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The economic situation in the Community

2

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EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

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Contents

Note :
This survey was completed around mid-June 1969. As regards the most recent developments and where it has not been possible to take them into account because of the pace at which national statistics are prepared and the time it takes to publish the Survey in five languages, the latest issue of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

In the spring of 1969, the economic situation in the Community was one of unmistakable boom. While the expansion of export demand slowed down somewhat, the growth of internal demand was even more rapid than before. The strongest stimuli were provided by gross fixed asset formation. Private consumers' expenditure, too, expanded very vigorously, mainly as a result of the lively rise in incomes that occurred in some countries, but also because of a weaker propensity to save in households. Supply was still able to adjust comparatively well to rising demand, even if it was in general less flexible with technical production capacities in most cases fully stretched and productivity per man/hour rising more slowly in many industries. Employment continued to expand appreciably : the number of persons in paid employment was again distinctly higher, and there was a further rise in the number of hours actually worked per person employed. In some countries, indeed, there was a distinct shortage of labour. Despite a rapid upward movement of imports, the price climate deteriorated in most member countries; here, however, it should be pointed out that special factors came into play.

As the year advances, the world business climate may cool off more and more, particularly as a result of the measures which the United States has taken to curb demand; the growth of export demand may therefore well slacken further. Internal demand in the Community will nevertheless continue to expand vigorously, since the spontaneous expansionary stimuli supplied by market forces will continue to be very lively. The latest business surveys provide evidence of a very high, and in part still rising, propensity to invest among entrepreneurs. Expenditure on building and construction, too, will climb vigorously, if only as a result of the completion of work already started. As the rise in wages is likely to gather further momentum in the *second half of the year, the expansion of expenditure on consumption will probably gain additional strength. Given this outlook for the trend of demand, there is likely to be a further distinct rise in production. But growth here is likely to suffer more from bottlenecks than it has done so far; the scope for even more rapid gains in productivity over the short term and for lengthening the hours actually worked is becoming smaller and smaller. At the same time, strain on the labour market may well become more serious.*

In view of the limits thus set to the expansion of production, the growth of imports by the Community may gather speed, with the result that, as exports are rising only slowly, the surplus on the Community's balance of trade will shrink further. The price trend is also likely to deteriorate, as in both demand and costs the stage will be set for an appreciable upward thrust of prices. The rate of 6 % which the last Quarterly Survey put on the growth of the real gross Community product for 1969 may be reached without difficulty.

First estimates for the coming year suggest that the growth rate of the real gross Community product in 1970 will, at 4.5 %, be more in line with the medium-term trend. This decline seems likely because the economic situation in the world will probably show little dynamism, and so exports to the non-member countries can be expected to weaken further. Internal demand in the Community, by contrast, is likely to maintain its rapid expansion, with the main stimuli coming increasingly from expenditure on consumption, largely because of the continued vigorous rise in wages. Various factors, particularly the restrictive monetary and budgetary measures already taken in most member countries and the pressure exerted on the profit margins by wage costs, may combine with the slowdown in world business activity to induce a gradual slackening of the investment boom. The investment projects currently being carried out and those under consideration are nevertheless still large enough to suggest that, in terms of annual averages, investment by enterprises will still grow fairly vigorously from 1969 to 1970. With reserves of manpower and of technical capacity sharply down, production will expand at a substantially lower rate than in 1969, with trends perhaps varying more widely than before from one industry to another. External as well as internal equilibrium may deteriorate in most member countries.

A. Recent developments

1. Demand

In the first quarter and in the spring months, overall demand in the Community continued to expand vigorously, with the growth of internal demand even gathering momentum.

The rise in export demand (i.e. goods and services actually exported to non-member countries) appears on the other hand to have slowed down somewhat. Visible exports from the Community (customs returns, adjusted for seasonal variations) in the first quarter were at all events only 2.1 % higher than in the last quarter of 1968, compared with a rise of 2.3 % from the third to the fourth quarter of 1968. This development is in part attributable to the disappearance of special factors such as the inflated level of exports from the Community at the end of 1968 and the dock strike in the United States. The general trend in exports is, however, towards a slower rate of growth. This applies in particular to exports to the United States and the United Kingdom.

In the United States, there was until the spring little sign of economic activity slowing down. In the first quarter of 1969, the gross national product in real terms rose by some 0.7 %, i.e. hardly less vigorously than in the final quarter of 1968. Private consumers' expenditure continued to expand at a lively pace, mainly owing to a fresh decline in the savings ratio, and there was in particular a very vigorous rise in gross fixed asset formation by enterprises. Only in residential construction and stockbuilding did growth flatten out. The upward pressure on prices continued with unabated vigour. Consumer prices in April were 5.4 % above the level of a year earlier. This induced the authorities to take a number of new budgetary and credit measures.

In the United Kingdom, economic growth in real terms slackened somewhat in the first quarter of 1969. Although gross fixed asset formation by enterprises advanced vigorously and the rise in gross incomes, particularly wage incomes, was again considerable—hourly wage rates in industry rose 4 % between November 1968 and April 1969—the restrictive measures taken last November had an appreciable impact on real purchasing power. As, in addition, the savings ratio of households moved up once more, the volume of private consumption fell slightly. After seasonal adjustment, the figures for industrial production in the first quarter of 1969 were on average somewhat below those of the final quarter of 1968. Despite this, and despite the import deposits introduced in November 1968, the level of imports remained fairly high in the first quarter of the new year. As exports failed to expand further, partly as a result of the dock strike in the USA, there was hardly any decline in the seasonally adjusted trade deficit.

The relative weakness of demand from the United States and the United Kingdom was, however, in part offset by the still considerable dynamism of exports to other industrial countries. There was in particular a further rise in Community deliveries to the continental EFTA countries. It also appears that sales to the developing countries, particularly those associated with the Community, continued to develop along distinctly expansionary lines. Exports to the countries of the Eastern bloc remained at a high level.

The expansion of gross fixed asset formation in the Community as a whole continued to gather momentum in the first half of 1969. Expenditure by enterprises on plant and machinery reflected the generally high degree of production capacity utilization and the favourable sales outlook, while further stimuli came from the rise in company profits and the improved possibilities for firms to increase their own capital resources. Particularly in Germany and Belgium, these factors inherent in the business situation are exerting a substantial influence on actual outlays for plant and machinery, but in certain countries special factors, such as the establishment of branches by foreign concerns in Luxembourg and in France the tax relief granted since October 1968 on purchases of plant and machinery, also played a part. Almost all branches of the industries producing equipment goods were able to benefit from this high propensity to invest.

The expansion of expenditure on construction, which at the beginning of the year had for a time been curbed by bad weather, regained its previous vigour early in the spring. In the Community as a whole, the rise in actual spending on construction appears in fact to have gathered momentum, compared with the end of 1968 and the beginning of 1969.

Investment in business and industrial building expanded vigorously. This trend, discernible throughout the Community and particularly clear in Germany, was doubtless attributable to the fact that, as a result of a growing need for additional production capacity, numerous firms implemented their expansion programmes faster than had been intended.

Investment in residential construction continued to rise at a very lively pace. While in the Netherlands seasonally adjusted expenditure on residential construction probably showed little if any increase, following the sharp rise towards the end of 1968, it continued to expand in Ger-

Visible exports to non-member countries

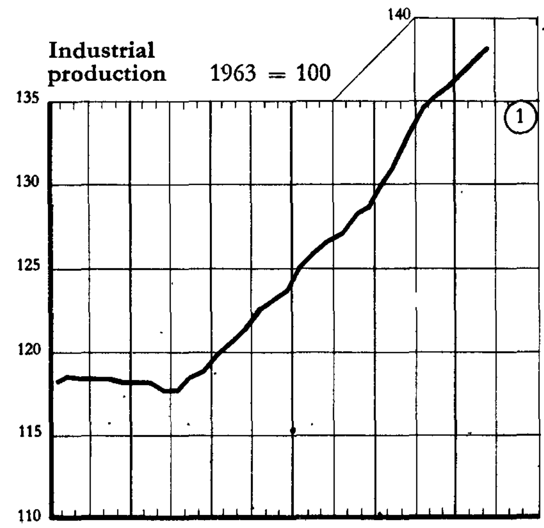
(Values and % changes on preceding year)

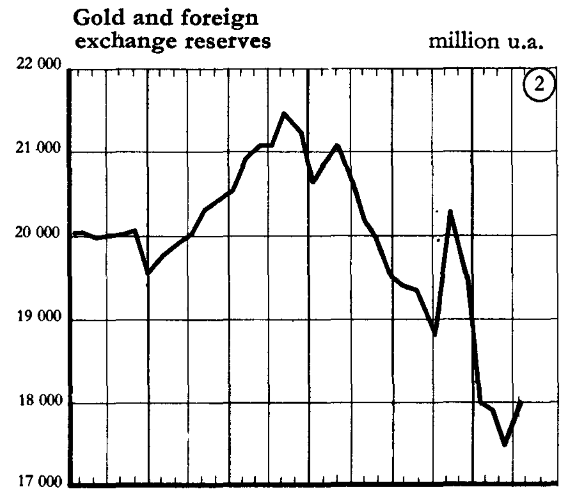
	1968						1969
	million u.a. [1]	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	35 290	+ 11.5	+ 12	+ 2	+ 18	+ 14	+ 3.5
of which :							
Industrial countries [2]	22 873	+ 11.5	+ 13	+ 3.5	+ 16.5	+ 14	+ 2.5
including :							
United States	5 768	+ 30.5	+ 41.5	+ 28.5	+ 39.5	+ 16	— 15.5
EFTA	11 217	+ 7.5	+ 8	— 0.5	+ 11	+ 11.5	+ 7.5
United Kingdom	3 127	+ 10	+ 20.5	+ 1.5	+ 12	+ 6.5	+ 2.5
Developing countries [3]	9 309	+ 12	+ 10.5	+ 4	+ 23	+ 12.5	+ 18.5
including :							
Associated overseas countries and territories	2 064	+ 15.5	+ 14.5	— 3.5	+ 29.5	+ 22.5	+ 11.5
Other countries [4]	3 108	+ 8.5	+ 11	— 13	+ 17	+ 22	+ 3.5

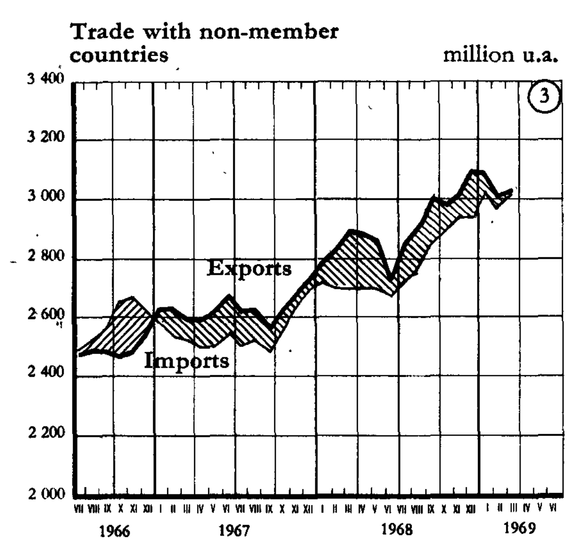
Source : Statistical Office of the European Communities.

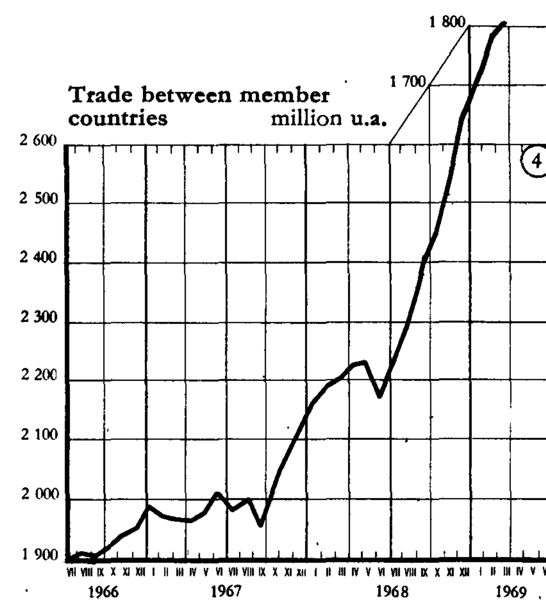
[1] 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.
[2] Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.
[3] Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.
[4] Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other destinations.

ECONOMIC INDICATORS









NOTES :

Source : Statistical Office of the European Communities (SOEC).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Total gross reserves of gold and foreign exchange held by the monetary authorities of the Community countries at the end of each month.

Graph 3. Three-month moving averages of the seasonally adjusted value of exports to non-member countries (fob) and imports from these countries (cif), as shown by customs returns.

