ECONOMIC OUTLOOK

AUTUMN 2003

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The UNICE Economic Outlook provides a business insight into recent economic developments, based on a survey of UNICE member federations in the 15 member states of the EU. Qualitative data and forecasts were established in September 2003. Aggregate values are GDP (at PPS) weighted, unless otherwise indicated.

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Table 1: UNICE forecasts

EU-12	**2003**	**2004**
GDP (annual % change)	0.5	1.7
Inflation (%)	2.1	1.6
Unemployment (%)	8.8	8.9
Employee compensation (annual % change)	4.5	4.3
EU-15	**2003**	**2004**
GDP (annual % change)	0.8	1.8
Inflation (%)	2.2	1.8
Unemployment (%)	8.1	8.1
Employee compensation (annual % change)	4.3	4.1

EXECUTIVE SUMMARY

Europe is at the bottom of the league …

At the beginning of the year, the buzzword among forecasters was "uncertainty". It was, indeed, very difficult to predict what could happen in the run-up to, during and after the war in Iraq.

One possible scenario was that consumer confidence (and consumption) was down because of this uncertainty, leading businesses to wait and see, but in the case of a brief conflict, confidence would return and growth would resume.

Another scenario was that the Iraq crisis was only masking structural weaknesses, underlying rigidities and unfinished reforms. The two scenarios were not completely mutually exclusive and while expecting a recovery in the second half of the year, we underscored that Europe's "real problems lie much deeper: unemployment, reform inertia and fiscal uncertainties". This was and remains true.

As the year has proceeded, it has become clear that Europe has failed to be its own engine for growth and again looks to the USA to provide the stimulus. The IMF has just published its "World Economic Outlook" and Europe is at the bottom of the league in 2003:

	2003	2004
USA:	2.6	3.9
Eurozone	0.5	1.9
EU-15	0.8	2.0
Japan	2.0	1.4

(Our forecasts for Europe are 0.2 percentage points lower in 2004).

… But recovery will come ...

It is a matter of concern that, facing the same uncertain environment, Europe is unable to react and to recover as quickly as the USA. Nevertheless, our survey suggests that Europe is bottoming out.

As far as the traditional economic policy levers are concerned, there has been some success. Monetary policy has succeeded in cutting inflation – and more importantly inflation expectations. Both companies and consumers can make plans in a stable environment and benefit from low interest rates.

Foreign exchange fluctuations need to be closely monitored though. While the strength of the Euro can contribute to lower inflation, excessive foreign exchange movements can be harmful to European competitiveness. The burden of the US current account adjustment must not fall only on Europe.

Fiscal policy has been the subject of a lot of controversy with, on the one hand, criticism against some rigidities of the Growth and Stability Pact but, at the same time, a lot of criticism against the possible relaxation of fiscal discipline in the Eurozone.

Two things can be said about fiscal policy.
1- Discipline is necessary and the Growth and Stability Pact must be implemented since it provides this discipline.
2- There has been some fiscal relaxation. The high deficits in France and Germany are the most visible illustrations, but other countries within the framework of the Pact, have tried to support growth with fiscal measures.

… Through increased Competitiveness only.

The real problem lies elsewhere and is well known. Europe suffers from a lack of overall competitiveness. Business has always pleaded for less and better regulation, a lower tax burden and structural reforms that will support European companies' competitiveness. Europe's failure to respond to this overall positive "policy mix" illustrates painfully that this analysis is right.

Therefore, business strongly supports the Lisbon Strategy and reiterates that it must be implemented.

UNICE insists on putting **Competitiveness at the heart of European growth Strategy**. UNICE is organising a Competitiveness Day on 14 November in order to remind and impress upon policy-makers the crucial role that increasing European companies' competitiveness can play in unleashing their tremendous potential: **"Release Companies' potential. Free Gulliver!!"**

MAIN FORECASTS

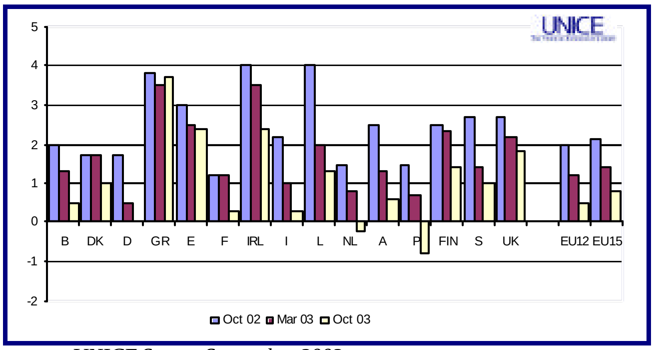
The scenario of a quick recovery following a short conflict in Iraq failed to materialise, at least in Europe. In the USA, growth accelerated in the second quarter boosted by public spending, consumption and even some corporate investment. This growth, however, is accompanied by a significant increase in the twin deficits and it seems that there is little room left for further pro-cyclical policy measures. Furthermore, these imbalances will need to be monitored since they are unlikely to last forever.

GROWTH

In Europe, growth was disappointing in the second quarter (growth was flat in the EU as a whole) and some countries (Germany, Netherlands and Italy) even fell into technical recession (i.e. two consecutive quarters with negative growth).

The forecast of a recovery in the second half remains valid, although starting from lower levels and probably at a milder pace.

Chart 1 - Growth Forecasts for 2003



source: UNICE Survey September 2003

At the time of our Spring forecasts, uncertainty was particularly high and we – rightly – highlighted the possibility of downward revisions to the forecasts.

