

COMMISSION OF THE EUROPEAN COMMUNITIES

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THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

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1. The following assessment of economic trends and policy was discussed and broadly agreed by the Council of Finance Ministers on 17th March 1980.

Results for 1979. In spite of the new oil shock, the performance of the Community economy in 1979 was in several respects favourable.

2. Gross domestic product (GDP) is now estimated to have grown 3.3% in the Community as a whole. Capacity utilisation in industry increased significantly. Employment grew by 0.9%, the most positive result since 1973. The level of unemployment stabilized in the course of 1979.

3. Money supply growth decelerated notably, from 12.7% in 1978 to 10.6% in 1979, with a large degree of fulfillment of national quantitative objectives. Some progress was also made in efforts to reduce public sector deficits.

4. Intra-Community exchange-rate relations were more stable than in any year since 1972. The average change in the exchange-rates of Member States vis-à-vis the ECU in the year 1979 as a whole was 1.9%, compared to 5.2% in the average of the six preceding years.

5. As regards external exchange-rate relations, the ECU appreciated in 1979 against both the US dollar and the Yen, especially the latter whose value against the ECU declined 30% in the course of 1979, which is matter for preoccupation.

6. The oil price rise in 1979 (of nearly 50% in dollar terms, yearly average) was in part responsible for the deterioration in price performance. After the lowest rise in 1978 in seven years (6.9%), consumer prices rose on average in the Community in 1979 by 9%, with a 12.4% rise in the second half of the year (at an annual rate). All major components of the consumer price index accelerated. There was a renewed tendency for inflation rates to diverge. The standard deviation of consumer price rises nearly doubled over the same period. The greater exchange-rate stability was not, therefore, underpinned by a better convergence of inflation.

7. For 1979 the Community pledged to limit oil consumption to 500 million tons, 5% less than the original forecast and 2 1/2% less than the 1978 outturn. However, this target was not achieved. Gross inland consumption in 1979 is estimated to have reached 523 million tons, 4.6% above the target.

8. Outlook for 1980. The beginning of the new year saw further major oil price rises which may mean an average increase for 1980 of some 60% (in dollar terms). This has been taken into account in revised economic forecasts prepared by the Commission services, which now suggest 1.2% growth for the year as a whole.

9. While the oil price rises are a major set-back, the impact on the business cycle is far from clear. The latest recorded output figures still show a firmly rising trend. Leading indicators (notably business surveys) suggest a turning-point for the Community as a whole, but the range between Member States is wide.

10. The prospects for employment have worsened with unemployment expected to increase from an average 5.6% in 1979 to 6.4% in 1980 for the Community as a whole.

11. The outlook for inflation is worse. The forecast for 1980 has been revised upwards 2 points to 11.3% for the Community as a whole and a further divergence of performance between Member States is expected.

12. The balance of payments current accounts have also suffered from the oil price rise, with the Community's total deficit for 1980 now revised upwards from 4 to 14 billion ECU. The financing of these deficits should not pose major problems for the four larger Member States: Germany in particular is expected to account for half of the Community total. However, some of the smaller Member States are now facing overriding balance of payments constraints.

13. Policy for the period ahead. In December of last year the Council agreed, in adopting its Annual Report, that priority had to be given in 1980 to alleviating the inflation and energy constraints, and to proceeding with other more widespread improvements in economic structures in many Member States.

14. The economic situation has since evolved (as outlined above). But the changes amount, on the other hand, to higher inflation, unemployment, a still more acute energy constraint, and worse balance of payments situations; and, on the other hand, stronger recent trends in real output and greater uncertainty in this respect for 1980 and the trends that may lead into 1981.

15. In this situation the Commission judges that it is not appropriate to change the basic stance of macroeconomic policy in the Community. Certain objectives of economic and social policy have to be implemented with even greater urgency and force. This concerns notably:

16. Energy Policy (in all Member States and at the Community level). Efforts to produce alternative supplies and economise in consumption have to be increased.

17. Employment Policy. Policies to counter the worsening of the employment situation should be strengthened. Such policies should aim to facilitate the adaptation of economic and social structures by complementary measures in the labour market, training and certain forms of work-sharing.

