

EURO AREA

The euro area started this year with considerable momentum. Growth in 2006 was higher than it has been since 2000, with stronger activity leading to a further improvement in the labour market. The outlook is bright. Consumption is expected to underpin the recovery going forward, with business and residential investment playing less of a role. GDP is projected to grow by 2¾ and 2¼ per cent this year and next, with inflation staying at close to 2%.¹

With underlying inflation close to the central bank's target, and upside risks on the horizon, some additional monetary tightening may be appropriate. The improvement in the fiscal position is welcome, but more is required to make it sustainable. Countries should also take advantage of the upswing to reform their product and labour markets. Strengthening the internal market in the European Union would improve the euro area's longer term growth prospects and would make the monetary union run more smoothly.

Euro area: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices €billion	Percentage changes, volume (2001 prices)				
Private consumption	4 308.7	1.5	1.6	1.9	2.0	2.3
Government consumption	1 530.4	1.3	1.3	2.1	1.8	1.6
Gross fixed investment	1 507.4	1.8	2.7	5.1	4.3	3.0
Public	195.9	-1.5	1.6	3.9	4.0	3.2
Residential	400.7	2.7	2.5	5.0	2.9	1.4
Non-residential	910.8	2.1	3.0	5.4	5.0	3.5
Final domestic demand	7 346.5	1.5	1.8	2.6	2.5	2.3
Stockbuilding ¹	3.7	0.2	0.1	0.0	0.1	0.0
Total domestic demand	7 350.2	1.7	1.8	2.6	2.5	2.3
Net exports ¹	152.7	0.1	-0.3	0.3	0.3	0.0
GDP at market prices	7 502.9	1.8	1.5	2.8	2.7	2.3

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
Source: OECD Economic Outlook 81 database.

1. Euro area aggregates do not include Slovenia.