

**Box 7****COMPARISON WITH THE DECEMBER 2003 PROJECTIONS**

The projections for euro area GDP growth have remained almost unchanged compared with the Eurosystem staff macroeconomic projections published in the Monthly Bulletin in December 2003. The small downward shift in the range projected for 2005 is a result of the changes to the quarterly growth pattern in 2004, which mechanically reduce the average annual growth rate for 2005.

The lower boundary of the range projected for the annual rate of increase in the overall HICP has been shifted upwards for 2004. This is largely explained by the upward shift in the assumptions for oil prices, which are higher for both 2004 and 2005 (by about 30% and 20% respectively). The impact of oil prices on the projections for euro area HICP inflation is, however, mitigated by various factors. First, the projections for the food price component of the HICP have been shifted downwards compared with the December 2003 projections, as the impact of weather-related food price increases in 2003 has unwound more rapidly than expected. Second, the tobacco tax increases implemented in early 2004 were somewhat lower than anticipated in the fiscal assumptions underlying the December 2003 projections. Third, the assumptions for growth in nominal compensation per employee over the horizon have been revised slightly downwards compared with the December 2003 projections. This also results in a small downward revision to unit labour cost growth in 2004.

**Comparison of macroeconomic projections**

(average annual percentage changes)

	2003	2004	2005
HICP – June 2004	2.1	1.9-2.3	1.1-2.3
HICP – December 2003	2.0-2.2	1.3-2.3	1.0-2.2
Real GDP – June 2004	0.5	1.4-2.0	1.7-2.7
Real GDP – December 2003	0.2-0.6	1.1-2.1	1.9-2.9