Graph 4. Three-month moving averages of the seasonally adjusted value of trade between EEC countries, as shown by customs returns for imports.

u.a. : one unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.

many, though here the pace of expansion was, if anything, somewhat slower. In France, where the readiness to purchase dwellings showed a distinct improvement, expansion will probably prove to have been very vigorous. In Belgium, the trend in residential construction picked up distinctly, and in Italy, where the number of building permits granted last year was unusually high, expansion continued to gather momentum. To judge by the incomplete figures available so far, expenditure on public works was still rising in most countries.

The strained relationship between supply and demand in several member countries meant that in most industries the level of stocks was comparatively low; at any rate stocks of finished products, which at the end of 1968 had contracted sharply, remained at a fairly low level. Moreover, it seems that, owing to the faster tempo of production in industry, it has become more difficult to replenish stocks of domestic raw materials and semi-manufactures.

The trend of private consumers' expenditure in spring was very distinctly upwards. The disposable income of households again rose vigorously, particularly among wage and salary earners. Employment again expanded distinctly and the rise in wages gathered additional momentum, especially in the Netherlands, where, over and above the already more vigorous rise in agreed wages, some major industries paid cost-of-living supplements because of the sharp rise in prices. In the other countries, too, particularly in Germany, the upward thrust of wages appears to have gathered momentum. In Belgium and Italy, wages went up in major industries, partly owing to the operation of the sliding wage scale.

In Germany, private consumers' expenditure expanded very rapidly, mainly because of an exceptionally sharp increase in sales of passenger cars, and in Belgium, too, its growth was considerable. In Italy, its expansion was even somewhat more rapid than before, partly because of a faster increase in wage and salary incomes, but also because of a decline in the savings ratio, which in its turn was partly due to anticipatory purchases made in view of the impending payment, with retroactive effect from 1 January 1969, of considerably higher old age pensions. As against this, the Netherlands in particular, and probably also France, registered a slack period at the beginning of the year as a reaction to the buying spree of late 1968. In the spring, however, the trend of expenditure on consumption was distinctly upward even in these two countries.

2. Production

Internal supply in the Community, which at the beginning of the year had settled at a high level following the unusually sharp rise that occurred at the end of 1968, has since the beginning of the spring again been expanding rapidly.

Industrial production rose only little in the first quarter, but since the beginning of the second quarter its growth has been gathering speed again. According to the index of the Statistical Office of the European Communities—which it is true excludes construction, food, beverages and tobacco—industrial production in the first quarter of 1969 was 1 % higher than in the previous quarter and 13 % higher than in the first quarter of 1968.

The temporary slowdown affected primarily the consumer goods industry and some export-oriented industries. Production of raw materials, intermediate goods and plant and machinery, by contrast, expanded at a lively pace.

In building and construction, the spring revival proved to be very vigorous in almost all member countries. For the Community as a whole, production in this sector should have been considerably higher in the second quarter than a year earlier. Public works appear to have contributed comparatively little to this development; in the Community as a whole, however, the expansion of business and industrial building gathered speed, while in Italy and Belgium particularly a similar trend was apparent in residential construction.

Although the faster growth of internal supply was still accompanied by a certain increase in the number of hours actually worked, the numbers in paid employment in the Community as a whole continued to rise rapidly. This is doubtless in part attributable to the vigorous expansion in building and construction, which occurred almost everywhere, causing manpower requirements in the industry to rise appreciably. Another contributing factor is, however, that as a result of the steady decrease in the reserves of technical capacity, the pace at which productivity per hour worked was advancing in many industries has slackened or at least ceased to rise.

As a result of the sustained rise in employment, particularly in industry, the adjusted figures for unemployment declined further in all Community countries. In some countries the demand for additional manpower rose so fast that the domestic supply of manpower proved insufficient not only in quantity but—because of a shortage of the skills actually required by trade and industry—in quality too. The result is that strain on the labour markets has mounted, leading in particular to a steady rise in the number of unfilled vacancies; in Germany, the number of such vacancies has reached an unusually high level, despite heavier recruitment of foreign workers; it is also comparatively high in France.

3. The balance of the markets

The lively growth of internal demand in the Community was clearly reflected in the trend of imports from non-member countries. True, imports of goods in the first quarter were, after seasonal adjustment, only 1.4 % heavier than in the last quarter of 1968, when they had risen 4.9 % over the previous quarter; but this fluctuation was largely the result of the dock strike which at the beginning of 1969 hampered deliveries from the United States. In all product groups the underlying trend of imports was vigorously upwards.

The faster expansion of investment led to a vigorous upswing in imports of plant and machinery. Imports of consumer goods, too, continued to expand rapidly. The increase in imports of raw materials that became apparent at the end of 1968 has continued in recent months. Food imports, by contrast, tended to slacken, following the vigorous expansion observed at the end of 1968.

The main beneficiaries of the mounting import demand in the Community were the EFTA countries, whose deliveries to the Community countries rose considerably. Imports from Sweden, Switzerland and the United Kingdom in particular went up sharply. Community purchases from the developing countries have also been accelerating distinctly since the beginning of the year.

Visible trade within the Community again rose considerably; after adjustment for seasonal variations, the figure for the first quarter was 6.3 % higher than in the preceding quarter.

This very dynamic trend is a reflection of the boom conditions obtaining in the Community generally. In Germany, the expansion of imports has since the beginning of the year been gathering speed not only owing to the constant decline in reserves of production capacity but in part also because of the tax relief on imports introduced at the end of 1968. In Italy and in the Belgo-Luxembourg Economic Union, the rise in purchases from the other member countries has continued in recent months thanks to the more dynamic development of the business situation. In France and in the Netherlands, imports from the other Community countries have again been growing rapidly, after a temporary slackening early in the year.

The main points of interest in the Community countries' trade balances with each other were a tendency for the German surpluses to be reduced and a distinct improvement during the last few months in the trade balance of the Belgo-Luxembourg Economic Union. For the other member countries these balances showed scarcely any change; France's deficit remained very heavy, despite a distinct improvement in the equilibrium of Franco-German trade.

In the first four months of 1969, the level of prices went up appreciably in the Community, although the extent to which it did so varied from country to country as can be seen from the following table.

Visible imports from non-member countries

(Values and % changes on preceding year)

	1968						1969
	million u.a. [1]	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	33 542	+ 8.5	+ 6.5	+ 5	+ 15	+ 10	+ 12
of which :							
Industrial countries [2]	18 626	+ 9.5	+ 6	+ 3	+ 18	+ 13	+ 11.5
including :							
United States	6 386	+ 8.5	+ 7	— 1.5	+ 21.5	+ 13	— 2.5
EFTA	7 840	+ 10.5	+ 6.5	+ 4.5	+ 17	+ 14.5	+ 17
United Kingdom	2 994	+ 11	+ 5.5	+ 2.5	+ 17	+ 20.5	+ 15
Developing countries [3]	12 506	+ 8	+ 7	+ 8.5	+ 13	+ 6.5	+ 13
including :							
Associated overseas countries and territories	2 498	+ 9.5	+ 12	+ 4	+ 12	+ 10.5	+ 9.5
Central and South America	2 679	— 4.5	— 3.5	— 8	— 8	+ 13.5	— 14
Other countries [4]	2 410	+ 5	+ 11.5	+ 3.5	+ 2.5	+ 3.5	+ 9

Source : Statistical Office of the European Communities.

[1] 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.
[2] Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.
[3] Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.
[4] Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other sources.

There were numerous reasons for this increase in prices. There was, for instance, a distinct rise in raw material prices on world markets. According to Reuter's index, they were in mid-May some 4 % higher than at the end of 1968. Agricultural prices also climbed very appreciably, mainly as a result of bad harvests. In the Netherlands, the introduction of the tax on value added and in France the increase in the rates of this tax further affected the situation. The price increases were, however, also largely the result of factors inherent in the business situation, in particular the very vigorous expansion of demand in money terms, which enabled many firms to raise prices without loss of sales. The unusually strong upward thrust of prices caused the Netherlands Government at the beginning of April to order a temporary general price freeze. After the French authorities had last November tightened up the supervision of prices, the Belgian Government too has now decided to take similar steps, as the upward thrust

Price indices of private consumption [1]

(rise in %)

	Decembre 1968 April 1969	August 1968 December 1968	April 1968 April 1969
Netherlands	6.1	1.3	8.3
France	2.4	2.3	6.9
Belgium	1.7	1.1	3.6
Germany	1.3	1.3	2.5
Luxemburg	0.5	1.1	2.0
Italy	1.2	0.7	1.7

[1] The figures in this table are of no more than indicative value. For statistical reasons, the accuracy with which they reflect the changes in the consumer price level is not the same for every country.

of prices may well gather momentum in connection with the introduction of the tax on value added.

The Community's balance of visible trade with non-member countries has deteriorated distinctly since the end of 1968, although this is in part the result of special factors such as the dock strike in the United States. The surplus on the Community's current account also fell distinctly. The capital account up to April closed with a heavy deficit, exports of capital from Germany and Italy in particular having been substantial. The vigorous increases in interest rates in the United States and on the Eurodollar market were the main reason for the heavy outflows of money and capital from the Community. By raising their discount rates, the central banks of some member countries tried to reduce the disparities in interest rates at international level and so to reduce the attraction of foreign money and capital markets. Italy, where for domestic reasons higher interest rates are undesirable, tried to stem the outflow of capital by other measures, including restrictions on the activities of foreign unit trusts.

All in all, the overall balance of payments of the Community in the first quarter is likely to have closed with a heavy deficit. Combined with heavy exports of money by the commercial banks, this led in the first quarter of 1969 to a fall of some 2 000 million u.a. in the official gross gold and foreign exchange reserves of the Community.

At the end of April and the beginning of May, however, the fresh flare-up of speculation over a revaluation of the German mark may have meant a rise in the Community's reserves. The inflow of foreign exchange to Germany, at any rate, reached unusually large proportions, though part of this will have come from other Community countries. In the last week of April, the return of the German Bundesbank showed an inflow to the reserves of some $ 300 million, and in the first half of May one of some $ 3 500 million. To curb the flood of foreign exchange, the Bundesbank on 1 May fixed at 100 % the minimum reserve requirements for the foreign commitments of the commercial banks in excess of the figure reached on 15 April 1969. The Bundesbank also tried to induce the commercial banks to re-export the inflowing foreign exchange by granting them favourable swap rates. When it emerged, however, that the re-exported money too was subsequently reinvested in Germany, the German Bundesbank for a time stopped providing an exchange rate guarantee for exports of money. Once the German Government had confirmed that a change in the parity of the German mark was out of the question, the foreign exchange inflow into Germany stopped. By the end of May, however, only a small part of this inflow had again left the country.

Transactions with non-member countries in the first four months had a restrictive effect on liquidity in the Community as a whole.

The cash transactions of the public authorities, by contrast, contributed to liquidity in most member countries. In Belgium, the Netherlands and Italy, the budgets ran a cash deficit in the first few months of 1969. France, too, has probably moved into deficit, after some of the expenditure items frozen in autumn 1968 were unfrozen on 1 January 1969. In Germany, by contrast, the current receipts of the Federal Government were higher than expenditure, as the rise in spending was very small, and the tax yield unusually high.

The volume of bank lending to business and private customers expanded vigorously in several member countries. At any rate the demand

Demand for and supply of goods and services

	1966 [1]	1967 [2]		1968 [3] [5]		1969 [4] [5]
	At current prices in '000 million u.a. [6]	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	78.1	+ 2.1	+ 2.9	+ 6.7	+ 9.4	+ 10
Public current expenditure on goods and services	46.9	+ 4.3	+ 7.4	+ 2.4	+ 7.5	+ 4½
Private consumers' expenditure	197.0	+ 3.6	+ 6.3	+ 4.3	+ 7.2	+ 6
Gross Community product	329.2	+ 3.4	+ 5.7	+ 5.6	+ 8.7	+ 6½
Balance exports [7] less imports [7] (at current prices, in '000 million units of account [6])	+ 3.4		+ 5.8		+ 7.2	+ 5

[1] Statistical Office of the European Communities, National Accounts 1958-67.
[2] Statistical Office of the European Communities, General Statistical Bulletin, 1968, No. 7/8.
[3] Commission estimates.
[4] Commission forecasts.
[5] Based on Community totals of the aggregates of the individual member countries at official exchange rates.
[6] 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.
[7] Goods, services and factor income.

Note :

(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

for credit was, as a result of lively investment activity, very heavy everywhere. To obviate an unduly sharp expansion in this form of lending, almost all member countries took restrictive measures. In France and the Netherlands, where such measures had already been taken by the end of 1968 (quantitative limits on credit expansion in both countries, coupled in France with an increase in the minimum reserve requirements), the effects are already making themselves felt: in France, credit expansion has slowed down, and in the Netherlands the volume of credit even declined. In Belgium and Germany, the rediscount ceilings of the commercial banks were lowered in the spring; Germany in addition raised the minimum reserve requirements of the commercial banks, while Belgium introduced quantitative limits on lending.

At the same time the central banks in several member countries increased their discount rates: in the Netherlands in April from 5 % to 5.5 %, in Belgium in three stages from 4.5 % to 6 %. This was largely an adjustment to the trend of international interest rates, especially in the United States and on the Eurodollar market.

