.7	1.2 - 2.4
HICP - December 2000	2.3 - 2.5	1.8 - 2.8	1.3 - 2.5
Real GDP - June 2001	3.4	2.2 - 2.8	2.1 - 3.1
Real GDP - December 2000	3.2 - 3.6	2.6 - 3.6	2.5 - 3.5

**Box 9****Forecasts by other institutions**

A number of forecasts for the euro area up to 2002 are available from various institutions, both international organisations and those in the private sector, including the results of the ECB's own Survey of Professional Forecasters. It should be noted, however, that these forecasts are not strictly comparable with one another, or with the Eurosystem staff macroeconomic projections, as they are based on different assumptions and were finished at different points of time (resulting in differing cut-off dates for the inclusion of the latest available information). As regards the assumptions, in contrast to the Eurosystem staff projections, other forecasts

**Comparison of forecasts for euro area real GDP growth**

(annual percentage changes)

	Date of release	2000	2001	2002
European Commission	April 2001	3.4	2.8	2.9
IMF	April 2001	3.4	2.4	2.8
OECD	April 2001	3.4	2.6	2.7
Consensus Economics Forecasts	May 2001	3.4	2.5	2.7
Survey of Professional Forecasters	May 2001	3.4	2.5	2.6

Sources: European Commission Spring Economic Forecasts; IMF World Economic Outlook; OECD Economic Outlook; Consensus Economics Forecasts, and the ECB's Survey of Professional Forecasters.

typically do not make the technical assumption of unchanged short-term interest rates and may thus include monetary policy responses to the economic outlook. Moreover, the forecasts may differ with respect to their assumptions on financial and external variables. Finally, it should also be noted that a variety of unspecified assumptions are used in the Consensus Economics Forecasts and in the Survey of Professional Forecasters.

Notwithstanding the differences in assumptions, a comparison of the forecasts available from other institutions suggests that real GDP growth in the euro area is expected to slow down markedly in 2001 to 2½-2¾%, increasing slightly in the following year. There is a broad consensus that in 2001 the slowdown is explained partly by a lower contribution from net trade, against a background of weaker world trade prospects, and partly by weaker domestic demand. Overall, domestic demand is still expected to be the key driving force behind growth, being underpinned by continued job creation, supportive financial conditions and tax reductions in 2001.

As regards the outlook for prices, the available forecasts agree that inflation in the euro area in 2001 will remain roughly the same as last year, while it is expected to slow down in 2002. Consumer price inflation is therefore projected to remain above 2% on average this year before falling back to below 2% on average thereafter.

**Comparison of forecasts for euro area consumer price inflation <sup>1)</sup>**

(annual percentage changes)

	Date of release	2000	2001	2002
European Commission	April 2001	2.3	2.2	1.8
IMF	April 2001	2.4	2.3	1.7
OECD	April 2001	2.2	2.2	1.9
Consensus Economics Forecasts	May 2001	2.2	2.3	1.8
Survey of Professional Forecasters	May 2001	2.4	2.3	1.8

Sources: European Commission Spring Economic Forecasts; IMF World Economic Outlook; OECD Economic Outlook; Consensus Economics Forecasts, and the ECB's Survey of Professional Forecasters.