World Economic Prospects
Monthly Review

May 2004
### Gross Domestic/National Product (% Change On Previous Year)

| Region      | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------|------|------|------|------|------|------|
| North America |      |      |      |      |      |      |
| United States | 3.1  | 4.6  | 3.9  | 3.2  | 3.1  | 3.4  |
| Canada       | 1.7  | 2.3  | 2.5  | 2.7  | 3.0  | 3.0  |
| Mexico       | 1.3  | 3.4  | 4.2  | 4.1  | 3.8  | 3.8  |
| Europe       |      |      |      |      |      |      |
| EuroZone     | 0.4  | 1.6  | 2.3  | 2.4  | 2.3  | 2.2  |
| Germany      | -0.1 | 1.3  | 1.9  | 1.9  | 1.8  | 1.5  |
| France       | 0.5  | 1.9  | 2.5  | 2.5  | 2.4  | 2.4  |
| Italy        | 0.4  | 1.0  | 2.1  | 2.2  | 2.1  | 2.1  |
| Spain        | 2.4  | 3.0  | 3.2  | 3.0  | 2.9  | 2.8  |
| Netherlands  | -0.7 | 1.1  | 2.2  | 2.8  | 2.7  | 2.6  |
| Belgium      | 1.1  | 1.8  | 2.2  | 2.2  | 2.2  | 2.3  |
| Austria      | 0.9  | 1.5  | 2.4  | 2.7  | 2.4  | 2.2  |
| EU15         | 0.8  | 1.9  | 2.4  | 2.4  | 2.4  | 2.2  |
| UK           | 2.2  | 3.2  | 2.8  | 2.3  | 2.8  | 2.6  |
| Sweden       | 1.7  | 2.3  | 2.4  | 2.5  | 2.5  | 2.5  |
| Switzerland  | -0.5 | 1.3  | 1.8  | 1.8  | 1.9  | 1.9  |
| Far East     |      |      |      |      |      |      |
| Japan        | 2.7  | 2.8  | 1.4  | 1.3  | 1.2  | 1.2  |
| Australia    | 3.0  | 4.0  | 3.2  | 3.3  | 3.9  | 3.9  |
| South Korea  | 3.1  | 5.9  | 6.2  | 5.4  | 5.3  | 5.0  |
| Taiwan       | 3.2  | 5.3  | 4.8  | 4.5  | 4.4  | 4.2  |
| G7           | 2.1  | 3.1  | 2.7  | 2.3  | 2.3  | 2.4  |
| OECD         | 2.1  | 3.2  | 2.9  | 2.6  | 2.6  | 2.6  |
| World        | 2.8  | 3.9  | 3.5  | 3.3  | 3.3  | 3.3  |
| World 2000 PPPs | 3.7  | 5.0  | 4.4  | 4.2  | 4.3  | 4.4  |

### Consumer Prices (% Change On Previous Year)

| Region      | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------|------|------|------|------|------|------|
| North America |      |      |      |      |      |      |
| United States | 2.3  | 2.3  | 2.4  | 2.3  | 2.6  | 2.6  |
| Canada       | 2.8  | 1.5  | 2.4  | 2.6  | 2.7  | 2.6  |
| Mexico       | 4.5  | 4.3  | 3.4  | 3.4  | 3.2  | 3.2  |
| Europe       |      |      |      |      |      |      |
| EuroZone     | 2.1  | 1.9  | 1.6  | 2.0  | 2.1  | 2.2  |
| Germany      | 1.1  | 1.1  | 0.5  | 1.1  | 1.7  | 1.7  |
| France       | 2.1  | 2.0  | 1.4  | 1.7  | 1.8  | 1.8  |
| Italy        | 2.6  | 2.0  | 1.5  | 1.9  | 1.9  | 1.8  |
| Spain        | 3.0  | 2.0  | 2.2  | 2.2  | 2.2  | 2.1  |
| Netherlands  | 2.1  | 1.5  | 1.8  | 1.7  | 1.8  | 1.8  |
| Belgium      | 1.6  | 1.6  | 1.5  | 1.6  | 1.6  | 1.7  |
| Austria      | 1.3  | 1.3  | 1.5  | 1.6  | 1.6  | 1.7  |
| EU15         | 2.2  | 1.9  | 1.6  | 1.8  | 2.0  | 2.0  |
| UK**         | 2.8  | 2.2  | 2.2  | 2.2  | 2.3  | 2.5  |
| Sweden       | 1.9  | 0.9  | 2.1  | 2.0  | 2.0  | 2.0  |
| Switzerland  | 0.6  | 0.4  | 1.3  | 1.5  | 1.7  | 1.7  |
| Far East     |      |      |      |      |      |      |
| Japan        | -0.3 | -0.3 | -0.5 | -0.2 | -0.1 | -0.1 |
| Australia    | 2.8  | 2.3  | 2.5  | 2.5  | 2.5  | 2.5  |
| South Korea  | 3.5  | 3.2  | 2.7  | 3.0  | 3.0  | 3.1  |
| Taiwan       | -0.3 | 0.8  | 1.0  | 1.6  | 2.0  | 2.0  |
| G7           | 1.9  | 1.7  | 1.7  | 1.7  | 2.0  | 2.0  |
| OECD***      | 2.0  | 1.7  | 1.7  | 1.8  | 2.0  | 2.0  |

** UK Underlying Rate
*** OECD Total excludes Turkey

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OVERVIEW

An excellent year for the global economy…

- After a three year rough patch, it looks like 2004 will be an excellent year for the world economy, which is now firing on (nearly) all cylinders. This is largely thanks to the US, but also China, whose share of global GDP based on PPP exchange rates has grown from 8.9% a decade ago to 13% now. Our measure of global GDP has been updated with these new weights to fully reflect the growing importance of China and other emerging countries. After global growth of 3.7% last year, world GDP on a PPP basis is expected to rise 5.0% in 2004.

- It looks like global growth is becoming better balanced. US consumers kept much of the world economy afloat until recently, while China played a vital role in Asia through its massive appetite for imports. But now corporate recovery has become entrenched in the US, while in Asia, domestic demand is doing much more of the work; GDP forecasts for countries in Asia have risen to the 5-6% range in recent months.

…sends oil prices sharply higher

- One consequence of China’s stellar performance is a soaring oil price. China now accounts for 7.1% of world oil demand, a doubling of its share in little over a decade - a third of the increase in world demand for oil in 2003 came from China. With US inventories low and OPEC maintaining its grip on production, the price of Brent crude hit $35 pb in recent days. When doubts about potential Iraqi production and uncertainties stirred up by terrorist attacks in Saudi Arabia are added in, it means prices are likely to stay firmer than previously expected. Our forecast now shows prices remaining above $30 pb for the rest of the year.

EU-15 becomes EU-25

- Some good news from Europe: prospects for the 10 countries that joined the EU on May 1 are very bright. Many of the entrants have made massive progress since communism collapsed in Central Europe, ushering in more market-based economies – the share of exports to overall output has almost doubled in some cases, driving economic growth. The greater openness is mirrored by massive flows of Foreign Direct Investment. These should be invigorated by EU membership – the service sector still offers huge potential. Accession also holds out further trade gains, particularly in tourism where half a million jobs could be created if the share in the economy ends up mirroring that in the existing EU. And the entrants will also have access to EU structural funds, although this cash will be spread more thinly than in the past. Overall, we expect the new members to grow around 4% pa between now and 2008, around twice the rate in the existing EU.
UNITED STATES

Solid growth in Q1…

- Real GDP expanded at an annual rate of 4.2% in 2004Q1, marginally above the growth rate in the previous quarter. Consumer spending, rising 3.8%, accounted for nearly two thirds of the growth, but residential construction and investment in equipment and software posted faster growth, offsetting a third consecutive decline in investment in nonresidential structures. Stockbuilding increased, but by only $15.3 billion in chained 2000 dollars, less than had been expected. This sets the stage for continued larger contributions to growth from stockbuilding in coming quarters, as inventories are extremely tight at present.

…will continue

- There have been a number of signs that the economy is gathering strength. The most recent reports on several high-frequency indicators have not only been surprisingly strong themselves, but they have incorporated upward revisions to previous readings. This has been true of retail sales (up 1.8% in March, February revised to 1.0% from 0.6%), construction spending (up 1.5% in March, February revised to 0.4% from -0.1%) and new orders (up 4.3% in March, February revised to 1.1% from 0.3%). Orders for nondefense capital goods, which are an indicator for investment in equipment and software, rose 4.2% in March and 15.9% in the year to March. The trends on new orders and order backlogs are now strongly positive, suggesting that production will have to pick up the pace in order to meet demand.

- Despite some moderate increases in mortgage rates (or perhaps because of them, as folks who had been delaying purchases rush to lock in rates before they rise even further) home sales and home building remain at very high levels. Finally, the ISM indexes for both the manufacturing and nonmanufacturing sectors were very strong in April, with the nonmanufacturing index setting a new record.

- And it appears that the labor market is really improving. While some of the 308,000 surge in payrolls in March reflected one-time factors, unemployment claims have fallen sharply over the past two weeks. The latest reading, 315,000 for the week ending May 1, was the lowest since mid-2001. The employment report for April is not available at the time of this writing – we expect job creation in the range of 125,000 to 150,000, with the unemployment rate holding steady at 5.7%.
Inflation makes a tentative comeback...

- Inflation measures have been edging higher lately. The core (excluding food and energy) consumption deflator, which is the Federal Reserve’s presumed key inflation indicator, rose 0.2% in March. The gain in the year to March was only 1.4%, but that was an increase of 0.6% in just three months. The more familiar core CPI shows a similar pattern. In 2004Q1, hourly compensation in the nonfarm business sector rose at an annual rate of 4.0%, leading to the first rise in unit labor costs in a year, though that gain was a modest 0.5%.

