



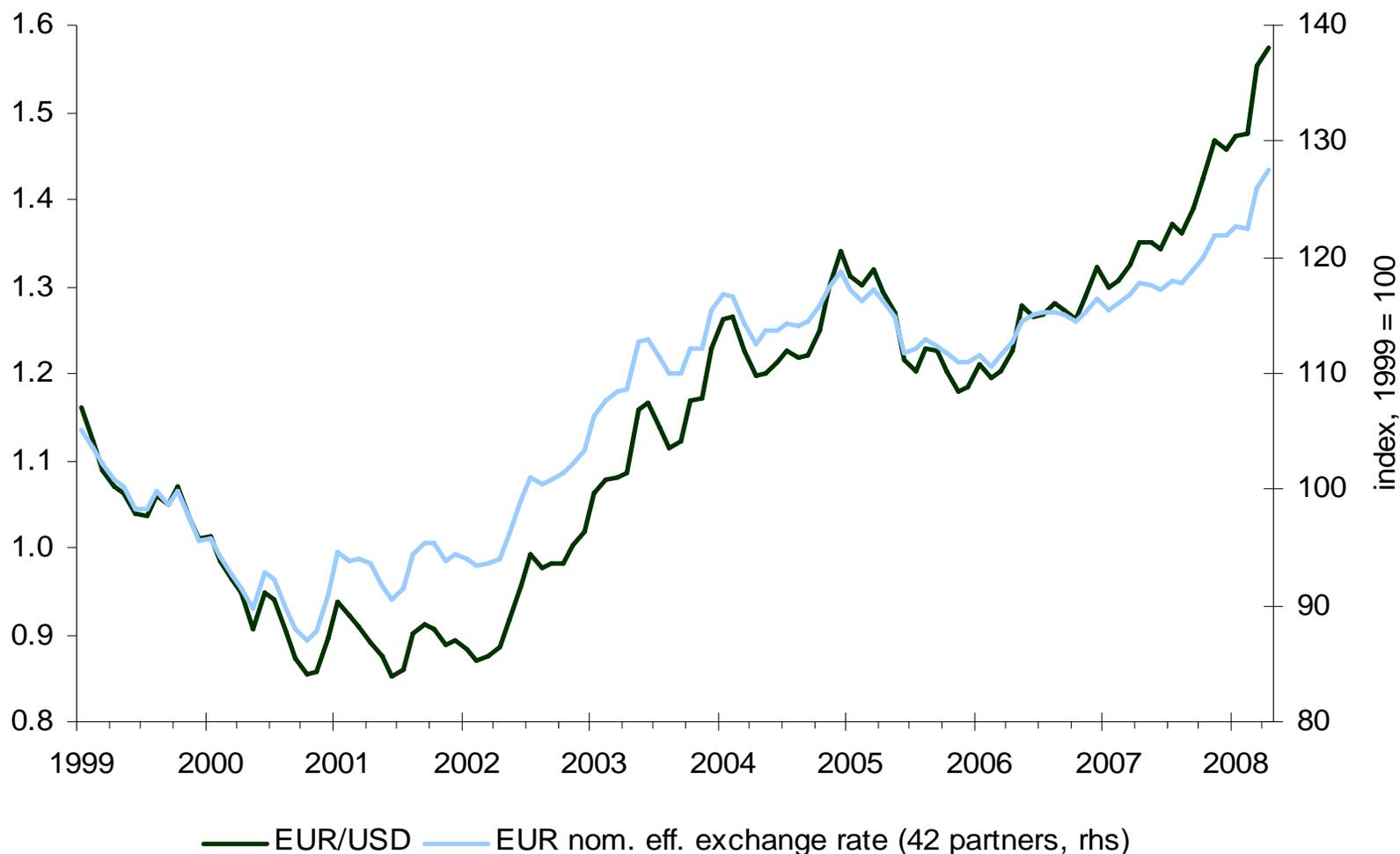
BUSINESSEUROPE

Economic Outlook

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The euro has reached an all-time high



Source: BUSINESSEUROPE based on ECB



Tightening financing conditions in the wake of financial market turmoil

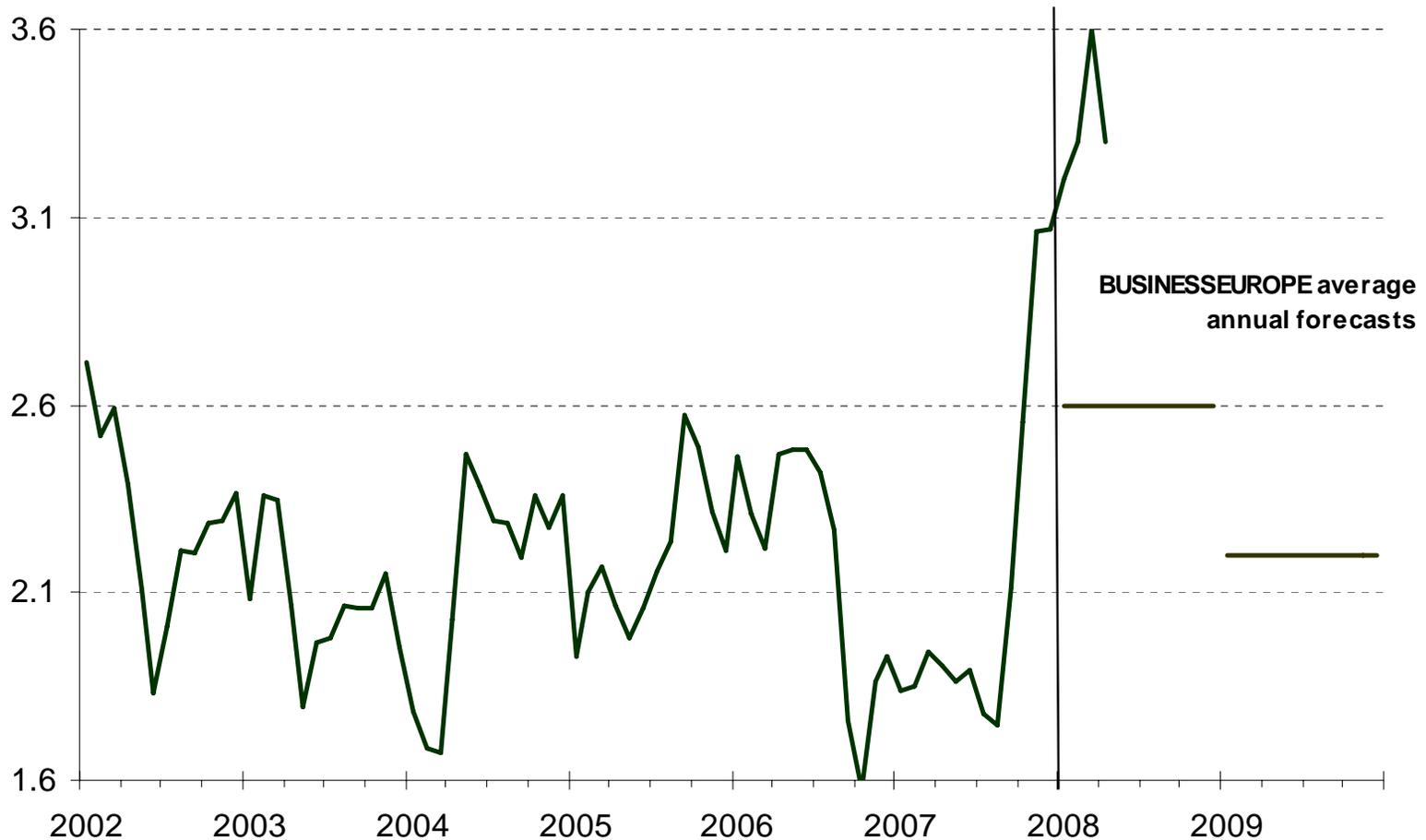
Banks' credit standards for companies (April 2008)



