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P-6INFORMATION MEMO

Real Gross Community Product increase 4.5 per cent in 1966 ;
Slightly lower rate expected this year.

The real gross Community product rose 4.5 per cent in 1966 compared to a 4 per cent increase the previous year. Since 1958 the real gross product in the Community has grown by 52 per cent as compared to a 44 per cent rise in the United States and a 30 per cent increase in the United Kingdom.

The EEC Commission also predicted in the first part of its just published fourth Quarterly Survey on the economic situation in the Community in 1966 that the economic expansion of the Community is likely to slow down somewhat in 1967, with both external and internal demand losing momentum. Allowing for all factors that can be clearly assessed until now, the gross Community product is at present expected to rise by about 4 per cent this year.

In addition, the Commission gives its views on the short-term economic policy to be pursued in 1967 by the Governments of the Member States. It will be remembered that the guidelines for this policy have recently been the subject of a recommendation made to Member States by the Council of Ministers, acting on a proposal from the Commission. The text of this recommendation is annexed to Part I of the Survey.

Part II of the Survey deals with the economic situation and the outlook in the individual member countries.

While the pattern of development differed from one member country to another, in the Community as a whole the expansion of economic activity has again been brisk in 1966. The year-to-year growth of total demand in money terms was much the same as in 1965, with a slight shift of emphasis among the main components : external demand rose less strongly, but internal demand somewhat more vigorously, than in 1965.

The expansion in the aggregate value of visible exports from the Community (as defined for the foreign trade statistics) declined from 12% in 1965 to slightly less than 9% in 1966. Exports to the United States again increased extraordinarily fast, but the growth of deliveries to EFTA and to the developing countries was appreciably weaker than from 1964 to 1965.

The slightly accelerated expansion of internal demand was mainly due to a fractionally faster growth of gross fixed asset formation, which in

1966 was 6% in value and 3.4% by volume higher than in 1965, when the corresponding figures had been 5.8% and 3.3%. The increase in capital expenditure on building was of the same order as from 1964 to 1965, while investment by enterprises in plant and machinery rose somewhat more vigorously than in the previous year; its upward movement was stronger than before in France and Italy, while in Germany on the other hand there were even signs of a downward trend in the second half of the year. Stockbuilding provided much the same stimulus to growth as a year earlier.

Total consumer expenditure in the Community has probably increased at about the same pace as before. In most member countries the expansion of public current expenditure on goods and services remained very vigorous; nevertheless there may have been a slight slowdown for the Community as a whole on account of the somewhat quieter trend in Germany and in Italy. Private consumer's expenditure by contrast will probably have risen somewhat faster than before, i.e. by about 8% in terms of value and approximately 4.5% in terms of volume, following rises of 7.7% and 4.3% in 1965. In France and Italy the rise was more rapid, and especially in Germany it was slower than in the previous year.

Including this estimated figure for 1966, private consumption in real terms has risen since 1958 by 50% (38% per head of population).

The growth of private consumer's demand from 1965 to 1966 reflects first and foremost the change that has occurred in the disposable income of households. In Italy and France this went up perceptibly faster than in the previous year, mainly because the total number of hours worked responded to the improvement in business activity; in the other Community countries there was a more or less marked - but on the whole fairly moderate - slowdown in expansion.

Supply from other Community countries was as a rule sufficiently flexible to follow the rise in overall demand. Industrial production expanded faster than from 1964 to 1965; its growth (as defined by the index of the Statistical Office of the European Communities) was 5.5%, compared with 4.5% the previous year. This will have brought the total rise in output since 1958 to 67%.

However, the growth rates of industrial production in 1966 showed greater deviations from the Community average than in 1965, because of the divergent economic trends in the individual countries.

In the services sector, value added continued to expand at about the same rate as before. The rise in agricultural production, however, has flattened out distinctly, particularly as a result of a relatively modest grain crop.

On the Community's labour markets, the situation tended in the main to ease slightly. In the second half of the year the tendency gathered strength in Germany and in the Netherlands, but this does not mean that in the two countries concerned shortages of labour are yet a thing of the past. As the year advanced there were signs of a slight tendency towards a reduction of unemployment in Italy - the only country with a considerable number out of work; on the average for the year, however, the level of unemployment in that country was still a little higher than in 1966.