…and the Fed will raise rates soon

- While the Federal Reserve left its target for the federal funds rate unchanged, the statement released at the end of the May FOMC meeting left no doubt that it would take action soon. The statement now acknowledges a pickup in hiring, rates the risks of further deflation to be equal to those of a rise in inflation, and states that ‘policy accommodation can be removed at a pace that is likely to be measured’. Thus, the Fed has removed its promise to be patient, replacing it with what is not quite a promise to raise rates slowly. We continue to expect the first rate hike to occur in August, with at least one more before the end of the year. However, an increase at the June FOMC meeting cannot be ruled out, particularly if there is further evidence of rising inflation or if it appears that the slack in the labor market appears to be being consumed at too rapid a rate.

### Key Indicators: United States

*Percentage changes from previous month unless otherwise stated*

|                | Industrial production | Capacity Utilization | Unemployment | CPI   | Core CPI | Consumer Confidence | Nominal Net Trade $bn | Retail sales |
|----------------|-----------------------|----------------------|--------------|-------|----------|---------------------|-----------------------|-------------|
| **2003**       |                       |                      |              |       |          |                     |                       |             |
| May            | -0.1                  | 74.1                 | 6.1          | -0.1  | 0.2      | 83.6                | -41.8                 | 0.4          |
| June           | 0.0                   | 74.0                 | 6.3          | 0.1   | 0.1      | 83.5                | -40.4                 | 0.9          |
| July           | 0.8                   | 74.5                 | 6.2          | 0.2   | 0.2      | 77.0                | -40.6                 | 1.2          |
| Aug            | 0.0                   | 74.5                 | 6.1          | 0.4   | 0.1      | 81.7                | -39.8                 | 1.1          |
| Sep            | 0.6                   | 74.9                 | 6.1          | 0.3   | 0.1      | 77.0                | -41.3                 | -0.5         |
| Oct            | 0.3                   | 75.0                 | 6.0          | -0.1  | 0.2      | 81.7                | -41.7                 | 0.2          |
| Nov            | 1.0                   | 75.7                 | 5.9          | -0.2  | 0.0      | 92.5                | -38.2                 | 1.2          |
| Dec            | 0.2                   | 75.8                 | 5.7          | 0.2   | 0.1      | 94.8                | -42.7                 | 0.2          |
| **2004**       |                       |                      |              |       |          |                     |                       |             |
| Jan            | 0.7                   | 76.2                 | 5.6          | 0.5   | 0.2      | 97.7                | -43.5                 | 0.5          |
| Feb            | 0.8                   | 76.7                 | 5.6          | 0.3   | 0.2      | 88.5                | -42.1                 | 1.0          |
| Mar            | -0.2                  | 76.5                 | 5.7          | 0.5   | 0.4      | 88.5                | -                    | 1.8          |
| Apr            | -                     | -                    | -            | -     | -        | 92.9                | -                    | -            |
JAPAN

Policy change towards the yen
• For the first month since August the Japanese authorities did not intervene at all in the fx market during April – even when the yen was trading below 105 against the USD early in the month. Subsequently the yen weakened back towards 110 as the dollar strengthened against all the major currencies. However, the behaviour at the start of April probably marks a shift in policy; any intervention in the future to cap a surge in the yen is likely to be on a much more modest scale that that experienced between September and March. Despite this change, overall policy remains very accommodative, with the central bank committed to “quantitative” easing until deflation in CPI ex fresh food has definitely ended. And though this series recorded year-on-year deflation of only 0.1% in March compared to 0.6% a year earlier, most members of the BoJ monetary policy board expect modest deflation to continue through fiscal year 2004/05.

Deflation easing but not disappearing
• One of the main reasons why deflation has eased over the last year, even if it has not disappeared altogether, is because real growth has been so rapid over the period – at least by recent Japanese standards – while the output gap has narrowed significantly. However, looking beyond late 2004, growth is likely to slow markedly, from around 3% currently towards its trend rate, 1 to 1.5%, as the twin boosts to exports and business investment start to fade. This may leave the output gap still slightly negative, thus ensuring that modest deflation is maintained into the medium-term.

Falling unemployment & strong exports
• In the short term most of the indicators on the real economy have continued to suggest a reasonably solid growth picture, although they have been less universally positive than those issued a month ago. On the plus side, the unemployment rate in March fell to 4.7% (from 5% in February), its lowest level since early 2001. In addition the job offers to applicants ratio has stuck at a level last seen in 1993 for four consecutive months, indicating that the demand for labour is much stronger now than it was during the 2000 recovery. Export growth is also very robust, the volume of sales was up 14% on a year ago in March, slightly stronger than in either January or February. Moreover this export growth has not been completely reliant on sales to a booming China. In yen terms export growth to the NIEs at 21.3% was nearly as fast as that to China, up 22.7%, while sales to the EU showed respectable growth of 13.7%. However, export
growth to the US continued to lag behind, at only 2.9%, held back by weak US demand for Japanese cars and perhaps the yen’s appreciation since the middle of last year.

Some worries over output trend & wages
- But other statistics have fallen below expectations. Industrial output in March only increased by 0.1% on the month after February’s fall of 3.8%. As a result the level of output was lower in both February and March than it was in any of the months in 2003Q4. Taken at face value this might suggest that the output recovery was losing momentum rapidly. However, up-to-date survey evidence of business confidence shows no such turning point. Moreover the manufacturing companies surveyed by METI for the output data expect to see large gains in April and May. At this stage it may be more likely that there was just a pause in Q1 after a very strong Q4, and that solid industrial growth should resume in Q2, before slowing later in the year.

- In addition service sector output also fell very steeply in February, down 3.9% on the month, and, taking January and February together, this sector’s output was no higher in early 2004 than in 2003Q4, although it was up on a year ago. Despite the improving labour market, nominal wages, apart from those in manufacturing, are still under downward pressure as companies remain focused on improving profitability. In March average wages were 2.7% lower than a year ago after annual declines of 0.4% and 1.7% in February and January respectively. This factor continues to act as a brake on consumer spending even as confidence improves.

| Key Indicators: Japan |
|-----------------------|
| Percentage changes on a year earlier unless otherwise stated |

|          | Industrial production | Unemployment | CPI National | CPI Tokyo | Leading indicator | Wages (manuf.) | Trade balance (Yen bn) | Retail sales |
|----------|-----------------------|--------------|--------------|-----------|------------------|---------------|------------------------|--------------|
| **2003** |                       |              |              |           |                  |               |                        |              |
| May      | 0.7                   | 5.4          | -0.2         | -0.3      | 58.3             | 2.3           | 872                    | -3.6         |
| Jun      | 1.2                   | 5.3          | -0.4         | -0.3      | 75.0             | 3.1           | 784                    | -2.9         |
| Jul      | 1.1                   | 5.3          | -0.2         | -0.5      | 58.3             | 2.0           | 791                    | -4.0         |
| Aug      | -0.3                  | 5.1          | -0.3         | -0.6      | 50.0             | 0.4           | 857                    | -3.4         |
| Sep      | 2.6                   | 5.1          | -0.2         | -0.3      | 66.7             | 1.1           | 906                    | -5.5         |
| Oct      | 3.6                   | 5.2          | 0.0          | -0.2      | 83.3             | 1.8           | 969                    | 0.3          |
| Nov      | 5.4                   | 5.1          | -0.5         | -0.7      | 66.7             | 1.1           | 1016                   | -5.6         |
| Dec      | 4.9                   | 4.9          | -0.4         | -0.3      | 66.7             | 1.7           | 1117                   | -4.0         |
| **2004** |                       |              |              |           |                  |               |                        |              |
| Jan      | 6.5                   | 5.0          | -0.3         | -0.5      | 50.0             | 0.4           | 1038                   | -2.0         |
| Feb      | 3.8                   | 5.0          | 0.0          | -0.2      | 80.0             | 1.4           | 1183                   | 0.5          |
| Mar      | 4.0                   | 4.7          | -0.1         | -0.1      | -                | 2.1           | 1004                   | -4.7         |
| Apr      | -                     | -            | -            | -0.3      | -                | -             | -                      | -            |
EUROZONE

The EU has grown…

• With enlargement on May 1, the EU economy has 10 new members, taking the total to 25. Although the expansion means a 20% increase in the EU’s population, it only gives a 4.2% boost in terms of national income. The small size of the newcomers means the benefits to the Eurozone will be marginal. But it does highlight the scale of the problems facing the Eurozone economy; manufacturing wage rates in Central Europe are around a sixth of those in Germany and investment flows will continue to reflect this fact.

…but the Eurozone still waits for lift-off…

• In the long term a flow of migrants from the new EU countries into the Eurozone could help firms facing falling labour forces, but for now a chronic lack of domestic demand is the problem and companies have no desire to take on new workers. Unemployment in Germany was higher in April than it was in March and recent revisions in France mean the rate there is only just under 10%. Consumer confidence remains mired - retail sales fell 0.2% on the month in March, after a 1.1% drop in February - and, worryingly, the latest EU survey shows less appetite for making large purchases than there was late last year.

• But there has been some good news in the last month. The French economy was actually growing well above potential in the second half of last year, according to revised data. And the first countries to report Q1 GDP data, Spain and Belgium both saw decent growth.

• Despite its relatively small size, the performance of the Belgian economy can give a read on overall Eurozone prospects. Because Belgian industry and exports are more reliant on intermediate goods than the Eurozone as a whole, and this is where recovery is felt first, the Belgium business cycle tends to lead that of the Eurozone by a few months. The Bank of Belgium’s business survey is thus often seen as a good forward-looking indicator of the direction of the Eurozone economy. Encouragingly, it has risen strongly in recent months.

…overly reliant on external demand

• To date, the meagre recovery seen in the Eurozone has been underpinned by external demand – this has dominated the loss of competitiveness from the rise in the Euro since last year. The extra-Eurozone trade balance was €7.3 bn in Jan-Feb this year, double the same period in 2003. While exports in the first two months were still down 0.7% on a year earlier in value terms, imports were still down 2.7%. With the Euro nearly 8% below recent highs, we expect net trade to have a neutral impact on growth this year.
Inflation back at 2%…

- The recovery in exports, coming as it does with the erosion of some of the Euro’s gains, has been enough to produce much more positive noises from business in the last month. The risks to our forecast for GDP growth this year of 1.6% are becoming more evenly balanced, but to build on the rise in business investment seen since late last year, consumers must become more positive. The ECB isn’t helping. We’d still argue that an interest rate cut now would act as an insurance policy against a renewed downturn. But with inflation back at 2% in April, a weaker currency, and oil prices surging again, any chance of another easing has gone for now.