Source: ECB Bank Lending Survey (April 2008)

Euro area inflation – an uncomfortable start of the year

Euro area inflation developments and forecasts (%)

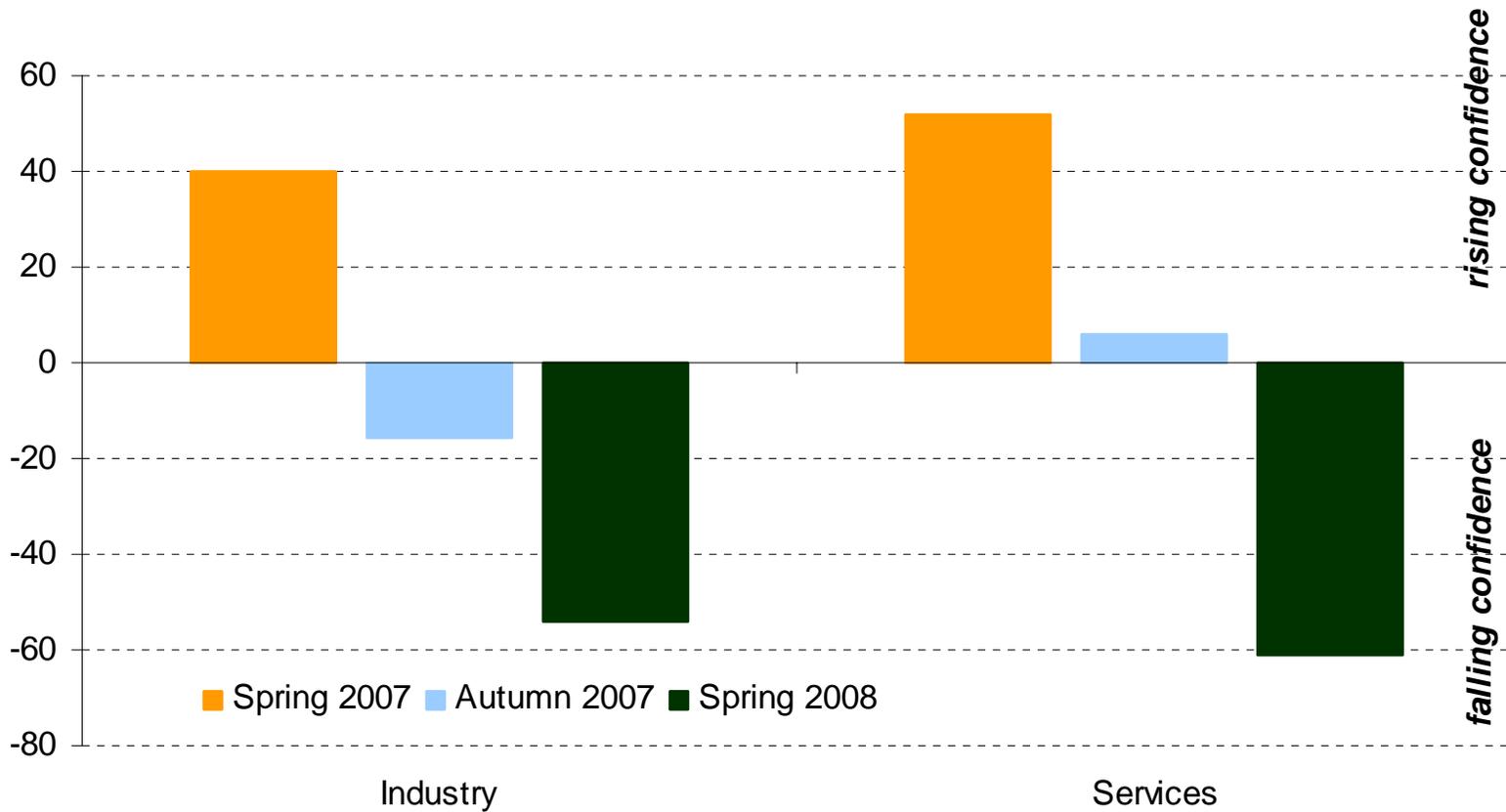


Source: BUSINESSEUROPE Economic Outlook (Spring 2008), Eurostat



Business sentiment has deteriorated across Europe

Business confidence over the next 6 months
(balance of weighted replies across countries, % of EU27)