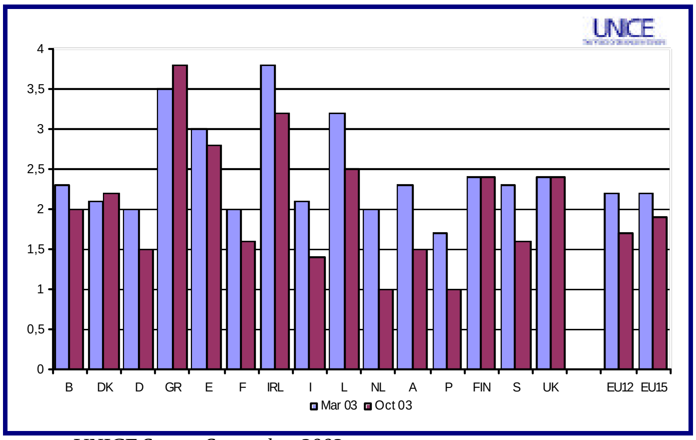
Most of the forecasts have been cut significantly:

A first group of countries (France, Netherlands, Ireland and Finland) **have seen their growth forecasts cut by one percentage point.** For the two former the final prognosis is dramatic since the initial expectation were already pretty weak. Netherlands (minus 0.2%) will see a contraction of its GDP in 2003 while France will more or less stagnate (0.3%). On the other hand, Ireland and Finland will still enjoy some growth (2.4% and 1.4%).

A second group of countries had their forecasts cut by about half a percentage point. Germany's weakness has been confirmed and it is expected to stagnate (0.0%). Germany's weakness weighs on the rest of Europe and as a whole, the Eurozone will grow 0.5% and the EU by 0.8%.

Greece and Spain are two countries where growth prospects remain broadly unchanged. Greece seems to be enjoying some pre-Olympics growth in 2003 that should persist into 2004, and Spain is benefiting from negative real interest rates.

Chart 2 - Growth Forecasts for 2004



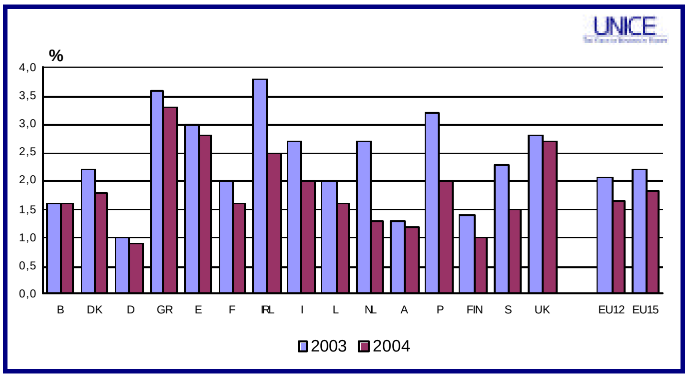
source: UNICE Survey September 2003

Turning to 2004, business federations continue to expect a significant acceleration, even though they have to incorporate to their forecasts the weaker outcome of 2003. With the exception of Greece, UK and Finland all business federations have cut their forecast for 2004. On average growth in 2004 will be for the Eurozone 1.7% and for the EU 1.8%. It must be said that calendar effects are incorporated in some of these forecasts (there will be more working days in 2004 than in 2003 in Germany, for instance).

INFLATION

Inflation in the Eurozone seems to be under control. It is expected to be just above 2% in 2003 and should decline further in 2004 to 1.6%. Inflation in Germany is expected to stabilise around 1% in both 2003 and 2004.

Chart 3 - Forecast: Inflation rates 2003 and 2004



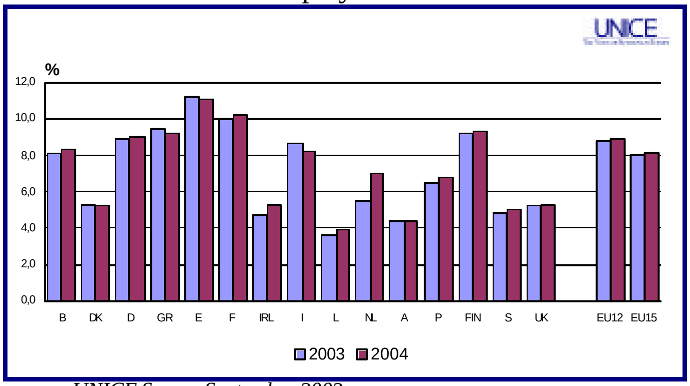
source: UNICE Survey September 2003

UNEMPLOYMENT

Not surprisingly with weaker economic growth, the prospects for unemployment are generally deteriorating. Most unemployment rate forecasts for 2003 have been revised upwards. In 2004, they will remain in the same range as in 2003. On average the unemployment rate is expected to be at 8.1% both years in the EU-15 and to rise from 8.8% to 8.9% in the Eurozone.

The most dramatic change is expected in the Netherlands with the unemployment rate increasing from an expected 5.5% in 2003 to 7% in 2004.

Chart 4 - Forecast: Unemployment rates 2003 and 2004



source: UNICE Survey September 2003

MAIN RISKS OVER THE NEXT SIX MONTHS

Forecasting is always a difficult exercise but 2003 has been a particularly difficult year. At the beginning of the year, the Iraq crisis, preparations for war and transatlantic tensions made the general environment particularly uncertain. Since then, the picture has become somewhat clearer and Europe's growth prospects remain fragile. With the USA – and even Japan – exhibiting stronger growth, Europe is once again failing to be its own engine for growth. The USA is pulling the rest of the world and a possible shortfall in the US recovery is seen as one of the main risks for Europe.

The US policy response to the economic slowdown has also led to serious imbalances, and the increase in the twin deficits is also considered as a threat. The key question here is when and how these deficits will be corrected. Even though, at the time of the survey, the level of the euro-dollar exchange rate was considered by most to be appropriate, European companies would be hurt if the dollar were to depreciate rapidly or excessively. Market movements since then – for instance after the G7 Communiqué of 20 September – proved that this risk needs to be closely monitored.

Other factors are also at play. Our panel still ranks high the potential consequences of instability in Iraq and/or further terrorist actions.

In Europe, Germany's success or failure is of course seen as critical for all and the success of reforms in that country is particularly important. Monetary policy is particularly well rated by the panel, but business feels that interest rates are unlikely to decline further. An increase, at this stage, in long yields is seen as a potential risk, even though it could also reflect better growth expectations. Excessive regulation is seen as a handicap for European business. The EU's intention to introduce new regulation (for chemicals or services) is seen as potentially harmful for companies and growth.