The rise in international interest rates brought in its wake an increase in interest rates on the Community's bond markets, although this increase was less pronounced than that on the money markets. Except for Italy, where the Banca d'Italia continued to support bond prices, long-term interest rates went up everywhere in the Community. In Germany, the rise was at first not very distinct but gained strength when in March the Bundesbank made the official announcement that it had stopped supporting the price of public authority bonds.

On the Community's equity markets prices went up, largely in response to the generally good sales outlook for enterprises. In France, the rise was, however, also the result of fears of fresh monetary difficulties which induced the public to invest in equities.

B. Outlook

With the world business climate likely to cool off more and more in the months ahead, the tendency for export demand in the Community as a whole to slow down must be expected to gather momentum as the year advances. The growth of economic activity and of import demand in the Community as a whole will significantly stimulate world trade, it is true. This will, however, not be enough to offset the direct and indirect effects of the measures to curb demand taken in the United States and the United Kingdom and further tightened in the early months of 1969.

Particularly in the United States, economic growth and especially the growth of domestic demand may well be inhibited in the second half of the year by the results of the more restrictive line being followed in credit and budget policy.

In the field of money and credit policy, the Federal Reserve Board's discount rate was raised from 5.5 % to 6 % on 3 April 1969, reaching its highest level in 40 years. The minimum reserve requirements of the commercial banks were also put up by half a percentage point, and this may well lead to a further squeeze on bank liquidity; the commercial banks consequently further increased the prime rate—the minimum rate charged on short-term loans to first-class borrowers—from 7.5 % to 8.5 %.

The course being followed in budget policy has also been distinctly more restrictive. The budget submitted by the new Administration for 1969/70 provides for an additional cut in expenditure of $ 2 400 million, bringing the budget surplus to $ 5 800 million. This would be the highest budget surplus registered in the United States since 1951. The Administration has in addition proposed to Congress that the investment tax credit introduced in 1962, which enables firms to deduct 7 % of their investment expenditure from corporation tax, should be abolished; this would mean an increase in Treasury receipts in the 1969/70 budget year of some $ 1 800 million; it must, however, be borne in mind that a very substantial part of this increased revenue would be lost elsewhere if the surcharge on income tax were reduced from 10 % to 5 % from 1 January, as has also been proposed by the Administration.

Even if there is a certain time-lag before these various measures start influencing economic activity—a situation that could arise in part because transactors have adapted their behaviour to an inflationary rise in prices—they may well exert a dampening effect on economic expansion by the second half of the year. In the first place, entrepreneurs may find that some revision of their investment programmes is necessary, these having been very expansionary in recent months. Secondly, residential construction will probably expand at an appreciably slower pace as a result of the higher cost of credit. In addition, it may well be that the expansion of private consumers' expenditure too, which has been accompanied by a strong growth of consumer credit, will flatten out somewhat before the end of the year, while the build-up of stocks may be reversed—a change which experience has shown to have a very appreciable impact on import demand. All in all, it must be expected that Community exports to the United States will in the second half of the year expand comparatively weakly if they do not actually stagnate.

In the United Kingdom, the restrictive measures adopted in November 1968 have been tightened in the budget recently submitted for the period mid-April 1969 to mid-April 1970, and by greater emphasis on action in the monetary field to support these measures. The principal aim of this policy is to ensure closer supervision of lending by the commercial banks, to limit the rise in disposable incomes through additional taxation, to remove the tax advantages accorded to personal loans, to stimulate savings activity and to reduce liquidity through an overall budget surplus. The budget starts from the idea that, in contrast to what has happened in previous years, the public finances are to exercise a restrictive influence on domestic liquidity. Receipts are to rise appreciably, current expenditure is to expand at a relatively slow pace, and public investment expenditure is to remain at about the level of the previous year.

Even though the actual effects which the new budget will have on economic developments until the end of 1969 are very difficult to assess, particularly where private consumers' expenditure is concerned, the restrictive course of budget policy, coupled with the further tightening of credit policy, can be expected to act in the second half of the year as a brake on the growth of domestic demand. All in all, then, imports by the United Kingdom till the end of the year will probably rise at a weak rate only, although the inhibiting effects exercised by the import deposit system, under which importers are required to deposit, interest-free and for a period of six months, sums equivalent to 50 % of the value of the imported goods, are likely to slacken gradually in the months ahead.

In the other industrial countries, the economic trend will probably show little if any change before the end of the year. Although the progressive slackening of demand from the United States and the United Kingdom will make itself felt in these countries too, its impact will probably be offset by the faster growth of demand from the Community.

In the developing countries, the trend of imports until the end of 1969 should be fairly firm, since the monetary reserves of these countries had, contrary to expectations, developed along favourable lines until the end of 1968.

Even though the trend of Community deliveries to the countries of the Eastern bloc is still very buoyant, the growth of Community exports to non-member countries must, taken overall, be expected to slow down appreciably in the second half of the year.

Internal demand in the Community, by contrast, will doubtless continue to expand rapidly in the second half of the year: the more restrictive credit and budget policy adopted in most member countries will probably not yet have sufficiently far-reaching effects for the spontaneous stimuli provided by market factors to be weakened substantially.

Gross fixed asset formation in the Community as a whole will continue to expand vigorously.

Given the recent acceleration in the flow of orders for plant and machinery, there is good reason to assume that both the volume of deliveries and actual spending will run at a very high level in the months ahead. This will certainly be the case in Germany and the Benelux countries, where the latest business surveys provide evidence of a continued strong propensity to invest among entrepreneurs, and in Italy, where the revival of economic activity may even be accompanied by a faster rise in expenditure on plant and machinery. In France, the latest business surveys suggest that managements have made appreciable upward revisions of their investment plans for 1969.

The very lively growth of capital expenditure on building may in the Community as a whole even gather a little further momentum, at least during part of the second half of the year, even though in some member countries building on public account is appreciably affected by the restrictive management of public funds. At all events, there will on the whole be a continued vigorous expansion of building investment by enterprises. Even if the increase in the number of starts should slacken here and there before the end of the year, the completion of buildings already started would for the time being still ensure the further vigorous expansion of building investment in the Community. This applies in large measure also to residential construction, which in general is very sensitive to credit restrictions and particularly to a rise in the cost of mortgage loans.

In the Community as a whole, private consumers' expenditure will in the second half of 1969 continue to expand vigorously and even faster than previously, although the trend may vary fairly widely from one country to another. Wages may well rise very vigorously. In several countries too, the propensity to consume of households may grow appreciably in anticipation of further price increases.

In Italy and Germany, the rise in wages must be expected to gather additional momentum, particularly as in the autumn new wage agreements will have to be concluded in major industries. In Belgium, and to a lesser extent in Luxembourg, private consumers' expenditure may receive additional stimuli, particularly in the autumn, owing to fears of further price rises when the tax on value added is introduced on 1 January 1970.

In the Netherlands, consumer demand will probably continue to rise very appreciably, mainly as a result of the sharp increase in prices, and the savings ratio may well decline significantly. In France, on the other hand, private consumers' expenditure may rise at only a moderate pace if the trend in wages remains fairly quiet and the savings ratio settles down or even recovers.

Given this outlook for overall demand, the seasonally adjusted figures for production in the Community will advance vigorously in the second half of 1969.

Industrial output in particular is likely to develop along very dynamic lines. In the Commission it is assumed that the seasonally adjusted index of the Statistical Office of the European Communities will show an average rise of some 2-3 % over the last two quarters of 1969.

The advance in the second half of the year will probably be sharpest in capital goods and consumer goods, while in some basic materials industries production can be expected to expand, if anything, somewhat more slowly.

The vigorous growth of industrial production is also likely to entail an acceleration of economic activity in the services sector. In addition, some branches of the sector, particularly tourism, are likely to capture more than their share in the rapid rise in personal incomes.

Given this trend, and provided harvests are normal, the rise in the gross Community product from 1968 to 1969 will have no difficulty in reaching the rate of 6 % mentioned in the last Quarterly Survey.

With diminishing scope for stepping up productivity gains in the short term and for extending the number of hours actually worked, employment in the Community as a whole will again rise. In some member countries the demand for additional labour, particularly in industry, is even likely to rise faster than before and to be appreciably in excess of the available supply, so that strains on the labour markets will increase further. This applies of course most to countries where, as in Germany, manpower reserves have fallen to a particularly low level as a result of a very distinct rise in employment and despite increased recruitment of foreign workers. The same is, however, also largely true of the member countries where the number of persons seeking employment remains comparatively large, notably because of insufficient mobility and inadequate adaptation of workers' skills to the requirements of trade and industry, particularly among young people.

The vigorous growth of internal demand and the danger of mounting strain on the labour markets of some countries will doubtless entail a strong expansion of imports; with exports rising at a slow pace only, the surplus on the Community's balance of trade with the non-member countries will therefore decline further.

Quite apart from the autonomous factors exerting an upward pressure on prices—and they played an important part at the beginning of the year—the price climate may, if anything, deteriorate further. If harvests prove normal, the upward pressure on food prices will slacken appreciably in the second half of the year, and this will have a stabilizing influence on the level of consumer prices, but the upward pressure on prices for industrial products and for services will almost certainly be greater than before in almost all member countries except France. From the angle of both demand and of costs, the stage appears to be set for an appreciable increase in prices. The vigorous expansion of demand caused the reserves of production capacity to shrink sharply, and in almost all countries labour costs must be expected to tend distinctly upwards in the second half of the year. The results of the latest EEC business surveys also point to the danger of a distinct deterioration in the price climate in the next few months.

As is usual at this time of the year, the Commission has worked out a first forecast of the probable trend of economic activity in the Community in 1970; in view of the uncertainty surrounding the underlying assumptions this forecast must, however, be viewed with great caution.

All in all, these preliminary studies suggest that after two successive years of vigorous growth, reflected in a rise of some 6 % in the real Community product for both 1968 and 1969, expansion may fall back to a trend that is more in line with the possibilities for medium-term growth, which means a growth rate of some 4.5 %.

The diminishing buoyancy of the world's economic activity is one of the factors pointing in this direction. It is highly likely that the tendency for Community exports to non-member countries to slow down will persist in 1970.

In the United States, domestic demand will at the beginning of 1970 presumably feel the full impact of budget policy, so that the readiness to import will be comparatively weak.

It can in particular be expected that the monetary restrictions, the abolition of the tax relief on investment in plant and machinery, and the pressure which the rise in wages must exert on profits in 1969 will change the investment climate. Given the rise in interest rates, residential construction must also be expected to show a fairly weak trend. The rise in personal incomes may also slacken appreciably, mainly as a result of a lower rate of increase in employment and a reduction in the profits of one-man businesses. In addition, economic activity may well be curbed by a further rundown of stocks.

Despite the high priority which the United States Administration is currently giving to the struggle against inflation, it has stressed time and again that it would not permit a recession; it must therefore be expected to take support measures as soon as developments in the spontaneous market forces threaten to produce a major downturn of economic activity, so that for the full year 1970 at any rate the real gross national product is still likely to grow significantly.

In the United Kingdom, the rather precarious balance-of-payments situation, the volume of foreign debts to be repaid, and the prospect of a slowdown in the expansion of exports, particularly to the United States, mean that in the first half of 1970 the expansion of domestic demand may be relatively weak, as the authorities will doubtless have to pursue a restrictive monetary and budget policy in order to keep the level of imports comparatively low. Should the present restrictive measures be reinforced in the next few months, there may well be a reversal of the trend of private investment and stockbuilding, which at the moment is still pointing upwards.

In the other industrial countries, the overall outlook for 1970 is more varied: in countries like Austria and Switzerland, which have comparatively highly developed trade relations with the Community, economic activity and consequently imports may still be expanding fairly rapidly; in some Scandinavian countries, however, developments in the balance of payments are likely to restrict economic expansion. In Spain, expansion is not very likely to be as rapid as in 1969. Of the non-European countries, Canada and Japan in particular may experience an appreciably slower rise in import demand.

All in all, trade between the industrial countries is therefore likely—at least during part of 1970—to expand at a distinctly slower pace than in 1969.

This trend will probably also be visible in exports by the developing countries. World market prices for the more important raw materials, which had risen appreciably at the end of 1968 and early in 1969, are hardly likely to continue rising; the expansion of exports by the developing countries must, in addition, be expected to slacken in terms of volume as well. There should, however, be a certain time-lag before this is reflected in the imports of these countries.

All in all, the growth of Community exports to the non-member countries in 1970 may therefore be appreciably slower than in 1969.

Internal demand, by contrast, is likely to maintain its comparatively rapid expansion, with expenditure on consumption providing a larger share of the impetus than in 1969.