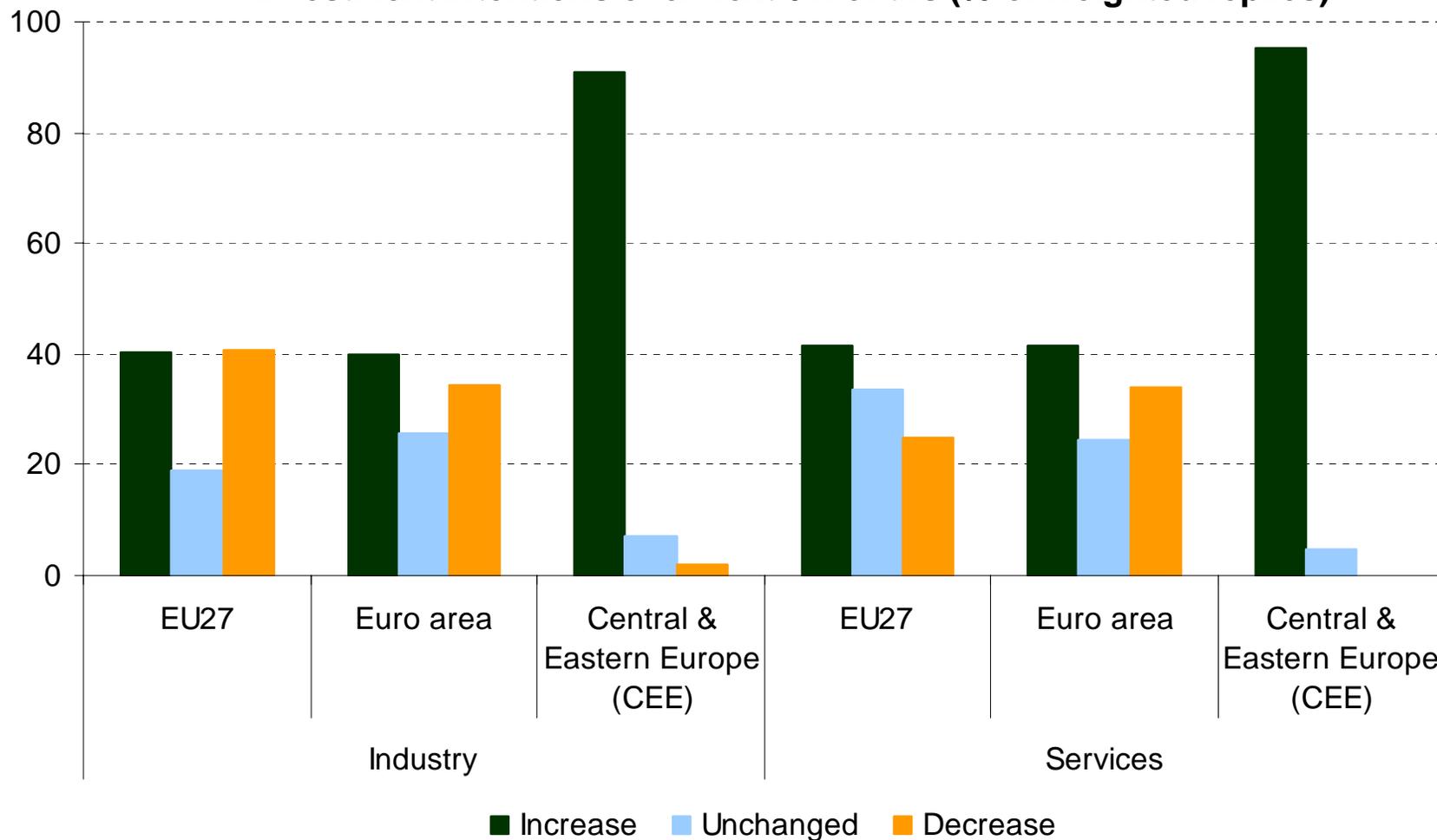


Source: BUSINESSEUROPE Economic Outlook (Spring 2008)



But investment intentions are positive...

Investment intentions over next 6 months (% of weighted replies)