Enlargement – and the strong growth in acceding countries – is seen as a positive, though longer-term, factor for Europe as a whole.

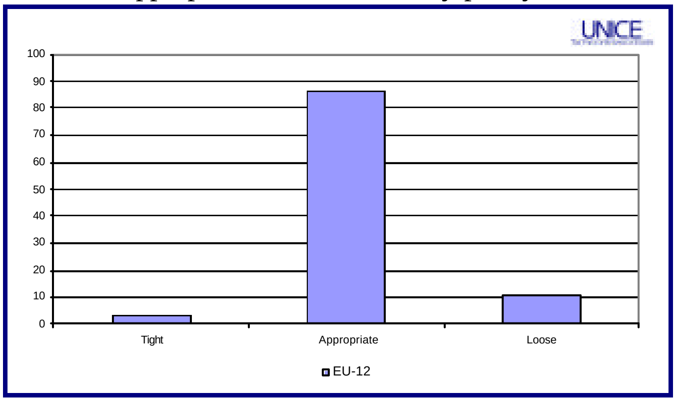
POLICY MIX AND BUSINESS REGULATION

MONETARY POLICY

Monetary policy is well rated by European business. An overwhelming majority of our panel finds the ECB policy stance appropriate and generally European enterprises share the ECB's analysis. This is one of the highest rankings ever given by our survey.

The latest rate cut by the ECB in June was well received by business since it is clear that inflation in the Eurozone is under control. Furthermore, the recent clarification by the ECB of its definition of price stability (below, but close to 2%) as well as the priority given to the macroeconomic analysis relative to monetary development in explaining monetary policy decisions should mitigate the risk of deflation. The low level of real interest rates shows that the Euro is a credible currency and it has shielded the Eurozone from monetary turbulence in the last couple of years.

Chart 5 - Appropriateness of monetary policy, EU-12



source: UNICE Survey September 2003

The rejection of the euro by Sweden is disappointing, even though it was in line with opinion polls. It will certainly comfort the opponents to the Euro in both the UK and Denmark.

EXCHANGE RATE

In 2002 and early 2003, the Euro appreciated rapidly against the dollar and the yen (and to a lesser extent against sterling). This was seen as a potentially destabilising development for European companies, particularly those in the export sector.

Even though a stronger Euro can help reduce the costs of imports, an excessively rapid appreciation (or an overshoot) can harm companies' competitiveness, not least because many third countries have their currency pegged to the dollar and benefit from a competitive advantage. This is clearly the case for China. The exchange rate has stabilised for the time being but the equilibrium is fragile and must be closely monitored.

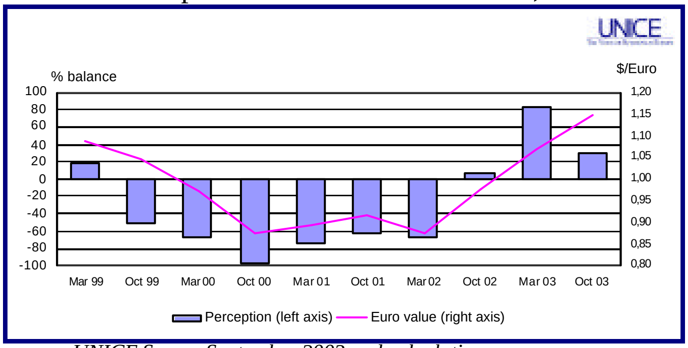
The strength of the Euro backs up our forecast of low inflation in 2004; this could provide the ECB with more room for manoeuvre in setting monetary policy.

Chart 6

source : Crédit Lyonnais.

For the non-euro countries, a weaker pound could help to support UK exports. In Sweden, the SEK fell following the rejection of the euro, but later recovered. The main consequence should be the persistence of a yield differential that would make borrowing more costly (particularly for SMEs).

Chart 7 - Perception of Euro and actual value, EU-12



source: UNICE Survey September 2003 and calculations

** Perception of the Euro is the difference between weighted shares of respondents who think the Euro value against the Dollar is too high and those who think it is too low.*

OIL PRICES

After a sharp rise to above $ 34 a barrel preceding the conflict in Iraq, the oil price fell sharply to below $ 25 and recovered progressively to around $ 30 in the summer. Since then it has lost ground to around $ 26, while recent studies suggest that the long-term trend should be declining. The recent OPEC decision to cut production is intended to maintain the price of the barrel above $ 25. From a European perspective, the strength of the euro should partly alleviate an increase in the oil price.

Box 1: China is becoming a major player in world trade

In recent years, China has become one of the major players in world trade. In 1980, its share of world exports was 1.2% and it was comparable to the shares of countries like Brazil (1.4%), Malaysia (0.9%) Singapore (1.3%), South Korea (1.2%) or Mexico (1.0%).

In the last 21 years, the fortunes of these countries have been diverse. Brazil has not progressed and accounted for only 1.3% of world exports in 2001. Singapore (2.5%) and Malaysia (1.9%) made some progress but less than Mexico and South Korea (both 3.2%).

During the same period the growth in China's share of world exports has been dramatic. It has increased more than five times and China has become the fourth exporter in the world with 6.9% of total exports, just ahead of Canada (5.7%) and behind Japan (8.3%), USA (15.7%) and EU (19.5%).

In that context, exchange-rate movements between the dollar and the euro are particularly critical, because the yuan (renmimbi) as well as some other currencies are pegged to the dollar. When the dollar exchange rate declines the competitive pressure falls especially on Europe or Japan as countries pegged to the dollar also obtain a competitive advantage.

A recent study of the IMF shows that the level of reserves in Asian countries is higher than necessary and that it has reached a level where it should at least slow down significantly. The G7 made a call for more exchange-rate flexibility at its meeting in Dubai and clearly had China's exchange rate in its sights.

FISCAL POLICY

The attention is particularly focused on the situation of France and Germany since both countries' deficits have breached the limit of 3% of GDP and it is very unlikely that this will be corrected in 2004. In spite of all the discussion about the limits of the Growth and Stability Pact it appears that fiscal policy has been pro-cyclical and fiscal stimulus has already gone beyond the movement of automatic stabilisers. Several other countries (Belgium, Greece and Spain) report tax cuts in the past six months.

