The euro zone's international environment

The euro zone's international environment should remain buoyant between now and mid-2004. Following an exceptionally strong performance in Q3 2003, growth in the United States can be expected to return to around its potential in the following three quarters, i.e. to between 3% and 4% at annualised rate. In the United Kingdom, GDP growth is likely for a time to reach annualised rates of the order of 3%, slightly above its potential (see graph 1).

In the United States, GDP growth should return to a rate close to its potential by mid-2004, with the fading of the impact of the tax cuts

GDP growth increased strongly in Q3 2003 (from 0.8% at quarterly rate in Q2 to 2.0% in Q3). On the demand side, this acceleration is explained mainly by the rapid growth in household consumption, boosted by the tax cuts voted in May 2003.

Consumption seems set to slow down substantially in coming quarters, with the tapering off of the impact of these cuts, the bulk of the proceeds having apparently already been consumed in Q3 *(see box 1)*. This means that they are likely to make only a very small contribution to consumption growth in Q4 2003 and the first two quarters of 2004. This slowdown is already to be seen in retail sales, while household confidence is deteriorating *(see graphs 2 and 3)*.

1

UNITED STATES AND UNITED KINGDOM : GDP FORECASTS

growth rate in %

sources : BEA, ONS, Insee

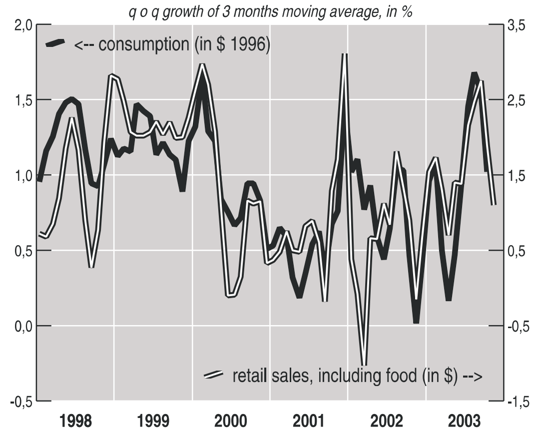
forecasts after the dotted line

In addition, financial conditions are likely to be somewhat less favourable to consumption following the rise in long rates that began in July *(see graph 4)*. This rise is linked to expectations regarding the recovery and inflation, to a reduced appetite on the part of investors for riskless assets such as government bonds and to the widening of the budget deficit. For the year to October 2003, the deficit reached 3.5% of GDP (compared with 1.9% in October 2002 and a surplus of 1.3% in October 2001). Alan Greenspan has in fact described it as "potentially destructive"

2

UNITED STATES : CONSUMPTION AND RETAIL SALES

q o q growth of 3 months moving average, in %

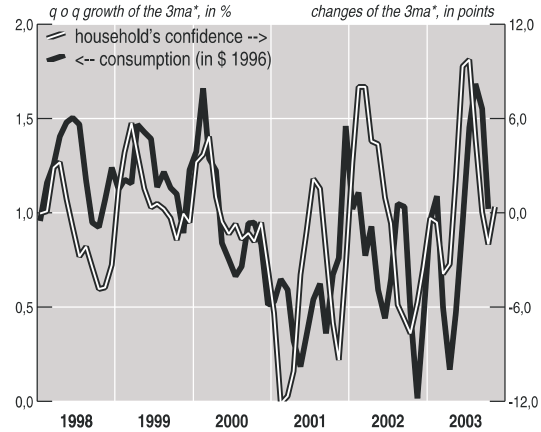


sources : BEA, Census

3

UNITED STATES : CONSUMPTION AND HOUSEHOLD'S CONFIDENCE

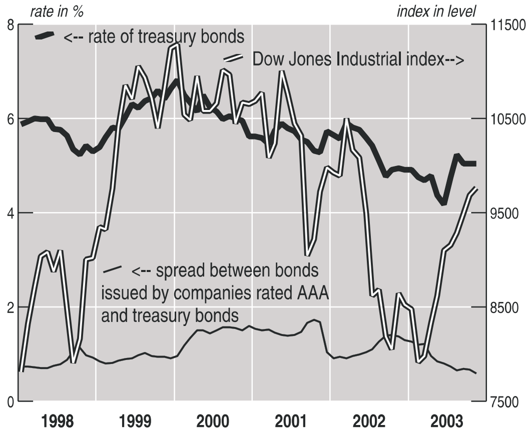
q o q growth of the 3ma, in %* *changes of the 3ma*, in points*



sources : BEA, Michigan University
**3ma = 3 months moving average*

4

UNITED STATES : FINANCIAL CONDITIONS



sources : Department of Treasury, Moody’s investment

because it is taking up a substantial share of saving at the expense of investment. Long rates are accordingly set to remain higher than in the early part of 2003 and could even continue to rise, thus affecting consumption. Households are already turning less than at one time to mortgage refinancing. Meanwhile, however, the negative wealth effects would be less influential following the recovery on the stock markets. Even so, growth in consumption would remain fairly close to its trend level (of the order of 3% at annualised rate) thanks to a higher job content of growth and a stronger rise in gross income than in the early part of 2003 *(see graph 5)*. Investment by households is also likely to slow down, because of the rise in long rates.

The acceleration in activity in the United States’ trading partners should help to produce strong export growth. In Canada, the Conference Board’s leading indicator rose by 2.0% in Q3, compared with 0.5% in Q2 *(see graph 6)*. Activity in the euro zone should also accelerate. The depreciation of the dollar versus the currencies of the United States’ trading partners during the first two quarters of 2003 should also stimulate exports, following a certain time lag *(see graph 7)*. Imports, after stagnating in Q3 2003, are likely to accelerate in Q4 with a one-quarter time lag in relation to demand. The import prospects revealed by the ISM index were in fact positive in September and October (60.7 and 57.3, respectively), despite the depreciation of the dollar.

The outlook for domestic and external demand should encourage continuing strong growth in corporate investment in both capital goods and inventories. Moreover, financial conditions remain favourable despite the rise in long rates: the interest-rate spread between government and corporate bonds has

GDP IN LEADING INDUSTRIALISED COUNTRIES OUTSIDE THE EURO ZONE (share of countries in oecd total)

	Quarterly % change								Annual % change		
	2002		2003				2004		2002	2003	2004 (c.o)
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
UNITED STATES (34.0%)											
GDP	**1.0**	**0.3**	**0.4**	**0.8**	**2.0**	**0.9**	**1.2**	**0.7**	**2.4**	**3.0**	**3.6**
Consumption	1.0	0.4	0.5	0.9	1.6	0.6	0.9	0.6	3.1	3.1	2.7
Fixed investment (1)	-0.1	1.1	-0.1	1.8	3.8	2.4	1.7	1.1	-3.1	4.5	6.7
Nonresidential investment	*-0.3*	*0.6*	*-1.1*	*1.7*	*3.1*	*2.6*	*2.3*	*1.9*	*-5.8*	*2.6*	*7.9*
Residential investment	*0.3*	*2.0*	*2.5*	*1.8*	*5.3*	*1.8*	*0.0*	*-0.7*	*3.9*	*9.1*	*3.8*
Government expenditures (2)	0.7	1.2	0.1	2.1	0.3	0.5	0.5	0.5	4.4	3.3	2.0
Exports	1.1	-1.5	-0.3	-0.3	2.6	2.5	3.0	3.0	-1.8	1.7	8.5
Imports	0.8	1.8	-1.6	2.2	0.4	3.0	1.3	2.0	3.5	3.9	5.8
Contributions:											
Domestic demand excluding stocks	*0.8*	*0.7*	*0.3*	*1.3*	*1.7*	*0.9*	*1.0*	*0.7*	*2.4*	*3.4*	*3.3*
Change in private inventories	*0.1*	*0.1*	*-0.2*	*-0.2*	*0.0*	*0.3*	*0.1*	*0.0*	*0.7*	*-0.1*	*0.3*
Net exports	*0.0*	*-0.4*	*0.2*	*-0.3*	*0.2*	*-0.2*	*0.1*	*0.0*	*-0.6*	*-0.4*	*0.0*
UNITED KINGDOM (5.6%)											
GDP	**0.7**	**0.5**	**0.2**	**0.6**	**0.7**	**0.7**	**0.8**	**0.8**	**1.7**	**2.0**	**2.5**
Consumption (3)	0.7	1.3	-0.2	0.7	0.7	0.6	0.5	0.5	3.6	2.3	1.8
Total investment (4)	0.1	0.8	-0.7	1.2	-1.3	1.0	1.0	1.0	1.8	1.6	2.2
Government consumption	0.3	0.5	2.6	0.5	0.6	1.0	1.0	1.0	2.4	3.7	3.0
Exports	-1.0	-4.6	2.9	-2.6	0.1	1.0	2.0	2.0	-0.9	-1.7	3.7
Imports	-0.5	-1.0	1.7	-2.5	1.0	1.0	1.5	1.5	3.6	0.4	3.3
Contributions:											
Domestic demand excluding stocks	*0.6*	*1.1*	*0.3*	*0.8*	*0.4*	*0.7*	*0.7*	*0.7*	*3.1*	*2.6*	*2.2*
Change in private inventories	*0.2*	*0.4*	*-0.3*	*-0.3*	*0.6*	*0.0*	*0.0*	*0.0*	*-0.1*	*0.0*	*0.2*
Net exports	*-0.1*	*-1.0*	*0.2*	*0.1*	*-0.3*	*0.0*	*0.1*	*0.1*	*-1.4*	*-0.6*	*0.0*

Forecast
(1) Investment of firms and households
(2) Government consumption and investment
(3) Except consumption of unprofitable institutions
(4) Investment of firms, households and government
Sources: BEA, ONS, Insee

continued to narrow and the stock market has risen further *(see graph 4)*. The contribution from inventories is thought to have been fairly substantial in the final part of 2003, after touching very low levels, especially in relation to deliveries by industry *(see graph 8)*. This means that firms are likely to be prompted to adopt a less restrictive attitude to inventories at the end of the year, as is already being indicated by the opinions regarding inventories in the ISM survey *(see graph 9)*. Firms are in fact likely to have begun re-stocking in Q4 (an additional 16 billion dollars in Q4 2003 followed by 26 billion in the first two quarters of 2004).