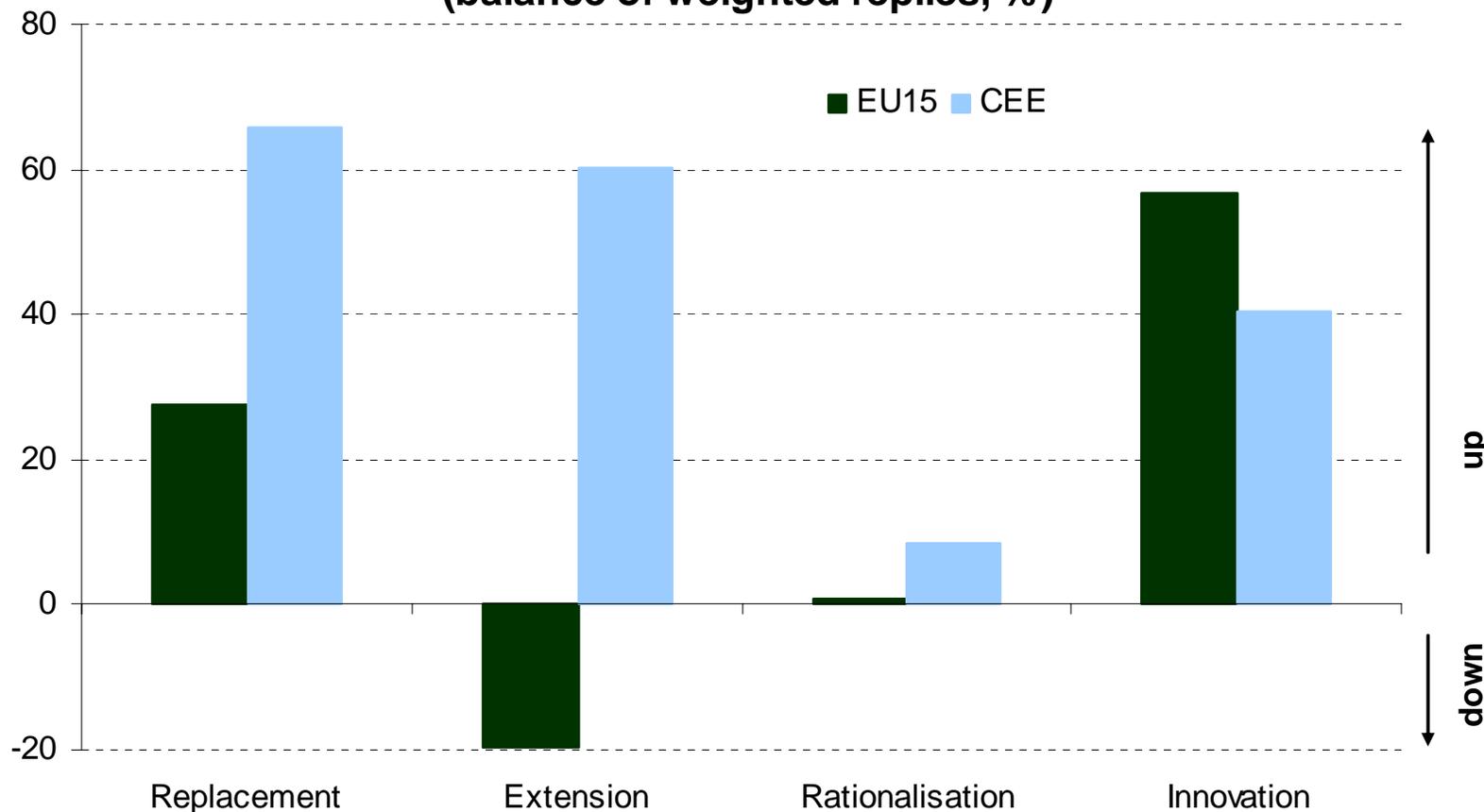


Source: *BUSINESSEUROPE Economic Outlook (Spring 2008)*



... with different driving forces ...

**Driving forces behind investment spending over next 6 months
(balance of weighted replies, %)**



Source: *BUSINESSEUROPE Economic Outlook (Spring 2008)*



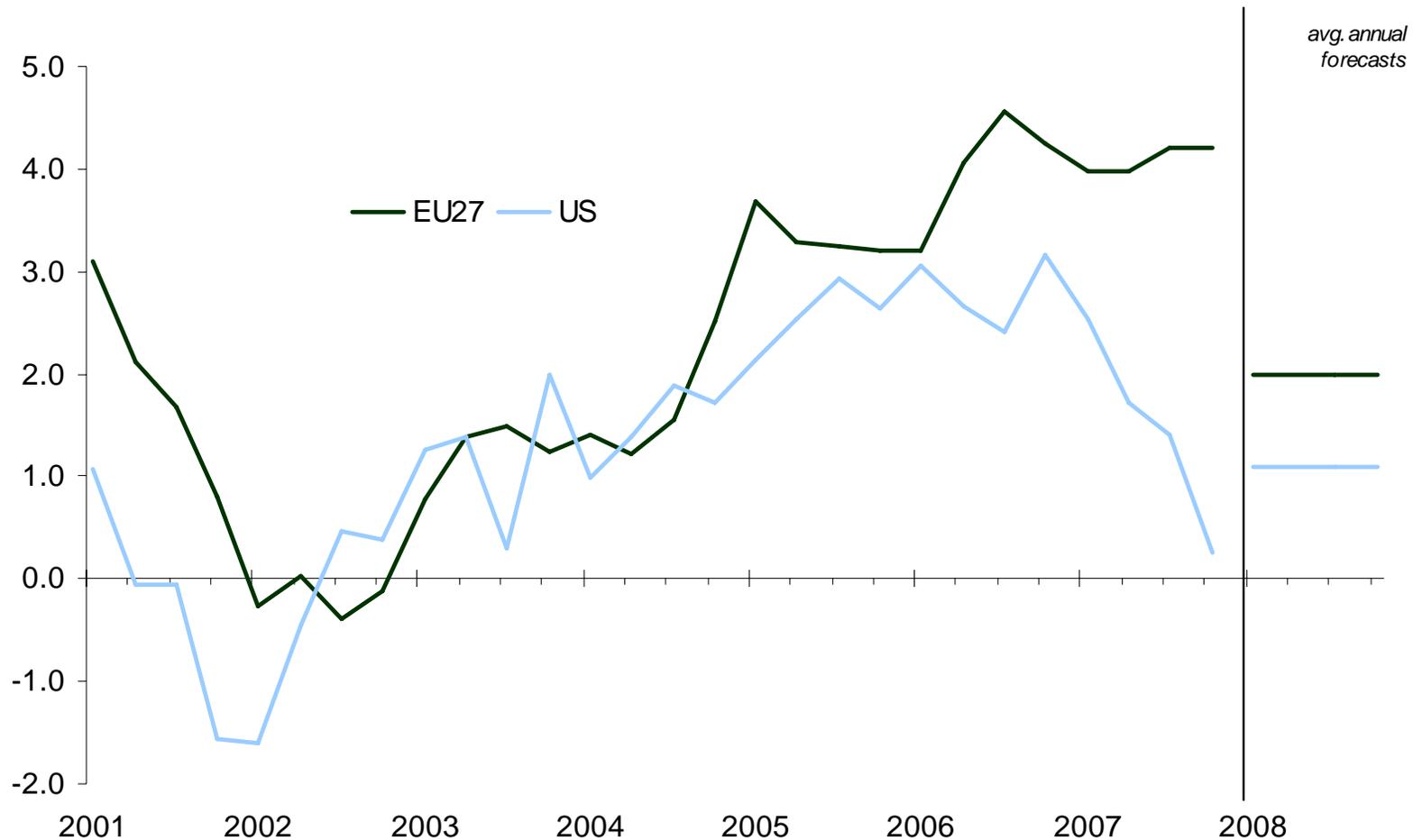
... and despite some local problems

- Ongoing housing market corrections particularly in Ireland, Spain and the United Kingdom
- Vulnerability of some Central & Eastern European member states (CEE)
 - Size of past investment booms, e.g. Baltic States
 - Large current account deficits, especially in Baltic States, Bulgaria or Romania



