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THE ECONOMIC SITUATION IN THE COMMUNITY IN 1975

The Commission of the European Communities has just published its final report for 1975 on the economic situation in the Community. The report examines economic trends during the final months of this year and the outlook for the year ahead both for the Community as a whole and for each of the Member States.

The Commission's report displays a cautious optimism. It observes that the deterioration in the economic situation, which began in the spring of 1974, seems to have been checked since last summer. Indeed in the autumn some pick up in demand came about, although still only affecting a limited number of sectors and countries. This turn around seems to be largely due to the end of the destocking process and even to some renewed stockbuilding, to a certain normalisation of consumer behaviour and to the first effects of the recovery in the world economic situation; but the stimulatory programmes put into operations in the Community have also contributed usefully. The improvement is most noticeable in the Federal Republic of Germany and in France. In the majority of Member States however, the labour market situation has continued to worsen and in October the number out of work was about five million. Capacity utilization rates have remained very low. At the same time, the basic tendency towards a weakening in inflationary pressures, which has continued for more than a year, seems to have stopped and renewed differences in its development from one country to another have become apparent. The moderate surplus of its current account, which the Community had for the first half of the year, has more recently tended to decline, due to some recovery in imports and a slight deterioration in the terms of trade.

The Commission stresses that uncertainty remains as to the actual pace of the recovery, the lags which will appear before it spreads throughout the Community, and finally as to its duration. It seems, nevertheless, that developments in the course of the months ahead will result in a progressive improvement in the conjunctural situation. Not only should the components of demand which have already progressed, particularly household expenditure, become more buoyant, but it can also be expected that fixed business investment will stop declining, in the majority of member countries, or even experience a recovery in some of them. This is of fundamental importance, since it can lead in the latter part of the year to a gradual improvement in the employment situation in the Community. Nevertheless, an essential condition for its realisation is that profits increase and are translated as quickly as possible into new investment, without provoking new inflationary pressures. Undoubtedly the probable slowdown in the rise of unit wage costs can induce some prudent optimism in this regard. But despite the persistence of substantially underutilized production capacity in numerous sectors, the danger of new inflationary upsets and doubts about the economic recovery have not been completely removed. Cyclical factors could equally contribute to this development as the structure of supply which has come about because of the relative rise in energy prices, may not be as able as in the past to adjust to the expected

strengthening in demand. In total it is foreseen that gross domestic product in real terms will increase by around 3% in 1976, whereas a fall of the order of more than 2 1/2% will undoubtedly be recorded in 1975. Such rates of growth should only result in a moderate deterioration in the current account balance of the Community especially if those member countries which have been most hit by the rise in prices in imported oil are able to benefit completely from the recovery expected in the world conjunctural situation.

The report also sets out the views of the Commission on the economic policy problems faced in the Community. In the present situation the Commission does not believe that additional global reflationary measures are appropriate. But it considers that it is essential that the measures already decided upon should be applied energetically and without delay.

In the immediate future it is appropriate that budgetary policy in most member countries should continue to support economic activity, and that the expansionary stance of monetary policy should be maintained.

As far as the stance of conjunctural policy later on is concerned, it would be suitable to adopt an extremely flexible attitude. Given the uncertainties which still exist the authorities responsible for economic policy should be in a position as necessary to redirect rapidly the instruments available either in an expansionary or a restrictive way. Furthermore it seems important from a sectoral viewpoint to favour those economic activities which, like construction, have a strong impact on the level of employment. There is little opportunity, however, to obtain in a short time a reduction in unemployment, even that, in a situation where there exists substantial productivity reserves, recovery in output will only be followed by an improvement in employment after some time-lag.

In the months ahead, the recovery of world trade takes on a special importance. In this respect the Community assumes a double responsibility:

to help the developing countries affected by the oil crisis and the recession to finance their large external deficits, and so to contribute to the stability of trade flows between the industrialized countries and the developing countries;

to line itself up against the dangerous tendencies to adopt protectionist measures both within and outside the Community. It would be unfortunate if some Community countries started on this path, even on a temporary basis, when the liberalization of foreign trade and the development of world trade is a condition necessary for a durable conjunctural expansion.