Imports from non-member countries rose more in 1966 than in 1965. The expansion of visible imports probably reached some 6% in volume and 7.8% in value, compared with 6.5% and 5% in 1965. These figures for the whole year, however, do not reveal the fluctuations that occurred in the month-to-month figures, i.e. a vigorous rise in the second half of 1965 and the first months of 1966, which then levelled off largely because the slowdown in demand from Germany outweighed the faster increase of France's and Italy's imports.

Visible trade between the Community countries continued to expand very vigorously, but since the spring it too has been losing momentum. This was reflected in the growth figure for the year; from 1964 to 1965 the increase in value (on the basis of imports) had been 13.5%; it probably amounted to some 12% from 1965 to 1966. While France and Italy expanded their imports from other Community countries at a faster pace, there was a more significant slowdown in corresponding imports by other member countries, in particular Germany.

The upward pressure on prices persisted. It gained in strength during the first half of the year, when there was marked excess demand in some member countries - the gain being partly due to special influences of a temporary nature (the price of vegetables) - to measures of tax and wage policy, and to rent increases. The upward pressure was particularly strong in the Netherlands, but in Germany and Belgium too it was very appreciable. With the disappearance of the special influences there was some flattening out; the upward trend in the seasonally adjusted figures continued, though less vigorously than before. In France, the rise in prices was relatively modest throughout the year, though in the end it totalled 3%. In Italy there was even very extensive stabilization, at least up to the flood catastrophe in November.

The trend in exports and imports outlined above suggests that in 1966 the Community's visible trade balance may have closed with a slightly smaller deficit than in 1965 (on the basis of the foreign trade statistics, an estimated 1 400 million u.a. (1) instead of 1 500 million u.a.). The seasonally adjusted figures tended to deteriorate until spring 1966, but later there was a distinct recovery, largely because of the improvement on the visible trade account of the Federal Republic of Germany.

Primarily as a result of this, the surplus on current account appears to have risen once again in 1966, while the available - but so far particularly incomplete - information on the capital transactions account hardly suggests that any great surplus will be achieved. During the first ten months of 1966 the gross gold and foreign exchange reserves of the monetary authorities in the Community countries rose by 300 million u.a. At the same time the net foreign exchange position of the commercial banks continued to improve, but probably less strongly than in the previous year.

The economic expansion of the Community is likely to slow down somewhat in 1967, with both external and internal demand losing momentum.

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

In external demand, the very strong stimuli so far provided by sales to the United States may weaken somewhat; this, coupled with a more or less pronounced stagnation of imports by the United Kingdom, would reduce the pace at which Community exports have been rising.

The expansion of internal demand may be affected by a slight decline in the growth of investment by enterprises. In Germany these outlays on investment can even be expected to continue falling in absolute terms - at least for part of the year - and there may also be a decline in the Netherlands. Despite a continued vigorous upswing in France and in Italy, and perhaps also a somewhat faster pace of growth in Belgium, the expansion of investment by enterprises is then likely to be weaker for the Community as a whole than it was from 1965 to 1966.

It can also be assumed that total expenditure on consumption will grow at a somewhat reduced rate, which will probably be due entirely to a more or less distinct slowing of the tempo at which private consumer's expenditure is expanding in Germany and in the Benelux countries.

As far as the prospective development of supply is concerned, there may be a stronger expansion of agricultural production in 1967 than in 1966, provided the weather is normal. Industrial production as a whole can be expected to rise at an only slightly reduced pace, with very modest growth particularly in Germany, a slowdown in expansion in the Netherlands and high growth rates in France and Italy.

Imports from non-member countries will for a while yet continue to be affected by the slowdown in economic activity in some member countries, particularly Germany. On the other hand, certain special factors which tend to have an inhibitory effect (for instance, government imports into Germany and agricultural imports) will disappear, and as the year advances stock-building may once again exert a greater pull on imports. Overall, the Community's trade balance may be expected to show a further limited improvement in 1967.

Although the trend of supply and demand in the Community as a whole will in fact help to reduce the upward thrust of prices, allowance must still be made for the effects of the upward thrust that has already been affecting costs - and which is likely to persist, at least in attenuated form. In 1967 there will probably be once again a fairly distinct rise in the consumer price level.