The Pact is having a positive impact on governments' fiscal discipline, and a possible erosion of the discipline it provides is seen as a significant downward risk, since it could harm confidence and hurt growth.

BUSINESS REGULATION

The real question might be why, since both monetary and fiscal policies are, on balance, supportive, growth performance remains that weak. The answer is well known: it is the lack of competitiveness of Europe. The problem was identified in Lisbon and there is a strategy to deal with it. But implementation is lacking. In our survey the broadly unchanged picture on the regulatory front reflects this. Only three countries are expecting reductions in regulation that is harmful to competitiveness. Furthermore, federations are concerned that additional measures at the EU level could add to the burden of business (EU substance policies, procurement legislation etc.).

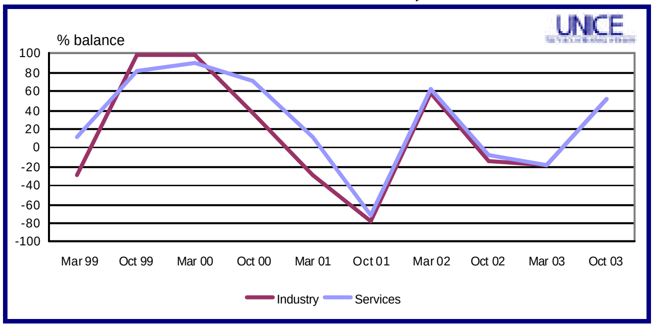
ECONOMIC SENTIMENT

BUSINESS CLIMATE

Sentiment indicators suggest that the European economy is bottoming out. Only two of our federations expect the business climate to deteriorate either in industry (FIN) or in services (L).

Most importantly while most of the federations expect no change, two heavyweights (France and Germany) are expecting an improvement. The way we compute this index might exaggerate the upturn at the European level because of the weight of Germany and France. On the other hand, an improvement in Germany and, to a lesser extent, in France will have a positive impact on all. Indeed, in their risk assessment a majority of federations quote the German recovery (or their external environment) as either a positive factor pulling their economy or a negative risk if it fails to materialise.

Chart 8 - Trend in business climate, EU-15



source: UNICE Survey September 2003

This chart shows the difference between weighted shares of respondents expecting positive developments over the next six months and those expecting negative developments. Those respondents expecting unchanged developments are not counted in this chart.(same for Charts 9, and 10)

In Germany, these expectations are based on improved export prospects (again pointing to reliance on the USA as the engine for growth) and progress in the reform process. In France, after the social unrest seen in the spring, business sentiment is improving.

It must be noted that most of our respondents describe the current situation as bleak or weak, and refer to a low level of activity, but a majority expect an improvement, albeit mild or slight.

In the UK, business sentiment has been declining for four months in a row in manufacturing industry. In services, though the picture is mixed. A pick-up in services to business might be a leading (but fragile) indicator of further improvement to come.

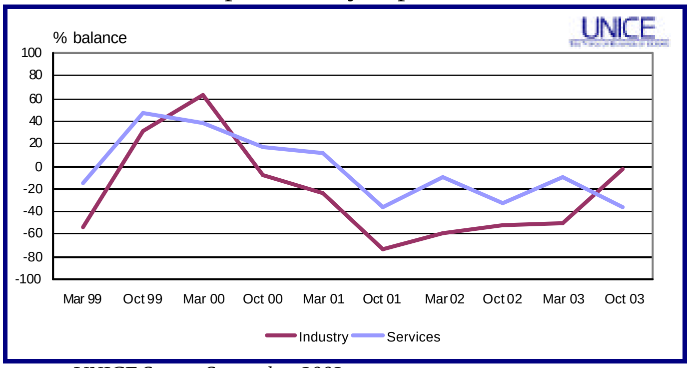
PROFITABILITY

Profitability expectations continue to move sideways. While there is some improvement in industry, there is a small decline in services. Most of our federations do not expect a significant change in their companies' profitability and the negative expectations still outweigh the positive ones at the EU-15 level.

The most significant change is perhaps again due to Germany. Profitability should stabilise in industry thanks to lower unit labour costs and productivity gains. In services, adjustments in the banking sector have run their course and an improvement in the IT sector is appearing.

In the other countries, profitability improvement is expected mainly from some wage moderation in Belgium and Spain, and from cost-cutting and restructuring in France and Austria. The situation on financial markets affects profitability in services, particularly in Luxembourg.

Chart 9 - Trend in profitability expectations, EU-15



source: UNICE Survey September 2003

Profitability is expected to remain unchanged in both industry and services in the Netherlands in the next six months. In the UK, the decline in prices is not matched by a decline in costs.

On balance, profitability expectations have improved somewhat since our spring survey. Six months ago, our survey was pointing to deterioration, it now suggests stabilisation.

It is interesting to note that expectations in the Eurozone seem on balance better than for the whole EU. This is due to the fact that the situation has been weaker and that **we might be witnessing the turning point there.**

INVESTMENT

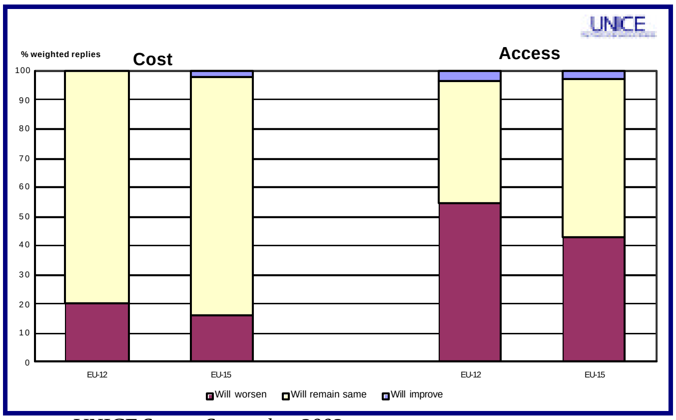
Chart 10 - Trend in investment outlook, EU-15

source: UNICE Survey September 2003

Low capacity utilisation remains a brake on investment. The expected recovery appears too weak to boost investment plans. Even though one can discern some stabilisation in industry, in services expectations remain gloomy, probably because of the situation on financial markets. Also, chart 10 clearly shows that industry was leading in the declining phase, and one can hope it is leading again, this time into a growth phase.