All in all, despite the strong export performance and the additional investment, output in the short term can be expected to track the fluctuations in household consumption. The overall tendency would therefore be one of slowdown, with the petering out of the tax stimulus.

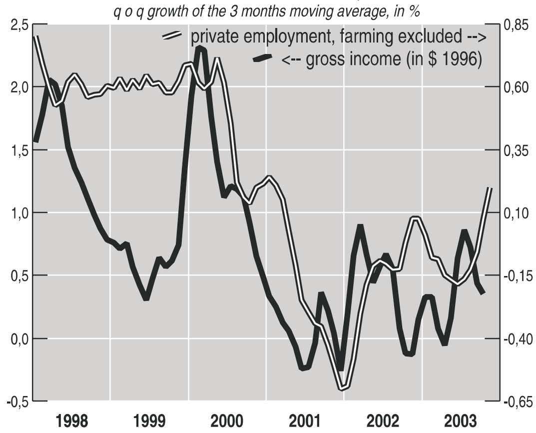
In the United Kingdom, GDP is expected to accelerate, temporarily attaining above-potential rates in the early part of 2004

The upturn in activity in the United Kingdom seen in Q2 2003 (0.6%) was confirmed in Q3, with the provisional accounts published by the ONS indicating GDP growth of 0.7%. This tendency can be expected to continue in the last part of the year and the first half of 2004. Household consumption is likely to be maintained at a firm rate, although slowing down gradually. The revival in world activity initiated in the United States can be expected to encourage export growth, while investment should be brisk.

Growth in household consumption is expected to remain firm until the end of Q2 2004, although slowing down gradually following the rise in interest rates. After rising by 0.7% in Q2 2003, it posted the same

5

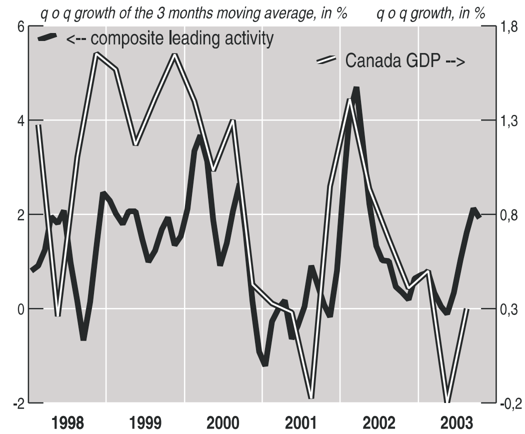
UNITED STATES :
GROSS INCOME AND PRIVATE EMPLOYMENT, FARMING EXCLUDED



sources : BEA, BLS

6

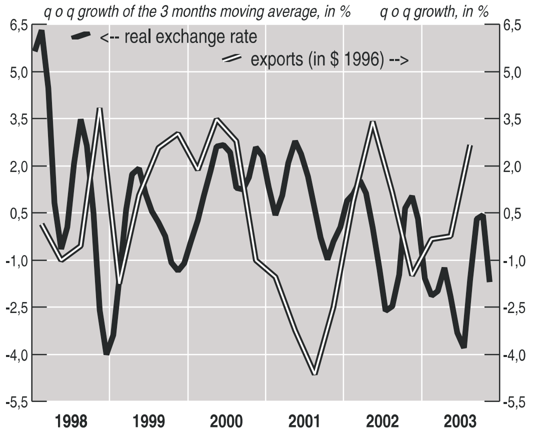
CANADA : GDP AND COMPOSITE LEADING INDEX



source : STATCAN

7

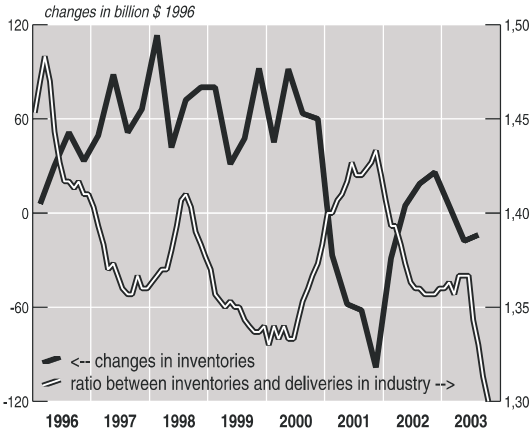
UNITED STATES :
FOREIGN EXCHANGE RATE AND EXPORTS



sources : Fed, BEA

8

UNITED STATES : CHANGES IN INVENTORIES AND
RATIO BETWEEN INVENTORIES AND DELIVERIES

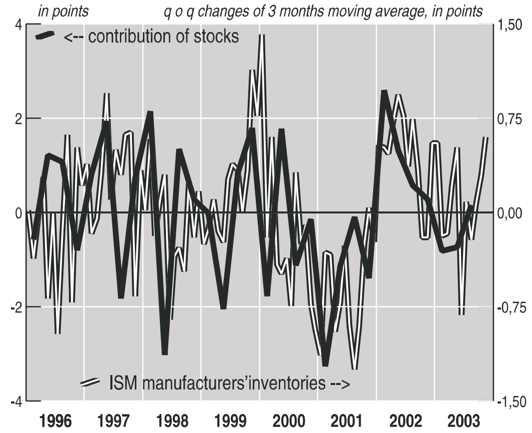


sources : BEA, Census

growth in Q3. The firmness of the employment market, illustrated by the decline in the number of unemployment benefit claims and by the growth in wages, is likely to underpin household income *(see graph 10)*. The revival in household wealth due to the recovery on the stock market would provide additional support *(see graph 11)*. Household confidence has in any case been rising for several quarters and retail sales in October showed a rise of 0.6% (the carryover for Q4 is 1.2%). In this favourable context, the rise in the Bank of England's key rate in November (by 0.25 of a point), which in the light of the statements from the Monetary Policy Committee could herald further rises throughout 2004, is likely to affect growth in private consumption. For one thing, it will increase the debt service burden - most loans being at variable rate - while at the same time the cost of new borrowing will be increased. This rise in interest rates can also be expected to bring about a gradual diminution in the mortgage refinancing effect, which will also be influenced by the slower rise in house prices. Even so, this latter effect is likely to be only moderate in coming quarters, as the risk of a bursting of the housing bubble remains small in the short term. In November, the Monetary Policy Committee was expecting growth in house prices to remain robust until the middle of 2004. Indeed, the economic conditions for this remain favourable: mortgage rates are at historic lows and the labour market is strong. In November, the index of house prices calculated by the Nationwide Building Society showed a 1.2% rise compared with October (and 15%, year on year). This is still a substantial rise, despite a slowdown in annual growth. Nationwide is predicting firm growth again in 2004 (9.0%, compared with 18.7% in 2003). The price slowdown would be more marked in the second half, especially in view of the probable rise in interest rates.

9

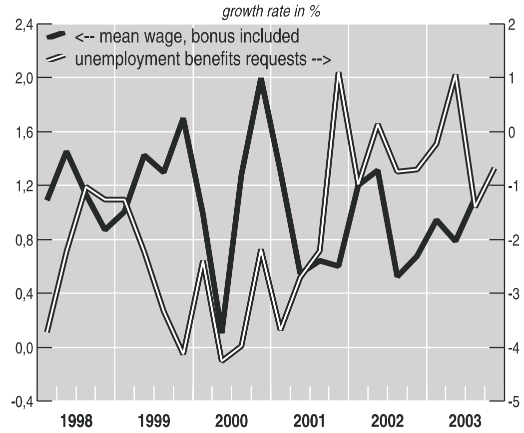
UNITED STATES : CONTRIBUTIONS OF STOCKS AND ISM MANUFACTURERS'INVENTORIES



sources : BEA, ISM

10

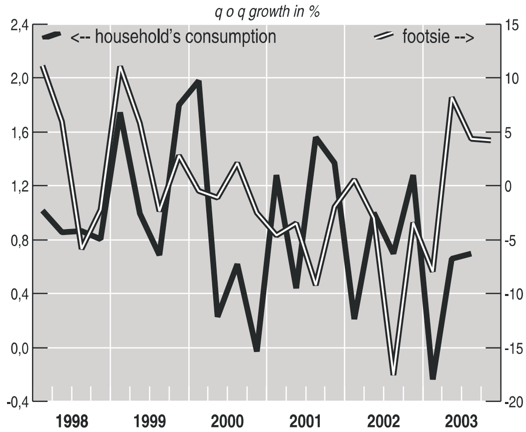
UNITED KINGDOM : MEAN WAGE AND UNEMPLOYMENT BENEFITS REQUESTS



source : ONS

11

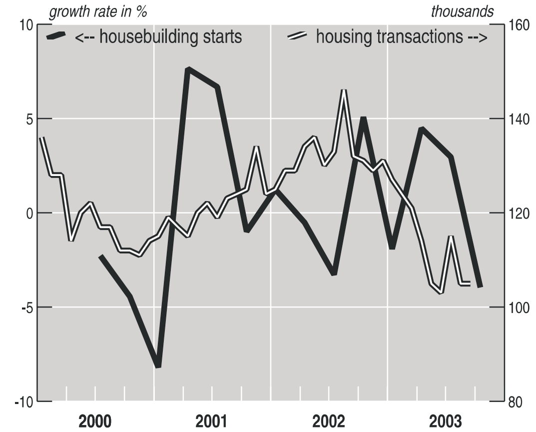
UNITED KINGDOM : HOUSEHOLD'S CONSUMPTION AND MARKET INDEX



sources : ONS, Financial Times

12

UNITED KINGDOM : HOUSEBUILDING STARTS AND HOUSING TRANSACTIONS



source : Office of the deputy prime minister

As a result, consumption growth seems set to slow down gradually, standing at 0.5% in Q2 2004.