A strong labour market could offer support

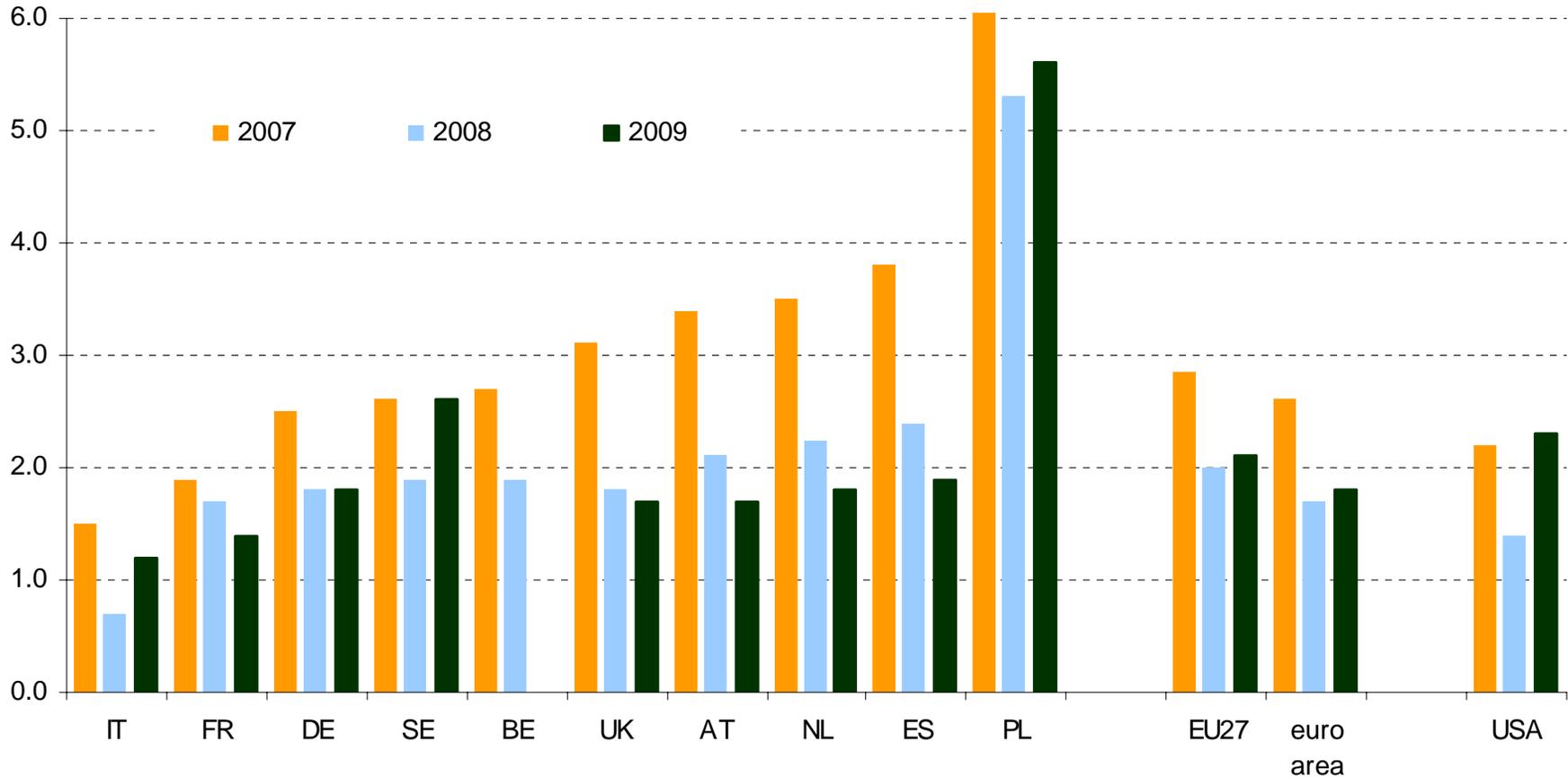
Annual change in employment (million)



Source: BUSINESSEUROPE based on Spring Economic Outlook, Eurostat, IMF, www.econstats.com

The EU economy is resilient, and expected to grow by 2% this year

Annual real GDP growth estimates and forecasts (%)