…while the stability pact refuses to die

- Although the much-derided stability and growth pact was supposedly ripped up after France and Germany were excused for breaking its rules late last year, its influence lingers on. This isn’t all bad - some fiscal rules are needed in the Eurozone even if the current agreement is flawed. Italy, for example, has only avoided the 3% of GDP deficit floor through increasingly desperate one-off measures. We expect a breach this year, and so does the European Commission, which is considering an official warning before European elections in the summer. With a government debt stock of 106% of GDP, Italy has little room for manoeuvre and even fewer excuses. EU finance ministers may not be prepared to let Italy off the hook as easily as they have others in the past.

Key Indicators: Eurozone

| Year | Month | Industrial production | Unemployment | CPI | Business confidence | Consumer confidence | Exports | Imports | Trade balance (€ bn) |
|------|-------|-----------------------|--------------|-----|---------------------|--------------------|---------|---------|---------------------|
| 2003 | May   | -1.1                  | 8.8          | 1.8 | -12                 | -20                | -6.7    | -2.8    | 4.7                 |
|      | June  | -1.1                  | 8.8          | 1.9 | -12                 | -19                | -5.3    | -2.0    | 7.2                 |
|      | July  | 0.7                   | 8.8          | 1.9 | -13                 | -18                | -2.7    | -2.8    | 13.0                |
|      | Aug   | -0.2                  | 8.8          | 2.1 | -11                 | -17                | -6.2    | -5.6    | 7.6                 |
|      | Sep   | -0.8                  | 8.8          | 2.2 | -9                  | -17                | 1.4     | 2.0     | 8.9                 |
|      | Oct   | 1.1                   | 8.8          | 2.0 | -8                  | -17                | -1.6    | -1.2    | 9.1                 |
|      | Nov   | 0.7                   | 8.8          | 2.2 | -6                  | -15                | -5.5    | -2.0    | 5.6                 |
|      | Dec   | 2.0                   | 8.8          | 2.0 | -8                  | -16                | 4.2     | 5.6     | 6.1                 |
| 2004 | Jan   | 0.7                   | 8.8          | 1.9 | -6                  | -15                | -2.9    | -6.7    | 1.8                 |
|      | Feb   | 0.5                   | 8.8          | 1.6 | -7                  | -14                | 1.5     | 1.3     | 5.4                 |
|      | Mar   | -                    | 8.8          | 1.7 | -7                  | -14                | -       | -       | -                   |
|      | Apr   | -                    | -            | 2.0 | -5                  | -14                | -       | -       | -                   |
GERMANY

Data giving mixed signals...

- Data released over the month have been giving mixed signals. There was a pick-up in new orders in February, rising 0.3% after a revised fall of 1.3% in January. However, within the overall figure domestic orders grew 1.2% but foreign orders fell 0.6%, a second successive monthly decline. It is likely that foreign orders have been hit by the strength of the euro- which is still much higher than a year ago- an effect that is likely to be felt in the coming months as well. And despite the slight pick-up in orders, industrial output fell 0.7% in February after rising 0.5% the previous month. Survey data over the month generally improved, with the PMI and IFO both rising in April. But the future expectations component of the IFO fell. So, the data on the output side of the economy do not dispel the impression that a robust recovery is playing hard to get.

...as consensus forecasts are revised down

- Expenditure data provide little additional grounds for optimism. Retail sales fell on the month in March, although the annual rate of fall did slow somewhat. But a further rise in unemployment in April, taking the rate to 10.5%, and deterioration in consumer confidence underline the fact that a consumer led recovery is a distant prospect. It is therefore not surprising that other forecasters have been revising down their forecasts for German growth towards our projections. We continue to expect German GDP to growth by 1.3% in 2004 and 1.9% in 2005.

### Key Indicators: Germany

*Percentage changes on a year earlier unless otherwise stated*

| Year | Month | Industrial production | Unemployment | CPI | IFO Index 1991=100 | Consumer confidence % balance | Exports | Imports | Trade balance (€ bn) |
|------|-------|-----------------------|--------------|-----|---------------------|-------------------------------|---------|---------|---------------------|
| 2003 | May   | 0.3                   | 10.6         | 0.7 | 89.4                | -23                           | 5.4     | 7.7     | 10.7                |
|      | June  | -1.9                  | 10.6         | 1.0 | 90.6                | -20                           | -2.6    | -1.8    | 10.3                |
|      | July  | 1.2                   | 10.6         | 0.9 | 91.7                | -18                           | 3.6     | 2.6     | 12.5                |
|      | Aug   | -2.5                  | 10.6         | 1.1 | 92.8                | -18                           | -1.3    | -2.3    | 12.1                |
|      | Sep   | -2.4                  | 10.5         | 1.1 | 93.0                | -19                           | 2.2     | -1.6    | 13.7                |
|      | Oct   | 1.2                   | 10.5         | 1.2 | 95.3                | -17                           | -1.2    | -0.1    | 10.2                |
|      | Nov   | 0.9                   | 10.5         | 1.3 | 96.2                | -14                           | 0.6     | 4.2     | 10.0                |
|      | Dec   | 3.0                   | 10.4         | 1.1 | 97.0                | -15                           | 4.2     | 1.1     | 12.5                |
| 2004 | Jan   | 1.9                   | 10.2         | 1.2 | 97.5                | -16                           | 7.3     | 0.4     | 38.2                |
|      | Feb   | 1.8                   | 10.3         | 0.9 | 96.4                | -13                           | 6.5     | 4.3     | 15.9                |
|      | Mar   | -                     | 10.4         | 1.1 | 95.4                | -16                           | -       | -       | -                   |
|      | Apr   | -                     | 10.5         | 1.6 | 96.3                | -16                           | -       | -       | -                   |
FRANCE

History rewritten…

- Previously, we suggested that the French economy was dormant, laid low by reluctant consumers and a strong Euro. Was this a true picture? Revised GDP data reveal that the French economy grew at an annualised rate of 2.8% in 2003H2 – well above potential. But even though the economy started 2004 on a strong note – enough to lift this year’s forecast for GDP growth to 1.9% – the overall story is little changed. Government spending remains crucial, while improved industrial confidence on the back of better external demand saw investment and stockbuilding rise significantly towards the end of last year. Firms could become disheartened if consumers remain wary; the reluctance of the same companies to create jobs makes this more likely.

…but unemployment revised higher

- Despite stronger growth, a recent change in the way unemployment is measured means the rate is now only fractionally below 10%. New finance minister Nicolas Sarkozy recognises that this is a big drag on spending, proposing tax breaks on loans for car buying and home improvements; it’ll be possible to set interest payments on these loans against tax bills. Meanwhile, parents and grandparents can now give tax-free gifts to their children and grandchildren – it’s hoped they will spend the money. Although Sarkozy says fiscal restraint is required to restore confidence, the government deficit is likely to remain well above 3% of GDP. The government may raise more money from privatisation, but the determination to push through unpopular cuts in health spending must be in doubt.

### Key Indicators: France

*Percentage changes on a year earlier unless otherwise stated*

|                  | Industrial production | Consumer manufact. | CPI | Unemployment % | Confidence: industry balance | Confidence: consumer balance | Trade balance EUR mn | Vehicle Reg’ns |
|------------------|-----------------------|--------------------|-----|----------------|------------------------------|----------------------------|---------------------|--------------|
| **2003**         |                       |                    |     |                |                              |                            |                     |              |
| May              | -2.6                  | 0.7                | 1.8 | 9.7            | -36                          | -                          | -218                | -13.1        |
| June             | -1.2                  | 1.3                | 2.0 | 9.8            | -35                          | -                          | -134                | 2.0          |
| July             | -0.6                  | 2.2                | 1.9 | 9.8            | -37                          | -                          | 486                 | -6.0         |
| Aug              | -1.6                  | -1.4               | 1.9 | 9.8            | -31                          | -                          | 42                  | -15.4        |
| Sep              | 0.1                   | 3.6                | 2.1 | 9.9            | -26                          | -                          | 442                 | 1.5          |
| Oct              | 2.2                   | 4.0                | 2.2 | 9.9            | -15                          | -                          | 44                  | -1.9         |
| Nov              | 0.9                   | 1.6                | 2.3 | 9.9            | -2                           | -24                        | 80                  | -9.4         |
| Dec              | 1.9                   | 0.9                | 2.2 | 9.9            | 7                            | -25                        | 852                 | 0.6          |
| **2004**         |                       |                    |     |                |                              |                            |                     |              |
| Jan              | 0.7                   | 3.3                | 2.0 | 9.9            | 12                           | -22                        | 748                 | -11.9        |
| Feb              | 0.9                   | 3.5                | 1.8 | 9.8            | 11                           | -23                        | -73                 | -2.8         |
| Mar              | -                    | 1.8                | 1.7 | 9.8            | 5                            | -22                        | -                   | 5.6          |
| Apr              | -                    | -                  | -   | -9             | -20                          | -                          | -                   | -4.0         |
ITALY

Few signs of life as yet …

- After a poor start to the year, some timely indicators at least offer a glimmer of hope. That said, greater optimism, as shown by the surge in the ISAE business confidence index, has yet to be reflected in hard economic data. The April Purchasing Managers’ Index showed manufacturing expanded weakly, but the sector is still shedding jobs. In addition consumer price inflation picked up in April, on the back of rising energy prices, and that threatens to undermine consumer spending power. We forecast a rise in GDP of 1.0% this year, before a rebound to 2.1% in 2005, but downside risks to this forecast remain.

… as the EC takes action on budget deficit

- Consumers clearly need a boost and Prime Minister Berlusconi is hinting at tax cuts despite the deteriorating fiscal position. So it was no surprise the latest fiscal plans failed to impress the European Commission. It threatened an official warning unless urgent action is taken to prevent the budget deficit breaching the 3% ceiling this year - we expect a deficit of 3.3% of GDP. At 106% of GDP Italy’s debt is the largest in the EU but the government refuses to address the structurally weak public finance position. Instead, as last year, it proposes one-off and temporary measures such as spending freezes which make it harder to hit deficit targets in future years.