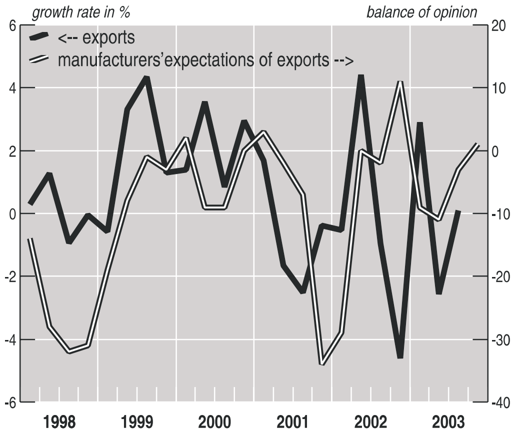
Investment by households would also be affected by the rise in interest rates. After peaking in July, the number of property transactions has stabilised at a low level and housing starts fell sharply in Q3 (by 4.0%) *(see graph 12)*. This means that growth in household investment is likely to be low in coming quarters.

Whereas the external contribution to GDP growth was positive in the early part of 2003, it slipped considerably in Q3. Imports rose strongly (by 1.0%), while exports to all destinations remained stable (up 0.1%). This deterioration in the trade balance was largely attributable to the massive rise in petroleum imports (up 10.0%), the increase being particularly marked in September. United Kingdom production fell because of a technical problem and this seems to have been the reason for the sharp rise in imports. In October, United Kingdom refineries were back to their normal production rate, so that petroleum imports are thought to have fallen in Q4. As a result, total UK imports should slow down slightly in the last part of the year, before picking up again in Q1 and Q2 2004, with their growth broadly following that of total demand.

Export growth can be expected to return to a positive rate in Q4 2003 and H1 2004, benefiting from the upturn in world activity that has already begun in the United States and is expected in the euro zone. Economic surveys are showing that such an upturn in external trade is now expected by business leaders *(see graph 13)*. As a result, foreign trade should gradually once more make a positive contribution to growth.

13

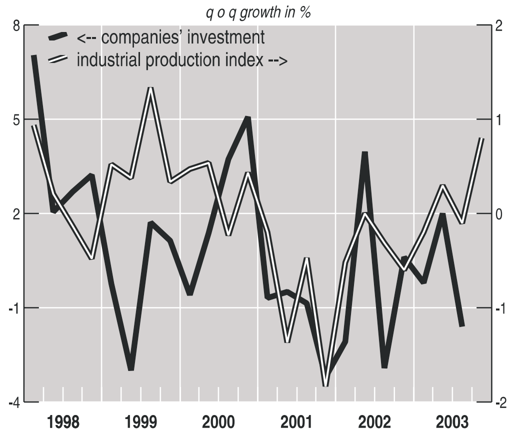
UNITED KINGDOM : EXPORTS AND MANUFACTURERS' EXPECTATIONS OF EXPORTS



sources : ONS, European Commission

14

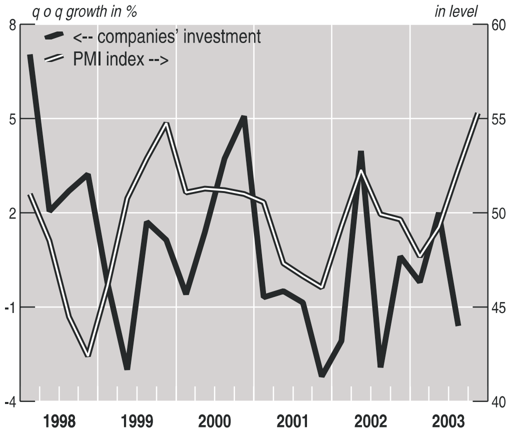
UNITED KINGDOM : COMPANIES' INVESTMENT AND INDUSTRIAL PRODUCTION INDEX



source : ONS

15

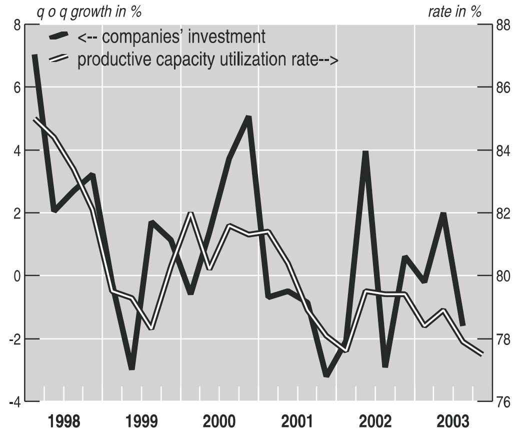
UNITED KINGDOM : COMPANIES' INVESTEMENT AND PMI INDEX



sources : ONS, Reuters

16

UNITED KINGDOM : COMPANIES' INVESTMENT AND PRODUCTIVE CAPACITY UTILIZATION RATE



sources : ONS, European Commission

BOX 1: THE IMPACT OF THE TAX CUTS ON CONSUMPTION IN THE UNITED STATES

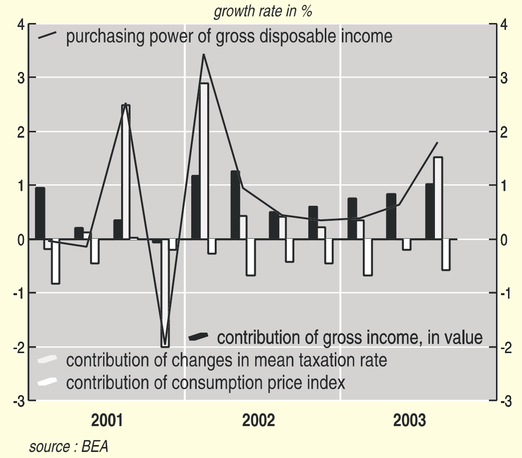
In 2003, the Bush administration made further cuts in taxes on household income. These cuts, voted in May, covered the whole of the year, with households seeing their tax rates decline as of the summer. In addition, they received cheques corresponding to the overpayment of tax in the early part of the year. In Q3, the tax cut amounted to an additional 1.5 of a point of quarterly income for households *(see graph A)*.

The application and the scale of the tax cuts voted in 2003 are similar to those made in 2001. The latter were also retroactive and amounted to roughly 2.5 points of additional quarterly income. A study (1) of the effect of the 2001 tax cuts indicates that households at the time consumed the proceeds over a period of three quarters. On the basis of this study, one might have expected households again to spread the additional income derived from the tax cuts over the two final quarters of 2003 and the first quarter of 2004 (giving growth in consumption of an additional 0.5 of a point for each of these three quarters). However, it seems that households consumed a larger proportion of the proceeds in the first of these quarters (Q3 2003) than on the previous occasion. According to our equation used to forecast consumption *(see graph B)*, consumption growth should have amounted to 0.5% and not 1.6%. This difference of more than 1 percentage point is probably explained by the fact that households had been more aware that the cuts were coming and hence consumed them more rapidly than in the past, not spreading the additional income over three quarters as in 2001 but spending virtually the totality of the fiscal stimulus in Q3. The result is that consumption growth will probably receive little benefit from the tax cuts in Q4 2003 and Q1 2004. ■

(1) "Did the 2001 tax rebate stimulate spending? Evidence from tax payer surveys", NBER Working Document n°9308, November 2002. See also the Note from the French Embassy to the United States, Bernard Salzmann, November 2003, AF/03.132.

A

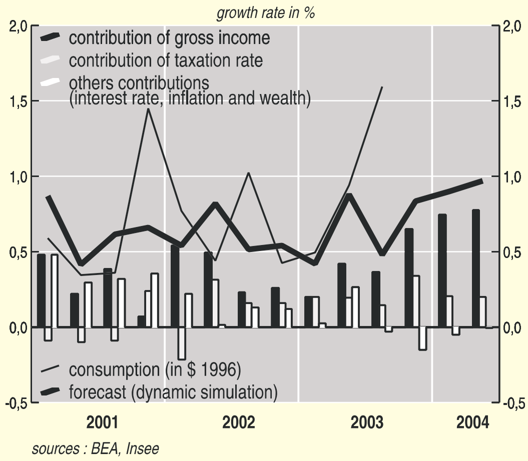
UNITED STATES : BREAKDOWN OF THE GROWTH RATE OF THE PURCHASING POWER OF GROSS DISPOSABLE INCOME



** Growth rate of real disposable income = growth rate of nominal income - change in tax rate - growth rate of consumption deflator.*

B

UNITED STATES : CONSUMPTION FORECAST



In contrast to households, which are likely to slow down their consumption in coming quarters, the corporate sector seems set to post a steady increase in the growth rate of its investment. With business leaders regaining confidence following the period of uncertainty linked to the war in Iraq, Q2 2003 was marked by a strong rise in corporate investment (2.0%), partly offset by a decline of 1.6% in Q3, probably partly in response to the slowdown in industrial output *(see graph 14)*. In the next few quarters, the revival in activity indicated in the surveys of manufacturing *(see graph 15)* and the upturn in foreign trade should bolster growth in corporate investment. This growth is likely to remain moderate, however, at a time of rising long rates, especially as capacity utilisation rates are low *(see graph 16)*.