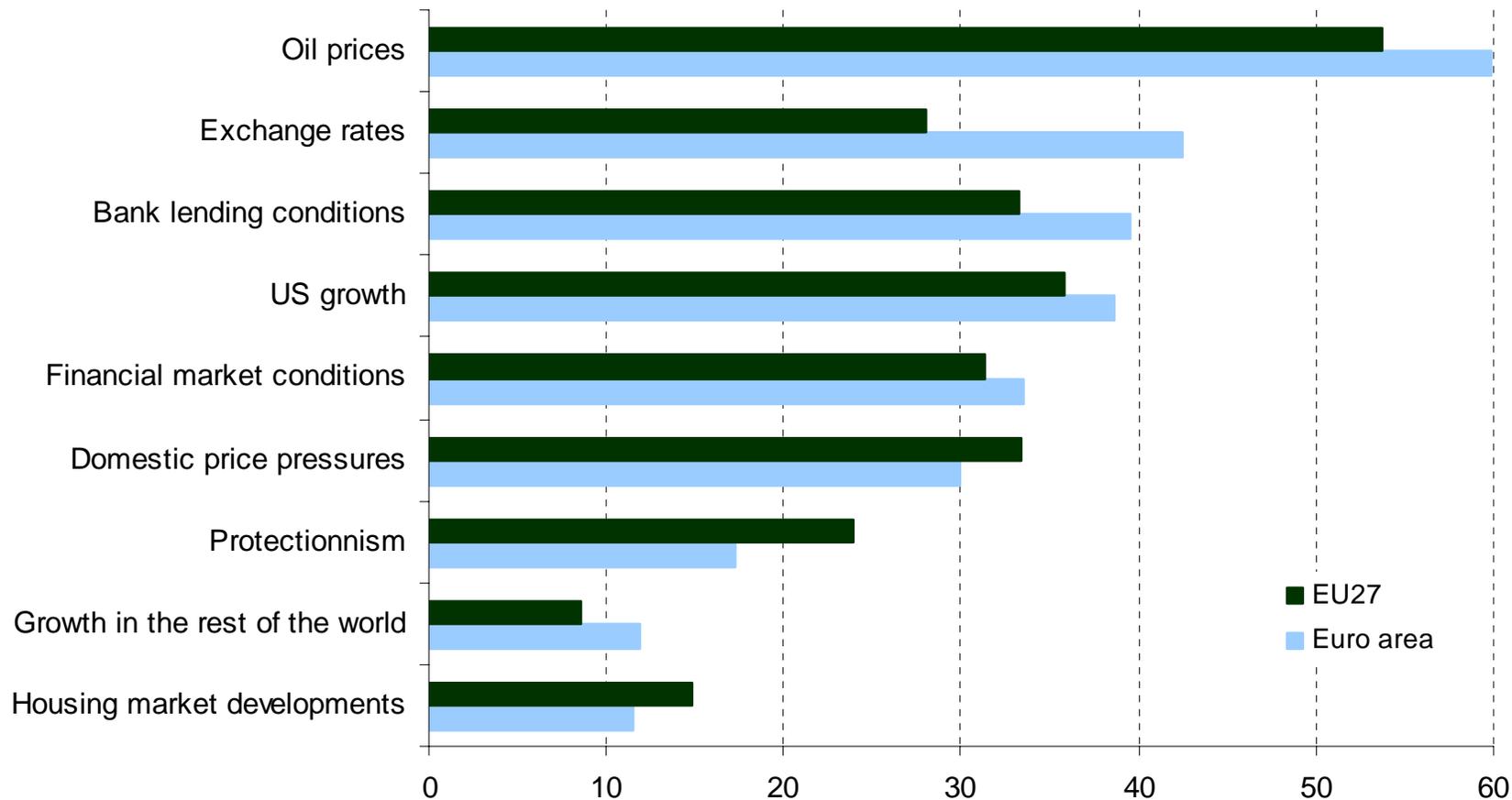


Source: *BUSINESSEUROPE Economic Outlook (Spring 2008)*,
Consensus Forecasts for USA (March 2008)



Important downside risks make forecasts particularly uncertain, though

Downside risks to growth
(balance of weighted replies, %)



Source: BUSINESSEUROPE Economic Outlook (Spring 2008)

Soaring oil prices – only partially attenuated by strong euro

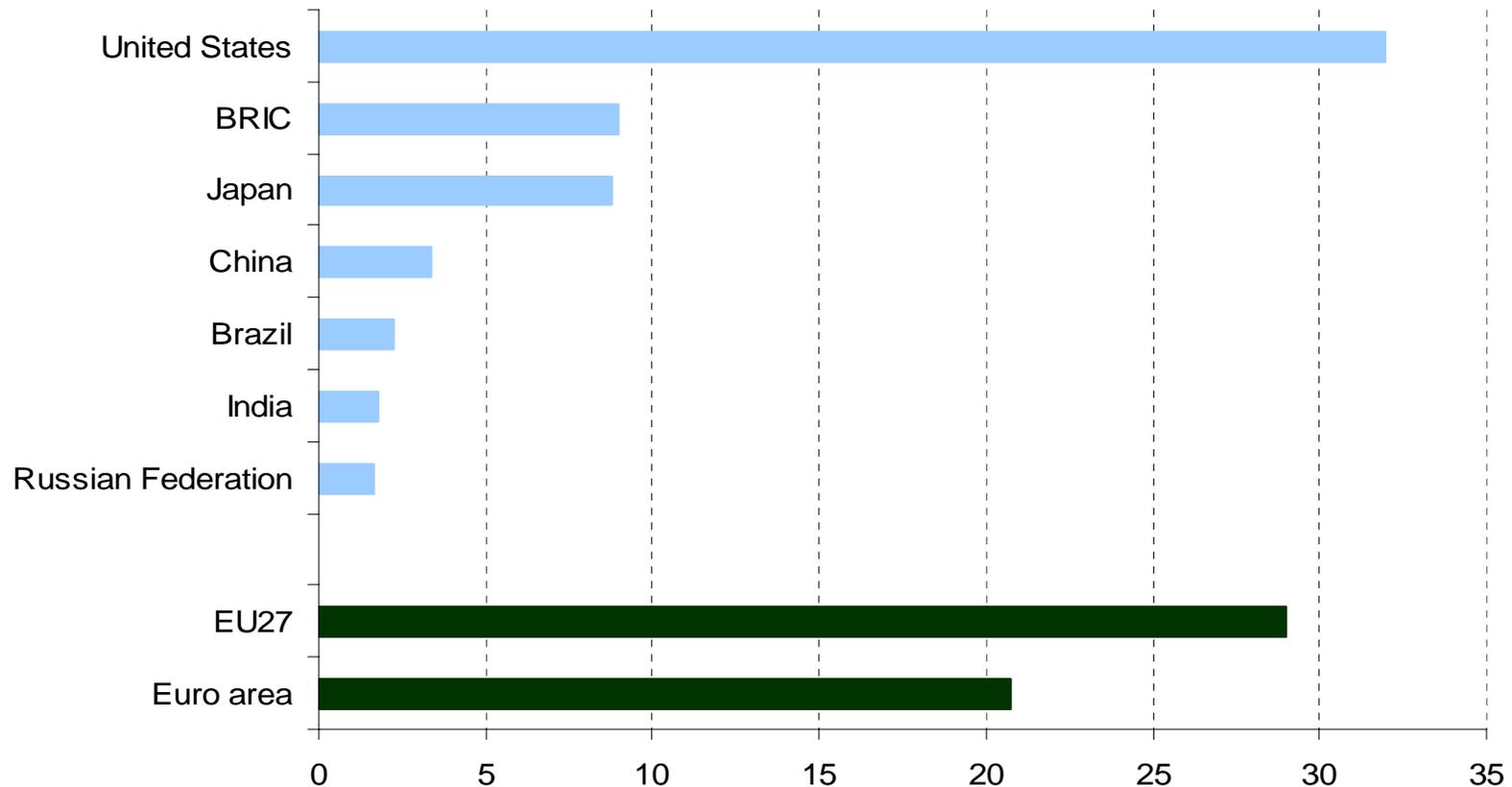


Source: BUSINESSEUROPE based on ECB, www.handelsblatt.de



Global growth still depends on US consumers

Relative size of national consumer markets
(household consumption in 2006, %-share of world total)

