

EU Commission Upbeat in its Outlook for Eurozone

Some of the key forecasts for the euro area contained in yesterday's EU Commission report are set out below. The Commission provided no forecasts for interest rates, stating that "short term interest rates are set in order to reflect the objective of monetary policy with respect to price stability". The forecasts show favourable developments in respect to costs and prices in 2000 and 2001. The exchange rate assumptions currently look optimistic but unless the euro falls further the inflation forecasts should hold up. The Commission is upbeat about the prospects of limiting the pass through effects of the weaker euro on inflation due to stronger competition. The forecasts give the ECB no reason to be aggressive in its monetary stance beyond the likely objective of restoring official rates to 4-4.25% within the next 9-12 months. It should be noted that a survey quoted in today's Financial Times is forecasting real GDP growth of 4% in the first half of 2000. The Commission sees GDP growth at 3.25-3.5% over the same period.

EURO ZONE INFLATION INDICATORS

(EU COMMISSION SPRING 2000 FORECASTS)

% CHANGE UNLESS STATED	1999	2000	2001
HICP	1.1	1.8	1.8
PERSONAL CONSUMPTION DEFLATOR	1.5	1.8	1.8
GDP DEFLATOR	1.3	1.4	1.9
INCOME PER CAPITA	2.2	2.5	2.6
UNIT LABOUR COSTS	1.3	0.5	0.8
IMPORT PRICES	-0.4	3.9	1.2
OIL PRICES \$ PER BARREL	17.8	24.2	21.2
EXCHANGE RATE VERSUS:			
US DOLLAR	1.07	1.02	1.02
STERLING	0.66	0.62	0.62
YEN	121.7	106.8	105.8
OUTPUT GAP BASED ON TREND	-1	-0.2	0.4
OUTPUT GAP BASED ON POTENTIAL	-2	-1.2	-0.7
REAL GDP	2.3	3.4	3.1
UNEMPLOYMENT RATE	10	9.2	8.5
GOVT. BALANCE AS % OF GDP	-1.2	-0.9	-0.8

John Beggs
12 April 2000