The outlook for 1967 reveals in some member countries the effects of inflationary trends which have been tolerated during the past few years or which have been combated by too one-sided a set of economic policy instruments. There have consequently been price and cost increases on the one hand, coupled on the other with signs of a more or less distinct decline in investment and a considerable slowdown in economic growth. In these countries budget policy in particular should be tightened up with a view to steadying prices and costs and facilitating the financing of investment; concurrently the policy of containing credit could and should be relaxed or applied in a still more supple manner than hitherto. Any premature return to a short-term policy of general expansion would soon conjure up the spectre of fresh inflationary trends. Care will have to be taken in Italy and France to ensure that the current upswing of business activity in these two countries does not again end in imbalance.

Bruxelles, janvier 1967.
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NOTE D'INFORMATION

Résumé du 4ème Rapport trimestriel sur la situation économique
de la Communauté

La Commission de la Communauté économique européenne vient de publier son quatrième rapport trimestriel de l'année 1966 sur la situation économique de la Communauté.

Dans une première partie de ce document, elle analyse, pour la Communauté considérée dans son ensemble, l'évolution de la conjoncture économique en 1966 et formule des prévisions quant aux développements auxquels on peut s'attendre pour l'année 1967. Un chapitre est notamment consacré aux vues de la Commission concernant la politique conjoncturelle à suivre en 1967 par les gouvernements des Etats membres de la Communauté. On se rappellera que les lignes directrices de cette politique ont récemment fait l'objet d'une recommandation du Conseil des Ministres de la Communauté aux Etats membres, sur proposition de la Commission. Le texte de cette recommandation est reproduit en annexe à la première partie du rapport de la Commission.

La seconde partie de ce rapport est consacrée à l'analyse et aux perspectives de l'évolution économique dans chacun des pays membres en particulier.

En ce qui concerne les développements observés en 1966, la Commission constate que l'économie de la Communauté est restée caractérisée, en 1966, par une expansion assez vive, tout en accusant certaines différences d'évolution d'un pays à l'autre. Le produit brut de la Communauté, en termes réels, s'est accru de près de 4,5 % en comparaison annuelle, contre 4 % environ en 1965. Par rapport à 1958, la progression atteint à présent quelque 52 %, alors qu'elle se chiffre approximativement à 44 % aux Etats-Unis et à 30 % au Royaume-Uni.

La croissance, d'une année à l'autre, de la demande globale en termes nominaux a été du même ordre qu'en 1965. Toutefois, la contribution relative apportée à cette expansion par les principaux éléments de la demande s'est quelque peu modifiée, en ce sens que la progression annuelle de la demande extérieure n'a plus été aussi vive que l'année précédente, tandis que celle de la demande intérieure marquait, au contraire, une légère accélération.

En effet, d'après les statistiques du commerce extérieur, le taux d'expansion annuelle, en valeur, des exportations de marchandises de la Communauté est tombé de 12 % en 1965 à un peu moins de 9 % en 1966. Certes, les ventes aux Etats-Unis ont encore montré un développement exceptionnellement rapide; mais la progression s'est ralentie sensiblement en ce qui concerne les livraisons aux pays de l'Association européenne de Libre-Echange et aux pays en voie de développement.

La croissance de la formation brute de capital fixe s'est poursuivie, et son taux de progression, d'une année à l'autre, s'est élevé, comme en 1965, à 6 % en valeur et à 3,5 % en volume. Le développement des investissements sous forme de construction a été plus faible que de 1964 à 1965. En revanche, les investissements d'équipement des entreprises ont montré un peu plus de

Pour l'année 1967, la Commission prévoit que la croissance économique de la Communauté accusera vraisemblablement un certain ralentissement; tant la demande étrangère que la demande intérieure perdront sans doute de leur dynamisme.

En ce qui concerne la demande extérieure, il se pourrait surtout que s'atténuent quelque peu les impulsions, jusqu'à présent très vigoureuses, émanant des achats des Etats-Unis. Conjuguée avec une stagnation plus ou moins marquée des importations du Royaume-Uni, pareille évolution affaiblirait le rythme de croissance des exportations de la Communauté.