Although order books do not yet point to a decline in the propensity to invest and although the increasing manpower shortage continues to force companies to make substantial investments in rationalization, the combination of various factors may gradually produce a calmer trend in investment. These factors are, firstly, the effects of the restrictive monetary, credit and budget measures taken in all member countries except Italy, secondly, the pressure on profit margins that is likely to be exerted by the rise in wage costs, and thirdly, the psychological effects of the slackening trend in the world economy. In some industries, the substantial investment programmes of 1968 and 1969 may, in addition, have helped to build up capacities—

whether for reasons of modern technology or because of bad assessment of the sales outlook —which have outstripped the short-term sales possibilities. The investment projects currently being carried out and those under consideration are nevertheless large enough to warrant the assumption that investment by enterprises will, when annual averages are compared, still show a fairly high rate of growth from 1969 to 1970.

On the assumption that budget policy will follow stricter lines, public investment as a whole should also rise less vigorously than in 1969.

For private consumers' expenditure, the foreseeable trends appear to vary fairly widely from one country to another; all in all, however, since the rise in wages will probably gather momentum in most member countries, consumer demand is likely in the aggregate to provide fairly vigorous stimuli in 1970.

Public current expenditure on goods and services may also rise more rapidly, particularly since experience shows that there is a certain time-lag till wages and salaries in the public sector follow the rise in wages in other branches of the economy.

On the supply side, the scope for an expansion of production will be substantially smaller than in 1969, as in most member countries the available reserves of manpower and technical capacities are almost completely exhausted. In view of the probable pattern of supply and demand, the strains already registered in 1969 may in general increase: in some member countries, this could the more readily affect the price climate as the trend of costs will probably also be exerting a stronger upward pressure on prices. The strains, incidentally, will also lead to a vigorous rise in imports, particularly of finished goods.

C. Short-term economic policy

In the last Quarterly Survey stress was laid on the threats to the aim of balanced economic growth, more particularly price stability, of which there were signs in most member countries. The economic prospects described in the foregoing section show even more clearly that the growth of demand is tending more and more to outrun the possibilities of expanding internal supply. Although there are still considerable differences between one member country and another, their economic development is similar in important respects: investment by enterprises is booming; the expansion of consumer expenditure is accelerating; trade between the member countries is increasing with extraordinary speed—its rise is even steeper than in previous periods of boom; in most member countries economic activity is more and more frequently coming up against the limits of production capacity; bottlenecks are becoming steadily more numerous, a state of affairs which is reflected in increasingly widespread maximum utilization of capacity, a relatively low rate of unemployment —with marked regional variation—a greater number of unfilled vacancies, longer order books and shrinking stocks of finished goods in industry, coupled with lengthening delivery dates.

In general, there has been a further pronounced deterioration of the price climate in the Community. In France and the Netherlands, where the rise in prices is at present most marked, this is due not only to a very steep rise in production costs but even more to the very swift expansion of demand; at the same time, however, it should be pointed out that factors not directly connected with the trend of economic activity, such as changes in the system of indirect taxation and a stiffening of food prices caused by poor harvests, have also played a part. In other member countries too, a general tendency for prices to rise is becoming more and more discernible since there too the trend of demand threatens to outrun the possibilities of supply by an appreciable margin. Furthermore, a perceptible upsurge in wage costs could also occur in these countries later in the year.

The Community should lose no time in doing everything possible to counter, by co-ordinated action, the effect on prices that could result from a general inflation of demand reinforced by an upsurge in costs, as inflation, by retaining production factors artificially in sectors of low productivity and in marginal enterprises, would hamper the modernization of the economy and its adaptation to structural change, developments which are an essential condition for a high level of economic growth, even in the medium term. Inflation should also be checked if for no other reason than that it leads to a comparative deterioration in the position of the less resilient social groups, whose income is usually adjusted only after some delay and who, on account of their low income level, have little chance of protecting themselves against price increases through the acquisition of property. It also militates against private saving, and so can seriously disturb the balance of financial circuits. If the attack on rising prices were delayed too long, the authorities responsible for economic policy would sooner or later be forced, if only in an endeavour to maintain external equilibrium and the competitiveness of the economy, to adopt drastic measures which might have far-reaching effects on economic growth and undermine the security of employment.

Throughout the Community, therefore, a stop should be put as early as possible to the upward movement of prices by means of well-considered measures to guide the expansion of overall demand. The importance of such action is enhanced by the fact that it may serve later on to forestall a more severe dip in economic activity.

It is of basic importance that the high degree of interdependence between the member countries' economies, together with the direct and indirect effects of the probable cooling of the world economic climate, be taken into consideration by each country when its policy mix is being determined. The slowdown to be expected in world trade will undoubtedly inhibit the expansion of overall demand in the Community. This could complicate France's efforts to return to better external equilibrium. The same results would follow if the action taken to restrain demand in this or that country went beyond what was needed to prevent overheating: France would then have to take even more drastic restrictive measures in order to balance its current account. Great importance attaches in this connection to the economic policy followed in Germany, whose imports from the other EEC countries amount to some 30 % of intra-Community trade.

In order to achieve balanced development in the Community as a whole it is therefore exceptionally important that the guidance of overall demand should allow for the particular circumstances prevailing in the various member countries and more especially that it should take account of the differences in the intensity of their upward price trends and in their balance-of-payments positions.

In countries such as the Netherlands, where the upward pressure on prices is especially vigorous, or France, where restoration of confidence in the currency must still be one of the foremost aims of policy, action to dampen down the expansion of domestic demand should be particularly vigorous. Even in Belgium, where there will be a very great risk of price increases becoming steeper towards the end of the year, a restrictive course should be followed in short-term policy, though it could be less rigorous than in the above-mentioned countries. In Germany, action to dampen down internal demand should be particularly cautious and well balanced, for care must be taken in this country to see that while the expansion of internal demand remains neutral in its effect on prices, it is none the less sufficiently vigorous to allow of a further perceptible reduction in the external contribution. The more pronounced the reduction in the German surplus position—which, incidentally, is in part due to the fact that demand pull from abroad reflects the inflationary developments occurring in other countries—the greater will be Germany's chances of successfully preserving its internal stability. The elasticity of production in Italy, on the other hand, still appears to be fairly great, though the outlook for the development of demand at present makes it appear advisable to avoid additional expansionary measures, in other words, to pursue a neutral economic policy for the time being.

Most of the member countries are at present facing a special problem arising from the fact that the means of implementing monetary and credit policy have been extremely limited as a result of the changes that have occurred in the situation on the international money and capital markets since 1968. True, the increases in interest rates, which have been made in most countries as a result of the higher rates ruling on the main international markets, especially the Euro-dollar market, are entirely in line with the aim of damping down internal demand; but allowance should be made for the fact that an increase in the price of credit usually takes effect on actual demand only after a considerable time-lag, especially if transactors have already adapted their behaviour to an inflationary upswing in prices. Germany faces the problem that adjustment of the level of domestic interest rates to international rates cannot be taken too far without greatly hampering the exports of capital which are so necessary if the surpluses on current account are to be offset and domestic liquidity mopped up. In Italy, too, action to raise interest rates is now inopportune for domestic economic reasons.

When, therefore, a decision is being made on the combination of economic policy instruments that will be used, special weight should, at the present juncture, attach to public financial policy. In general, there should be a reduction in the stimuli provided by the way in which public funds are handled; in countries which have to cope with particularly powerful tendencies towards imbalance, the rise in government expenditure should be strictly limited and unavoidable budget deficits should be financed through genuine domestic savings. Any surplus of tax receipts should in all countries be employed to reduce public indebtedness or even sterilized at the bank of issue. If this is not sufficient adequately to slow down the expansion of demand, an increase in direct taxes should also be contemplated.

The sooner and the more fully upward price trends are successfully checked in the various member countries and the equilibrium of their balances of payments is improved, the greater will be the likelihood that speculative movements of capital, such as those observed in the Community in November 1968 and in April/May 1969, will not recur.

The Community's present economic development vindicates once again the great importance of rapidly implementing the proposals developed in the "Commission Memorandum to the Council on the Co-ordination of Economic Policies and Monetary Co-operation within the Community" of 12 February 1969 and already described in the last Quarterly Survey (1/1969).

In any case, all the member countries must pursue an economic policy convincing enough to ensure that confidence in the maintenance of the reciprocal currency parities is consolidated: this is essential to the proper functioning of the common market and for any further progress towards economic integration.

TABLE 1: **Basic data 1967**

Total area ('000 sq. km.)	**1 167.5**
Total population ('000)	184 550
Density of population per sq. km.	158
Numbers in employment ('000)	73 450
Numbers in employment, breakdown by main sector (%):	
— Agriculture	16
— Industry	44
— Services	40

TABLE 2: **Key indicators**

	% change by volume on preceding year							Volume indices (1958 = 100)	Contribution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross Community product	5.4	5.6	4.5	5.8	4.8	3.7	3.4	157	—
Industrial production	6.8	5.8	5.3	7.2	4.3	5.3	1.7	170	—
Visible imports	5.5	11.3	10.2	6.9	5.0	6.8	0.6	199	—
Private consumers' expenditure	6.2	6.3	5.8	4.5	4.7	4.3	3.6	156	60
Gross fixed asset formation	10.1	7.1	5.1	8.7	3.3	3.2	2.1	176	23
Visible exports	3.2	1.0	3.8	9.3	11.0	8.4	7.7	191	—
Intra-Community visible trade	14.5	13.9	16.0	13.2	12.2	10.9	6.1	344	—
Gross product per capita	4.4	4.2	3.3	4.6	3.7	2.7	2.7	143	—

TABLE 3 : **Basic monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	116	120	121	124	122	123	112	95	123	127	132	132
	1968	122	127	132	134	122	132	120	108	137	142	150	147
	1969	(136)	(141)	(146)									
Imports from non-member countries (cif, million u.a.)	1967	2 607	2 392	2 610	2 515	2 564	2 654	2 366	2 376	2 444	2 620	2 784	2 837
	1968	2 694	2 606	2 811	2 709	5 408		2 850	2 608	2 790	2 991	3 061	3 008
	1969	3 173	2 793	3 105									
Exports to non-member countries (fob, million u.a.)	1967	2 563	2 413	2 678	2 681	2 595	2 721	2 543	2 358	2 525	2 918	2 763	2 876
	1968	2 781	2 771	3 025	2 848	5 323		3 206	2 772	2 784	3 297	3 171	3 286
	1969	2 887	2 745	3 261									
Balance of trade (million u.a.)	1967	– 44	+ 21	+ 68	+ 166	+ 31	+ 67	+ 177	– 18	+ 81	+ 298	– 21	+ 39
	1968	+ 87	+ 165	+ 214	+ 139	— 85		+ 356	+ 164	– 6	+ 306	+ 110	+ 278
	1969	– 286	– 48	+ 156									
Intra-Community trade (million u.a.)	1967	1 925	1 861	2 145	2 002	1 974	2 099	1 913	1 734	1 956	2 245	2 182	2 126
	1968	2 123	2 162	2 371	2 287	4 248		2 479	2 085	2 409	2 773	2 658	2 724
	1969	2 695	2 727	3 057									

NOTES

Source : Statistical Office of the European Communities (SOEC).

Table 1

— Total population at mid-year.
— Numbers in employment at mid-year.

Table 2

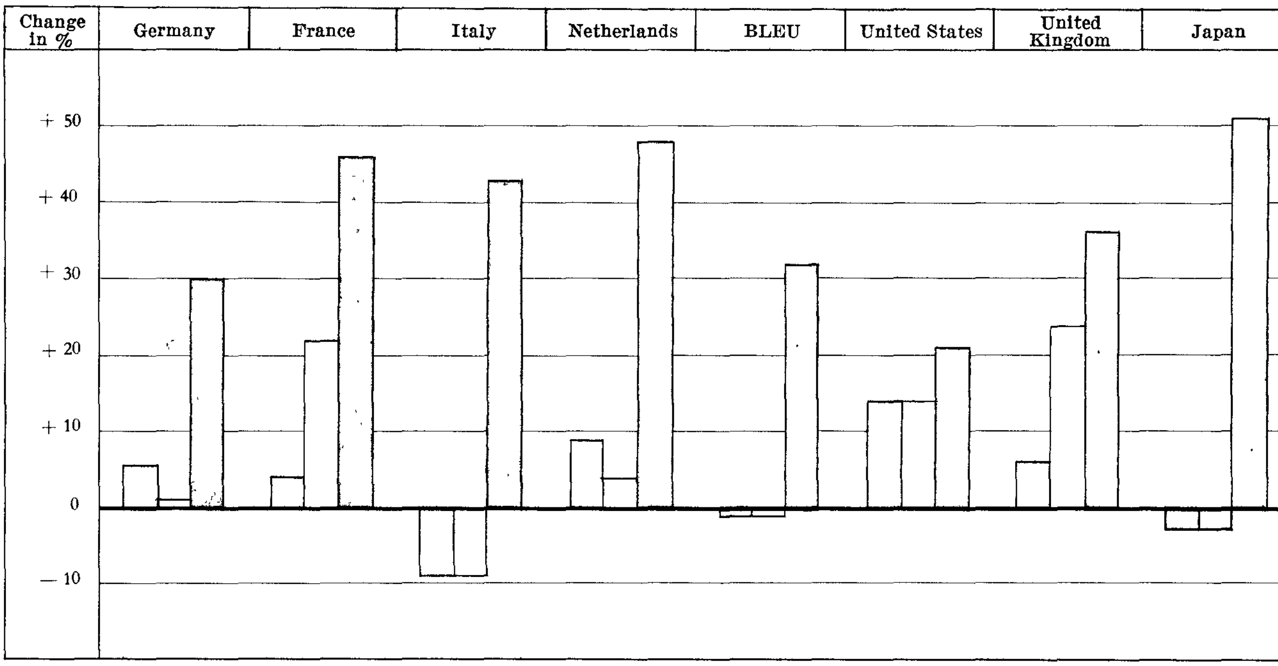
— The final column of the table gives a % breakdown of GNP at market prices by main categories of expenditure. The calculation of the Community's GNP has been made on the basis of official exchange rate.
— Industrial production: index of the Statistical Office of the European Communities, excluding construction, food, beverages and tobacco.
— Imports of goods (cif) from countries which are not members of the EEC, as shown by customs returns.
— Exports of goods (fob) to countries which are not members of the EEC, as shown by customs returns.
— Trade between EEC member countries, as shown by customs returns relating to imports.