An analysis at the country level shows an expected deterioration in France, UK and the Netherlands in both services and industry. The main reasons put forward are generally weak activity, low capacity utilisation and financing constraints. Germany, Spain, Portugal and Denmark expect positive developments in industry.

Chart 11 - Trends in SME cost of and access to finance

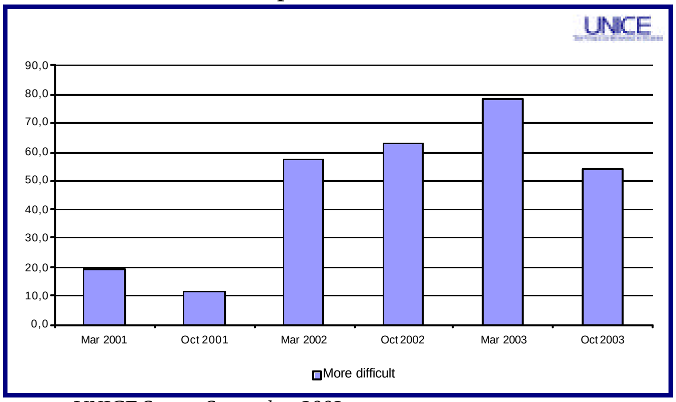


source: UNICE Survey September 2003

Interest rates have been declining during 2003 and the cost of borrowing should not be the main concern. Our federations do not expect much decline in interest rates, and overwhelmingly they expect the cost of financing to remain unchanged.

Access should improve slightly, although banks are expected to remain selective and that should continue to affect primarily SMEs. Chart 11 shows that the situation is becoming “less bad”, but also that more than 40% of our panel expect SMEs’ access to finance to be more difficult in the future (more than 50% in Eurozone).

Chart 12 - Access to capital for SMEs, EU-12



source: UNICE Survey September 2003

Box 2: A well-designed growth initiative can foster the nascent recovery but the key is to promote competitiveness.

Against the background of a poor economic performance in Europe, the need to support growth has been emphasised by many. For business a growth initiative that does not jeopardise hard-won stability is welcome. But it must be designed bearing in mind the need to reinforce European competitiveness.

Several proposals have been put on the table starting with those of the “Van Miert Group” for Trans-European Networks and more recently the Franco-German initiative supported by the UK, proposing ten projects in communications, transport, research & development and sustainable development.

At the current juncture, with the “policy mix” broadly supportive, and improved confidence indicators, launching such an initiative could be timely and foster the recovery.

The key question of financing remains to be resolved, though, and several options are being contemplated:

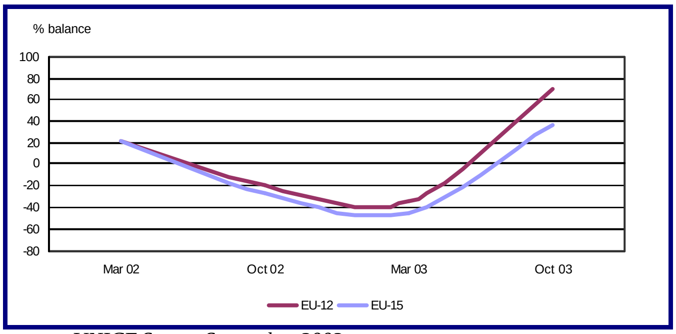
Involvement of the EIB (European Investment Bank), the development of public-private partnership and/or some public financing at the National or European level. Whatever the chosen solution, it must preserve the fiscal discipline achieved so far and it should essentially lead to a better prioritisation of public spending toward growth-enhancing projects.

Furthermore, the choice of these projects must be made bearing in mind the need to reinforce European companies’ competitiveness and in the general framework of the Lisbon strategy.

Growth will come from companies’ activities and they will grow only if they can compete efficiently.

CONSUMER CONFIDENCE

Chart 13 - Trend in Consumer Confidence



source: UNICE Survey September 2003

This seems to be the bright spot of our survey. Business expects a significant improvement of consumer confidence. Consumer confidence is expected to weaken in only two countries, the UK and Greece, probably because it is moving from a higher level than in the rest of Europe.

Improvement – generally from a rather low level – is expected in Belgium, Netherlands, Germany, Portugal, Denmark as well as in Spain and Italy.

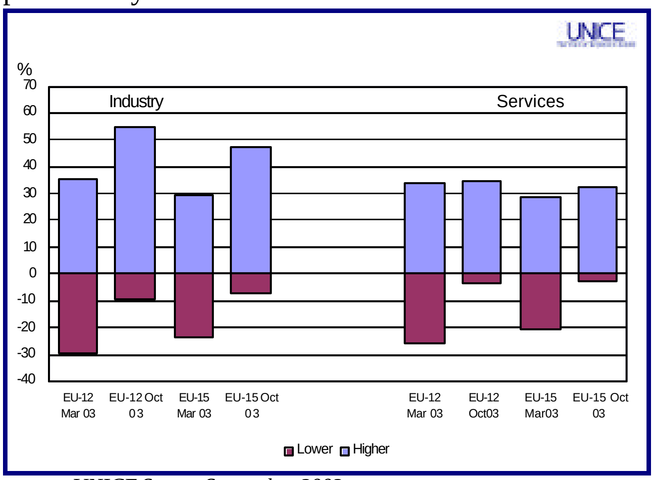
The positive developments might be attributed to a certain extent to the lifting of the uncertainties related to the conflict in Iraq. Although, the situation has not yet cleared up, transatlantic tensions seem to be fading (or at least not deteriorating further).

Most of the panel, however, expect better confidence to result from a better overall environment.

LABOUR MARKET AND WAGE INDICATORS

One other explanation for better consumer confidence could also result from better real income as a consequence of low inflation and some tax cuts affecting households.

