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AUTUMN ECONOMIC OUTLOOK: RECOVERY LACKS MOMENTUM

"Recovery is confirmed but lacks momentum" concludes the UNICE Economic Outlook – Autumn 2004. In this latest survey, for the first time including data from the ten new EU member states (EU 10), UNICE forecasts in 2005 annual GDP growth of 2.6% (EU 25), which is composed of 5.1% for EU 10 and 2.3% for the former EU 15. The UNICE survey shows the same estimates for 2004, with the exception of the EU 10, which in 2004 is slightly lower at a rate of 4.9%. Inflation remains under control, a turnaround on the labour market is not in view. Economic recovery is most immediately at risk from energy price developments.

Twice a year, UNICE publishes its economic forecast, which is based on a survey of UNICE member federations in EU member states. For the first time, the UNICE Economic Outlook includes data from UNICE member federations in the ten new member states.

Compared with UNICE's Spring Economic Outlook, growth forecasts have been revised upwards. Growth has consolidated but it lacks momentum. Growth rates are estimated at 2.6% in both 2004 and 2005. The growth gap with Europe's major competitors remains (4.2% for the US or 3.4% for Japan, both in 2004).

Jean-Paul Betbéze, Chairman of the UNICE Economic and Financial Affairs Committee: "*Recovery is confirmed, inflation is under control and expectations in terms of investment and consumer confidence are improving – that is the good news. But growth depends on external factors and is still not sustainable. The robust export contribution to GDP variation results from buoyant external demand, rather than a significant gain of shares in international markets.*"

Private consumption remains weak. More fundamentally, recovery has not yet translated into significant business investments. Expectations are improving, but Europe still bears the costs of weak investment accumulated in previous years, which constrains its growth potential.

Oil price variations are the most immediate source of concern for European companies. Forecasts of $35-$40 a barrel in February 2005 for crude oil are close to the pain threshold for the European economy. As a result, a sustained $10-a-barrel rise could cost the European economy between 0.3% and 0.5% of GDP in 2005.

On the labour market, a turning point cannot be observed. The unemployment rate is only slightly on the decrease, declining from 9.1% in 2004 to 8.8% in 2005 for the 25 member states of the EU. This situation will not change unless major labour market rigidities are removed.

Philippe de Buck, UNICE Secretary General: "*Although the general business climate remains relatively good, we see a significant deterioration compared with our spring survey. Consumer confidence will also not improve without the guarantees that health and retirement systems are sustainable, and without a significant change on the labour market. Therefore we call on European policy-makers to get down to business with their promise to make the Lisbon strategy a success.*"

Note to the editor:

UNICE represents more than 20 million small, medium and large companies. Active in European affairs since 1958, UNICE's members are 36 central industrial and employers federations from 30 countries, working together to achieve growth and competitiveness in Europe.

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