Table 3

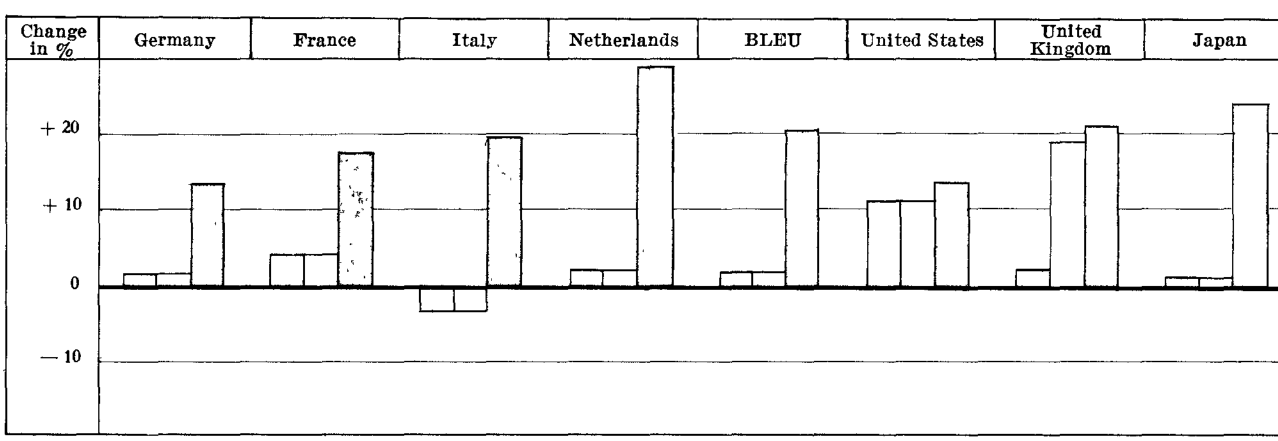
— See note to Table 2.
— Conversion into units of account was effected at official exchange rate (1 unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate).

DEVELOPMENT OF THE AVERAGE VALUE OF EXPORTS AND THE PRICE-INDEX OF DOMESTIC EXPENDITURE

1958-1968



1963-1968



Average value of exports in dollar

Average value of exports in national currency

Price-index of domestic expenditure in national currency

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Germany

The German economy is currently passing through a period of unmistakable boom. On the demand side, investment has been expanding very vigorously. Private consumption, too, has been soaring and, despite the tax on exports introduced at the end of 1968, even demand from abroad has again been showing a sharp upward tendency in the past few months. Although on the whole supply is still elastic in adapting to the pull of demand, there are increasing signs of strain, particularly on the labour market.

The outlook until the end of the year suggests that the current expansion of demand will persist. Investment demand, for instance, is unlikely to weaken appreciably before 1970 at the earliest, while private consumption may even gain further momentum. With bottlenecks on the labour market reducing the chances of stepping up domestic supply, there is an increasing danger of a general rise in prices.

1. Recent developments

At the beginning of the year and in the spring months the economic trend showed all the characteristic features of a boom, and supply has of late been having difficulty in following the expansion of demand.

In the early months of the year, visible exports receded somewhat into the background, with deliveries expanding only slowly. This was, however, no more than a temporary reaction to the turbulent advance brought about by special factors in the closing months of 1968, in addition to which exports to the United States were impeded by the dock strike; for the period January-April total exports were 13.5 % up on the level of the first four months of 1968. The underlying trend of export demand continued to mount vigorously, with the flow of new orders and the rise in the backlog even accelerating distinctly, although by April of this year export prices were up by almost 4 % as a result of last November's measures in defence of the external equilibrium.

Domestic demand has maintained its high rate of expansion since the turn of the year. The pace of investment in plant and machinery has even quickened distinctly, largely because of a further rise in profits and of sales prospects that continued to be favourable and so encouraged enterprises to step up their efforts to extend and rationalize plant. Not only have sales of German-manufactured capital goods, particularly machinery, shown an unusually sharp rise, but imports of capital goods have also climbed appreciably. The trend of building investment, by contrast, was inhibited in the early months of the year by the persistence of cold, wintry weather. From April onward, however, the underlying forces of expansion again asserted themselves more strongly, particularly in industrial building and civil engineering.

The share of consumption in economic activity has risen further. In the field of public current expenditure on goods and services, expenditure for military purposes and expenditure on salaries and wages have increased somewhat more strongly than before; the overall trend of activity was, however, determined by the fact that private consumers' expenditure was appreciably more buoyant. Retail sales, for instance, in the first four months of the year were 8 % up on January-April 1968. The rise in spending has of late been particularly evident in consumer durables, a development which is reflected in a sharp increase in new passenger car registrations.

The rapid rise in incomes was the essential factor in this surge of consumer demand. Although in the first quarter the rise in the level of agreed hourly wages throughout the economy did not accelerate significantly—it was 5.8 % higher than a year earlier—actual earnings went up sharply as a result of extensive wage drift and of advances in the total number of hours worked. In the first quarter, the gross wage and salary bill was more than 10 % up on the first quarter of 1968.

Until the spring, rises in demand were still met by the elasticity of supply. Industrial production in particular, which had slackened for a while at the beginning of the year, was again expanding sharply. In the first quarter it was 16 % and in April 14 % higher than a year earlier. The output of the capital goods industry was particularly dynamic (+ 22.7 % in the first four months). However, with the slack in the production system being increasingly taken up, strain began to mount during the spring months, leading in particular to longer delivery dates. The EEC business survey shows that there has of late been a distinct rise in the number of firms which report that shortages of plant and manpower are limiting production.

The expansion of production, which was on the whole very rapid, was again accompanied by a very marked rise in the productivity of labour. In the first quarter, productivity per hour worked in industry increased at an annual rate of 8.4 %. At the same time, however, the labour market began to come under general strain. The number of unfilled vacancies reached an all-time high: at the end of May it was 807 000, i.e. almost seven times the number of unemployed persons (123 000). This rise occurred in the face of increased recruiting of foreign labour. By the beginning of June, the number of foreigners working in the Federal Republic must again have reached 1.3 million, i.e. 4.5 % of the total labour force.

Given the increasingly full utilization of domestic resources, the expansion of imports gathered further momentum. In the period January-April, the total value of visible imports was almost 22 % higher than a year earlier. It is likely that the tax relief on imports, introduced at the end of last year, will already have been giving additional encouragement to purchases from abroad, among which purchases of finished goods moved up with particular vigour, while raw materials expanded for a while only at a slower pace. This was evidently in part attributable to the fact that the level of import prices had till the spring been rising appreciably as a result of the higher world market prices paid for some raw materials and the price increases in various major industrial countries.

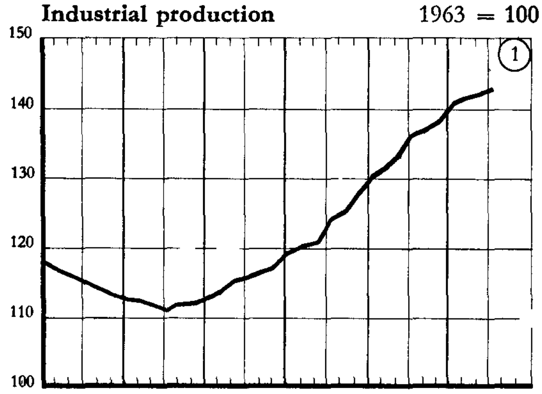
Under the influence of a decided swing towards a sellers' market and of higher export prices, the price trend had been temporarily steeper around the turn of the year, but since February it has calmed down somewhat. All the same, industrial producer prices in April were 1.3 % higher than a year earlier. In May the cost-of-living index for all households was 2.7 % higher than the previous year: with food prices and rents excluded, the increase was 0.8 %.

As the trend of export deliveries was at first somewhat weaker and imports were gathering momentum, the balance of payments in the first four months was affected by some reduction in the surpluses on foreign trade, which for this period amounted to DM 4 100 million. Long-term capital exports moved to a new record level of DM 8 000 million, against DM 11 300 million for the whole of 1968, with the major part again accounted for by transactions in securities; as this figure was four times as high as the surplus on current account, the basic balance of payments closed with a heavy deficit of almost DM 6 000 million. At the same time the official gold and foreign exchange reserves fell by DM 4 300 million while the foreign exchange position of the commercial banks improved by DM 2 900 million. At the end of April, the payments trend was again marked by unusually heavy speculative inflows of capital, which left the country only slowly after the Federal Government had decided not to change the parity of the German mark.

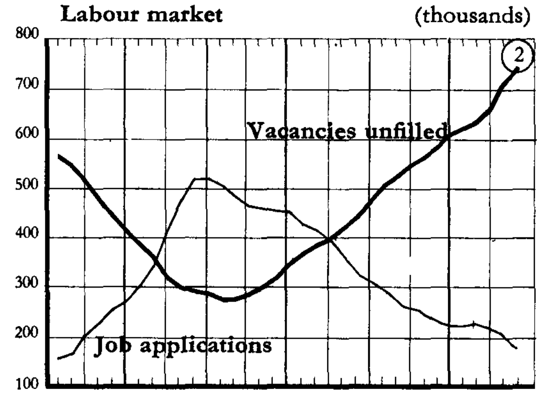
There has of late been an appreciable rise in the level of interest rates, in part accounted for by the fact that the cash transactions of the public authorities have tended to curb the expansion

ECONOMIC INDICATORS

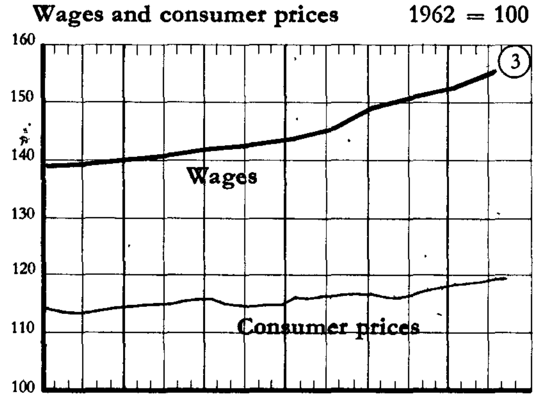
Industrial production 1963 = 100



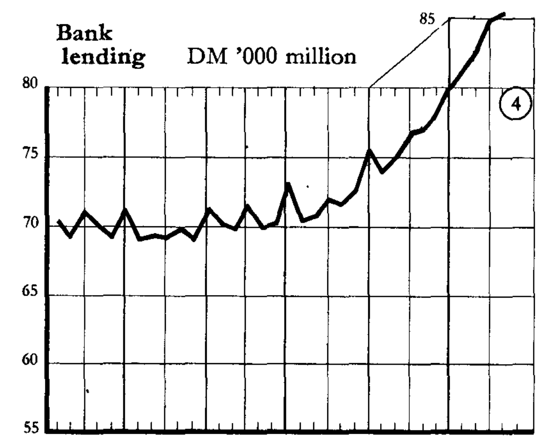
Labour market (thousands)



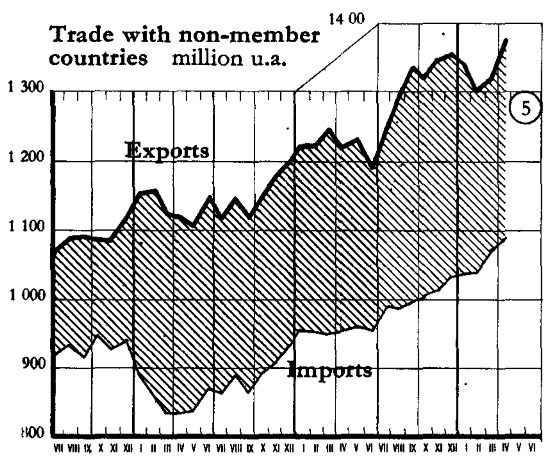
Wages and consumer prices 1962 = 100



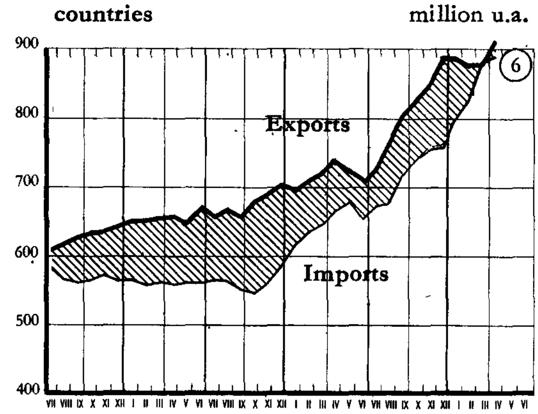
Bank lending DM '000 million



Trade with non-member countries million u.a.



