

Box 7**Comparison with June 2002 Projections**

The major changes to the projection assumptions compared with the Eurosystem staff macroeconomic projections published in the Monthly Bulletin in June 2002 are a downward revision of growth in the euro area external export markets by about 1½ percentage points in 2003 and a higher nominal effective exchange rate of the euro. The latter reflects the appreciation of the euro by some 4% since June 2002. A further important change in assumptions is a downward shift in market expectations for long-term interest rates by some 50 basis points.

The ranges projected for real GDP growth are now shifted downwards for both 2002 and 2003. The downward revisions reflect the projected delay in the recovery as compared with the June 2002 projections. Although the revisions are, to a limited extent, explained by the changes in projection assumptions for world trade and the euro exchange rate, they predominantly reflect the lower projections for growth in euro area domestic demand. The downward revision of domestic demand growth takes into account the impact of high uncertainty surrounding the current economic environment and the related weakening in global financial markets. Against this background, the projected delay in the recovery of investment is explained by a combination of lower growth in external demand and weaker short-term profitability prospects, whereas private consumption is projected to be dampened somewhat by wealth effects.

Notwithstanding the weaker projections for euro area domestic demand, the range projected for the annual rate of increase in the overall HICP in 2003 has been shifted downwards only marginally. This is explained by upward revisions of projections for domestic cost factors. Based on wage settlements and other available information, the assumptions for nominal wage growth have only been revised downwards slightly compared with the June 2002 projections. In combination with lower labour productivity growth the projections for unit labour cost growth have therefore been revised upwards. In addition, despite weaker projected economic activity, the downward revisions to the projections for profit margins are small, because firms are expected to attempt to restore margins after the prolonged period of weak profitability.

Comparison of macroeconomic projections

(average annual percentage changes)

	2001	2002	2003
HICP – December 2002	2.5	2.1 – 2.3	1.3 – 2.3
HICP – June 2002	2.5	2.1 – 2.5	1.3 – 2.5
Real GDP – December 2002	1.5	0.6 – 1.0	1.1 – 2.1
Real GDP – June 2002	1.5	0.9 – 1.5	2.1 – 3.1