Chart 14 - Real labour-cost increase compared with productivity increase



source: UNICE Survey September 2003

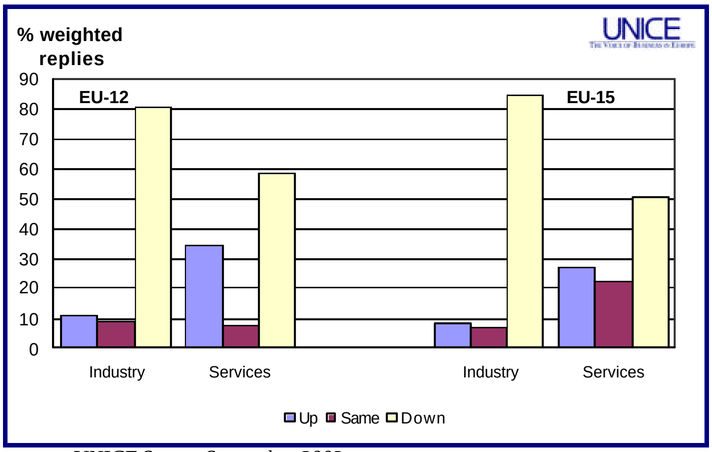
Wage compensation has been higher than expected and business has increased its forecast for 2003 and 2004 against a background of declining inflation. This is not very good news for companies as real labour costs will increase compared with productivity gains. Compared with our last surveys the number of federations expecting a decrease in relative labour costs has declined in both industry and services.

This is an important factor for European companies' competitiveness and, it is to be kept in mind when wage policy is discussed. If labour costs tend to increase faster than productivity, recovery will be at risk.

In such an environment, it comes as no surprise that employment prospects remain gloomy. The trend in the past six months has been essentially negative. Employment has been at best stable and in most of the countries has been on the decline. Turning to the future, the prospects look almost the same. Further restructuring and cost-cutting measures are expected.

Unemployment rates are expected to rise slightly on average in the zone. Some decline in countries with high unemployment (like Spain or Greece) is offset by increases in other countries.

Chart 15 - Expected trend in employment in the next six months



source: UNICE Survey September 2003

Some usually "good performers" like the Netherlands or Ireland disappoint with unemployment rates expected to rise from 5.5% in 2003 to 7% in 2004 (NL) or from 4.7% to 5.3% (IRL). Even in Luxembourg the unemployment rate is expected to increase from 3.6% to 3.9%.

Denmark, while enjoying a relatively low unemployment rate is expecting a slight decline in 2004 (from 5.3% to 5.2%). Austria, in spite of a weak growth, is expected to maintain an unemployment rate as low as 4.4%.

Box 3 – Acceding countries are already closely linked with the EU

The series of referendums held in nine of the acceding countries has shown strong support for EU membership. The last hurdle is the formal ratification process for EU enlargement on 1 May 2004.

Growth in these economies is generally higher than in the EU, even though acceding countries are very much influenced by economic development in the EU. Thus, GDP growth has slowed in 2003 in all countries with the exception of the largest (Poland) and the smallest (Malta) of them. This exception might be explained by the particularly low growth both countries experienced in 2002. For 2004, however, it is expected that growth will accelerate in all countries but Slovakia, in line with developments in the EU. (see table 2)

One significant risk to the forecasts is obviously the risk of a weaker outcome in the EU, since exports to the Euro area represent between 10% (PL) and 35% (HU) of the GDP of these countries.

On the domestic front most of them present two weaknesses: a significant current account deficit and a weak fiscal position. While a significant current account deficit can be explained by the need to finance investment and restructuring, the current account deficit breached the 6% of GDP mark in four countries in 2002 and it must be brought under control. The risk of sudden capital outflows is not negligible. The way of reducing this risk is to bring order into public finances, prepare for fiscal consolidation and maintain the reform momentum to continue to attract large inflows of FDI.

Enlargement represents an opportunity for the businesses of both current members and acceding countries, with the creation of a market of 450 million consumers. During the long process of negotiation the acceding countries have prepared themselves to implement the *"acquis communautaire"* and to cope with competition inside the EU.

For our member federations from the current member states, the critical question is how the *"acquis"* will be implemented and enforced, and this is an aspect that UNICE will monitor. For our federations from acceding countries, the costs of compliance with the *"acquis communautaire"* and the adoption of EU regulations are perceived as potentially harmful for competitiveness. This in return echoes UNICE's call for less and simpler regulation.

Table 2: Acceding Countries: Main indicators.

	Real GDP			Inflation			Government deficit			Current Account balance		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Estonia	5.8	5.0	5.1	3.6	1.7	2.0	1.3	-0.5	-0.6	-12.4	-12.6	-9.2
Latvia	6.1	5.5	6.0	1.9	3.0	3.0	-2.5	-2.9	-2.6	-7.8	-7.3	-6.8
Lithuania	6.7	5.8	6.2	0.3	-	2.5	-1.8	-1.9	-2.0	-5.3	-5.7	-5.9
Czech Rep.	2.0	1.7	2.6	1.8	0.6	3.5	-6.5	-6.3	-5.9	-6.5	-5.7	-5.1
Hungary	3.3	3.0	3.5	5.3	4.7	5.5	-9.1	-4.9	-3.7	-4.0	-5.7	-5.4
Poland	1.4	2.9	4.1	1.9	0.8	2.2	-4.2	-4.2	-4.0	-3.5	-3.3	-3.8
Slovakia	4.4	4.0	4.0	3.3	8.5	8.1	-7.7	-5.3	-3.8	-8.2	-6.3	-5.0
Slovenia	3.2	2.2	3.0	7.5	5.9	5.0	-1.8	-1.5	-1.2	1.7	0.9	0.4
Cyprus	2.2	2.0	3.8	2.8	3.6	3.5	-3.5	-4.0	-3.5	-5.6	-4.9	-4.7
Malta	1.2	2.8	3.8	2.2	2.0	2.0	-6.1	-5.2	-4.1	-3.9	-3.4	-3.4

Real GDP and inflation: percentage change, annual. Fiscal and Current Account Balances: percentage of GDP.
Source: IMF World Economic Report, September 2003. EU occasional paper n°4, July 2003.

