

Brussels, July 1966
P - 43INFORMATION MEMOSummary of the second Quarterly Survey on the economic situation
in the Community

The EEC Commission has published its second Quarterly Survey on the economic situation in the Community for 1966.

As usual, the first part of the Survey deals with the economic situation and prospects for the Community as a whole, while the second part is devoted to the individual member countries.

With regard to the overall situation, the Commission points out that the first quarter of 1966 and probably also the next few months were again marked by fairly vigorous economic growth in the Community.

Effective demand from abroad - especially visible exports both to the developing countries and to various industrial countries in Europe - went up less rapidly than in previous months, but customs returns show that the value of goods exported to all non-member countries taken together was nevertheless 7.5% higher than in the same period of 1965, largely because of deliveries to the United States which continued to expand with particular vigour.

The increase over the previous quarter shown by domestic demand was, however, quite brisk, particularly where gross fixed asset formation is concerned. In most member countries - the Federal Republic of Germany being the most important exception in this respect - expenditure on plant and equipment rose more strongly than before, and expenditure on building was also very high, partly because of favourable weather conditions; only in Italy was the advance in housing construction again slow. Secondly, investment in stocks on the part of industry and trade in the Community as a whole stimulated expansion appreciably. Lastly, expenditure on consumption continued to rise rapidly, a rather calmer trend in public expenditure on consumption at times being offset by a more vigorous increase in the total of private consumption. At the same time the effects of a continuing rise in disposable household incomes appear to have been intensified in some member countries by a decline in the propensity to save.

Internal supply in the Community went on expanding into the spring at the same rate as at the end of 1965. The adjusted index of the Statistical Office of the European Communities shows that from the fourth quarter of 1965 to the first quarter of 1966 industrial production went up by about 1.5% - the same average as for the previous three months. In the first

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quarter the unadjusted index was 5% higher than in the same quarter of 1965.

There were hardly any significant changes in the overall labour market situation of the Community. In the Federal Republic of Germany and the Benelux countries the labour shortage remained acute and showed little if any sign of easing. In France and Italy, despite a continuing upsurge of economic activity, the decline in unemployment came temporarily to a halt; the underlying trend, however, appears to have remained slightly downwards.

Imports from non-member countries continued to rise, although somewhat more slowly than in previous months. In the first quarter visible imports were 13.5% higher by value than at the same time last year.

Intra-Community trade in goods also continued to expand. According to customs returns for imports its value in the first quarter was 16.5% higher than a year earlier.

In spite of the substantial increase in aggregate supply and the compensatory effect of the Community's internal trade - an effect which was particularly marked in view of the differences in the level of economic activity - the upward movement of prices continued unabated, the increase being even more rapid than before in a few member countries and moderate only in Italy and France. Although this may be partly due to special factors, such as higher prices for certain vegetable foods and increases in indirect taxes and the charges for public utilities, the underlying upward trend also remained appreciable, and was in some respects stronger than before. In April the year-to-year increases in the Dutch and Belgian indices of consumer prices were so disquietingly high (7.4% and 5.5% respectively) that price-freezing measures had to be taken. In the Federal Republic of Germany and in Luxembourg the rise was rather more moderate (4.5% and 3%), while in Italy and France it was comparatively slight (2.7% and 2.8%).

The Community's balance of trade with non-member countries has again deteriorated; the deficit reached some 772 million u.a.(1) in the first quarter, as against 335 million u.a. in the same period of 1965. The current account (not seasonally adjusted) may therefore also prove to have closed with a deficit. At the same time net inflows of capital appear to have been smaller than in previous months. The official gold and foreign exchange reserves of the member countries dropped by 426 million u.a. between the end of December and the end of April, a decline which is, however, partly linked with the improvement in the net foreign exchange position of the banks and partly with the first payments made as a result of the raising of International Monetary Fund quotas.

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(1) 1 unit of account = 0.888671 grammes of fine gold = US \$1 at the official exchange rate.