Trade with other member countries million u.a.



NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2 : Series adjusted for seasonal variations (Three-month moving averages).

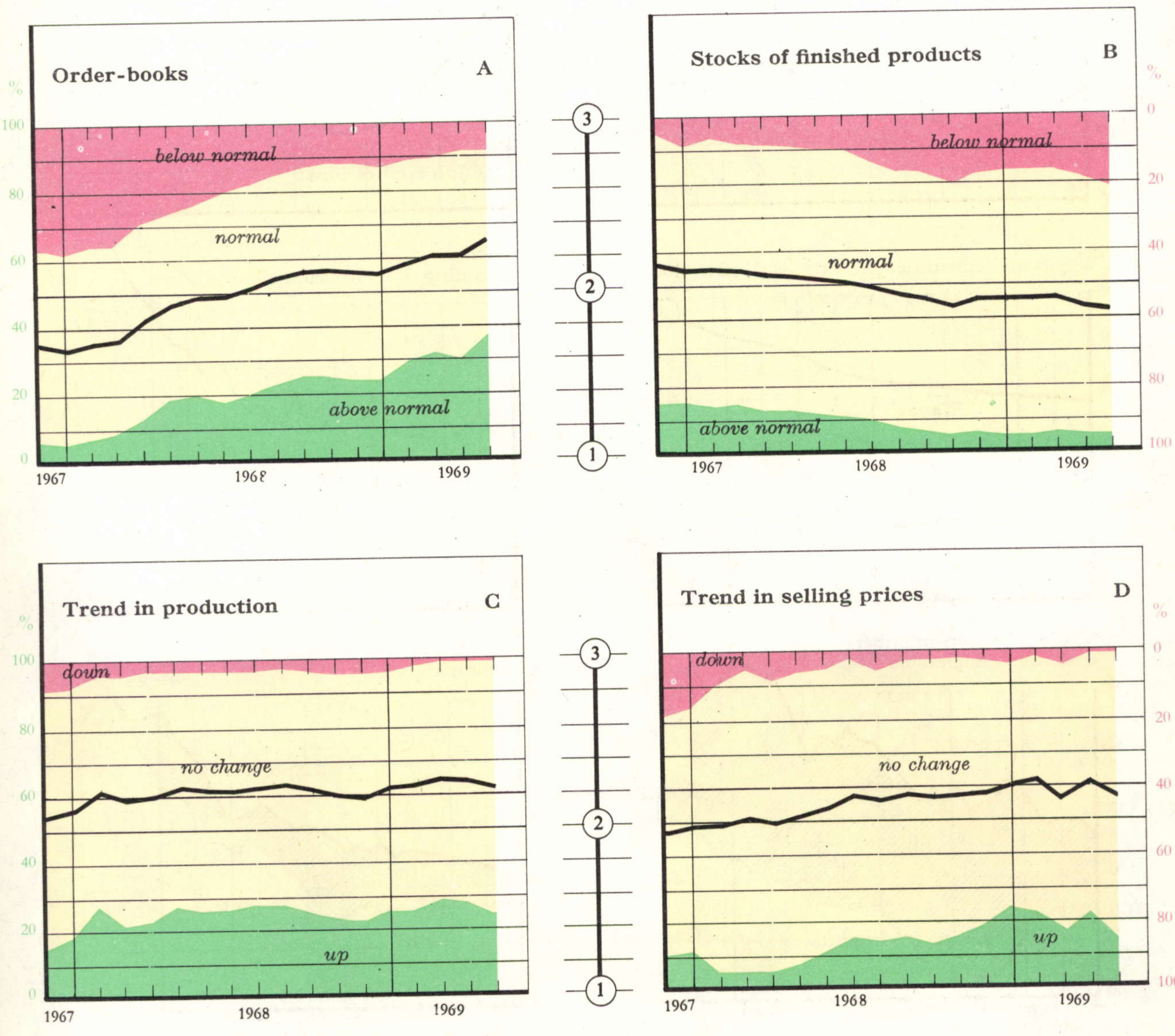
Graph 3. Source : Statistisches Bundesamt. Cost-of-living index at middle of month; index of average hourly gross earnings in industry (including construction).

Graph 4. Short-term loans to business and private customers within the country.

Graphs 5 and 6. Series adjusted for seasonal variations (Three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

u.a.: one unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

by 0.03 for the answer "above normal", or "up";
by 0.02 for the answer "normal", or "no change";
by 0.01 for the answer "below normal", or "down".

of domestic liquidity. In the first quarter, for instance, the Federal Government had its first cash surpluses since 1966 as a result of the favourable trend of tax receipts coupled with a relatively modest rise in expenditure.

On the capital markets, the fall in interest rates at the beginning of the year was reversed. After a period of excess demand in all sectors of the market, the banks agreed to a voluntary restriction of the issue of foreign loans.

Demand for and supply of goods and services

	1966 [1]	1967 [1]		1968 [1]		1969 [2]
	At current prices (in DM '000 million)	% change on preceding year				
		Volume [4]	Value	Volume [4]	Value	Volume [4]
Exports [3]	103.0	+ 9.6	+ 8.2	+ 15.4	+ 12.9	+ 7½
Gross fixed asset formation	121.9	— 7.4	— 9.4	+ 8.6	+ 10.4	+ 13½
Public current expenditure on goods and services	75.5	+ 3.4	+ 6.7	— 0.8	+ 2.9	+ 4½
Private consumers' expenditure	274.9	+ 0.6	+ 2.4	+ 3.6	+ 5.7	+ 6½
Gross national product	480.8	+ 0.2	+ 0.9	+ 7.0	+ 9.0	+ 6½
Imports [3]	96.5	— 0.4	— 1.3	+ 16.6	+ 12.7	+ 15½

[1] Federal Statistical Office, "Wirtschaft und Statistik", No. 2/1969.
[2] Commission forecasts.
[3] Goods, services and factor income.
[4] At preceding year's prices.

Note:
(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook

The outlook until the end of 1969 suggests that the boom will continue unabated while the causes of strain will strengthen increasingly.

Export demand will probably continue for a while to contribute to expansion. So far, at any rate, the flow of orders from abroad has, after seasonal adjustments, shown a distinct upward tendency; in the first four months, they were one fifth larger than deliveries abroad over the same period. In the course of the second half of the year, however, the stabilization measures adopted in some major importing countries may entail a certain slackening of demand for German products.

Of the various components of domestic demand it is in particular gross fixed asset formation that can be expected to maintain a high rate of expansion. A number of significant factors, including the persistent tendency for demand to expand while producers are already working near the limits of capacity, continue to suggest that enterprises will make heavy purchases of plant and machinery. The trend of costs has moreover not yet exerted any pressure on investment decisions, particularly since firms still have considerable scope for financing. The deterioration that may occur in the trend of profits in the second half of the year and the tightening of the situation on the financial markets are unlikely to affect investment plans before 1970 or even later.

The trend of investment in building and construction, by contrast, will on the whole be somewhat calmer, though industrial building may well expand vigorously for a while as capacity is extended in industry. The expansion of public investment, on the other hand, may fall off a little as a result of budgetary measures, but its tempo will still be considerable since large investment projects that are of great importance from the angle of structural policy will have to be carried out at local authority level. Given the volume of orders on hand, activity in residential construction too can still be expected to be good, but growth is likely to flatten out gradually.

Demand from the private consumer may gather additional momentum as the year advances, as the boom will certainly entail a sharper rise in earned incomes. The expansion of incomes from paid employment may indeed accelerate appreciably for the further reason that wage agreements in a number of major industries will come up for renewal in the second half of the year.

With demand thus showing, by and large, a very dynamic trend, the growth of real gross national product will depend mainly on the possibilities of further stepping up supply. In view of the strains apparent on the labour market, the rise in industrial production will depend even more than before on the trend of productivity. Although productivity will advance more slowly, the gains will probably remain considerable since the substantial new investments made in the past will exert a favourable influence on output per man-hour.

Imports can at the same time be expected to maintain their expansionary trend. The vigour of demand provides foreign suppliers with good sales possibilities on the German market, with the emphasis probably on finished industrial goods. The further rise in production may also entail a sharper increase in purchases of raw materials.

With supply and demand in this state, the risk of a general rise in prices is increasing. The maintenance of price stability will, however, depend in large measure on whether and how far any deterioration in the trend of costs will be seized upon by firms to make greater use of the chance, temporarily offered by the state of demand, to put up their prices.

By and large, the economic developments portrayed in this report do not call for any significant change in the quantitative forecasts for 1969 published in the last Quarterly Survey (No. 1/1969). The growth of real gross national product for 1969 may, however, be somewhat stronger than originally forecast. At the moment the Commission expects a rise of almost 6.5 %.

As far as it is possible at this stage to look beyond the end of 1969 and assess the trend for 1970, it seems that the first half of the year will still see a continuation of the present fairly rapid economic growth. Only as the year advances must economic activity be expected to slow down somewhat. Investment activity will probably slacken only gradually, while private consumers' expenditure might even gather some additional momentum. Given these developments in demand, of which it is at this stage only possible to say in which direction they will tend, there is some risk that in 1970 the boom could get increasingly out of hand, since the scope for increases in supply from domestic production will dwindle further and further. As this report is being penned, however, these developments in the manufacturing sector are overshadowed by the uncertainty which hangs over international monetary relations. If this factor is left out of account, the real gross national product may rise in 1970 by some 4 %, which would mean only a slight slackening in the trend of economic growth.

In view of the outlook for the pattern of supply and demand, the Federal Government last March adopted a number of restrictive measures. They are in the main designed to prevent the very substantial extra tax receipts generated by the increasing vigour of the boom from flowing back into the demand circuit and to ensure that they are used to reduce public indebtedness, as advocated in the last Quarterly Survey. The Länder and the local authorities were advised to adopt as far as possible this method of neutralizing the extra tax yield. On its own level, the Federal Government placed a limit of DM 1 600 million on expenditure. At the same time, some surviving import quotas and agreements for the voluntary restriction of imports were eased in order to step up supply and intensify competition. Monetary and credit policy, for its part, has been more restrictive since the beginning of the year. The Bundesbank first gave up the open market operations on the capital market which were designed to hold interest rates down, then put up the rate for loans against securities, and in April raised Bank rate from 3 % to 4 %. In May this was followed by an increase in the minimum reserve requirements which deprived banks of DM 2 500 million of liquid funds.

In view of the very heavy speculative inflows of foreign exchange and the further strengthening of the expansionary forces inherent in the business situation, the Federal Government in May took a number of additional measures to back up its decision not to revalue the exchange parity of the German mark. As a measure to combat the speculative inflows of foreign exchange, it proposed to the Parliament to change the Bundesbank Act in such a way that the ceilings on the minimum reserve requirements for deposits of non-residents can be raised from 30 % to 100 %. At the same time it is intended that the time-limit on the tax measures adopted in November in the field of visible imports and exports shall be rescinded. On the other hand it was decided that certain foreign exchange transactions should not be subject to authorization.

As a means of reinforcing the measures already adopted to stabilize the economic situation, it was also decided that a compulsory equalization reserve of some DM 2 500 million must be established out of surplus revenue by the Federal authorities and funds totalling DM 1 200 million by the Länder authorities; for this purpose repayments of short-term debts could be taken into account.

The current trends in foreign trade and payments set comparatively narrow limits to a policy of restrictive action. In order to widen these limits as far as is possible at the moment, those responsible for short-term economic policy should seek a well-balanced mix and should in particular make the fullest use of the possibilities available in connection with the budget and with movements of capital. Even if the cash operations of the public authorities are having, as a result of the high level of the extra tax yield, an effect that is distinctly more restrictive than was foreseeable in March, nothing should be done to reduce the effort to limit expenditure. On the occasion of the review to be carried out in July, the expenditure freeze that has been in effect so far should rather be transformed into a genuine cut, particularly as the total rise in public expenditure will even so be higher than the rate of 7.5 % indicated in the last Quarterly Survey. As the strains threaten to increase further, however, it is of still greater importance that budget planning for 1970 too should be subject to strict limits on expenditure. This would mean that the rise in actual expenditure in 1970 would have to be kept below the figure given in the medium-term finance plan. An attempt should also be made to limit the expansion of spending by the Länder and local auhorities. Should the investment boom fail to show signs of slackening in the autumn of 1969, consideration would in addition have to be given to the possibility of using Section 26 of the Act to Promote Economic Stability and Growth, under which the facilities for depreciation by the decreasing-charge method can be reduced.