Key Indicators: Italy

|                | Percentage changes on a year earlier unless otherwise stated |
|----------------|----------------------------------------------------------------|
|                | Industrial production | Nominal retail sales | CPI  | Industrial producer prices | Contracted hourly earnings | Household confidence (1982=100) | Business expectation (balance) | Trade balance € bn |
| 2003           |                      |                     |      |                          |                          |                               |                          |                    |
| May            | -3.0                 | 3.6                 | 2.5  | 1.6                       | 1.7                       | 107.3                         | -5.0                       | -0.3               |
| Jun            | -1.8                 | 0.3                 | 2.6  | 1.5                       | 1.7                       | 106.9                         | -8.0                       | -0.5               |
| Jul            | -0.5                 | 2.3                 | 2.6  | 1.3                       | 2.1                       | 108.7                         | -12.0                      | 2.7                |
| Aug            | 0.5                  | -0.6                | 2.7  | 1.4                       | 2.6                       | 107.1                         | -4.0                       | 1.4                |
| Sep            | -0.8                 | 3.3                 | 2.7  | 1.0                       | 2.7                       | 106.8                         | -8.0                       | -0.4               |
| Oct            | 0.0                  | 1.6                 | 2.5  | 0.7                       | 2.6                       | 104.7                         | -7.0                       | 2.7                |
| Nov            | 0.0                  | -0.9                | 2.4  | 1.2                       | 2.5                       | 101.8                         | -9.0                       | 0.2                |
| Dec            | 0.3                  | 1.8                 | 2.4  | 0.8                       | 2.7                       | 103.0                         | -1.0                       | -0.6               |
| 2002           |                      |                     |      |                          |                          |                               |                          |                    |
| Jan            | 0.1                  | 3.6                 | 2.2  | 0.4                       | 2.1                       | 99.4                          | -2.0                       | -2.3               |
| Feb            | 0.0                  | 0.1                 | 2.3  | 0.1                       | 2.8                       | 98.2                          | -3.0                       | -0.8               |
| Mar            | -                    | -                   | 2.1  | 0.6                       | 2.8                       | 100.9                         | -10.0                      | -                  |
| Apr            | -                    | -                   | 2.4  | -                         | -                         | 101.7                         | -                          | -                  |
Spain

A good start to the year

- Robust domestic demand growth continues to be the motor behind the Spanish economy. The Bank of Spain’s provisional GDP estimate showed the economy grew 0.6% in Q1, taking annual growth to 2.8% – just shy of our estimate of trend. Encouraging signs from other short-term indicators give few reasons to believe the recovery will run out of steam. As a result we forecast a rise in GDP of 3.0% this year and 3.1% in 2005.

- The positive start to the year, with continued healthy growth in domestic demand, should allow Spain to outperform its peers elsewhere in the EU. The Purchasing Managers’ Indices for both manufacturing and services show activity expanded in April on the back of production and new orders. Moreover the services index regained some of the ground lost following the bomb attacks in Madrid during March. But it’s not all good news; growth isn’t strong enough to produce a surge in hiring and this could make consumers wary. In addition the deterioration in the inflation outlook could hamper income growth and consumer demand if it persists.

- Robust consumer spending and employment levels should keep tax receipts buoyant. Corporate tax revenues should get a boost from profits. In addition the new government will want to keep a lid on public spending to make room for tax cuts. As a result we expect modest budget surpluses over the next couple of years with the debt ratio declining steadily, dipping below 40% by the end of the decade.

### Key Indicators: Spain

*Percentage changes on a year earlier unless otherwise stated*

|  | Industrial production | New car reg. | CPI | Unemployment | Business confidence balance | Consumer confidence balance | Trade balance | Retail sales |
|---|---|---|---|---|---|---|---|---|
| 2003 | | | | | | | | |
| May | -1.2 | -4.7 | 2.7 | 8.6 | 0 | -14 | -3.7 | 6.0 |
| Jun | 4.5 | 11.9 | 2.8 | 8.5 | -3 | -11 | -3.7 | 6.2 |
| Jul | 1.9 | 9.4 | 2.8 | 8.3 | -1 | -14 | -4.1 | 5.6 |
| Aug | -1.4 | 6.0 | 3.0 | 8.3 | -1 | -12 | -3.8 | 2.8 |
| Sep | 2.5 | 17.3 | 2.9 | 8.5 | -2 | -11 | -4.9 | 6.7 |
| Oct | 0.8 | 11.5 | 2.6 | 8.8 | -2 | -12 | -4.1 | 7.2 |
| Nov | 1.4 | 15.8 | 2.8 | 9.0 | -1 | -12 | -4.6 | 3.5 |
| Dec | 4.2 | 13.7 | 2.6 | 9.0 | -4 | -11 | -4.3 | 7.3 |
| 2004 | | | | | | | | |
| Jan | -2.8 | 10.6 | 2.3 | 9.3 | -4 | -12 | -3.5 | 6.2 |
| Feb | 2.0 | 23.5 | 2.1 | 9.2 | -2 | -12 | - | 6.7 |
| Mar | 2.4 | 28.6 | 2.1 | 9.2 | -3 | -11 | - | 7.1 |
| Apr | - | - | - | - | -1 | -8 | - | - |
UNITED KINGDOM

Interest rates up again

- The Monetary Policy Committee, as expected, raised UK interest rates to 4.25% at its May meeting, the third such increase since last November. In announcing its decision, the MPC highlighted that, while CPI inflation has been below the 2% target and is likely to remain so in the near term, earnings growth has picked up and commodity prices have risen sharply. Moreover, with a small and diminishing margin of spare capacity, the MPC is concerned that inflationary pressures are likely to build despite a higher level of sterling than at the beginning of the year.

How tight is the labour market?

- The jump in whole economy average earnings growth to 4.9% on the headline measure in February from 3.4% in December has clearly raised concerns about the ability of the labour market to cope with the strong recovery in UK economic growth. With unemployment now below 3% (under 900,000) on the claimant count measure and less than 5% on the LFS measure, and employment rising over 365,000 in 2003 according to the workforce survey, some commentators – the MPC included, apparently - are worried about potential labour shortages.

- The rise in wage inflation in this year should not, however, have been a big surprise. It is almost entirely due to a sharp pick-up in bonus payments, which in turn reflects increased company profits, particularly in the financial services sector. There is no sign yet of a pick-up in underlying pay settlements. Moreover, as the charts illustrate, the UK labour market is probably not as tight as the headline indicators suggest:
  - While numbers employed have risen strongly over the last few years, this has been accompanied by a sharp fall in average hours worked. As a result, the total number of hours of labour employed by companies has been broadly flat since 2001. Some of the fall in average hours may reflect structural factors (eg the working time directive). But it may also reflect reduced overtime working and some people having to take part-time work who would prefer a full-time job. So, there is probably scope for average hours to increase to meet some of the likely rise in labour demand.
  - While overall employment has risen, this has been mainly due to strong growth in self-employment. The number of employees in employment has been fairly stable over the last couple of years, with the number of private employees actually falling sharply while public sector employment has risen. It is possible that many people currently classified as self-employed are simply marking time until a new job becomes available (eg acting as consultants or handy-men). This would again suggest that the employment data overstate the genuine
strength of the labour market.

- The number of working days lost to strikes has fallen sharply over the last year, although there have been some large-scale public sector disputes in the last few weeks.

**Inflation prospects benign**

- We should expect headline wage inflation to rise further over the next few months as bonus payments continue to recover. However, we do not see pay risks as a major factor likely to push interest rates significantly higher. And other inflation indicators look benign. For example:
  - With the recovery in GDP growth bolstering productivity, unit wage cost inflation fell to 1.5% in 2003Q4 from 2.4% in Q3. And manufacturing unit wage costs in February were 1.2% lower than a year earlier.
  - Headline producer output price inflation fell to 1.3% in March from 1.8% in December, while producer input prices were only 0.9% higher than a year earlier as sterling’s appreciation against the dollar has offset the rise in international commodity prices.
  - Import prices in the three months to February were 2.4% lower than in the previous three months and 2.1% lower than in the same period a year earlier.

- With our estimates suggesting that there is still spare capacity in the economy and, in particular, that the labour market is not as tight as suggested by the headline employment/unemployment figures, we expect CPI inflation to undershoot its target both this year and next. Our forecast shows CPI inflation averaging 1.3% in 2004 and 1.6% in 2005.

### Key Indicators: United Kingdom

*Percentage changes on a year earlier unless otherwise stated*

|          | Manuf. output | Retail sales | Unemployment claimants% | CBI total orders %bal. | Headline RPI | CPI | Average earnings headline | Trade balance £bn |
|----------|---------------|--------------|-------------------------|------------------------|--------------|-----|--------------------------|-----------------|
| **2003** |               |              |                         |                        |              |     |                          |                 |
| May      | -1.9          | 2.6          | 3.1                     | -29                    | 3.0          | 1.2 | 3.4                      | -4.1            |
| Jun      | 4.8           | 4.1          | 3.1                     | -27                    | 2.9          | 1.1 | 3.0                      | -4.6            |
| Jul      | 0.6           | 2.7          | 3.1                     | -37                    | 3.1          | 1.3 | 3.3                      | -3.5            |
| Aug      | -0.6          | 2.5          | 3.1                     | -24                    | 2.9          | 1.4 | 3.4                      | -3.5            |
| Sep      | 0.0           | 3.8          | 3.1                     | -33                    | 2.8          | 1.4 | 3.6                      | -4.7            |
| Oct      | 2.2           | 3.4          | 3.0                     | -40                    | 2.6          | 1.4 | 3.6                      | -4.4            |
| Nov      | 0.8           | 3.3          | 3.0                     | -24                    | 2.5          | 1.3 | 3.6                      | -4.4            |
| Dec      | 1.0           | 3.3          | 3.0                     | -19                    | 2.8          | 1.3 | 3.4                      | -4.0            |
| **2004** |               |              |                         |                        |              |     |                          |                 |
| Jan      | 1.3           | 7.0          | 2.9                     | -18                    | 2.6          | 1.4 | 4.7                      | -5.5            |
| Feb      | 0.2           | 6.5          | 2.9                     | -15                    | 2.5          | 1.3 | 4.9                      | -4.2            |
| Mar      | -             | 6.4          | 2.9                     | -8                     | 2.6          | 1.1 | -                        | -               |
| Apr      | -             | -            | -                       | -14                    | -            | -   | -                        | -               |
EMERGING MARKETS

Risks from US rates & China slowdown

- Although the current economic news from most emerging economies continues to point to a robust recovery, the outlook has been darkened somewhat over the last month by three global issues. First, the growing likelihood that the US Federal Reserve will start to raise interest rates during 2004H2. Second, the possibility that the various measures imposed by the Chinese authorities to slow the economy from its sizzling pace of 9.7% growth in 2004Q1 might trigger a sharp deceleration in that economy, with adverse consequences for Asian exporters. Third, the danger that oil prices might stick at their current, very high levels, eroding purchasing power in non-oil producing economies.