18. Budgetary Policy. In many Member States severe public finance policies have to be pursued as an unconditional necessity, so as to reduce the strain of deficits on the non-inflationary financing of the economy, and to improve resource allocation in favour of productive investment (this applies notably to Denmark, Ireland, Italy, the Netherlands, Belgium and the United Kingdom). In these cases there is little or no room, for the time being, for counter-cyclical flexibility in budget policy.

19. Monetary Policy. The maintenance or reassertion of firm control over the monetary aggregates in the recent conditions of rising inflation has naturally led to higher nominal interest rates. However, for the Community as a whole this has only just enabled real short-term rates to become positive again at the end of 1979, while long-term rates remain on average slightly negative. In general, a significant easing of interest rates can only be expected when inflation trends are seen to be improving, which is not yet the case. However, the trend in interest rates should be carefully controlled so as to avoid an unduly severe impact on economic activity.

20. Incomes. The oil price levy on household incomes has been further, inescapably increased. While governments may alleviate the impact on the poorest and hardest-hit parts of the population, there can be no alternative for the population as a whole to accepting the loss of real income to oil producers so long as oil consumption habits are not changed.

21. Balance of payments. Member States in basically sound economic situations (for example Germany) should accept for the time being deficits on current account. Some Member States in the most exposed situation (for example Denmark and Ireland) have urgently to reduce their deficits, especially through budget policy and income adjustments (the recent Irish budget is an example).

22. Financing problems could arise for non-oil producing developing countries. The Community should be prepared to support international efforts to assure sound and adequate financial recycling facilities.

Table : The Community economy 1978-80

	1978	1979	1980	1978	1979	1980	
	GDP volume, % change			private consumption deflator, % change			
DK	0.9	3.1	- 0.3	9.4	9.5	12.5	
D	3.2	4.4	2.1	2.6	4.1	5.0	
F	3.3	3.4	2.1	8.8	10.5	12.1	
IRL	6.1	3.2	1.4	7.9	13.2	15.5	
I	2.6	4.9	2.0	12.7	15.0	17.1	
NL	2.4	2.3	1.0	4.4	4.7	6.8	
B	2.6	3.0	1.9	4.5	4.5	6.9	
L	4.5	2.7	1.8	3.5	4.5	6.5	
UK	3.3	0.2	- 2.5	8.4	13.2	18.9	
EC	3.0	3.3	1.2	6.9	9.0	11.3	
	unemployment rate, % civilian working population			balance of payments current account, billion ECU			
DK	6.6	5.3	7.0	- 1.2	- 2.1	- 2.3	
D	3.9	3.4	3.5	7.4	- 2.7	- 6.9	
F	5.3	6.1	6.9	2.9	1.7	- 0.1	
IRL	8.7	7.9	7.8	- 0.3	- 1.1	- 1.3	
I	7.1	7.6	8.5	4.9	4.6	1.2	
NL	4.2	4.3	4.5	- 0.7	- 0.7	- 0.9	
B	8.3	8.7	9.2	- 1.2	- 1.6	- 2.2	
L	0.7	0.7	0.9	0.4	0.4	0.4	
UK	5.7	5.3	6.8	1.0	- 3.8	- 2.3	
EC	5.5	5.6	6.4	13.4	- 5.1	-14.2	
	public finance : general government deficit, % of GDP			money supply, % change			
DK	- 0.9	- 1.3	- 1.2	(M2)	6.7	9.9	9.0
D	- 2.8	- 3.0	- 2.6	(M3)	11.0	6.0	6.0
F	- 2.3	- 1.4	- 1.8	(M2)	12.2	13.5	12.0
IRL	-10.5	-13.2	-11.2	(M3)	28.7	19.0	13.0
I	-10.6	-10.5	-11.5	(M2)	22.8	20.0	20.0
NL	- 2.2	- 3.0	- 2.7	(M2)	4.2	6.0	8.0
B	- 6.0	- 6.8	- 7.5	(M2H)	9.5	6.5	6.5
L	3.3	2.7	1.2	:	:	:	:
UK	- 4.2	- 3.5	- 3.4	EM3	13.3	11.7	11.5
EC	- 4.0	- 3.9	- 4.0		12.7	10.7	10.4

Source: Commission services, based on information available up to 27th February 1980.
Data for Ireland do not take into account the budget announced on 28th February.