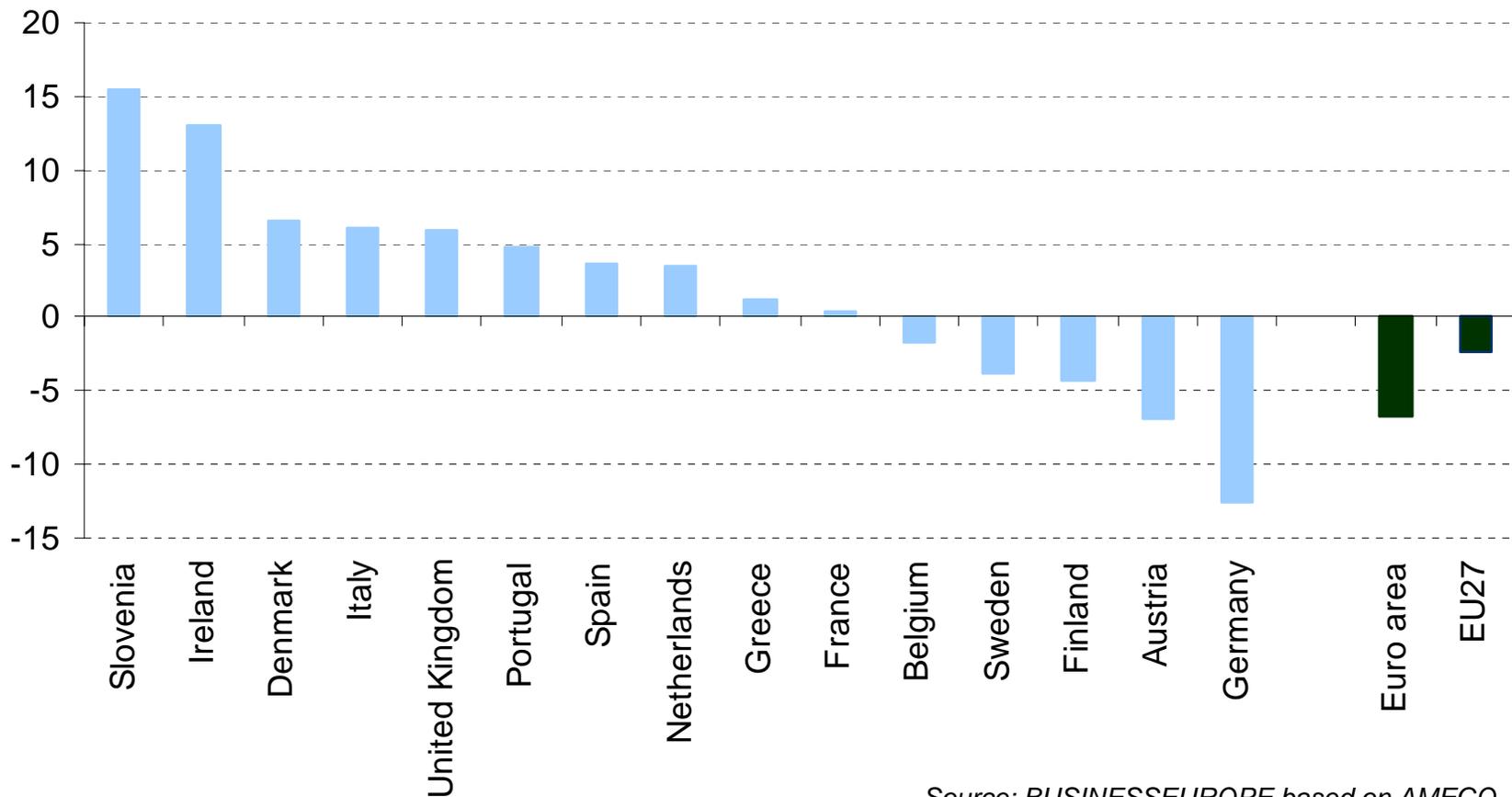


Source: BUSINESSEUROPE based on United Nations Statistics Division



German wage round should not be the yardstick

Cumulative change in relative unit labour costs
(%, between 2000 and 2007)