Rising risk premia in emerging markets

- The first factor is of greatest concern to the heavily indebted Latin American economies and Turkey. A surge in US employment in March, announced in early April, triggered a re-assessment of interest rate expectations and a sharp increase in US interest rates along the yield curve. This development also made speculative investors much more cautious towards emerging market debt given the huge rally that this asset class experienced between October 2002 and March 2004. Indeed emerging market bonds had their biggest monthly setback in April since mid-2002, and this has continued into May. Since the end of March, Brazil’s country risk premium (the yield spread over US treasuries) has climbed 140bp, and its equity market fallen 13%. Similarly, Turkey’s risk premium has increased by over 110bp, whilst the TRL has depreciated by 9%.

Less forgiving environment

- Moreover this trend could easily intensify if the markets’ expectations of US interest rates are confirmed by economic data there over the coming months. In this environment investors are likely to be much less forgiving about any “bad news” coming out of the major emergers than they were at the turn of the year. For example, in Brazil disappointing slow growth could greatly undermine support for the current, orthodox policy framework, while in Turkey a continued surge in the current account deficit could easily lead to problems. And though in both cases there is little doubt that the fundamentals have vastly improved relative to two years ago, the new global interest rate environment (if sanctioned by the US Fed over the next few months) would make any slip up much more costly in terms of the debt service burden and lost output.
Uncertainty about China slowdown

- Although Brazil has benefited from the boom in China’s economy (exports there were 280% higher in 2004Q1 than two years ago), the rest of emerging Asia is most at risk from a rapid deceleration of the Chinese economy. However, while global financial markets have reacted strongly over the last month to the increasingly hawkish statements from the Chinese leadership about the need to slow the economy, marking down the stock market prices of those companies that have gained from supplying raw materials and intermediate goods to China, there is precious little evidence to indicate that there has been a sudden, sharp adjustment in the economy. And given the authorities’ relatively prompt reaction to the situation there remains a good chance that the slowdown will be reasonably well controlled. If this is the case then emerging Asia should be able to weather the repercussions of slower sales growth to the China market fairly comfortably as domestic demand growth is expected to gather momentum in many countries after several, very sluggish years. This forecast is supported by both the Japanese and Korean trade data in recent months, which show a marked acceleration in export growth to Asia ex China.

Risks, but generally positive outlook

- Together with the steady rise in oil prices these issues suggest there are greater concerns about the outlook for the emerging market economies than there were a couple of months ago. However, at the same time it should be recognised that at least one of the factors - the potential rise of US interest rates – will only come about because of a positive reason, the greatly diminished risk of deflation in the US. And as long as the most vulnerable emerging markets maintain a sensible policy framework in a global environment where there is steady growth in the world’s biggest economy then the extent of any setback caused by a rise in interest rates is likely to be limited.

Generally strong output data in Q1

- There is little doubt that emerging Asia grew very rapidly in Q1; most countries showed seasonally adjusted industrial output gains of over 3% on the quarter. However, the picture was more muted in both Mexico and Brazil, where output in Q1 failed to build significantly on the substantial recoveries of 2003Q4. Moreover, in both cases this was despite a strong export performance in the quarter, suggesting that domestic demand has yet to pick up decisively. And until the latter occurs, this year’s forecasts for both countries of 3-4% may be vulnerable to downward revision. Elsewhere, Turkey’s economy has continued to record strong growth in early 2004, with industrial output in January / February up 11.1% on a year ago; and a similarly buoyant performance has been registered by the major central European economies.

| GDP forecast for Emerging Markets |
|-----------------------------------|
|                                   |
| **(Annual percentage changes unless otherwise specified)** |
| **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
| **Asia** |
| China | 8.0 | 9.1 | 9.4 | 7.3 | 7.4 | 8.1 | 8.3 |
| India | 4.8 | 7.1 | 8.1 | 6.9 | 6.6 | 6.6 | 6.7 |
| Indonesia | 3.7 | 4.2 | 4.7 | 4.9 | 5.5 | 5.7 | 5.6 |
| Korea | 7.0 | 3.1 | 5.9 | 6.2 | 5.4 | 5.3 | 5.0 |
| Malaysia | 4.1 | 5.2 | 6.5 | 6.3 | 6.2 | 5.5 | 5.3 |
| Philippines | 4.4 | 4.5 | 4.3 | 4.2 | 4.3 | 4.2 | 4.2 |
| Thailand | 5.4 | 6.7 | 7.1 | 6.4 | 5.0 | 5.1 | 5.5 |
| **Latin America** |
| Argentina | -10.9 | 8.7 | 5.1 | 4.0 | 3.7 | 3.5 | 3.4 |
| Brazil | 1.9 | -0.2 | 3.3 | 4.5 | 4.3 | 4.0 | 3.9 |
| Chile | 2.1 | 4.0 | 4.6 | 5.0 | 4.7 | 4.4 | 4.3 |
| Mexico | 1.0 | 1.3 | 3.4 | 4.2 | 4.1 | 3.8 | 3.8 |
| **South Africa** |
| 3.6 | 1.9 | 2.3 | 3.4 | 3.3 | 4.1 | 3.6 |
| **Eastern Europe** |
| Czech Rep | 1.9 | 2.9 | 3.2 | 3.9 | 4.3 | 4.5 | 4.5 |
| Hungary | 3.5 | 2.9 | 3.5 | 4.1 | 5.0 | 5.0 | 4.9 |
| Poland | 1.4 | 3.7 | 5.1 | 4.6 | 4.2 | 4.2 | 4.5 |
| Russia | 4.7 | 7.3 | 6.3 | 5.0 | 4.8 | 4.6 | 4.4 |
| Turkey | 7.9 | 5.8 | 4.4 | 5.5 | 4.8 | 4.6 | 4.5 |
### Table 1: Summary Items

| QUARTER-ON-QUARTER ANNUALISED PERCENTAGE CHANGES, UNLESS OTHERWISE SPECIFIED |
|-----------------------------------------------|
| **U.S.A.**                                    |
| CONSUMERS EXPENDITURE | REAL PERS. DISPOSABLE INCOME | SAVINGS RATIO (%) | REAL GDP | INDUSTRIAL PRODUCTION | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | WHOLE ECONOMY PRODUCTIVITY | COMPETITIVENESS | PRODUCER PRICES | CONSUMER PRICES | TOTAL PROFITS |
| YEARS BEGINNING Q1 |
| 2003 | 3.3 | 2.7 | 2.1 | 3.1 | 0.3 | 6.0 | 2.8 | 2.2 | 113.4 | 3.2 | 2.3 | 18.3 |
| 2004 | 3.8 | 3.4 | 1.8 | 4.6 | 4.4 | 5.6 | 3.5 | 3.6 | 112.6 | 2.6 | 2.3 | 25.9 |
| 2005 | 3.8 | 2.8 | 1.3 | 3.9 | 2.9 | 5.3 | 4.0 | 2.3 | 115.1 | 1.9 | 2.4 | 14.2 |
| 2006 | 3.6 | 2.9 | 1.3 | 3.2 | 2.9 | 5.0 | 4.1 | 1.7 | 116.2 | 1.8 | 2.3 | 7.2 |
| 2007 | 3.7 | 3.0 | 1.3 | 3.1 | 2.9 | 5.0 | 4.1 | 1.9 | 116.1 | 1.9 | 2.6 | 4.5 |
| 2008 | 3.8 | 3.0 | 1.4 | 3.4 | 4.0 | 5.0 | 4.1 | 2.3 | 115.8 | 1.9 | 2.6 | 7.7 |

### Table 2: Summary Items

| TRADE BALANCE ($BN) | CURRENT ACCOUNT ($BN) | CURRENT ACCOUNT (% OF GDP) | FEDERAL UNIFIED BALANCE ($BN) | FEDERAL UNIFIED BALANCE (% OF GDP) | SHORT-TERM INTEREST RATE | LONG-TERM INTEREST RATE | TOTAL HOUSING STARTS (MILLIONS) | LIGHT VEHICLE SALES (MILLIONS) | YEN PER DOLLAR | DOLLAR PER EURO | EFFECTIVE RATE |
|---------------------|----------------------|-----------------------------|-----------------------------|-----------------------------------|--------------------------|--------------------------|---------------------------------|-------------------------------|----------------|----------------|------------|
| YEARS BEGINNING Q1 |
| 2003 | -559.7 | -541.8 | -4.9 | -394.7 | -3.6 | 1.01 | 4.02 | 1.85 | 16.6 | 115.9 | 1.13 | 93.1 |
| 2004 | -588.7 | -573.7 | -4.9 | -480.7 | -4.1 | 1.11 | 4.28 | 1.72 | 15.9 | 107.4 | 1.19 | 88.3 |
| 2005 | -543.3 | -551.2 | -4.4 | -450.6 | -3.6 | 3.21 | 4.86 | 1.60 | 15.3 | 113.0 | 1.13 | 93.5 |
| 2006 | -597.7 | -532.7 | -4.1 | -438.8 | -3.4 | 4.39 | 4.98 | 1.65 | 15.0 | 112.3 | 1.13 | 94.1 |
| 2007 | -505.8 | -533.0 | -3.9 | -460.4 | -3.3 | 4.42 | 5.00 | 1.69 | 14.9 | 109.9 | 1.13 | 93.6 |
| 2008 | -505.8 | -535.2 | -3.7 | -495.3 | -3.4 | 4.42 | 5.00 | 1.67 | 14.9 | 107.6 | 1.11 | 93.6 |