In the light of the budget programme for the 2003/2004 tax year, public investment, like public spending in general, can be expected to show moderate growth.

This means that growth in total investment (including investment by households and in the public sector) is expected to be of the order of 1.0% per quarter starting in Q4 2003.

Growth in GDP, like growth in demand, is expected to be brisk in coming quarters - 0.7% in Q4 2003 and then 0.8% in the first two quarters of next year. The interest-rate rise decided by the Bank of England should have only a limited impact on growth. ■

The economic situation in the euro zone

Activity picked up distinctly in the euro zone in Q3 2003, with GDP rising by 0.4%, after falling by 0.1% in Q2. The end of the year has seen confirmation of the recovery and quarterly GDP growth at the beginning of 2004 is expected to amount to 0.6%.

Simulated by the revival in world activity, especially in the United States and the United Kingdom, exports are likely initially to act as the principal support for recovery in the euro zone. Their strength should produce a lasting improvement in the business climate and a gradual consolidation of domestic demand. The improved outlook for world demand and the maintenance of favourable financial conditions would then produce a gradual recovery in investment, in particular. Household consumption, meanwhile, should accelerate very slightly starting in Q4, with the labour market no longer deteriorating and so holding back the evolution in incomes.

In H1 2003, the decline in foreign trade and investment severely hampered growth

Euro-zone GDP stagnated in the first two quarters of 2003, hit by the weakness of domestic demand and by an unsupportive external environment. Only in Spain did growth remain dynamic, with rises of 0.5% and 0.7% in Q1 and Q2 2003, on the back of strong demand from both households and the corporate sector.

Investment declined by 1.1% in Q1 and then by 0.5% in Q2, with investment plans adversely affected by the deterioration in the outlook for activity associated with the uncertainties relating to the war in Iraq. In addition, the expiry of the incentive tax measures in Italy intensified the decline. Intra-zone exports suffered from the slackness of domestic demand and exports to outside the zone from the slowdown in world trade. Growth had in fact eased back in the last part of 2002 in the United States and the United Kingdom, mainly because of the wait-and-see attitudes associated with Iraq. In total, exports fell by 1.5% in Q1 2003 and by 0.6% in Q2.

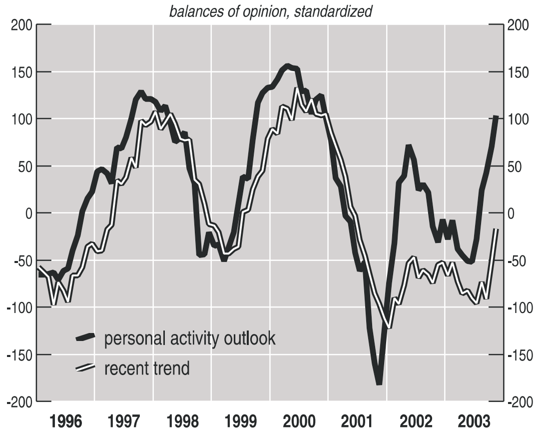
A recovery in growth starting in Q3

After stagnating in H1, euro-zone GDP rose by 0.4% in Q3 2003, with exports the main driving force, contributing 0.9 of a point to GDP growth, compared with a negative contribution of 0.2 of a point in Q2, while domestic demand (excluding inventories) remained fragile and still failed to contribute to GDP growth. This was particularly true of Germany, where exports were the only driving force for recovery.

Coming quarters should provide confirmation of the upturn in activity. Signs of lasting recovery are to be seen in both industry and services, with business surveys revealing a distinct improvement in the business climate in both these sectors since July. Moreover, business leaders, who have been optimistic since July regarding their production prospects, have since October also started to express a positive judgement regarding their past production *(see graph 1)*. The signs of recovery are even more pronounced in services, where the indicators obtained from the economic surveys carried out by the European Commission are now back to their September 2001 level. The purchasing managers' indices are also signalling an upswing in activity *(see graph 2)*.

1

MANUFACTURING INDUSTRY :
PERSONAL ACTIVITY OUTLOOK AND RECENT TREND IN ACTIVITY
balances of opinion, standardized



sources : European Commission, Ifo, Insee, Isae

GDP FOR THE EURO ZONE AND FOR THE MAIN MEMBER COUNTRIES

(% change)

	Half-yearly % change										Annual changes			
	2002				2003				2004		2001	2002	2003	2004
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
GERMANY														
GDP	**0.2**	**0.2**	**0.1**	**0.0**	**-0.2**	**-0.2**	**0.2**	**0.4**	**0.5**	**0.5**	**1.0**	**0.2**	**-0.1**	**1.2**
Household consumption	-1.0	0.2	0.2	-0.1	0.3	-0.5	-0.6	0.1	0.2	0.2	1.5	-1.0	-0.2	0.0
Total GFCF	-1.9	-3.3	0.0	0.0	-1.5	-0.7	-0.8	0.4	0.5	0.6	-3.9	-6.5	-3.2	0.6
Public consumption	-0.1	0.3	0.5	-0.6	-0.1	0.5	0.4	0.1	0.1	0.1	1.0	1.7	0.4	0.6
Exports	1.0	2.1	2.1	0.1	-0.3	-2.2	3.2	1.5	2.0	1.8	6.1	3.4	1.6	5.6
Imports	-3.0	3.3	1.0	0.9	1.5	-1.8	-1.9	1.0	1.5	1.3	1.2	-1.6	1.4	1.8
Contributions:														
Domestic demand ex. stocks	*-1.0*	*-0.5*	*0.2*	*-0.2*	*-0.1*	*-0.3*	*-0.4*	*0.2*	*0.2*	*0.2*	*0.2*	*-1.6*	*-0.7*	*0.2*
Inventory change	*-0.1*	*0.9*	*-0.5*	*0.4*	*0.5*	*0.4*	*-1.1*	*0.0*	*0.0*	*0.0*	*-0.8*	*0.1*	*0.4*	*-0.3*
Foreign trade	*1.3*	*-0.2*	*0.4*	*-0.3*	*-0.6*	*-0.2*	*1.8*	*0.2*	*0.3*	*0.3*	*1.7*	*1.7*	*0.2*	*1.5*
FRANCE														
GDP	**0.7**	**0.7**	**0.2**	**-0.3**	**0.1**	**-0.3**	**0.4**	**0.6**	**0.7**	**0.5**	**2.1**	**1.2**	**0.2**	**1.7**
Household consumption	0.3	0.5	0.4	0.2	0.7	0.1	0.4	0.3	0.4	0.3	2.7	1.4	1.6	1.1
Total GFCF	-0.2	0.0	-0.8	-1.2	0.1	0.3	0.3	0.5	0.6	0.7	2.1	-1.4	-0.6	1.8
Public consumption	1.4	1.2	0.7	0.6	0.3	0.2	0.7	0.9	0.5	0.6	2.9	4.0	2.1	2.0
Export	1.8	2.6	0.1	-0.8	-2.1	-0.8	1.1	1.6	2.4	1.8	1.8	1.3	-1.6	5.4
Imports	1.6	1.3	0.7	-0.6	0.0	0.2	-0.1	2.6	2.0	1.8	1.8	0.8	1.0	5.4
Contributions:														
Domestic demand ex. stocks	*0.4*	*0.5*	*0.2*	*0.0*	*0.5*	*0.1*	*0.5*	*0.5*	*0.5*	*0.5*	*2.5*	*1.4*	*1.2*	*1.4*
Inventory change	*0.2*	*-0.3*	*0.1*	*-0.2*	*0.2*	*-0.2*	*-0.4*	*0.4*	*0.1*	*0.1*	*-0.7*	*-0.4*	*-0.3*	*0.2*
Foreign trade	*0.1*	*0.4*	*-0.2*	*-0.1*	*-0.6*	*-0.3*	*0.3*	*-0.2*	*0.1*	*0.0*	*0.1*	*0.2*	*-0.8*	*0.1*
ITALY														
GDP	**0.0**	**0.3**	**0.2**	**0.4**	**-0.2**	**-0.1**	**0.5**	**0.4**	**0.6**	**0.6**	**1.7**	**0.4**	**0.5**	**1.6**
Household consumption	-0.1	0.6	0.4	1.0	0.3	0.5	0.7	0.2	0.2	0.2	1.1	0.4	2.2	1.0
Total GFCF	-0.6	-0.3	2.5	4.1	-5.9	-1.8	-0.4	0.3	0.5	0.7	2.4	0.7	-3.3	0.6
Public consumption	0.3	0.2	0.3	0.1	1.1	0.2	0.2	0.3	0.3	0.3	3.5	1.7	1.8	0.8
Exports	-3.2	4.8	3.3	-0.7	-5.9	-1.2	5.7	1.5	1.5	1.0	1.1	-1.0	-1.6	6.3
Imports	0.0	3.6	2.2	2.3	-4.9	2.2	1.5	0.8	1.0	0.5	1.0	1.5	1.1	3.5
Contributions:														
Domestic demand ex. stocks	*-0.1*	*0.4*	*0.8*	*1.5*	*-0.9*	*0.0*	*0.4*	*0.2*	*0.3*	*0.3*	*1.8*	*0.7*	*0.9*	*0.9*
Inventory change	*1.1*	*-0.5*	*-1.0*	*-0.2*	*1.0*	*0.9*	*-1.1*	*0.0*	*0.2*	*0.1*	*-0.1*	*0.4*	*0.4*	*-0.1*
Foreign trade	*-0.9*	*0.4*	*0.3*	*-0.9*	*-0.3*	*-1.0*	*1.2*	*0.2*	*0.2*	*0.2*	*0.1*	*-0.7*	*-0.8*	*0.8*
SPAIN														
GDP	**0.4**	**0.6**	**0.7**	**0.4**	**0.5**	**0.7**	**0.7**	**0.7**	**0.9**	**0.9**	**2.9**	**2.0**	**2.4**	**2.6**
Household consumption	1.0	1.0	0.0	1.2	0.7	1.0	0.2	0.8	0.9	0.9	2.8	2.6	3.0	2.6
Total GFCF	0.2	-0.4	2.0	1.2	0.3	-0.1	1.6	0.8	1.0	1.0	3.7	4.4	3.7	2.6
Public consumption	1.2	1.1	0.9	1.0	1.0	0.8	0.7	0.8	0.8	0.8	3.7	4.4	3.7	2.6
Exports	-1.7	0.9	4.5	0.5	-1.1	4.0	-0.8	3.0	3.5	3.0	3.6	0.0	5.0	5.0
Imports	0.2	0.8	5.1	5.3	-2.5	2.2	0.9	3.0	3.2	2.9	3.9	1.8	6.9	8.8
Contributions:														
Domestic demand ex. stocks	*0.9*	*0.7*	*0.7*	*1.2*	*0.7*	*0.7*	*0.7*	*0.8*	*0.9*	*0.9*	*3.1*	*2.6*	*3.2*	*2.8*
Inventory change	*0.1*	*-0.1*	*0.3*	*0.9*	*-0.7*	*-0.5*	*0.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.2*
Foreign trade	*-0.6*	*0.0*	*-0.3*	*-1.6*	*0.5*	*0.5*	*-0.5*	*-0.1*	*0.0*	*-0.1*	*-0.2*	*-0.6*	*-0.8*	*-0.7*
ZONE EURO														
GDP	**0.4**	**0.5**	**0.2**	**0.0**	**0.0**	**-0.1**	**0.4**	**0.5**	**0.6**	**0.5**	**1.6**	**0.9**	**0.5**	**1.5**
Household consumption	-0.4	0.4	0.3	0.3	0.5	0.1	0.0	0.2	0.3	0.3	1.8	0.1	1.1	0.7
Total GFCF	-0.7	-1.5	0.1	0.3	-1.1	-0.5	-0.5	0.4	0.6	0.7	-0.1	-2.9	-1.8	1.1
Public consumption	0.7	0.7	0.5	0.2	0.4	0.4	0.5	0.4	0.3	0.4	2.4	2.8	1.7	1.2
Exports	0.2	2.6	1.4	-0.2	-1.5	-0.6	2.2	1.5	1.9	1.6	3.3	1.7	0.7	5.3
Imports	-0.8	2.4	1.4	0.8	-0.6	-0.2	-0.4	1.4	1.5	1.3	1.8	0.1	1.2	3.3
Contributions:														
Domestic demand ex. stocks	*-0.2*	*0.1*	*0.3*	*0.3*	*0.1*	*0.0*	*0.0*	*0.3*	*0.4*	*0.4*	*1.5*	*0.0*	*0.6*	*0.9*
Inventory change	*0.3*	*0.3*	*-0.1*	*0.1*	*0.2*	*0.0*	*-0.6*	*0.1*	*0.0*	*0.0*	*-0.5*	*0.2*	*0.0*	*-0.2*
Foreign trade	*0.4*	*0.1*	*0.1*	*-0.3*	*-0.3*	*-0.2*	*1.0*	*0.1*	*0.2*	*0.2*	*0.6*	*0.6*	*-0.1*	*0.8*