With regard to the outlook for the second half of 1966, the Commission considers that in all probability the pace of economic growth in the Community in the second half of 1966 will remain considerable, and may even accelerate slightly.

Demand from abroad - once again mainly from the United States and probably in increasing measure from the developing countries as well - can be expected to exert quite a powerful stimulus. Above all, however, internal demand in money terms can be expected to show a tendency to rise somewhat faster than in the first six months. Expenditure on gross fixed asset formation in the Community as a whole should expand at least as vigorously as hitherto, notwithstanding the continuing tendency for such expenditure to slacken in the Federal Republic of Germany; the strong expansion of expenditure on consumption will also certainly continue in the next few months.

The prospects for the development of overall demand suggest that the growth of internal supply will continue to be fairly pronounced and may even become slightly stronger again in a few member countries. The rapid expansion of industrial output in France and Italy will ensure that, despite the relatively slower pace of expansion in the Federal Republic of Germany, total industrial output in the Community will continue to rise vigorously.

Imports from non-member countries should also expand at least as rapidly as they have done since the end of 1965. The tendency for the Community's trade balance - and thus its current account - to worsen will very probably persist.

In the Community as a whole, the upward movement of prices may slacken somewhat in the next few months; but if this happens it will be due in the main to the waning influence of the special factors already mentioned and, in Belgium and the Netherlands, to price controls - which in principle are still applicable to industrial products in France also. On the other hand the forces inherent in the business situation that are pushing prices up are unlikely, in view of the combined effect of a sometimes excessive expansion of demand in money terms and of increases in costs, to slacken significantly unless further and effective measures to damp down demand are very soon taken in those member countries where they appear to be urgently necessary.

The development of the economy since the beginning of the year, and the prospects in so far as they can at present be discerned, give no cause for making any appreciable changes in the forecasts for the full year 1966 which were made in the last Quarterly Survey. The growth of the real gross Community product from 1965 to 1966 can still be put at about 4.5%. The index of industrial production (as defined by the Statistical Office of the European Communities) may show an increase of 6-6.5%.

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The Survey also includes the first forecasts on the further development of the economy in 1967. The forecasts assume that, if certain conditions are fulfilled, demand from abroad will rise less vigorously than from 1965 to 1966, but that internal demand in the Community will again expand somewhat more rapidly. In this, the almost certain continuation of the upsurge in economic activity in France and Italy, and the expectation that overall demand will recover slightly in the Federal Republic of Germany, play an important part. At present it is considered possible that the rise in real gross Community product from 1966 to 1967 will be about 4.5%.

This outlook - which is based on the assumption that there will be little change in present economic policy - does not suggest that the trend towards stabilization of prices and unit costs will be sufficient. The upward movement in Belgium and the Netherlands and perhaps also in the Federal Republic of Germany may indeed turn out to be somewhat less than last year, but the possibility of some acceleration in France and Italy cannot be ruled out.

The outlook for real economic growth, on the other hand, is felt by the Commission to be satisfactory, and to be in line with what is expected under medium-term forecasts. The Commission considers that the short-term economic policy of the member countries ought therefore - preferably as part of new coordinated measures at Community level - to aim first and foremost at stabilizing prices and unit costs in most member countries and at preventing the emergence of new strains in France and Italy. If the measures adopted are judiciously mixed and applied, this can be done without greatly hampering the Community's economic growth.

July 1966.

Re : P-43 (66)

COMMISSION REPORTS VIGOROUS ECONOMIC GROWTH IN EEC

Vigorous economic growth in EEC, with exports running 7.5 % higher than in 1965 is reported by the EEC Commission in its latest quarterly survey of the Community economy. Intra-Community trade for January-March was 16.5 % above 1965 figures. The Community trade balance with the rest of the world has again deteriorated. Within EEC the upward pressure of prices may slacken in coming months. Predicted growth in Community g.n.p. for 1966 still stands at 4.5 %, rise in industrial output at 6-6.5 %.

A full summary of the economic survey is given in the attached official information memo.