### TABLE 1  SUMMARY ITEMS

#### CONSUMERS EXPENDITURE

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| REAL PERSONS DISPOSABLE INCOME (%) | 1.1 | 1.6 | 1.9 | 1.4 | 1.6 | 1.6 |
| SAVINGS RATIO (%) | 3.8 | 3.9 | 4.7 | 5.7 | 5.5 | 5.6 |
| REAL GDP | 2.7 | 2.8 | 4.4 | 5.6 | 8.9 | 1.0 |
| INDUSTRIAL PRODUCTION | 3.3 | 4.5 | 5.2 | 5.7 | 8.8 | 1.0 |
| UNEMPLOYMENT RATE (%) | 5.3 | 4.9 | 1.2 | 5.4 | 1.3 | 1.1 |
| AVERAGE EARNINGS | -0.4 | -0.1 | 0.5 | -0.5 | 1.7 | 1.4 |
| WHOLE ECONOMY PRODUCTIVITY (%) | 2.9 | 2.7 | 1.3 | 0.5 | 1.4 | 1.5 |

#### COMPETITIVENESS PRICES

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| PRODUCER PRICES | 83.0 | 85.5 | 84.8 | 87.5 | 88.3 | 86.6 |
| CONSUMER PRICES | -0.8 | 0.1 | 0.3 | 0.7 | 0.1 | 0.5 |

### TABLE 2  SUMMARY ITEMS

#### TRADE BALANCE (YEN BN)

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| CURRENT ACCOUNT (YEN BN) | 2861 | 2902 | 3052 | 3569 | 3923 | 3924 |
| % OF GDP | 3115 | 3578 | 4261 | 4537 | 4664 | 4754 |

#### GOVERNMENT FINANCIAL BALANCE (YEN BN)

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| GOVERNMENT FINANCIAL BALANCE (YEN BN) | 12383 | 14350 | 12108 | 11769 | 11739 | 11754 |
| SHORT-TERM INTEREST RATE | -38544 | -39198 | -39258 | -38827 | -37884 | -37980 |
| LONG-TERM INTEREST RATE | 0.09 | 0.10 | 0.16 | 0.23 | 0.39 | 0.40 |
| REAL SHORT-TERM INTEREST RATE | 0.077 | 0.069 | 0.095 | 0.097 | 0.098 | 0.097 |
| REAL LONG-TERM INTEREST RATE | 0.034 | 0.039 | 0.065 | 0.137 | 0.139 | 0.142 |
| YEN PER DOLLAR (1990-100) | 1.25 | 1.27 | 1.40 | 1.99 | 2.00 | 2.23 |

#### EFFECTIVE RATE

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| EFFECTIVE RATE (%) | 113.9 | 118.5 | 118.4 | 134.3 | 133.8 | 143.4 |

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**JAPAN**

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**THE MAY FORECAST**

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**TABLE 2  SUMMARY ITEMS**

#### TRADE BALANCE (YEN BN)

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| CURRENT ACCOUNT (YEN BN) | 2861 | 2902 | 3052 | 3569 | 3923 | 3924 |
| % OF GDP | 3115 | 3578 | 4261 | 4537 | 4664 | 4754 |

#### GOVERNMENT FINANCIAL BALANCE (YEN BN)

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| GOVERNMENT FINANCIAL BALANCE (YEN BN) | 12383 | 14350 | 12108 | 11769 | 11739 | 11754 |
| SHORT-TERM INTEREST RATE | -38544 | -39198 | -39258 | -38827 | -37884 | -37980 |
| LONG-TERM INTEREST RATE | 0.09 | 0.10 | 0.16 | 0.23 | 0.39 | 0.40 |
| REAL SHORT-TERM INTEREST RATE | 0.077 | 0.069 | 0.095 | 0.097 | 0.098 | 0.097 |
| REAL LONG-TERM INTEREST RATE | 0.034 | 0.039 | 0.065 | 0.137 | 0.139 | 0.142 |
| YEN PER DOLLAR (1990-100) | 1.25 | 1.27 | 1.40 | 1.99 | 2.00 | 2.23 |

#### EFFECTIVE RATE

| YEARS BEGINNING Q1 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| EFFECTIVE RATE (%) | 113.9 | 118.5 | 118.4 | 134.3 | 133.8 | 143.4 |
### TABLE 1: SUMMARY ITEMS

|YEARS BEGINNING Q1| CONSUMERS EXPENDITURE | REAL PERS. DISPOSABLE INCOME | SAVINGS RATIO (%) | REAL GDP | INDUSTRIAL PRODUCTION | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | WHOLE ECONOMY PRODUCTIVITY | COMPETITIVENESS (1995-1998) | PRODUCER PRICES | CONSUMER PRICES |
|------------------|-------------------------|------------------------------|------------------|---------|-----------------------|----------------------|----------------|---------------------------|------------------------|----------------|----------------|
| 2003             | -0.1                    | 0.2                          | 10.8             | -0.1    | 0.2                   | 10.5                 | 1.3            | 1.0                       | 97.4                   | 1.8            | 1.1            |
| 2004             | 0.0                     | 0.3                          | 11.1             | 1.3     | 2.6                   | 10.3                 | 1.0            | 1.4                       | 95.9                   | 0.2            | 1.1            |
| 2005             | 2.2                     | 1.5                          | 10.4             | 1.9     | 2.4                   | 10.2                 | 2.5            | 1.9                       | 94.4                   | 1.0            | 0.5            |
| 2006             | 2.1                     | 1.6                          | 10.0             | 1.9     | 2.5                   | 9.9                  | 2.7            | 1.7                       | 94.0                   | 1.4            | 1.1            |
| 2007             | 2.0                     | 1.8                          | 9.9              | 1.7     | 1.7                   | 9.5                  | 2.8            | 1.4                       | 93.9                   | 1.6            | 1.7            |
| 2008             | 1.5                     | 1.7                          | 10.1             | 1.5     | 1.5                   | 9.1                  | 2.8            | 1.1                       | 93.7                   | 1.6            | 1.7            |

### TABLE 2: SUMMARY ITEMS

|YEARS BEGINNING Q1| TRADE BALANCE (EUROS BN) | CURRENT ACCOUNT (EUROS BN) | CURRENT ACCOUNT (% OF GDP) | GOV.FIN. BALANCE(MASS DEF) (EUROS BN) | GOV.FIN. BALANCE (% OF GDP) | SHORT-TERM INTEREST RATE | LONG-TERM INTEREST RATE | REAL SHORT-TERM INTEREST RATE | REAL LONG-TERM INTEREST RATE | D-MARK PER DOLLAR | D-MARK PER EURO |
|------------------|--------------------------|-----------------------------|----------------------------|--------------------------------------|-----------------------------|-------------------------|--------------------------|-------------------------------|-------------------------------|----------------|----------------|
| 2003             | 129.6                    | 46.8                        | 2.2                        | 83.2                                 | -3.9                        | 2.34                    | 4.09                     | 1.27                          | 3.02                          | 1.73           | 1.96           |
| 2004             | 137.4                    | 79.3                        | 3.6                        | 84.7                                 | -3.9                        | 2.02                    | 4.41                     | 0.93                          | 3.32                          | 1.65           | 1.96           |
| 2005             | 149.8                    | 85.8                        | 3.8                        | 81.6                                 | -3.6                        | 2.50                    | 4.85                     | 1.96                          | 4.31                          | 1.73           | 1.96           |
| 2006             | 164.1                    | 93.4                        | 4.0                        | 75.7                                 | -3.3                        | 3.88                    | 4.97                     | 2.78                          | 3.87                          | 1.74           | 1.96           |
| 2007             | 179.6                    | 101.1                       | 4.2                        | 70.0                                 | -2.9                        | 4.50                    | 5.00                     | 2.77                          | 3.27                          | 1.74           | 1.96           |
| 2008             | 188.6                    | 105.1                       | 4.3                        | 66.8                                 | -2.7                        | 4.75                    | 5.00                     | 2.76                          | 3.26                          | 1.77           | 1.96           |

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### TABLE 1  SUMMARY ITEMS

| YEARS BEGINNING Q4 | CONSUMERS EXPENDITURE | REAL PERSONS' INCOME | SAVINGS RATIO (%) | REAL GDP | INVESTMENT | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | REAL GDP PRODUCTIVITY (1995=100) | COMPETITIVENESS | PRODUCER PRICES | CONSUMER PRICES |
|-------------------|------------------------|---------------------|-------------------|----------|------------|----------------------|----------------|------------------------------|----------------|----------------|----------------|
| 2003              | 1.7                    | 0.5                 | 15.8              | -0.3     | 9.8        | 1.9                 | 0.5             | 80.7                         | 0.9            | 2.1            |                 |
| 2004              | 1.6                    | 2.6                 | 16.6              | 1.9      | 9.8        | 3.0                 | 1.6             | 80.4                         | 0.6            | 2.0            |                 |
| 2005              | 2.4                    | 3.3                 | 17.3              | 2.5      | 9.4        | 3.1                 | 1.7             | 80.0                         | 1.5            | 1.4            |                 |
| 2006              | 3.3                    | 2.5                 | 16.7              | 2.5      | 8.6        | 3.4                 | 1.3             | 81.0                         | 2.6            | 1.7            |                 |
| 2007              | 2.9                    | 2.6                 | 16.5              | 2.4      | 8.0        | 3.5                 | 1.3             | 82.0                         | 2.6            | 1.8            |                 |
| 2008              | 2.9                    | 2.9                 | 16.5              | 2.4      | 7.1        | 3.5                 | 1.1             | 83.1                         | 2.4            | 1.8            |                 |

