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Orig. F

Brussels, January 1963

INFORMATION MEMO

The Commission of the European Economic Community has just published its quarterly survey on "The Economic Situation in the Community". This survey constitutes a first review of the economic activities of the Community and of each member country in 1962, analyses the outlook for 1963, and examines the problems of economic policy involved.

The Commission points out that the Community's economy made further progress in 1962. The real gross internal product was probably up about 4.5% on 1961, after a rise of 5.2% between 1960 and 1961 and 7.1% between 1959 and 1960. Industrial output in 1962 was about 6% higher than in the previous year (1961: +6.6%, 1960: +13.1%).

The real gross internal product has thus increased by 27% in the five years since the Rome Treaty came into force, i. e. between 1957 and 1962; industrial output alone rose no less than 40%.

Nevertheless, there is no denying that a slight slowdown of economic growth has occurred. This was indeed to be expected in 1961 after the investment boom which decisively influenced economic development between the Spring of 1959 and mid-1960 and led to a particularly high growth rate of the internal product in 1960. However, the slowdown continued in 1962, although it was not so marked.

Whereas in 1961 the fall in growth rates was chiefly attributable to material obstacles - labour was in very short supply in most member countries - slower expansion of certain elements of demand was an increasingly determinant factor in 1962.

The weakness of demand was most noticeable in the case of exports. In fact, the Community's sales abroad hardly rose between 1961 and 1962. The economic upturn in the USA was not sufficiently vigorous to offset completely the inhibiting effects on world trade of previous recessions. Up to the Spring of 1962, moreover, the United Kingdom was in the grip of a recession, while growth flagged in other important non-member industrial countries. Lastly, balance of payments considerations prevented the developing countries from importing more from the Community.

The growth of internal demand was likewise somewhat slower; particularly, fixed investments by undertakings expanded at a declining rate. This was mainly an after-effect of the rather exaggerated boom in 1959/60, which put a heavy strain on the labour market and triggered off cost increases that squeezed profit margins - the more so as weak external demand and stiffer foreign competition limited the possibility of marking up prices. In addition, it became more difficult to find outside finance for investments because of changes in payments balances and weaker stock markets. It is true that the "Common Market factor" continued to have positive effects, i. e. investments made with an eye to the Common Market increased, though on the whole the propensity to invest clearly declined.

Public investment expenditure and house-building certainly remained quite expansive, but their growth, real and nominal, was checked by the bad weather which fairly seriously hampered building activity in general in the early months of 1962.

In view of these sluggish trends affecting most of the components of demand, private consumer expenditure increasingly became the chief motor of growth. Wage incomes rose steeply in nearly all member countries, while the expansion of other incomes, although slower, continued to be substantial. The increase in private consumption expenditure was therefore somewhat greater than in 1961. Meanwhile, as a result of the faster rise in prices, partly attributable to the effects on the supply of certain farm products of the bad weather in some member countries in the first half-year, the volume increase in consumption was somewhat smaller than in the previous year.

Intra-Community trade was again responsible for the main contribution to improved market equilibrium. By value it went up about 12% between 1961 and 1962, following a rise of 15% between 1960 and 1961. Compared with 1957 the Community's internal trade has grown about 85%.

But imports from non-member countries also again rose considerably - by 9% in value and volume between 1961 and 1962, bringing the cumulative increase since 1957 to 25% by value and 48% by volume. As imports rose faster than exports, the trade balance further deteriorated: it showed a deficit of 1,500 million dollars after being almost in balance in 1961.

Nevertheless, as already mentioned, it was still not possible to keep prices stable. Leaving aside abnormal developments in farm prices, the moderate but steady upward trend in prices of services and industrial products continued. This was, however, due less and less to ex ante imbalances between the expansion of supply and demand but increasingly to the after-effects - in the form of rising costs - of the earlier sharp upswing of demand.

The Commission considers that the outlook for the Community's economy in 1963 is on the whole propitious, even though a further slight slowdown of demand is expected. Thus, only a limited rise in demand from non-member countries may be anticipated: the shifts in the relative cost situation inside and outside the Community are likely to exercise some influence in this connection. However, it is mainly a matter of the relatively weak expansion of demand in important non-member industrial countries and the limited foreign exchange availabilities of the development countries. These factors particularly hamper the Community's capital goods exports, which are a comparatively weighty component of its total sales to non-member countries.

A further slackening of the growth of investments by enterprises is also to be expected, although in some member countries profits have taken a turn for the better. Given normal weather conditions, however, this slackening will be largely offset by a fairly sharp rise in total building investments over 1962: so that the growth of overall gross fixed investment might finally be only very little below that of 1962 (about 5% in real terms).

Private consumption will again go up appreciably, though possibly at a rather slower pace than between 1961 and 1962.

Since the slight slowdown in the expansion of total demand will chiefly affect imports, the growth rate of the gross Community product may be about 4.5% - practically the same as between 1961 and 1962: the rise in industrial output could be 5%.

Prices might be more stable in 1963, thanks, among other things, to the slower rise of wages costs per unit/product expected in certain member countries. The rate of productivity has improved and pay increases should be a little smaller than in 1962.

Imports will certainly continue to rise in 1963. However, mainly owing to the better 1962 harvests and the rather slower growth of overall demand, the rise will be smaller than last year. Since exports are expected to grow only moderately the trade balance will again deteriorate. Nevertheless, the current payments balance should continue to show a surplus, although this will again be smaller.

As already said, these are really favourable development prospects. A slight temporary slowdown in the growth of total demand is to be expected after the boom of recent years and is even in some ways desirable: it promises a slight easing of labour markets, a better price climate, and a brake on rising costs.

Although further measures to stimulate expansion do not at present seem called for in the Community, the prospects outlined above nevertheless require that a particularly wary eye be kept on the development of demand in 1963. They are in fact based on the assumption that the Community does not have to contend with any strong recessive tendencies from outside and that no sharp decline - much less a fall in absolute figures - occurs in the expansion of investment by enterprises within the Community. If - contrary to expectations - signs of such developments should emerge, conjuncture policy must be able and ready to act at the appropriate time in support of demand. The Commission has sent the member Governments recommendations whose implementation should further enhance the already intrinsically high state of readiness to parry any tendencies for economic activity to flag.