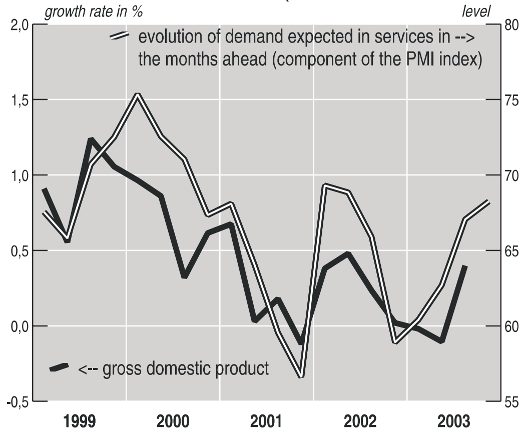
Forecast

Last update: December 10th 2003.

Sources: Statistisches Bundesdamt, Insee, Istat, Ine , Eurostat

2

EURO ZONE GDP AND EVOLUTION OF EXPECTED DEMAND IN SERVICES IN THE MONTHS AHEAD (COMPONENT OF THE PMI INDEX)



sources : Eurostat, Reuters

Export recovery set to underpin growth

The recovery that began in Q2 in the United States and in the United Kingdom was confirmed in Q3, thus stimulating exports from the euro zone *(see box 1)*. Euro-zone exports to countries outside the zone have already benefited from the acceleration in world trade. Customs data for merchandise exports showed a rise of 1.7% in value in Q3. Furthermore, the economic upturn in the principal European economies in the wake of the English-speaking countries seems to have encouraged trade within the zone. According to Customs data, intra-zone exports began to rise in Q3 (by 1.6% in value), with total exports recovering even more substantially (by 2.2% in volume in Q3).

For the last part of the year, business leaders are expecting an acceleration in foreign demand *(see graph 3)*. Export order books are seen as being better filled, especially in Germany and in France. This indicates that total exports are set to accelerate until mid-2004, despite the appreciation of the euro versus the dollar since the beginning of 2003, being expected to show a rise of 1.5% in Q4 2003, followed by 1.9% in Q1 and 1.6% in Q2 2004. Their contribution to the recovery would be very substantial, amounting to 0.6 or 0.8 of a point, depending on the particular quarter.

This phenomenon should be particularly visible in Germany, where the recovery in Q3 is explained by a spectacular acceleration in exports (3.2%, compared with a decline of 2.2% in the previous quarter), whereas domestic demand was still contracting (by 1.6%). This acceleration can be expected to produce renewed growth in coming quarters.

Imports, meanwhile, after declining in Q3 by 0.4%, are expected to recover as a result of the stronger exports and firmer domestic demand.

Total investment set for gradual recovery after contracting for three quarters

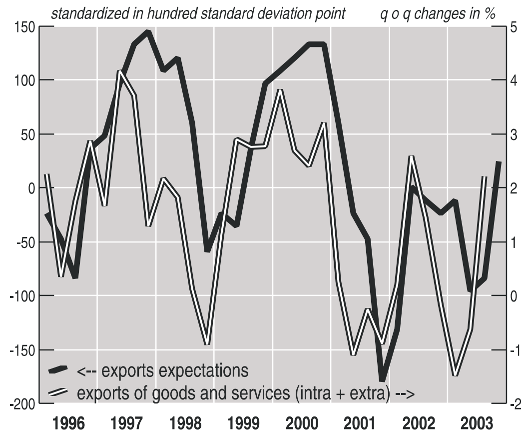
Since the end of Q3, the business climate has been improving appreciably in all the euro-zone countries. According to the November business surveys, business leaders in manufacturing are optimistic regarding their demand prospects, especially for exports. This optimism should be favourable to investment projects.

In addition, financial conditions remain generally favourable in all the countries of the zone, notably because of the low level of interest rates *(see fact sheet «Financement de l'économie» available in French only)*, despite the recent rise in long rates. The improvement in stock-market prices since the end of March is another factor making financing easier. The Eurostoxx 50 index has risen by 15% since April.

Nonetheless, investment growth is likely to remain moderate, rising at an annualised rate of around 2% starting in Q4. Since April, more and more business leaders in industry have reported their productive capacity to be adequate in relation to demand *(see graph 4)*. Finally, it is really only the external component of demand that is showing genuine dynamism and this is restraining businessmen's expectations regarding overall demand. In Germany, in particular, domestic orders rose by only 0.5% in Q3, compared with 2.5% in the case of export orders. Moreover, in most countries in the zone, while the outlook for the future is very favourable, it is only since October that opinions regarding the current situation have shown recovery. Business leaders have been expecting a recovery since July but only recently have they seen concrete evidence of one. In Germany, this discrepancy between the outlook and the current situation was particularly marked and has been narrowing since October.

3

EURO ZONE EXPORTS AND EXPORTS EXPECTATIONS



sources : European Commission, Eurostat, Ifo, Insee, Isae

BOX 1: WHERE DO THE EURO ZONE'S EXPORTS GO?