LIST OF UNICE MEMBER FEDERATIONS SURVEYED IN THE ECONOMIC OUTLOOK

BDI	Germany
MEDEF	France
CONFINDUSTRIA	Italy
CEOE	Spain
VNO-NCW	Netherlands
IBEC	Ireland
CIP/AIP	Portugal
IV	Austria
FEDIL	Luxembourg
TT/PT	Finland
VBO-FEB	Belgium
CBI	UK
DI	Denmark
FGI	Greece
SVENSKT NARINGSLIV	Sweden

Autumn 2003 UNICE Economic Outlook

	B	D	GR	E	F	IRL	I	L	NL	A	P	FIN	EU-12	DK	S	UK	EU-15
Forecasts 2003																	
Real GDP (annual % growth)	0,5	0,0	3,7	2,4	0,3	2,4	0,3	1,3	-0,2	0,6	-0,8	1,4	0,5	1,0	1,0	1,8	0,8
Inflation (%)	1,6	1,0	3,6	3,0	2,0	3,8	2,7	2,0	2,7	1,3	3,2	1,4	2,1	2,2	2,3	2,8	2,2
Unemployment (%)	8,1	8,9	9,5	11,2	10,0	4,7	8,6	3,6	5,5	4,4	6,5	9,2	8,8	5,3	4,8	5,2	8,1
Nom. compensn of employees (annual % growth)													4,5				4,3
Forecasts 2004																	
Real GDP (annual % growth)	2,0	1,5	3,8	2,8	1,6	3,2	1,4	2,5	1,0	1,5	1,0	2,4	1,7	2,2	1,6	2,4	1,8
Inflation (%)	1,6	0,9	3,3	2,8	1,6	2,5	2,0	1,6	1,3	1,2	2,0	1,0	1,6	1,8	1,5	2,7	1,8
Unemployment (%)	8,3	9,0	9,2	11,0	10,2	5,3	8,2	3,9	7,0	4,4	6,8	9,3	8,9	5,2	5,0	5,3	8,1
Nom. compensn of employees (annual % growth)													4,3				4,2
Question 1	**Trend in business climate over the next 6 months**												Ind/Ser				Ind/Ser
positive	Ind	Ind Ser		Ind Ser	Ind Ser	Ser					Ind Ser		65 63	Ind Ser			54 52
negative								Ser				Ind	2 0				1 0
neither pos nor neg	Ser		Ind Ser			Ind	Ind Ser	Ind	Ind Ser	Ind Ser		Ser	33 37		Ind Ser	Ind Ser	45 48
Question 2	**Trend in profitability over the next 6 months**												Ind/Ser				Ind/Ser
positive	Ind Ser	Ser		Ind Ser						Ind			18 43	Ind Ser			16 36
negative												Ind Ser	2 2			Ind	18 1
unchanged		Ind	Ind Ser		Ind Ser	Ind Ser	Ind Ser	Ind Ser	Ind Ser	Ser	Ind Ser		81 55		Ind Ser	Ser	66 63
Question 3	**Trend in investment over the next 6 months**												Ind/Ser				Ind/Ser
positive		Ind		Ind Ser				Ind			Ind Ser		42 13	Ind Ser	Ind Ser		37 15
negative	Ser				Ind Ser	Ser		Ser	Ind Ser			Ind	28 32			Ind Ser	39 42
unchanged	Ind	Ser	Ind Ser			Ind	Ind Ser			Ind Ser		Ser	30 55				24 44
Question 4	**Level of exchange rate with**												H/A/L				H/A/L
USD	Appr	Appr	High	Low	High	Appr	High	High	Appr	Appr	Appr	Appr	42/47/11	Appr	Low	High	50/39/11
GBP	Appr	Appr	Appr	Low	na	Appr	High	na	Low	Appr	Appr	Appr		Appr	Appr	na	
JPY	Appr	Appr	Appr	Low	na	Appr	High	na	Appr	Low	Appr	Appr		Appr	Low	na	
Euro	na	na	na	na	na	na	na	na	na	na	na	na		Appr	Appr	High	
others: SEK	na	na	na	na	na	na	na	na	na	na	na	Appr		na	na	na	
Question 5	**Stance of monetary policy**																
tight										yes			3				2
appropriate	yes	yes	yes		yes	yes	yes	yes	yes		yes	yes	86	yes	yes	yes	89
loose				yes									11				9
Question 6	**What is your opinion of the ECB (conduct of monetary policy favourable to business, transparency)**																
positive	yes	yes	yes		yes		yes		yes		yes		83	yes	yes		70
negative				yes		yes				yes			15			yes	29
no answers								yes				yes	2				2
Question 7	**Compared to 6 months ago, SME's cost/access to capital for business development is**												C A				C A
higher / more difficult		A			C A				A				20 54				16 43
same	C	C	C A	C A		C A	C A	C A	C	C A	C A	C A	80 42	C A	A	C A	82 54
lower / less difficult	A												0 4		C		2 3
Question 8	**Trend in government bonds yields and stock market prices over the next 6 months**												U/S/D				U/S/D
Stock mkt prices	up	up	up	up	na	up	up	same	na	up	up	up	99/1/0	up	down	up	96/1/3
Govt bond yields	up	up	same	up	up	up	up	same	same	up	same	same	87/13/00	same	down	up	86/12/3