### TABLE 2  SUMMARY ITEMS

| YEARS BEGINNING Q1 | TRADE BALANCE (EUROS BN) | CURRENT ACCOUNT (EUROS BN) | CURRENT ACCOUNT (% OF GDP) | PURSECT BALANCE (MAADEF) (EUROS BN) | PURSECT BALANCE (MAADEF) (% OF GDP) | SHORT-TERM INTEREST RATE | LONG-TERM INTEREST RATE | REAL SHORT-TERM INTEREST RATE | REAL LONG-TERM INTEREST RATE | FF PER DOLLAR | FF PER EURO |
|-------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------------|-----------------------------------|--------------------------|-------------------------|-----------------------------|-----------------------------|---------------|------------|
| 2003              | 1.6                      | 6.4                         | 0.4                         | -63.9                             | -4.1                              | 2.41                     | 4.07                    | 3.17                        | 1.96                        | 5.79          | 6.56       |
| 2004              | 4.7                      | 11.2                        | 0.7                         | -64.3                             | -4.0                              | 2.03                     | 4.48                    | 0.02                        | 2.47                        | 5.52          | 6.56       |
| 2005              | 3.8                      | 12.7                        | 0.8                         | -58.2                             | -3.5                              | 2.50                     | 4.87                    | 1.07                        | 3.44                        | 5.79          | 6.56       |
| 2006              | 4.1                      | 15.0                        | 0.9                         | -45.4                             | -2.6                              | 3.88                     | 4.97                    | 2.15                        | 3.24                        | 5.83          | 6.56       |
| 2007              | 0.6                      | 12.0                        | 0.7                         | -32.8                             | -1.8                              | 4.50                     | 5.00                    | 2.67                        | 3.17                        | 5.83          | 6.56       |
| 2008              | 0.0                      | 11.9                        | 0.6                         | -25.8                             | -1.4                              | 4.50                     | 5.00                    | 2.67                        | 3.17                        | 5.92          | 6.56       |
## World Economic Prospects: Monthly Review, May 2004

### Table 1: Summary Items

| TABLE 1 SUMMARY ITEMS |  |
|-----------------------|--|
| **UK HOUSEHOLD CONSUMER EXPENDITURE (Pound BN)** | **REAL HOUSEHOLD DISPOSABLE INCOME** | **SAVINGS RATIO (%)** | **REAL GDP** | **INDUSTRIAL PRODUCTION** | **UNEMPLOYMENT RATE (%)** | **AVERAGE EARNINGS** | **WHOLE ECONOMY PRODUCTIVITY** | **PRODUCER PRICE (EX. FOODPRICES) TOG. & PRD. (%)** | **HEADLINE RPI (%)** | **RPI EXCL. MORTGAGE PAYMENTS (%)** | **CONSUMER PRICES INDEX** |
| **YEARS BEGINNING Q1** |  |  |  |  |  |  |  |  |  |  |  |  |
| 2003 | 2.5 | 2.3 | 5.7 | 2.2 | -0.5 | 3.1 | 3.3 | 1.2 | 1.3 | 2.9 | 2.8 | 1.4 |
| 2004 | 3.1 | 3.4 | 6.2 | 3.2 | 0.0 | 5.1 | 1.9 | 1.3 | 2.8 | 2.2 | 1.7 |
| 2005 | 2.4 | 3.0 | 6.7 | 2.8 | 2.2 | 2.7 | 4.5 | 1.8 | 0.8 | 2.6 | 2.2 | 1.6 |
| 2006 | 2.7 | 2.7 | 6.8 | 2.3 | 1.5 | 2.8 | 4.2 | 1.6 | 0.7 | 2.0 | 2.2 | 1.7 |
| 2007 | 2.6 | 2.7 | 6.8 | 2.8 | 1.3 | 4.1 | 2.2 | 0.4 | 2.4 | 2.3 | 1.8 |
| 2008 | 2.5 | 2.6 | 6.9 | 2.6 | 1.3 | 2.9 | 4.2 | 1.9 | 0.2 | 2.8 | 2.5 | 1.9 |

### Table 2: Summary Items

| TABLE 2 SUMMARY ITEMS |  |
|-----------------------|--|
| **UK TRADE BALANCE (Pound BN)** | **CURRENT ACCOUNT (Pound BN)** | **CURRENT GOVERNMENT FINANCIAL BALANCE (Pound BN)** | **OVERNME BALANCE (Pound BN)** | **SHORT-TERM INTEREST RATE (%)** | **LONG-TERM INTEREST RATE (%)** | **REAL SHORT-TERM INTEREST RATE (%)** | **REAL LONG-TERM INTEREST RATE (%)** | **DOLLAR PER POUND** | **EUROS EFFECTIVE RATE (%)** |
| **YEARS BEGINNING Q1** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2003 | -46.2 | -18.8 | -1.7 | -33.9 | -3.1 | 3.69 | 4.46 | 0.78 | 1.56 | 1.64 | 1.45 | 100.2 |
| 2004 | -34.3 | -28.5 | -2.5 | -36.6 | -3.2 | 4.34 | 4.80 | 1.55 | 1.99 | 1.78 | 1.50 | 104.8 |
| 2005 | -63.3 | -35.2 | -2.9 | -34.5 | -2.8 | 4.75 | 4.85 | 2.13 | 2.23 | 1.70 | 1.50 | 104.5 |
| 2006 | -70.0 | -39.8 | -3.1 | -32.6 | -2.6 | 4.63 | 4.97 | 2.61 | 2.96 | 1.68 | 1.50 | 103.9 |
| 2007 | -70.0 | -40.0 | -3.0 | -37.0 | -2.8 | 4.50 | 5.00 | 2.11 | 2.61 | 1.68 | 1.50 | 103.9 |
| 2008 | -74.1 | -40.3 | -2.9 | -37.8 | -2.7 | 4.50 | 5.00 | 1.67 | 2.17 | 1.66 | 1.50 | 103.4 |

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### TABLE 1: SUMMARY ITEMS

| YEARS BEGINNING Q1 | CONSUMERS EXPENDITURE | REAL PERS. DISPOSABLE INCOME | SAVINGS RATIO (%) | REAL GDP | INDUSTRIAL PRODUCTION | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | WHOLE ECONOMY PRODUCTIVITY | COMPETITIVENESS (1995-100) | PRODUCER PRICES | CONSUMER PRICES |
|---------------------|------------------------|------------------------------|------------------|---------|------------------------|----------------------|---------------|---------------------------|--------------------------|----------------|---------------|
| 2003                |                        |                              |                  |         |                        |                      |               |                           |                          |                |               |
| I                   | 2.0                    | 1.8                          | 15.6             | 0.6     | -0.3                   | 8.9                  | 3.1            | 1.7                       | 125.2         | 1.3            | 1.9           |
| II                  | 1.3                    | 1.7                          | 15.6             | 0.2     | -1.5                   | 8.7                  | 3.6            | 0.9                       | 125.7         | 1.4            | 2.1           |
| III                 | 1.4                    | 0.2                          | 15.2             | 0.5     | -0.3                   | 8.6                  | 3.7            | 0.6                       | 125.3         | 0.8            | 1.9           |
| IV                  | 0.3                    | 0.0                          | 15.6             | 0.1     | 0.0                    | 8.7                  | 3.9            | -0.5                      | 125.9         | 0.9            | 2.4           |
| 2004                |                        |                              |                  |         |                        |                      |               |                           |                          |                |               |
| I                   | -0.4                   | 0.7                          | 16.5             | 0.5     | 0.5                    | 8.7                  | 4.3            | 0.1                       | 126.6         | -0.1           | 2.2           |
| II                  | -0.5                   | 0.7                          | 16.6             | 1.0     | 1.6                    | 8.7                  | 4.0            | 0.9                       | 125.3         | 0.7            | 2.1           |
| III                 | -0.7                   | 0.7                          | 16.5             | 1.0     | 0.7                    | 8.6                  | 3.1            | 0.9                       | 125.3         | 0.8            | 1.9           |
| IV                  | 0.0                    | 1.2                          | 16.5             | 1.5     | 1.6                    | 8.6                  | 3.1            | 1.3                       | 125.4         | 1.1            | 1.9           |
| 2005                |                        |                              |                  |         |                        |                      |               |                           |                          |                |               |
| I                   | 1.0                    | 1.1                          | 16.5             | 1.9     | 2.2                    | 8.5                  | 3.1            | 1.7                       | 125.2         | 1.3            | 1.6           |
| II                  | 1.4                    | 1.2                          | 16.4             | 2.1     | 2.5                    | 8.3                  | 3.0            | 1.8                       | 125.5         | 1.4            | 1.4           |
| III                 | 1.9                    | 1.4                          | 16.1             | 2.2     | 2.6                    | 8.2                  | 3.0            | 1.8                       | 125.8         | 1.4            | 1.5           |
| IV                  | 1.9                    | 1.5                          | 16.2             | 2.2     | 2.5                    | 8.0                  | 3.0            | 1.7                       | 125.9         | 1.4            | 1.6           |
| 2006                |                        |                              |                  |         |                        |                      |               |                           |                          |                |               |
| I                   | 2.0                    | 1.8                          | 16.4             | 2.2     | 2.4                    | 7.7                  | 3.0            | 1.4                       | 125.7         | 1.4            | 1.9           |
| II                  | 2.0                    | 2.2                          | 16.6             | 2.2     | 2.2                    | 7.5                  | 2.9            | 1.4                       | 125.4         | 1.4            | 2.0           |
| III                 | 2.0                    | 2.9                          | 16.8             | 2.2     | 2.1                    | 7.4                  | 2.9            | 1.4                       | 126.1         | 1.4            | 1.9           |
| IV                  | 2.0                    | 2.9                          | 16.9             | 2.2     | 2.0                    | 7.3                  | 2.9            | 1.5                       | 126.0         | 1.4            | 1.9           |
| 2007                |                        |                              |                  |         |                        |                      |               |                           |                          |                |               |
| I                   | 2.0                    | 2.8                          | 17.0             | 2.2     | 1.9                    | 7.2                  | 2.9            | 1.8                       | 125.5         | 1.4            | 1.9           |
| II                  | 2.0                    | 2.5                          | 17.0             | 2.2     | 1.9                    | 7.2                  | 2.9            | 1.9                       | 125.4         | 1.4            | 2.1           |
| III                 | 2.0                    | 2.3                          | 17.1             | 2.1     | 2.8                    | 7.2                  | 2.9            | 2.1                       | 125.3         | 1.4            | 1.8           |
| IV                  | 2.0                    | 2.2                          | 17.0             | 2.1     | 1.7                    | 7.2                  | 2.9            | 2.1                       | 124.8         | 1.3            | 1.6           |
| 2008                |                        |                              |                  |         |                        |                      |               |                           |                          |                |               |
| I                   | 2.1                    | 2.0                          | 17.0             | 2.1     | 1.6                    | 7.2                  | 2.8            | 2.2                       | 123.9         | 1.3            | 1.8           |
| II                  | 2.1                    | 2.0                          | 16.9             | 2.1     | 2.6                    | 7.1                  | 2.8            | 2.1                       | 123.6         | 1.3            | 1.8           |
| III                 | 2.1                    | 1.9                          | 16.8             | 2.1     | 1.5                    | 7.1                  | 2.8            | 2.1                       | 123.4         | 1.3            | 1.8           |
| IV                  | 2.1                    | 1.8                          | 16.8             | 2.1     | 1.5                    | 7.1                  | 2.8            | 2.1                       | 123.0         | 1.3            | 1.8           |