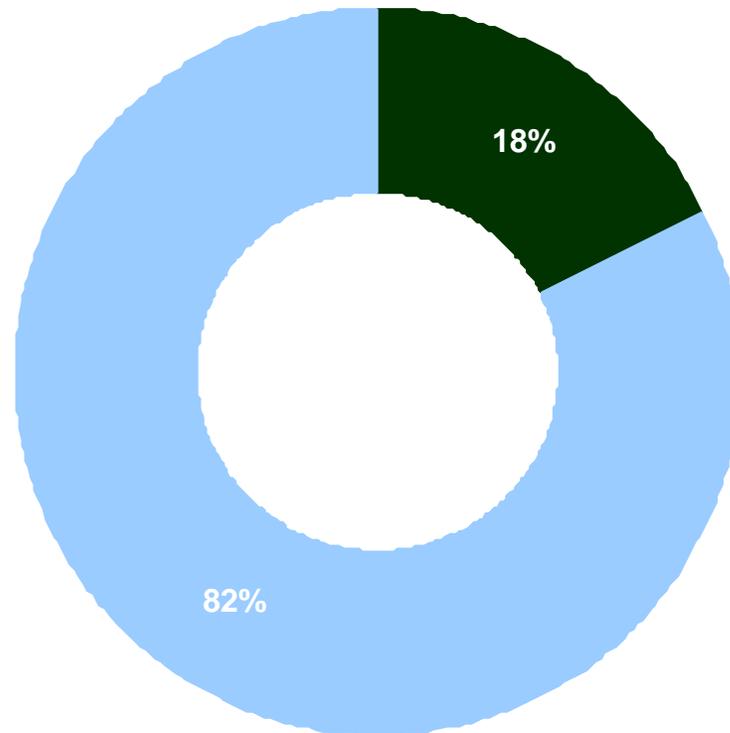


Source: BUSINESSEUROPE based on AMECO



Fiscal consolidation is insufficient: limited margins to face a downturn

**Assessment of fiscal consolidation efforts
(weighted replies across countries, % of EU27)**



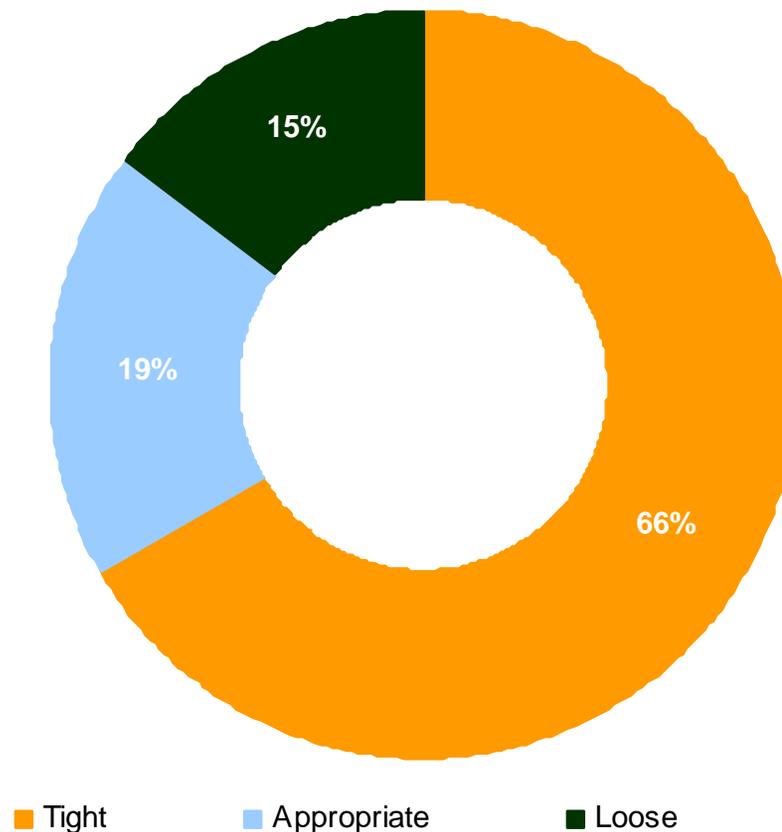
■ satisfactory ■ less than satisfactory

Source: BUSINESSEUROPE Economic Outlook (Spring 2008)



Monetary policy is becoming tight, but inflation is an ongoing concern

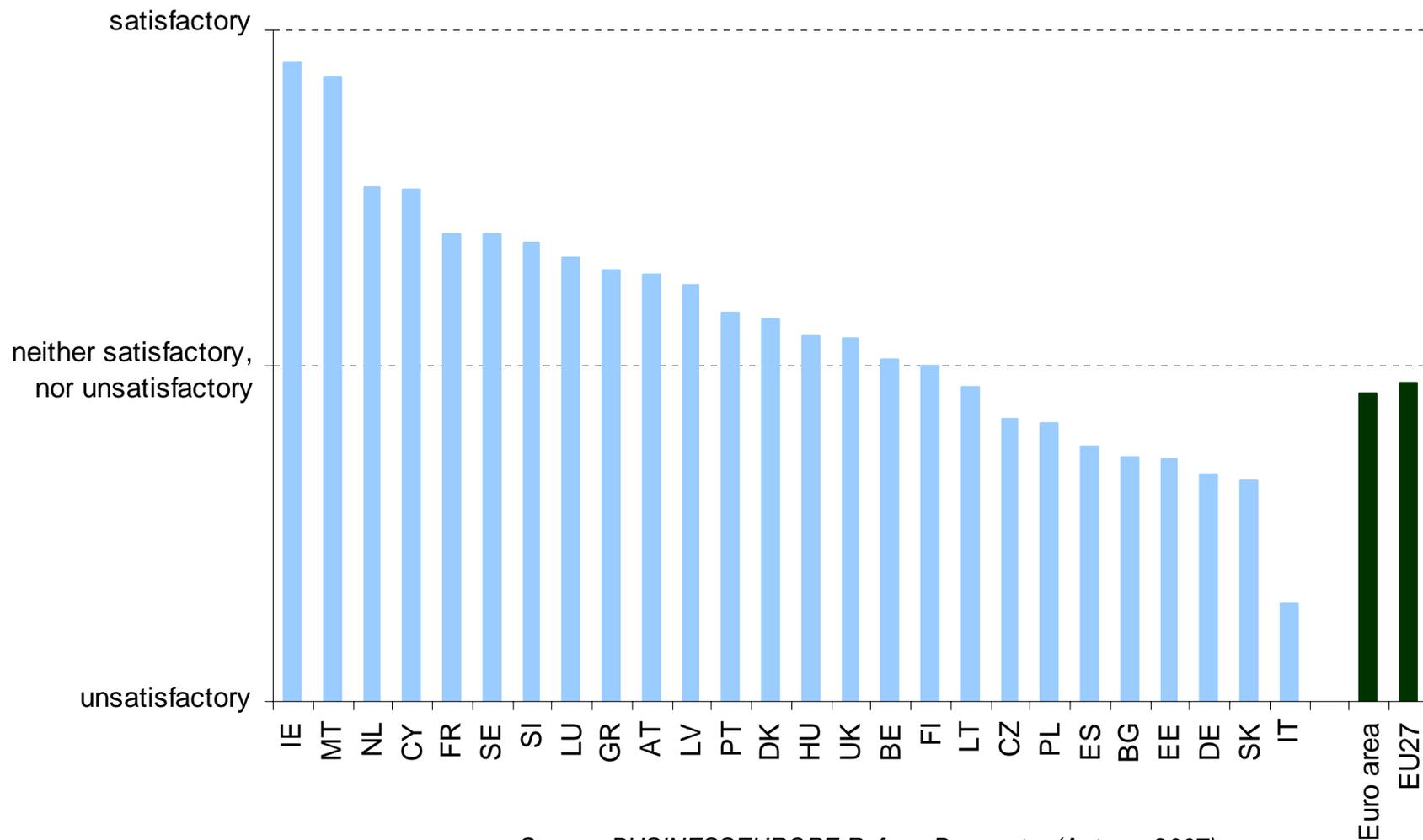
Assessment of monetary policy at euro area member state level
(weighted replies across countries, % of euro area)



Source: *BUSINESSEUROPE Economic Outlook (Spring 2008)*

Mixed reform efforts in 2007

Assessment of overall national reform progress in 2007



Source: *BUSINESSEUROPE Reform Barometer (Autumn 2007)*



Conclusions

- BUSINESSEUROPE expects the European economy to grow at around 2% in 2008
 - 2.0% for EU27
 - 1.7% for euro area
- Several reasons support this cautiously optimistic outlook, e.g.
 - Substantial labour market improvements
 - Sound corporate balance sheets
 - No major source of macro-economic imbalances



Conclusions

- But companies are concerned about
 - Knock-on effects of financial market turmoil
 - Second round effects of soaring food and energy prices and persistently higher inflation expectations
 - Global imbalances and strong euro / weak US dollar
 - Lack of significant structural reforms and reform fatigue at national level



Conclusions

- **BUSINESSEUROPE's policy messages**
 - Ensuring price stability must remain ECB's absolute priority
 - Member states must stick to budget discipline
 - Increased level of competition in protected market segments (e.g. retail, energy, services) should help to contain inflation pressures
 - Improve policy coordination in particular among euro area member states
 - Abstain from harmful regulatory activism



The Spring Economic Outlook with detailed country sheets and the Reform Barometer are available on our website

www.businessseurope.eu