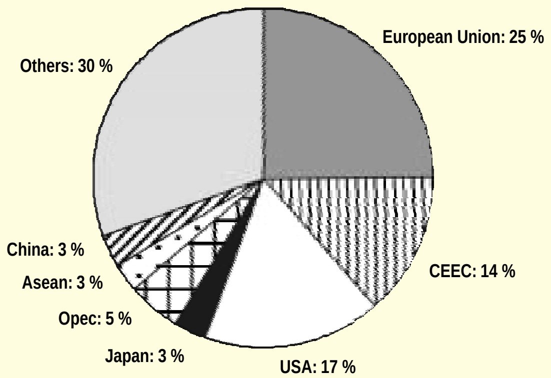
Exports to non-euro-zone countries account for half the «total» [1] exports of the zone. The non-euro EU countries - Denmark, United Kingdom, Sweden - are the principal destination of these exports (25%), followed by the United States (17%) *(see graph A)*.

The export structures of the zone's three largest countries are very similar, with the vast bulk of their exports going to other EU countries. French exports, in particular, go to EU partner countries *(see graph D)*, while those of Germany and Italy go slightly more to the United States and the CEEC *(see graph B and C)*. ■

(1) The statistics compiled by Eurostat for «total» euro-zone trade include also intra-zone trade, i.e. trade among the member countries.

A

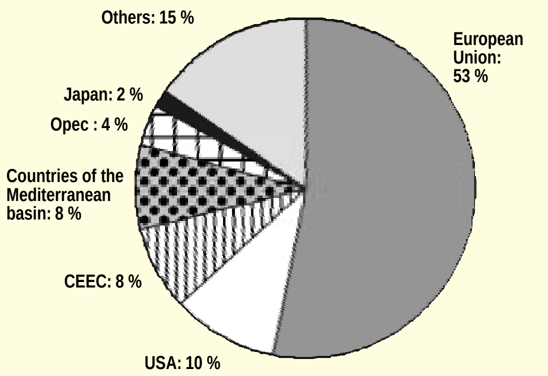
EURO ZONE: COMPOSITION OF EXTRA-ZONE EXPORTS IN 2002



source: Eurostat

B

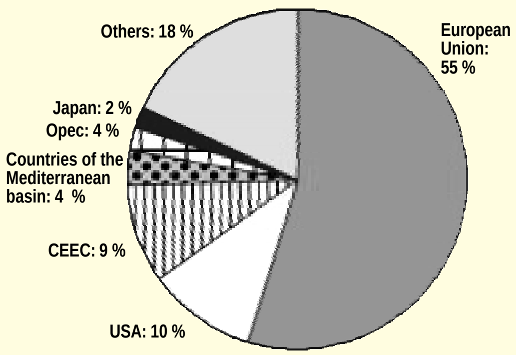
ITALY: COMPOSTION OF EXPORTS IN 2002



source: Eurostat

C

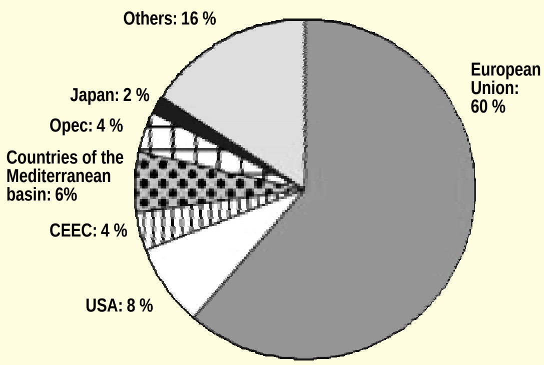
GERMANY: COMPOSITON OF EXPORTS IN 2002



source: Eurostat

D

FRANCE : COMPOSITION OF EXPORTS IN 2002



source: Eurostat

Household consumption starting to revive

After stagnating in Q3, household consumption seems set to grow moderately until mid-2004, rising by 0.2% in Q4 2003 and then by 0.3% in the first two quarters of 2004. The determinants of consumption have in fact ceased to deteriorate in the euro zone. Employment was at one stage contracting but has levelled out since Q1 2003 and should rise slightly starting in 2004 *(see box 2)*. In parallel, the unemployment rate has been steady at 8.8% since March *(see graph 5)*. However, this slight improvement on the labour market masks disparities between individual countries. In Germany, employment is still in decline and household consumption fell steeply in Q2 and Q3. In Italy, the unemployment rate has stabilised at its lowest level for several years (8.7%), with the hitherto dynamic labour market nevertheless now showing signs of weakness: employment contracted very slightly in Q3 for the first time since 1997.

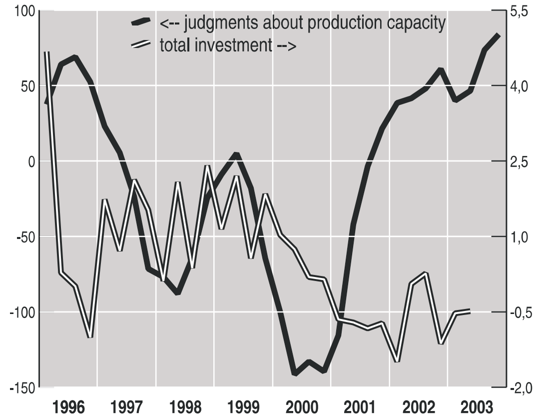
Meanwhile, the gradual slowdown in the price rise will bolster household purchasing power. The next few quarters should see inflation settling down below the 2% level (see section on «consumer prices in the euro zone»). According to surveys in the euro zone, households are in fact expecting this decline in inflation. Household confidence stabilised in October after declining since 2001.

There remain considerable contrasts between countries in the zone as regards consumption. The Spanish economy is likely to continue to stand out for its strength in this respect, with household confidence remaining high, notably because of the stabilisation of the employment rate at a historically low level. Household consumer spending in Italy, after rising strongly in Q3 2003 (by 0.7%) thanks to the strength of new car registrations (up 7% for the quarter), seems set to slow down (a rise of 0.2%). The strength shown by the labour market seems to be fading and wage growth, more moderate in Italy than in the rest of the euro zone, is likely to curb income growth. Real wages have in fact already declined by 1.1% in Q2 and 0.3% in Q3, compared with rises of 0.7% and 1.0% for the zone as a whole.

In addition, the difficulties encountered in introducing pension reform in Italy are likely to encourage saving at the expense of consumption. Finally, household confidence continues to weaken, having reached a historically low level in November 2003. Households in Germany have remained pessimistic, in response to the continuing job losses and consumption is therefore unlikely to rise other than very slowly. ■

4

INVESTMENT AND JUDGMENTS ABOUT
PRODUCTION CAPACITY IN MANUFACTURING INDUSTRY

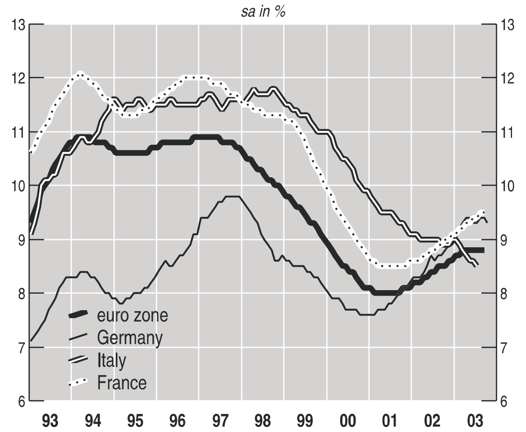


sources : European Commission, Eurostat, Ifo, Insee, Isae

5

EURO ZONE UNEMPLOYMENT RATE

sa in %



source : Eurostat

BOX 2: MZE, THE CONTRIBUTION OF A MACROECONOMIC MODEL FOR THE EURO ZONE

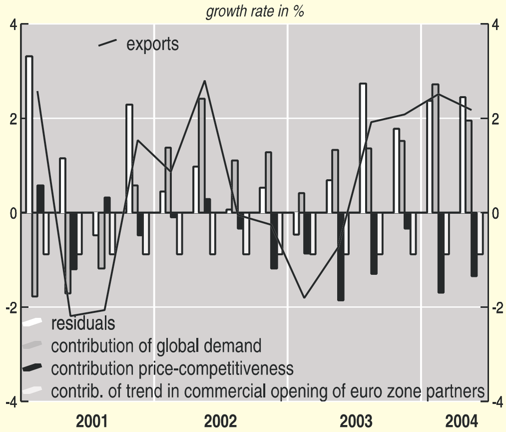
In the note in this series dated March 2003, there was a presentation of the contribution of a macroeconometric model to short-term analysis. The use of the euro-zone model (MZE) makes it possible to confront the forecasts made with the aid of calibrations and the judgements of experts with those obtained from a model assuming no change in economic agents' behaviour. This confrontation mainly concerns forecasts of household consumption and corporate investment. It also makes it possible to flesh out the forecasts with magnitudes that are not covered by these methods (exports to and imports from countries outside the euro zone, employment, unemployment rate, etc).

