

Box 7

Comparison with June 2001 Projections

The major change to the projection assumptions compared with the Eurosystem staff macroeconomic projections published in the Monthly Bulletin in June 2001 is the sharp downward revision of the world growth outlook. The growth of the euro area's external export markets has consequently been revised downwards by around 5 percentage points for both 2001 and 2002, namely to 1.5% in 2001 and to 0.5% in 2002. It should be noted that this revision is relatively large in comparison with those made in past projections. Other changes in the assumptions are that oil prices are now lower in 2001 than had previously been assumed, and both short-term and long-term interest rates are now lower over the whole projection horizon.

The ranges for real GDP growth have now been shifted significantly downwards for both 2001 and 2002, with the ranges for both years now below the lower bounds of those previously projected. The revision, which amounts to slightly more than one percentage point, is principally a result of the downward revision to exports, resulting in turn from the unusually large revision to the world growth outlook. However, all components of domestic demand have also been subject to sizeable downward revisions. Investment and inventories have been revised downwards due to the impact which new data that have become available for 2000 and the first half of 2001 will have on annual average figures for 2001 and 2002. In addition, in the current projection, the high uncertainty has also been assumed to have some adverse effect on investment and, to a lesser extent, on consumption in both 2001 and 2002.

The ranges projected for inflation in 2001 and 2002 are very close to those presented in the previous exercise. The range for HICP inflation in 2001 is quite similar to that projected in June, although shifted slightly upwards. This indicates that the contributions of special factors, oil prices and nominal wage developments were quite accurately projected. The HICP range for 2002 is also close to that given in June, albeit somewhat lower. This mirrors unchanged assumptions for wage contracts, reflecting substantial nominal inertia, and for the fading out of the special factors underlying the projection for that year, but an assumption of lower oil prices.

Comparison of macroeconomic projections

(average annual percentage changes)

Ranges based on average absolute errors of previous projections

	2001	2002	2003
HICP - December 2001	2.6 - 2.8	1.1 - 2.1	0.9 - 2.1
HICP - June 2001	2.3 - 2.7	1.2 - 2.4	na na
Real GDP - December 2001	1.3 - 1.7	0.7 - 1.7	2.0 - 3.0
Real GDP - June 2001	2.2 - 2.8	2.1 - 3.1	na na