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SUMMARY OF THE QUARTERLY SURVEY

The Commission of the European Economic Community has just published its quarterly Survey of the economic situation in the Community. This issue is in the form of an annual survey: it provides a preliminary review of economic trends in 1963, analyses the prospects of development in 1964 and examines the problems of short-term economic policy involved.

The Commission notes that in 1963 economic activity in the Community again expanded quite considerably. True, the rise in real gross Community product at about 4% was somewhat smaller than the 5% between 1961 and 1962 and the 5.3% between 1960 and 1961. This does not, however, mean that there has been any significant strengthening of the longer-term factors which tend to weaken economic growth in the Community. The slower expansion of production in 1963 can be ascribed more to chance factors, in particular the exceptionally unfavourable weather. The tendencies which made for slower economic growth were without doubt still present at the beginning of 1963 - and mainly affected the development of investment by enterprises - but they gave way to a more or less distinct recovery as the year went on.

Total demand in monetary terms rose none the less almost as much as between 1961 and 1962. Since, however, supply from domestic sources grew more slowly - the continuing labour shortages, which even became more acute in some areas, made it impossible to expand production more rapidly - this greater demand in monetary terms was in part offset by higher prices and by a considerable further deterioration in the Community's balance of current payments.

In 1963 external demand (from non-member countries) made a greater contribution than in 1962 to the expansion of total demand. For the full year, exports of goods were probably up about 4.5% in value and 4% by volume over 1962, after rising only about 1% (value and volume) between 1961 and 1962.

If we look at the way exports developed in 1963, the change in trend - from the continued slackening in the pace of expansion that persisted into the early months of the year to the acceleration that marked the rest of the year - becomes clearly recognizable. The recovery is certainly to be attributed in the main to the direct and indirect impact of the business revival in leading non-member industrial countries.

Internal demand continued to expand briskly. If growth was somewhat slower than between 1962 and 1963, this was mainly due to slower expansion of gross fixed asset formation. Investment in building and construction did not attain the growth rate of the preceding year, despite efforts to recoup the relatively large production losses of the 1962/1963 winter and despite a considerable increase in the numbers employed in the industry. In addition, the propensity to invest of enterprises was still relatively weak in the first half of the year, and this attitude affected in particular the demand for investment goods; though investment recovered somewhat in the second six months, its effect on the full year could not completely compensate for the earlier slowdown.

The expansion of consumer demand also weakened, albeit very slightly. This does not apply to current spending by the public authorities, but to consumer spending by households. Here again the slowdown was mainly confined to the Federal Republic of Germany, where the rise in wages lost momentum and the savings ratio increased. Although in Italy and France the opposite trend prevailed, there was on balance a slight slowdown for the Community as a whole. In volume the growth of private consumption between 1962 and 1963 was about 5%, compared with 6% from 1961 to 1962.

As already stated, supply from domestic sources rose somewhat more slowly than in the preceding year. Industrial production (as defined in the Index of the Statistical Office of the European Communities) was probably up 5%, after increasing by 6% between 1961 and 1962. The growth of agricultural output was decidedly weaker than in the preceding year, whereas the lively expansion in the services sector continued.

Imports from non-member countries rose rather more rapidly than in 1962. Imports of goods were up about 10.5% by volume and in value, compared with 8% between 1961 and 1962.

The internal trade of the Community expanded even faster. The increase in merchandise trade between the member countries may be estimated at about 16% in value, as against 14% for 1962. Decisive for this development were not only the further steps taken to establish the common market and the lively expansion that despite everything was a feature of overall demand, but also the appreciable differences from one member country to another which developed during 1963 in the relation between expansion of internal demand and expansion of internal supply.

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These differences are clearly reflected in the way price levels developed. For the Community as a whole the trend was again upward, with relative stability in the Federal Republic of Germany and also - in the first half of the year - in the Netherlands and Belgium, but a stronger upward price push in Italy and France. It is clear that expansion of the Community's internal trade was an essential factor in preventing prices in these two countries from rising even further. On the other hand there can be no doubt that it also affected prices in those member countries where they are still comparatively stable.

Since imports increased more than exports, the Community's deficit on trade swelled further: in 1963 it probably amounted to about \$2 800 million. This means that the deterioration since 1959 has been almost \$4 000 million.

Although, mainly because of the trend of merchandise trade, there were practically no further surpluses on current account, the Community's overall balance of payments again showed a surplus in 1963, mainly as a result of greater imports of private capital. However, these trends grew distinctly weaker in the second half of the year.

With these estimates of results for the full year 1963 the Commission has thought it useful to give a few figures about longer-term economic developments in the Community. Between 1958 (the first measures to set up EEC came into force at the beginning of that year) and 1963, the gross Community product grew by about 30% (USA 22%, United Kingdom 16%). The index of industrial production alone rose 41%. The general standard of living, in terms of real private consumption per head, has gone up about 23% in the last five years, while the Community's internal trade has risen by approximately 130%. In trade with non-member countries, imports have advanced 51% and exports 35% (world trade, exclusive of intra-Community trade, rose by 31%).

The Commission believes that in 1964 economic expansion will continue. Demand should grow at roughly the same pace as between 1962 and 1963 and the growth of supply from sources within the Community might speed up a little.

On the demand side a speed-up is expected mainly in external demand, i.e. in exports of goods and services from the Community to non-member countries. This is chiefly because of the expansive outlook for world business.

Within the Community the volume, and perhaps also the value, of investment can be expected to grow more rapidly. The livelier trend in the expansion of investment by enterprises observed in the second half of 1963 will probably continue. Despite certain limitations on the expansion of public activity in building and construction, normal weather in 1964 after the abnormal conditions of 1963 should of itself ensure that investment in building rises more rapidly than between 1962 and 1963 - and additional impetus will come from the continued briskness of demand.

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The growth of private consumers' expenditure on the other hand will probably slow down somewhat. However, since the price rise might simultaneously flatten out a little, the real increase in consumption is unlikely to fall off significantly.

Assuming normal weather, the increase in production could be somewhat greater than between 1962 and 1963. All in all, the Commission's staff at present consider that an increase of about 4.5% in the Community's real gross product between 1963 and 1964 is possible.

Imports from non-member countries will probably again rise appreciably, although their annual growth may be somewhat smaller than between 1962 and 1963. There could be some further deterioration in the balance of trade, and current payments may even show a moderate deficit in 1964.

The forecasts at present established in no way suggest that there will be the necessary trend towards stable prices. Even if there is a fall in the rate at which prices rise in France and Italy (there will be more chance of this if stabilization policy is tightened up), in the Netherlands and Belgium stronger rises are probable. In the Federal Republic of Germany also it is quite conceivable that upward pressures on prices will become more marked as 1964 advances.

For the Community in general it must be noted that inflationary pressure will be the main problem facing those responsible for economic policy: such pressure must be eliminated or prevented from reappearing. Unless budget policy and credit policy are used in most member countries to slow down the expansion of internal demand generally, there is no prospect of success in this direction. One merit of this policy of general restraint, which has in part been put into practice already, is that it is the most likely to ensure that the balance of external transactions does not deteriorate too far and too long; if this were to occur, the Community would eventually have great difficulty in fulfilling its obligations in connection with development aid. Should such a policy result in a somewhat smaller real economic growth than at present forecast, this would have to be accepted in the interest of balance, the more so as establishment of this balance would in turn be a major factor in rendering optimum economic growth possible over a longer period.

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