	B	D	GR	E	F	IRL	I	L	NL	A	P	FIN	EU-12	DK	S	UK	EU-12
Question 9	**Trend of total tax burden on business in the past 6 months**																
increased											yes		2	yes			4
decreased	yes		yes	yes	yes								37				29
unchanged		yes				yes		yes	yes	yes		yes	41		yes	yes	51
Question 10	**Trend in total tax burden on business in the next 6 months**																
increase						yes			yes				8		yes		9
decrease	yes	yes			yes						yes		55				43
no change			yes	yes				yes		yes		yes	18	yes		yes	33
Question 11	**What is your assessment of the budgetary policy programme for 2002?**																
positive	yes			yes					yes			yes	23				18
negative		yes	yes		yes	yes		yes					53			yes	58
no answer										yes	yes		5	yes	yes		8
Question 12	**Implementation of the Stability & Growth Pact: what is your assessment of your country's multinannual stability programme?**																
positive	yes		yes	yes		yes			yes	yes		yes	29	yes	yes		27
negative		yes			yes			yes					49				39
no answer											yes		2			yes	18
Question 13	**Regulations that harm competitiveness will increase, decrease or not change?**																
Increase	yes	yes				yes							34			yes	43
No change				yes				yes	yes	yes	yes	yes	70	yes	yes		56
Decrease		yes	yes		yes		yes						24				23
Question 14	**Overall trend in employment**												U/S/D				U/S/D
Ind: past 6 mnths	Down	Down	Down	Same	Down	Down	Same	Down	Down	Down	Down	Down	0/30/70	Down	Down	Down	0/24/76
Ind: next 6 mnths	Same	Down	Same	Up	Down	Down	Down	Down	Down	Down	Same	Down	11/9/80	Down	Down	Down	9/7/85
Ser: past 6 mnths	Down	Down	Up	Up	Down	Up	Same	Down	Down	Down	Same	Up	17/22/61	Down	Up	Up	32/18/50
Ser: next 6 mnths	Down	Down	Up	Up	Down	Up	Up	Down	Same	Same	Same	Same	34/7/59	Down	Down	Same	27/22/51
Question 15	**Expectation of labour markets over the next 6 months**																
more tight													0				0
unchanged	yes		yes	yes	yes		yes			yes	yes		62				49
less tight		yes				yes		yes	yes			yes	38	yes	yes	yes	51
Question 16	**Evaluation of labour productivity**												Ind/Ser				Ind/Ser
high	Ind Ser	Ind Ser							Ind				38 32				30 25
average			Ind Ser		Ind Ser	Ind Ser			Ser	Ind		Ind	29 30	Ind Ser	Ind Ser	Ser	27 45
low				Ind Ser			Ind Ser	Ind Ser		Ser	Ind Ser	Ser	33 38			Ind	43 30
Question 17	**Real labour cost increase compared to growth in labour productivity**												Ind/Ser				Ind/Ser
higher				Ind Ser	Ind Ser		Ind				Ind Ser	Ind Ser	55 35	Ind Ser	Ind Ser		47 32
same		Ind Ser	Ind Ser			Ind Ser	Ser	Ind Ser	Ser	Ind Ser			36 61			Ind Ser	45 65
lower	Ind Ser								Ind				10 4				8 3
Question 18	**How will consumer confidence - as opposed to business confidence - develop over the next 6 months?**																
Positively	yes	yes		yes			yes		yes		yes		71	yes			58
Unchanged					yes	yes		yes		yes		yes	26				21
Negatively			yes										2		yes	yes	21
One-off questions																	
see next page.																	

One Off questions:

		Three most favourable factors affecting your economic forecasts:	Three most unfavourable factors affecting your economic forecasts:		Main factor (or event) affecting Europe as a whole during the next 12 months ? Positively (+) or negatively (-)
B	1st	Signs of recovery in Germany	Labour market weakness	+	German recovery
	2nd	Recovery of the dollar	Lots of spare capacity	-	Stability pact trouble
	3rd	Tax cuts in Belgium	Unrest in Middle East		***
D	1st	better economic sentiment	flattening recovery in USA	+	positive impulses from USA
	2nd	Performance of stock mkt	Faltering of structural reforms	-	Erosion of Stability Pact
	3rd	Progress in reform process	New geopolitical risks (terror, ..)		***
GR	1st	Olympic games	Oil prices	+	***
	2nd	***	Inflation	-	Bad implementation of SGP
	3rd	***	Competitiveness losses		***
E	1st	US sustainable recovery	US recovery break down	+	US and International trade recovery
	2nd	Low interest rate	Higher interes rates	-	US and international trade stagnation.
	3rd	Oil prices down	Housing bubble		+) Euro decline. -) Wrong policy mix
F	1st	German Recovery	Lower employment	+	US recovery
	2nd	Lower oil price	Difficult recovery of margins	-	Fiscal adjustments
	3rd	***	0		***
IRL	1st	US recovery	Swedish rejection of euro	+	enlargement
	2nd	lower inflation	Low European growth	-	overregulation
	3rd	enlargement	higher euro exchange rate		collapse of WTO trade round
I	1st	World demand	US Growth	+	World recovery
	2nd	Macroeconomic policies	Confidence	-	Appreciation of the euro
	3rd	Reforms	Euro exchange rate		***
L	1st	***	***	+	EU enlargement
	2nd	***	***	-	***
	3rd	***	***		***
NL	1st	Strong pick up in US and EU	Weak, temporary pick up in US	+	***
	2nd	***	Strong Euro due to US C/A deficit	-	***
	3rd	***	Impact of continuing problem in Iraq		***
A	1st	International recovery	Weak German economy	+	EU-Enlargement
	2nd	EU-Enlargement	Additional burdens from	-	too little and slow structural reforms
	3rd	Reform policies (pension	Low propensity to invest		0
P	1st	Recovery of trading partners	Postponement of economic recovery in	+	Recovery of the USA economy
	2nd	***	0	-	0
	3rd	***	0		0
FIN	1st	consumer confidence	pbs in the international economy	+	monetary policy
	2nd	competitiveness of export sector	high level of unemployment	-	imbalances of US economy
	3rd	monetary policy	tax policy		***
DK	1st	***	***	+	***
	2nd	***	***	-	***
	3rd	***	***		***
S	1st	A Yes to euro will help investment	Weak overall demand, esp. Eurozone	+	***
	2nd	Slow but sustainable US recovery	Unemployment up in Sweden	-	The appreciation of the Euro.
	3rd	0	Further restructuring in industry (S)		***
UK	1st	US/Global recovery	Slow US recovery. Drip down effect	+	US Recovery
	2nd	Government spending	Weak European economies	-	***
	3rd	Weaker exchange rate	Very weak business investment		***