Monetary and credit policy, on the other hand, should play more of a complementary role, following a course traced by balance-of-payments requirements.

Given the persistent tendency for Germany's foreign trade to produce surpluses, the promotion of long-term capital exports by purchase of foreign securities or direct investment continues to be a matter of very great importance. For one thing, this serves to offset the foreign trade surplus and the consequent balance-of-payments burden being supported by the other countries. From the domestic angle, too, it helps to shift excess domestic liquidity abroad. For this reason it appears to be perfectly acceptable that capital exports should even be appreciably higher than the surplus on current account, particularly since the monetary authorities can draw on substantial foreign exchange reserves, which means that their foreign claims simply pass to private investors without affecting the external position of the German economy as a whole.

3. The economic situation in West Berlin

In the early months of the year, Berlin's economy shared largely in the vigorous upswing of economic activity experienced in the rest of the country. Deliveries to the Federal Republic, for instance, again rose steeply, with capital goods in the lead. The trend of exports at the beginning of the year, by contrast, was initially somewhat weaker; it was not until the spring months that the upward trend of export demand engendered a substantial rise in export deliveries.

Investment demand has for some time past been providing very expansionary stimuli, but of late the main contribution to expansion has come increasingly from private consumer demand. Retail sales in the first quarter were 8.5 % higher than a year earlier, reflecting a faster expansion of earned incomes. The total wage and salary bill of industry in the first three months was more than 10 % higher than in the corresponding period of 1968.

On the supply side, industrial production showed another sharp rise, the total for the first quarter being 15.7 % up on that of a year earlier.

The Berlin labour market has for several months again been showing the customary picture of earlier boom periods: a sharp rise in manpower requirements, far-reaching reduction of local unemployment, and increased recruitment of West German labour and, even more, of foreign workers.

The outlook until the end of the year suggests an acceleration of economic activity. The flow of new orders, for instance, has recently showed a decidedly favourable trend; in electrical engineering they continued to run at a high level, in mechanical engineering they climbed even further, but it was in the clothing industry that the most vigorous rise has been registered this year. Overall, the very pronounced investment boom currently registered in West Germany may well lead in the months ahead to a further strengthening in the transfer of demand to Berlin.

TABLE 1: **Basic data 1968**

Total area ('000 sq. km.)	248.5
Total population ('000)	60 184
Density of population per sq. km.	242
Numbers in employment ('000)	26 342
Numbers in employment, breakdown by main sector (%)	
— Agriculture	10.0
— Industry	47,4
of which : Construction	7,8
— Services	42,6
Percentage share of gross domestic product	
— Agriculture	4,9
— Industry	47,2
of which: Construction	7,5
— Services	47,9
Gross product per capita (DM)	8 786

TABLE 2: **Key indicators**

	% change by volume on preceding year								Volume indices (1958 = 100)	Contribution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1968	1968	1968
Gross national product	5.4	4.2	3.4	6.6	5.6	2.3	0.2	7.0	162	—
Industrial production	6.3	4.5	2.7	8.5	6.7	2.0	— 1.7	9.1	172	—
Total imports	8.1	11.4	8.0	10.7	15.0	2.7	— 0.4	16.6	271	20.3
Private consumers' expenditure	6.8	5.9	2.9	5.3	6.3	3.5	0.6	3.6	158	56.2
Public current expenditure on goods and services	7.8	11.5	7.5	— 0.5	6.9	1.0	3.4	— 0.8	167	15.7
Gross fixed asset formation	9.4	5.9	2.9	12.0	6.5	0.2	— 7.4	8.6	179	23.1
Total exports	3.5	3.9	9.0	9.6	7.2	10.8	9.6	15.4	245	23.8
Gross national product per capita	4.0	2.8	2.2	5.3	4.3	1.2	— 0.2	6.5	147	—
Gross national product per person gainfully employed	4.0	3.4	3.0	6.2	4.9	2.6	3.2	6.8	158	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1962	1963	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports										
Total	4.5	10.2	10.9	10.3	12.5	8.0	14.3	282	24 840	100.0
Intra-EEC	20.9	20.8	8.4	6.7	16.0	9.4	16.7	388	9 341	37.6
To non-EEC countries	1.0	4.7	12.5	12.4	10 6	7.2	11.3	242	15 499	62.4
Exports of food, beverages and tobacco										
Total	7.3	16.0	20.5	25.0	− 2.0	26.9	21.8	360	658	2.7
Intra-EEC	8.1	23.9	22.1	22.6	6.6	61.2	32.8	579	379	1.5
To non-EEC countries	6.9	11.5	19.5	26.6	− 7.3	2.6	9.4	238	279	1.2
Exports of raw materials and manufactures										
Total	4.5	10.1	10.8	10 0	12.9	7.5	14.1	280	24 182	97.3
Intra-EEC	12.2	20.8	8.1	6.3	16.3	8.1	16.1	383	8 962	36.1
To non-EEC countries	0.9	4.6	12.3	12.1	11,0	7.2	12.9	242	15 220	61.2
Visible imports										
Total	12.2	6.0	12.2	19.6	3.2	− 3.7	61.1	274	20 151	100.0
Intra-EEC	16.6	8.7	17.4	30.7	4.2	− 1.0	21.7	441	8 359	41.5
From non-EEC countries	10.3	4.7	9.7	13.6	2.5	− 5.4	12.5	216	11 793	58.5
Imports of food, beverages and tobacco										
Total	20.1	− 8.3	8.3	21.6	2.4	− 4.2	3.7	191	3 713	18.4
Intra-EEC	15.9	− 0.0	9.3	28.0	6.8	0.1	11.9	320	1 613	8.0
From non-EEC countries	22.2	−12.2	7.8	18.1	− 0.1	− 6.9	1.9	146	2 100	10.4
Imports of raw materials and manufactures										
Total	9.9	10.7	13.3	19.0	3.3	− 3.6	19.4	304	16 439	81.6
Intra-EEC	16.8	11.5	19.7	31.3	3.5	− 1.3	24.3	485	6 746	33.5
From non-EEC countries	6.8	10.3	10.2	12.5	3.2	− 5.0	16.2	241	9 693	48.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1962 = 100)	1967	106	111	114	119	119	117	112	104	122	126	131	130
	1968	111	118	125	131	132	142	120	123	139	140	154	144
	1969	130	137	143	150	155							
Unemployed (1000)	1967	621	674	576	501	458	401	377	359	341	361	395	526
	1968	673	590	460	331	265	227	203	188	174	180	196	266
	1969	369	374	243	155	123							
New orders received (1962 = 100)	1967	110	113	129	122	124	132	119	119	133	149	142	133
	1968	125	132	140	145	152	133	147	139	155	175	163	154
	1969	161	161	183	182	175							
of which: home orders	1967	100	101	118	113	115	118	110	110	125	142	132	119
	1968	113	119	129	133	141	120	133	129	144	163	147	136
	1969	146	146	167	166	159							
foreign orders	1967	157	167	180	166	164	193	158	163	168	179	189	195
	1968	179	188	187	197	203	187	207	185	201	228	233	234
	1969	229	234	258	252	245							
Construction: permits issued (DM '000 million)	1967	2.76	2.68	3.11	3.50	3.32	3.69	3.78	3.60	3.70	4.35	3.88	3.13
	1968	2.34	2.99	3 63	3.88	3.72	3.63	4.16	3.89	3.97	3.98	3.63	3.35
	1969												
Private consumers' expenditure: Retail turnover, value (1962 = 100)	1967	115	109	134	127	129	128	129	122	127	134	144	192
	1968	113	112	132	140	137	126	136	131	129	149	161	194
	1969	127	119	145	147	153							
Total visible imports (million u.a.)	1967	1 393	1 276	1 442	1 406	1 403	1 556	1 401	1 408	1 414	1 579	1 613	1 653
	1968	1 553	1 538	1 658	1 651	1 690	1 513	1 835	1 617	1 677	1 959	1 799	1 804
	1969	1 941	1 715	2 055	2 078	2 024							
Total visible exports (million u. a)	1967	1 750	1 629	1 816	1 867	1 724	1 884	1 726	1 654	1 791	1 989	1 906	2 025
	1968	1 869	1 862	2 102	1 926	2 016	1 767	2 184	1 928	2 056	2 309	2 309	2 476
	1969	1 970	1 978	2 453	2 406	2 382							
Balance of trade (million u.a.)	1967	+ 357	+ 352	+ 373	+ 461	+ 321	+ 327	+ 325	+ 246	+ 377	+ 410	+ 292	+ 372
	1968	+ 316	+ 324	+ 444	+ 275	+ 325	+ 254	+ 349	+ 312	+ 379	+ 430	+ 509	+ 672
	1969	+ 29	+ 264	+ 399	+ 328	+ 358							
Official gold and foreign exchange reserves (million u.a.)	1967	6 490	6 684	6 759	6 723	6 759	6 702	6 639	6 690	6 808	6 737	6 914	6 853
	1968	6 486	6 749	7 030	6 842	6 732	6 733	6 709	6 695	6 962	6 665	8 544	7 497
	1969	6 229	6 169	5 926	6 473								
Money supply (DM '000 million)	1967	74.4	76.3	75.6	77.0	77.6	78 7	79.3	79.7	80.2	80.5	84.2	87.8
	1968	81.5	81.3	81.0	81.8	83.8	85.3	84.8	85.7	86.8	86.8	91.3	93.3
	1969	86.6	87.1	87.5									

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

- Total population. Average for year (estimate).
- Numbers in employment. Average for year (estimate). Source : Statistisches Bundesamt.
- Shares industries in gross domestic product at factor cost ; industry including small workshops. Source : Statistisches Bundesamt.
- Gross national product at market prices.

Table 2

- Gross national product at market prices.
- Industrial production: value added at market prices (incl. small workshops).
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rates. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST) : food, beverages and tobacco (Groups 0 and 1 CST), raw materials and manufactures (Groups 2-9 CST).

Table 4

- Industrial production. Source: Statistisches Bundesamt. All industries, including construction, adjusted for varying length of months.
- Unemployed: Position at end of month; not adjusted for seasonal variation. Source: Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.
- New orders. Source: Statistisches Bundesamt. Unadjusted index (value) for manufacturing industry (excluding foodstuffs); value index (calendar months).
- Construction. Source: Statistisches Bundesamt. Building permits, estimates of construction costs (excluding civil engineering).
- Private consumers' expenditure. Source: Statistisches Bundesamt. Index of value of retail of trade turnover; value index.
- Exports fob, imports cif. Conversion at official exchange rate. Source: Statistisches Bundesamt.
- Official gold and foreign exchange reserves. Bundesbank's gross reserves of gold and convertible currency at end of month.
- Money supply. Notes and coin in circulation, excluding cash holdings of credit institutions. Sight deposits of non-banks and of private residents (excluding public authorities' deposits with the Bundesbank). End-of-month figures.

B. France

The expansion of demand in monetary terms continued to make very heavy calls on the productive resources of the French economy in the early months of the year. Fixed investment expenditure by firms also rose particularly steeply, but expenditure by households was increasing again at a brisk rate, the propensity to save being very low. At the same time the administration of budgetary expenditure by the public authorities seems to have entailed a heavy contribution to demand. Exports were also relatively vigorous. The elasticity of domestic supply declined owing to a shortage both of technical capacity and of skilled labour, and imports had to be stepped up. The balance of trade deficit again tended to increase, and price increases due to the supply/monetary demand relationship have been stronger in recent months.

A forecast of the future trend can be made only with certain reservations at the moment, since the economic and financial policy of the Government after the election of the new President of the Republic cannot yet be predicted. In the meantime there are many signs that the expansion of demand will continue for a time at an appreciable rate and that the pressure on domestic resources will remain very heavy for some time yet; an early return to a better trade balance may thus be hampered.

1. Recent developments

All the evidence suggests that the expansion of domestic demand, which spurted in the winter months, continued in the early months of the year, though at a somewhat more moderate rate. The growth of demand was still outstripping the real potential of the economy. Investment by private firms gained strength, while the development of private consumers' expenditure remained lively, and once again public finance operations seem to have made a fairly vigorous contribution to expansion.