In the first place, the euro-zone model confirms our scenario of an export-based recovery, but with one qualification: after being buoyed up in Q4 2003 and Q1 2004 by strong world demand, merchandise exports in Q2 2004 are predicted to be adversely affected by a slowdown in this demand combined with an appreciation of

4

EXPORTS OF GOODS AND CONTRIBUTION OF MAIN ITEMS

growth rate in %



EURO ZONE FORECASTS

(Quaterly % change, except specified)

	2003				2004	
	Q1	Q2	Q3	Q4	Q1	Q2
Volumes						
GDP	0,0	-0,1	0,4	0,5	0,6	0,5
Domestic demand	0,3	0,1	-0,6	0,4	0,4	0,4
Household consumption	0,5	0,1	0,0	0,2	0,3	0,3
Public consumption	0,4	0,4	0,5	0,4	0,3	0,4
Investment	-1,1	-0,5	-0,5	0,4	0,6	0,7
Foreign trade of goods ans services	-0,3	-0,2	1,0	0,1	0,2	0,2
Exports of goods	-1,8	-0,7	1,9	2,1	2,5	2,2
Imports of goods	1,5	0,1	-2,9	1,8	1,6	1,0
Prices						
Value added price	0,5	0,6	0,3	0,5	0,5	0,4
Consumption price	0,7	0,1	0,5	0,7	0,3	0,3
Investment price	0,3	0,2	0,4	0,4	0,3	0,3
Price of exports of goods	0,1	-0,9	0,8	-0,6	0,5	0,4
Price of imports of goods	0,5	-1,9	1,7	-0,4	-1,8	-2,1
Wages	0,8	0,8	0,6	0,9	0,7	0,6
Employment and unemployment						
Unemployment rate (%)	8,7	8,8	8,8	8,9	9,0	8,9
Employment	0,0	0,0	0,0	0,1	0,1	0,2
Working population	0,1	0,1	0,1	0,1	0,1	0,2
Labour cost per unit	0,8	0,9	0,2	0,4	0,3	0,2
Productivity of work	0,0	-0,1	0,4	0,4	0,5	0,4
Others						
Global demand	0,5	1,3	1,3	1,5	2,6	2,0
Balance of trade (points of GDP)	2,2	2,2	2,9	2,9	3,4	4,0
3-month interest rate (%)	2,68	2,37	2,14	2,16	2,22	2,38
10-year interest rate (%)	4,15	3,96	4,16	4,26	4,36	4,36
Level of capacity utilization (%)	80,8	80,7	81,2	80,4	80,9	81,5
Gross disposable income (value)	0,7	0,6	0,7	1,0	1,0	1,0
Contribution of gross oeprating surplus	0,1	0,1	0,2	0,3	0,3	0,4
Contribution of wages	0,6	0,6	0,5	0,7	0,7	0,6
Others contributions	0,0	-0,1	0,0	0,0	0,0	0,1

Forecast

BOX 2 : MZE, THE CONTRIBUTION OF A MACROECONOMIC MODEL FOR THE EURO ZONE

the euro that would impair firms' competitiveness *(see graph A)*. It is important to note that the MZE model provides forecasts of merchandise exports to outside the zone and not of exports of goods and services inside and outside the zone as is the case for the euro-zone GDP table, which uses the same concept of exports as Eurostat.

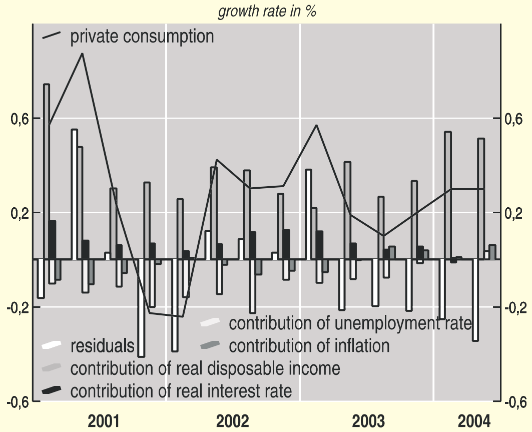
In addition, the euro-zone model confirms the time-pattern of household consumption starting in Q4. Growth in real gross disposable income (GDI) is forecast to underpin household consumption, which would stabilise as of Q1 2004 at 0.3% per quarter (see graph B). The unemployment rate, stabilising at around 9.0% after rising steadily for two years, would no longer hold back the evolution in household spending.

Finally, the predicted evolution in corporate investment is to be linked to the recovery in demand against a background of continuing low cost of capital *(see graph C)*. ■

B

PRIVATE CONSUMPTION AND CONTRIBUTIONS OF MAIN ITEMS

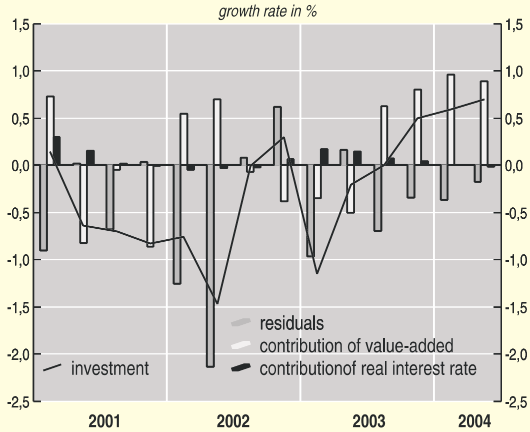
growth rate in %



C

INVESTMENT AND CONTRIBUTIONS OF MAIN ITEMS

growth rate in %



Consumer prices in the euro zone

Year-on-year inflation, after declining in Q2 2002, stabilised in Q3 at slightly above 2.0%. One reason was that core inflation was no longer falling. Another was that the slowdown in the energy price rise was offset by the acceleration in food prices following the late frosts in Q2 and the droughts in Q3.

Core inflation seems set to remain stable until Q3 2004, this being true of both manufactured goods and services. How inflation moves over time will therefore depend on the prices of energy, liable to rise and then ease back, and of foodstuffs, which are likely to slow down.

On the assumption that the price per barrel of Brent remains close to $29 until the end of 2003 and then gradually falls to $25 (see the «Pétrole» fact sheet available in French only) and a dollar/euro exchange rate close to $1.20 (see the «Financement de l'économie» fact sheet available in French only), inflation can be expected to remain slightly above 2.0% until the end of 2003 before falling below the 2.0% level in the first half of 2004. This means that euro-zone inflation would stand at 2.2% in December 2003 and 1.9% in June 2004, after touching a low point in Q1 2004.

Opposing movements in food and energy prices led to a stabilisation of inflation in Q3 2003

After rising to 2.4% in Q1 2003 under the impact of energy prices and then falling back to around 1.9% in Q2, helped by the decline in the oil price and the appreciation of the euro, inflation stabilised in Q3, with the year-on-year change in the HICP rising merely from 1.9% in June to 2.0% in October *(see table 1)*.

This stabilisation of euro-zone inflation is to be found also in the evolution of core inflation [(1)], which stood at 1.7% in October 2003, the same level as in June. The individual components of this index, i.e. prices of manufactures and services, have been fairly stable since June 2003. In October, their respective year-on-year changes amounted to 0.8% and 2.5%, compared with 0.9% and 2.6% in June *(see graphs 1 and 2)*.

(1) Measured by the HICP ex food, alcohol, tobacco and energy.

TABLE 1: EURO ZONE INFLATION

(year on year % growth of HICP)*

Sectors (weight in the index)	December 2002	June 2002	October 2003	December 2003	June 2004
Food (15.5%)	1.5	2.3	3.0	2.6	1.5
Beverage and Tobacco (3.8%)	4.3	5.4	6.3	9.1	8.7
Clothing and footwear (7.6%)	1.8	1.1	1.0	1.0	1.0
Housing. water. electricity and gas (14.9%)	2.0	2.5	2.3	2.1	1.1
Furnishings and household equipment (7.9%)	1.4	1.2	1.2	1.4	1.5
Health (3.9%)	3.1	2.5	2.1	1.9	1.2
Transports (15.3%)	3.3	1.5	1.3	2.5	1.1
Communications (2.9%)	-0.5	-0.6	-0.8	0.1	0.0
Leisure and culture (9.7%)	0.6	0.1	0.2	-0.2	0.8
Education (0.9%)	3.9	3.7	3.2	3.3	3.3
Hotels-cafés-restaurants (9.5%)	4.5	3.1	3.0	3.2	3.1
Miscellaneous goods and services (8.1%)	2.7	2.8	2.5	2.8	2.5
Total (100.0%)	2.3	1.9	2.0	2.2	1.9
Food (Beverage and Tobacco) (19.3%)	**2.1**	**3.0**	**3.7**	**4.1**	**3.1**
Energy (8.2%)	**3.7**	**1.6**	**0.7**	**2.4**	**-1.1**
Core inflation (72.5%)	**2.2**	**1.7**	**1.7**	**1.8**	**1.8**
of which: Manufactured products(31.6%)	*1.1*	*0.9*	*0.8*	*0.7*	*0.7*
Services (40.9%)	*2.9*	*2.6*	*2.5*	*2.7*	*2.5*

Forecast (shaded columns: December 2003, June 2004)
* Harmonized Index of Consumer Prices
Source: Eurostat

Consumer prices in the euro zone

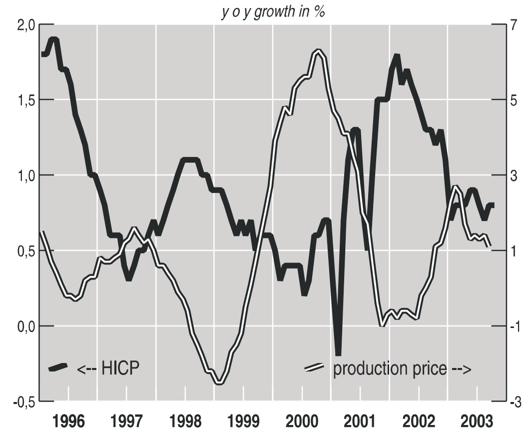
Energy prices, after rising steeply in the early part of the year under the impetus of the price per barrel of Brent ($33 in February 2003 compared with $24 in November 2002), subsequently returned to more limited growth, with the year-on-year rise easing from 7.6% in February 2003 to 1.6% in June and then to 0.7% in October, the result being a negative contribution of the order of 0.1 of a point to the evolution in inflation between June and October.