Le ralentissement de l'expansion de la demande intérieure résultera sans doute, tout d'abord, d'une légère décélération du rythme de croissance des investissements des entreprises. Dans la République fédérale d'Allemagne, il faut même s'attendre - du moins pendant une partie de l'année encore - à une diminution de ces dépenses d'investissement; de même, un ralentissement sera sans doute enregistré aux Pays-Bas. Un nouvel et vigoureux essor sera vraisemblablement enregistré en France et en Italie, et le rythme de croissance pourrait s'accélérer quelque peu en Belgique; mais, pour l'ensemble de la Communauté, il est à présumer que l'expansion des investissements des entreprises sera malgré tout moins vive que de 1965 à 1966. Par ailleurs, on peut prévoir un certain ralentissement de la croissance des dépenses globales de consommation, qui tiendra sans doute exclusivement à un affaiblissement plus ou moins marqué du développement des dépenses de consommation privée dans la République fédérale d'Allemagne et dans les pays du Benelux.

En ce qui concerne l'évolution prévisible de l'offre, la production agricole pourrait - dans l'hypothèse de conditions atmosphériques normales - progresser plus sensiblement de 1966 à 1967 qu'elle ne l'avait fait l'année précédente. Quant à la production industrielle, il y a lieu de penser que dans l'ensemble, son expansion ne s'atténuera que légèrement; en effet, s'il faut s'attendre à une croissance très modérée dans la République fédérale d'Allemagne surtout, mais aussi dans l'Union économique belgo-luxembourgeoise, et à un ralentissement aux Pays-Bas, une progression rapide sera vraisemblablement enregistrée en France et en Italie.

Compte tenu de tous les facteurs actuellement prévisibles, les services de la Commission évaluent, pour le moment, à 4 % environ l'accroissement en volume du produit brut de la Communauté de 1966 à 1967.

Les importations en provenance des pays non membres subiront encore pendant un certain temps l'influence du ralentissement conjoncturel observé dans quelques pays de la Communauté, surtout dans la République fédérale d'Allemagne. Par ailleurs, certains facteurs de freinage de caractère exceptionnel disparaîtront, et notamment ceux qui affectaient les importations effectuées pour le compte du gouvernement de la République fédérale d'Allemagne et les importations de produits agricoles. De plus, il est probable, que, dans le courant de l'année, la politique de stockage des entreprises aura de nouveau une incidence plus positive sur l'évolution des importations. On peut cependant s'attendre, pour 1967, à une nouvelle amélioration - limitée toutefois - de la balance commerciale de la Communauté.

Bien que l'évolution de l'offre et de la demande, dans la Communauté considérée dans son ensemble, doive en soi favoriser un ralentissement de la montée des prix, il faut toujours tenir compte des répercussions du processus d'augmentation des coûts enregistré jusqu'ici et qui semble devoir se poursuivre encore que sous une forme atténuée. Au total, le niveau des prix à la consommation devrait encore accuser, en 1967, une hausse assez nette par rapport à l'année précédente.

Les perspectives qui s'ouvrent pour 1967 laissent apparaître, dans quelques pays membres, les effets de développements inflationnistes qui ont été tolérés au cours des dernières années ou qui n'ont été combattus que par un dosage mal équilibré des instruments de la politique conjoncturelle. La conséquence en est la coexistence de hausses des prix et des coûts, d'une part, et, d'autre part, de tendances plus ou moins accentuées à la régression des investissements, ainsi que d'un notable ralentissement de l'expansion économique. La Commission estime qu'il faut, dans ces pays, s'efforcer de stabiliser les prix et les coûts en recourant notamment à une politique budgétaire plus stricte, et faciliter le financement des investissements. Eu égard à ce dernier impératif, la politique restrictive appliquée dans le domaine du crédit pourrait et même devrait être assouplie. Toutefois, un retour prématuré à une politique conjoncturelle tendant à stimuler globalement l'expansion ferait inévitablement renaître, dans quelque temps, le danger de nouveaux développements inflationnistes. En France et en Italie, il faudrait poursuivre et même accroître les efforts visant à éviter que l'essor conjoncturel en cours dans ces pays n'engendre de nouveaux déséquilibres.

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