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### TABLE 2: SUMMARY ITEMS

| YEARS BEGINNING Q1 | TRADE BALANCE (EUROS BN) | CURRENT ACCOUNT (EUROS BN) | CURRENT ACCOUNT (% OF GDP) | GOV.FIN. BALANCE (M.A.S.DEF) (EUROS BN) | GOV.FIN. BALANCE (% OF GDP) | SHORT-TERM INTEREST RATE | LONG-TERM INTEREST RATE | REAL SHORT-TERM INTEREST RATE | REAL LONG-TERM INTEREST RATE | LIRA PER DOLLAR | LIRA PER EURO |
|---------------------|-------------------------|-----------------------------|-----------------------------|----------------------------------------|-----------------------------|-------------------------|-------------------------|-------------------------------|-------------------------------|----------------|-------------|
| 2003                | 1.6                     | -19.6                       | -1.5                        | -31.2                                  | -2.4                        | 2.38                    | 4.18                    | -0.21                         | 1510                         | 1936           | 1936        |
| 2004                | 5.9                     | -7.7                        | -0.6                        | -44.2                                  | -3.3                        | 2.02                    | 4.63                    | -0.02                         | 2159                         | 1936           | 1936        |
| 2005                | 9.2                     | -3.3                        | -0.6                        | -80.2                                  | -2.9                        | 2.50                    | 5.06                    | 0.07                         | 3.52                         | 1936           | 1936        |
| 2006                | 9.8                     | -3.0                        | -0.2                        | -34.9                                  | -2.4                        | 3.88                    | 5.14                    | 1.97                         | 3.23                         | 1936           | 1936        |
| 2007                | 9.8                     | -4.7                        | -0.8                        | -28.7                                  | -1.9                        | 4.50                    | 5.12                    | 2.63                         | 3.23                         | 1936           | 1936        |
| 2008                | 9.8                     | -5.4                        | -0.3                        | -24.2                                  | -1.5                        | 4.50                    | 5.05                    | 2.67                         | 3.22                         | 1936           | 1936        |

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**THE MAY FORECAST**
**EURO ZONE**

### TABLE 1 SUMMARY ITEMS
Annual Percentage Changes, Unless Otherwise Specified

| YEARS BEGINNING Q1 | CONSUMERS EXPENDITURE | GROSS FIXED INVESTMENT | DOMESTIC DEMAND | REAL GDP | INDUSTRIAL PRODUCTION | UNEMPLOYMENT RATE (%) | AVERAGE EARNINGS | WHOLE ECONOMY PRODUCTIVITY | MONEY SUPPLY M3 | PRODUCER PRICES | CONSUMER PRICES |
|---------------------|------------------------|------------------------|-----------------|----------|------------------------|------------------------|-----------------|---------------------------|----------------|----------------|----------------|
| 2003                | 1.0                    | -1.0                   | 1.1             | 0.4      | 0.4                    | 8.8                    | 2.5             | 0.2                       | 7.2            | 1.6            | 2.1            |
| 2004                | 0.9                    | 2.4                    | 1.6             | 1.7      | 1.7                    | 8.8                    | 2.4             | 1.3                       | 6.9            | 0.8            | 1.9            |
| 2005                | 2.3                    | 2.9                    | 2.1             | 2.3      | 2.8                    | 8.5                    | 2.9             | 1.9                       | 7.5            | 0.8            | 2.0            |
| 2006                | 2.6                    | 2.5                    | 2.2             | 2.4      | 2.4                    | 8.1                    | 3.1             | 1.7                       | 7.0            | 0.8            | 2.0            |
| 2007                | 2.4                    | 2.5                    | 2.2             | 2.3      | 2.0                    | 7.7                    | 3.1             | 1.7                       | 7.5            | 0.8            | 2.1            |
| 2008                | 2.3                    | 2.5                    | 2.1             | 2.2      | 1.8                    | 7.3                    | 3.1             | 1.6                       | 7.0            | 0.8            | 2.2            |
| 2009                | 2.1                    | 3.0                    | 2.0             | 2.2      | 2.7                    | 8.7                    | 2.7             | 1.9                       | 6.0            | 0.9            | 1.7            |
| 2010                | 2.4                    | 3.0                    | 2.1             | 2.3      | 2.8                    | 8.6                    | 2.9             | 1.9                       | 4.8            | 1.2            | 1.6            |
| 2011                | 1.0                    | 3.1                    | 2.1             | 1.8      | 2.1                    | 8.8                    | 2.4             | 1.5                       | 6.9            | 1.0            | 2.1            |
| 2012                | 1.6                    | 3.2                    | 1.8             | 2.0      | 1.9                    | 8.7                    | 2.8             | 1.7                       | 5.2            | 1.1            | 2.0            |
| 2013                | 2.1                    | 3.0                    | 2.0             | 2.2      | 2.7                    | 8.7                    | 2.7             | 1.9                       | 6.0            | 0.9            | 1.7            |
| 2014                | 2.2                    | 3.0                    | 2.1             | 2.3      | 2.8                    | 8.6                    | 2.9             | 1.9                       | 4.8            | 1.2            | 1.6            |
| 2015                | 1.6                    | 3.2                    | 1.8             | 2.0      | 1.9                    | 8.7                    | 2.8             | 1.7                       | 5.2            | 1.1            | 2.0            |
| 2016                | 1.5                    | 3.1                    | 1.9             | 2.2      | 2.7                    | 8.7                    | 2.7             | 1.9                       | 6.0            | 0.9            | 1.7            |
| 2017                | 2.2                    | 3.0                    | 2.0             | 2.3      | 2.8                    | 8.6                    | 2.9             | 1.9                       | 4.8            | 1.2            | 1.6            |
| 2018                | 1.6                    | 3.2                    | 1.8             | 2.0      | 1.9                    | 8.7                    | 2.8             | 1.7                       | 5.2            | 1.1            | 2.0            |

**EURO ZONE**

### TABLE 2 SUMMARY ITEMS

| YEARS BEGINNING Q1 | TRADE BALANCE (EURO BN) | CURRENT ACCOUNT (EURO BN) | CURRENT ACCOUNT (% OF GDP) | GOVERNMENT FINANCIAL BALANCE (EURO BN) | GOVERNMENT FINANCIAL BALANCE (% OF GDP) | SHORT-TERM INTEREST RATE | LONG-TERM INTEREST RATE | REAL SHORT-TERM INTEREST RATE | REAL LONG-TERM INTEREST RATE | US DOLLAR EFFECTIVE RATE (1995=100) |
|---------------------|------------------------|---------------------------|---------------------------|----------------------------------------|----------------------------------------|-------------------------|-------------------------|---------------------------|-------------------------|-----------------------------|
| 2003                | 72.4                   | 25.9                      | -0.4                      | -199.5                                 | -2.7                                   | 2.3                     | 4.2                     | 0.2                       | 2.9                     | 1.3                         |
| 2004                | 98.7                   | 53.9                      | -0.7                      | -255.6                                 | -3.0                                   | 2.0                     | 4.7                     | 0.13                      | 2.5                     | 1.2                         |
| 2005                | 111.0                  | 65.8                      | -0.8                      | -288.1                                 | -2.7                                   | 2.5                     | 4.9                     | 0.86                      | 3.0                     | 1.3                         |
| 2006                | 126.2                  | 78.7                      | -1.0                      | -170.7                                 | -2.1                                   | 3.8                     | 4.8                     | 0.90                      | 3.0                     | 1.3                         |
| 2007                | 138.0                  | 82.0                      | -1.0                      | -136.0                                 | -1.6                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2008                | 146.8                  | 84.5                      | -1.0                      | -164.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2009                | 148.2                  | 86.9                      | -1.0                      | -182.2                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2010                | 150.6                  | 89.7                      | -1.0                      | -200.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2011                | 152.6                  | 91.7                      | -1.0                      | -218.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2012                | 154.6                  | 93.7                      | -1.0                      | -236.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2013                | 156.6                  | 95.7                      | -1.0                      | -254.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2014                | 158.6                  | 97.7                      | -1.0                      | -272.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2015                | 160.6                  | 99.7                      | -1.0                      | -290.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2016                | 162.6                  | 101.7                     | -1.0                      | -308.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2017                | 164.6                  | 103.7                     | -1.0                      | -326.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |
| 2018                | 166.6                  | 105.7                     | -1.0                      | -344.6                                 | -1.3                                   | 4.5                     | 5.0                     | 0.79                      | 3.2                     | 1.1                         |

**WORLD ECONOMIC PROSPECTS MONTHLY REVIEW: MAY 2004**