On the other hand, food prices accelerated, with the year-on-year increase reaching 3.0% in October 2003 compared with 2.3% in June. This evolution is due to the final impact of the late frosts and to the summer drought. In the end, food prices made a positive contribution to inflation of around 0.2 of a point.

1

PRICES OF MANUFACTURED PRODUCTS IN THE EURO ZONE

y o y growth in %



source : Eurostat

Inflation differentials within the euro zone have narrowed substantially

Between October 2002 and October 2003, inflation differentials between euro-zone countries narrowed substantially *(see table 2)*, with the maximum spread declining from 3.1 points to 2.4 points. With the exception of Italy, all countries that had recorded inflation above the euro-zone average saw their rates fall appreciably during the year (by at least 0.7 of a point), whereas inflation for the zone as a whole declined by only 0.3 of a point. This tendency was particularly striking in the services sector, where the maximum differential slumped from 5.4 points to 3.9 points. It was less marked in the case of manufactures, where the decline in the maximum differential amounted to only 0.5 of a point.

Core inflation in the euro zone likely to remain below 2.0% in H1 2004

Core inflation is unlikely to show any marked tendency between now and mid-2004, with price rises for manufactures and services virtually stable. It can be expected to remain around 1.7%, finally reaching 1.8% in June 2004.

The evolution in industrial producer prices in fact constitutes a leading indicator, with an advance of four to five quarters, of that of consumer prices of manufactured goods *(see graph 1)*. Taking into account the recovery in industrial producer prices that began in H2 2002 following the rise in oil prices in the earlier part of that year, the year-on-year change in the HICP for manufactured goods can be expected

TABLE 2: EURO ZONE INFLATION BY COUNTRIES

(year on year % growth of HICP)*

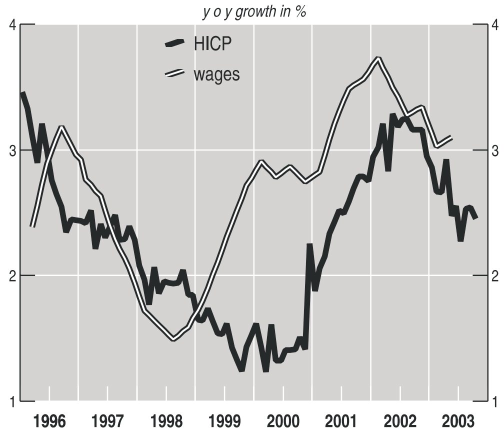
	Inflation		Core inflation		Services	
	October 2002	October 2003	October 2002	October 2003	October 2002	October 2003
France	1,9	2,3	2,0	1,9	2,9	2,6
Germany	1,3	1,1	1,2	0,8	2,1	1,4
Italy	2,8	2,8	3,0	2,4	3,5	2,8
Spain	4,0	2,7	3,8	2,7	4,8	3,6
Netherlands	3,5	1,9	3,6	1,7	4,6	3,5
Belgium	1,3	1,4	1,5	1,7	1,7	2,4
Austria	1,7	1,0	1,7	1,2	2,4	1,8
Finland	1,7	0,9	2,0	0,7	3,0	1,8
Portugal	4,1	2,8	5,1	2,6	6,7	3,7
Ireland	4,4	3,3	4,7	3,3	7,1	5,3
Luxembourg	2,5	1,8	2,0	2,2	3,0	3,0
Greece	3,9	nd	3,5	nd	4,6	nd
Euro Zone	**2,3**	**2,0**	**2,3**	**1,7**	**3,1**	**2,5**
United Kingdom	1,4	1,4	1,6	nd	4,5	3,2
Sweden	1,7	2,0	1,4	1,0	2,1	2,3
Denmark	2,7	1,1	2,7	2,4	3,8	2,6
E.U.	**2,1**	**1,8**	**2,2**	**1,6**	**3,4**	**2,6**

* Harmonized Index of Consumer Prices.
Sources: Eurostat, Office national de statistique pour les données sur le Royaume-Uni.

2

SERVICES PRICES IN THE EURO ZONE

y o y growth in %

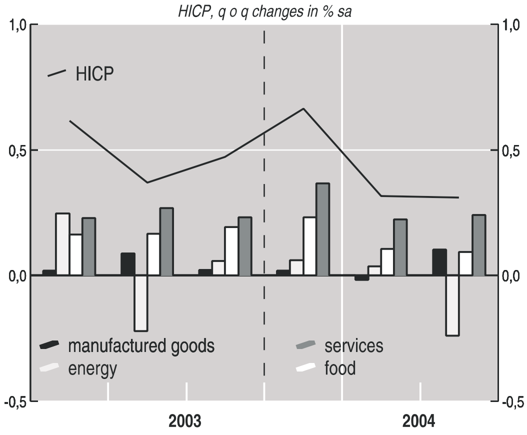


source : Eurostat

4

EURO ZONE INFLATION : QUATERLY FIGURES AND CONTRIBUTIONS OF THE MAIN ITEMS

HICP, q o q changes in % sa



sources : Eurostat, Insee seasonal adjustment

forecasts after the dotted line

to accelerate slightly as of Q1 2004. The scenario adopted here is that this acceleration will nevertheless remain limited, notably because of the appreciation of the euro, rising from the low of 0.6% reached in Q1 2004. Exchange-rate effects would operate through imported inflation. The rise in prices of services would remain stable, maintaining a firm rate: wage costs have fallen only slightly and have remained vigorous since mid-2002 throughout the euro zone *(see graph 2)*.

After rising slightly until the end of 2003, inflation can be expected to ease back to below 2.0% in the course of H1 2004

On the assumption of a Brent price per barrel close to $29 until the end of 2003, falling progressively thereafter to $25, and a dollar/euro exchange rate close to $1.20, inflation should remain slightly above 2.0% throughout 2003 before declining in H1 2004 to below the 2.0% level. This decline in inflation would be due in particular to the appreciation of the euro in Q4 2003 and to the decline in the oil price in H1 2004. This would bring inflation in the euro zone to 2.2% in December 2003 and 1.9% in June 2004, after bottoming out in Q1 2004.

The price rises recorded for energy are likely to seesaw. The price per barrel of crude in fact rose between April and October 2003 and has since stabilised, before probably starting to ease back in the early part of 2004. Moreover, the evolution in the euro exchange rate was also highly uneven, in that the effective rate declined between June and September 2003 before starting to appreciate again, reaching a new high against the dollar in November. In all,

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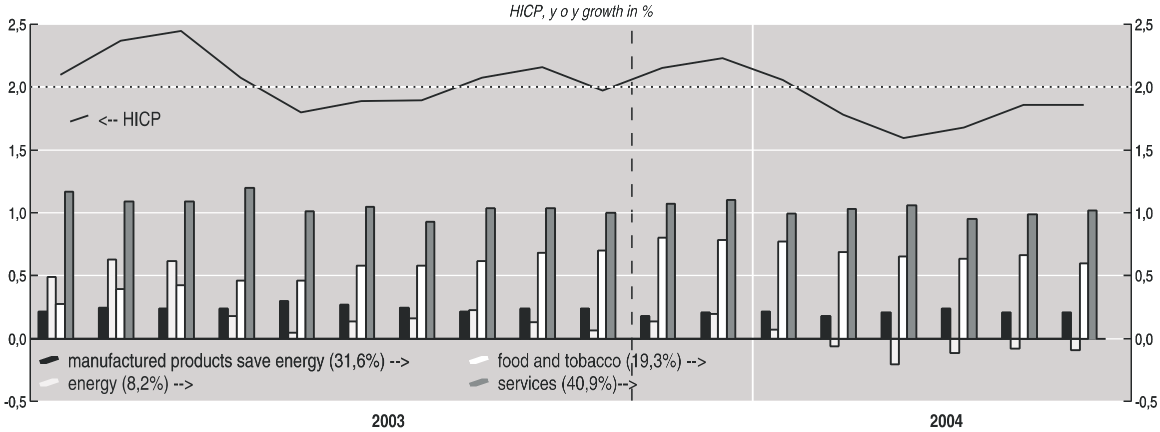
EURO ZONE : BREAKDOWN OF INFLATION

contributions of the main items

HICP, y o y growth in %



sources : Eurostat, Insee forecast

forecasts after the dotted line

energy prices are estimated to have contributed slightly more than 0.1 of a point to the increase in inflation between October and December, before making a negative contribution of 0.3 of a point between now and June 2004. On the other hand, food prices seem to have moved in smoother fashion, gradually easing back after the steep rises in 2003 due to the late frosts in the spring and then to the drought in the summer. Their contribution to the variation in inflation between October 2003 and June 2004 is put at -0.2 of a point. As a result of the steep rise in tobacco prices in France on 20 October - not a customary time of year for such changes - this item, despite having only a small weighting in the HICP, is expected to contribute 0.1 of a point to the rise in inflation between October and December 2003 and then a zero contribution in H1 2004, despite the further rise planned for January (this latter rise would not be different enough from that of January 2003 to have an impact on the price change in year-on-year terms in the euro zone ; *see the «Prix à la consommation» fact sheet available in French only*). Core inflation is expected to be stable and hence would make no contribution to the variation in inflation. ■