Despite the great pressure of domestic demand on available resources, exports have risen appreciably. According to seasonally adjusted external trade statistics, exports in April/May 1969 were almost 11 % higher by value than in November/December 1968. A number of factors explain this trend: in particular, exporters have been anxious to consolidate the position they had achieved in past years on certain external markets and have been giving these markets priority treatment. In this connection it is significant that the French export industry not only held on to but for some products actually increased its share of Benelux and Italian imports in 1968, despite the heavy production losses owing to strikes. The favourable trend of France's share of the Community market continued in the early months of this year. France, being one of the main suppliers of the other five Community countries, is particularly well-placed to take advantage of the heavy import demand in these countries, where generally speaking the factors of production are coming under growing strain. From January to April the trend of exports to the rest of the EEC was some 15 % up on the last four months of 1968 and almost 30 % higher than the corresponding 1968 figures. Furthermore, official policy measures proved crucial, enabling firms to defend their competitive position on external markets, which had been quite good before the events of May/June 1968. These consisted of direct export aids up to 31 January 1969, and considerable tax relief, mainly through a modification of indirect taxation arrangements. In conclusion, the considerable surpluses of certain agricultural products available for export and the fall in the rate of the French franc on the forward foreign exchange market have also helped to boost exports.

Fixed investments by firms have been a particularly dynamic factor in the development of domestic demand: according to the results of an INSEE economic survey, private industrial investment in building and equipment has risen further since the end of last year—private industry is spending in 1969 20 % more under this heading than in 1968, a year in which there was very little change from 1967. Besides the factors mentioned in the previous Quarterly Survey (very high capacity utilization, shortage of manpower, improved profit situation, promising sales outlook, etc.) a 10 % tax abatement claimable on capital goods ordered by 1 June 1969 must also have helped to speed up investment growth in the first half of the year. The upward trend of residential construction, which began in autumn last year, was vigorous, being supported to some extent by speculative considerations. Despite bad weather, the number of starts was 8 % up in the first quarter of 1969 on the corresponding 1968 figure.

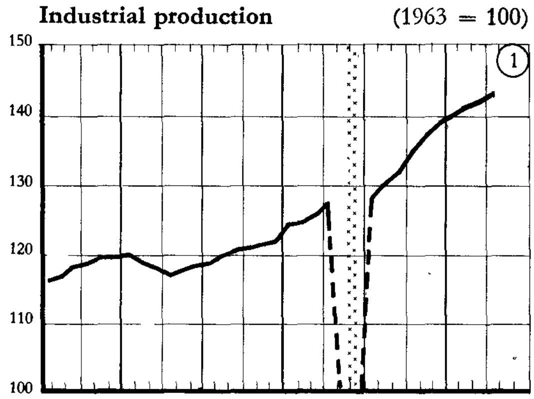
Investments in stocks have shown little improvement. As before, managements consider their stocks of raw materials, semi-manufactures and finished goods as, if anything, a little too low. Only the dealers seem to have begun building up their inventories once again.

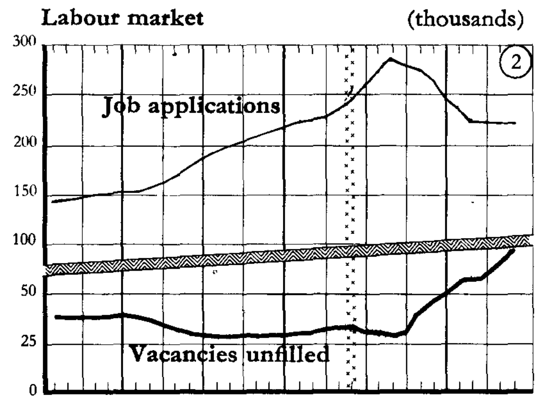
The expansion of private consumers' expenditure remained very firm with a continuing clear upward trend of incomes, the propensity to save being low. Though the "*rendez-vous social*" of March was used merely to review the wages and prices trend in 1968, some of the wage negotiations eventually pursued in individual industries led to very appreciable wage rises. In addition, on 1 April there was a further adjustment of the minimum wage to meet the increase in the cost of living, so that the rise in hourly wages per employee in commerce and industry has continued at a rate of approximately 7 to 8 % per year. At the same time, the number of hours worked increased again, even if not as vigorously as in the winter months. There was a further considerable rise in transfer incomes, and withdrawals by self-employed persons from their businesses may well have increased more steeply. The propensity to save of households, which had dropped sharply at the end of last year, remained very weak: the persistence of some anxiety as to the monetary situation entailed a "flight from paper" and led to a corresponding shift in saving habits—a switch from liquid savings formation to investments in shares and real property.

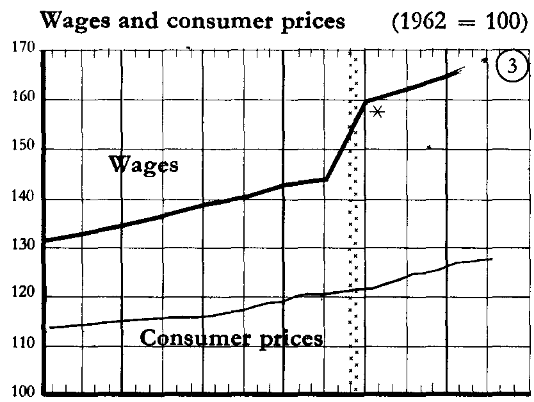
This expansion of overall demand brought available resources under heavy strain, especially since the elasticity of supply declined in many industries, not only as a result of the shortage of technical capacity and manpower, but also because of bottlenecks in supplies of materials. At all events, the growth of production in the course of the early part of the year became notably weaker, and the backlog of orders remains heavy and in some industries has indeed increased. By April 1969, the seasonally adjusted INSEE index of industrial production (excluding building) was only 2 % up on the exceptionally high December 1968 figure, though growth had reached 6 % in the preceding four-month period: this comparison must, however, be treated with some caution, for the data on the output of the capital goods industries—which has been growing faster than the average—are included in the general index only after a timelag. It was nevertheless still 10 % higher than a year previously.

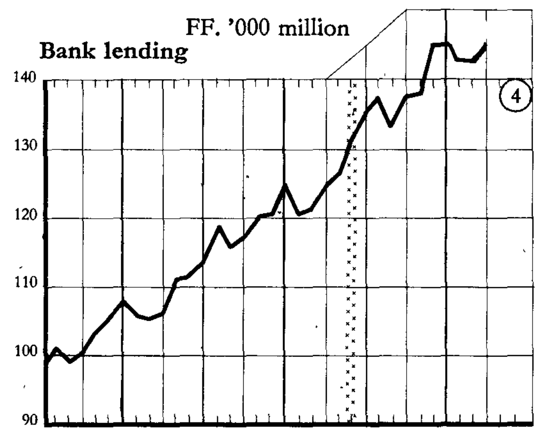
With more and more firms running at or near capacity, productivity gains slowed down. At the same time, the recruitment of new manpower tended to fall off, since the supply of French workers, as recorded in the statistics, is apparently less and less in line with the requirements of the economy. At all events, the number of vacancies rose again sharply in the early months of the year, while the number of applicants, which had dropped very rapidly since the beginning of 1969, has since been falling only very slowly.

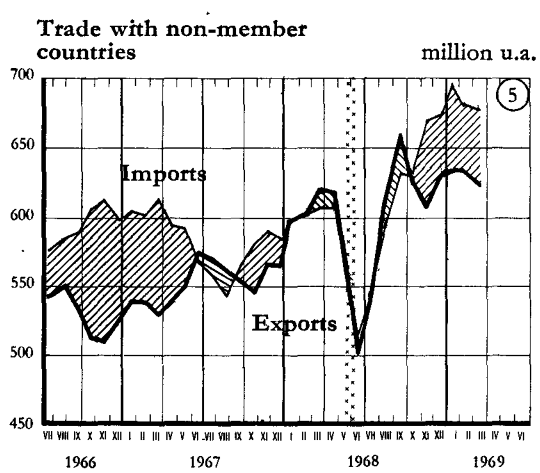
ECONOMIC INDICATORS

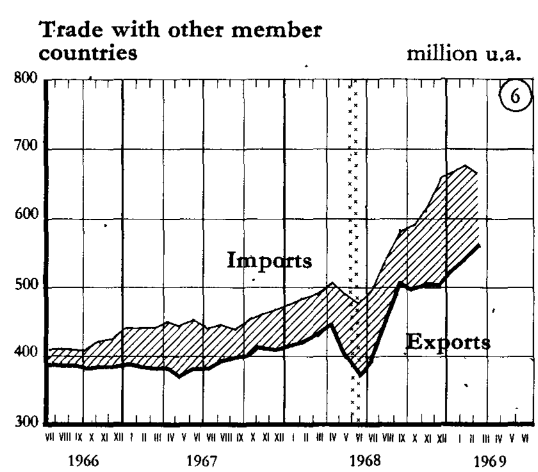












strikes

NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

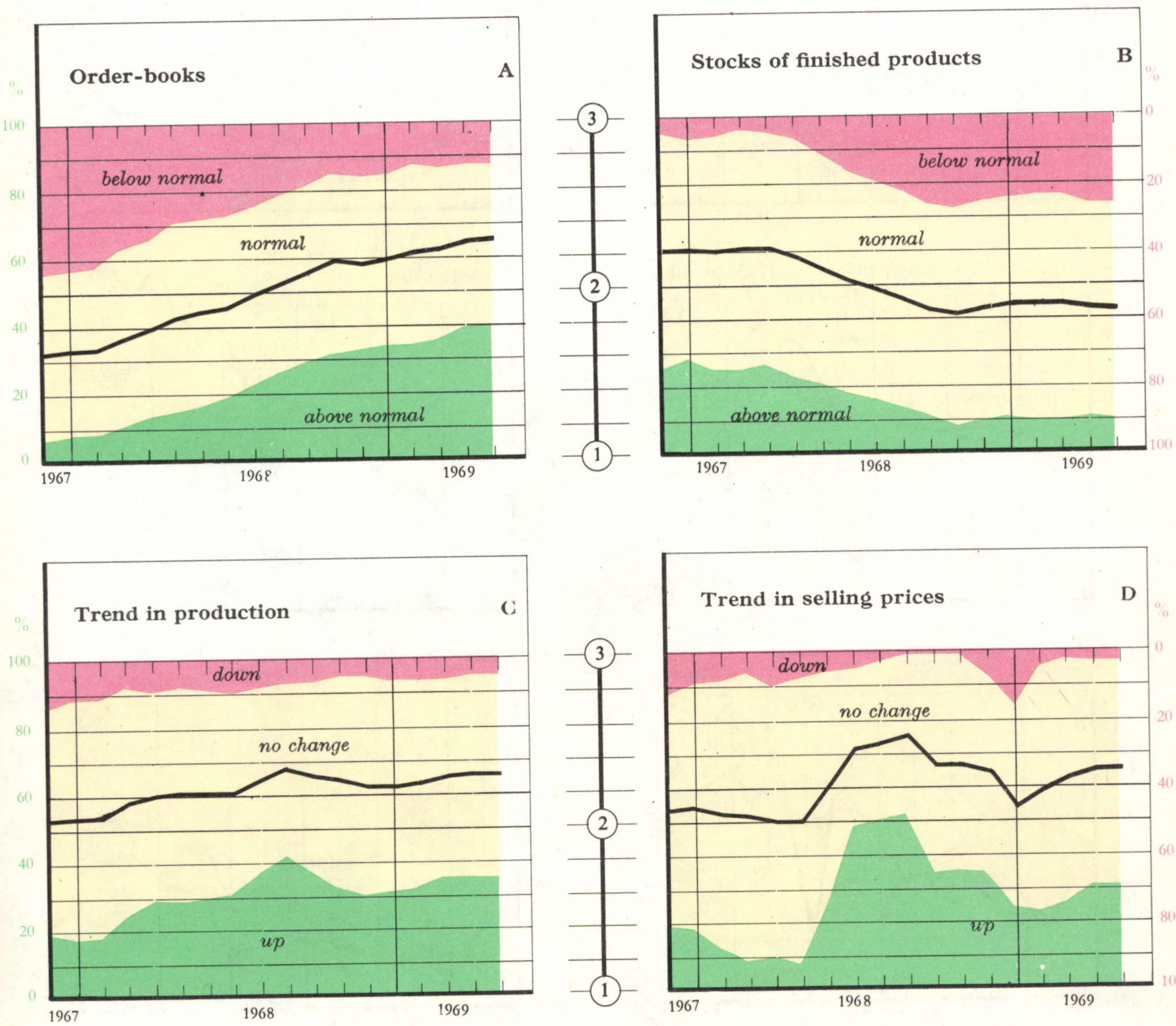
Graph 2. Source : INSEE. Series seasonally adjusted. Three-month moving averages. End-of-month figures.

Graph 3. Source : INSEE. National index of consumer prices (259 items). Index of hourly wage rate, all activities, all regions.
* This level overestimates somewhat actuel increases in wages between April and July, since various bonuses have been included in the hourly wage.

Graph 4. Source : Conseil national du Crédit. Short-term credits (up to 2 years) from monetary institutions to business and private customers. End-of-period figures.

Graphs 5 and 6. Series adjusted for seasonal variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.
u.a. : one unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in France by INSEE.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

by 0.03 for the answer "above normal", or "up";
by 0.02 for the answer "normal", or "no change";
by 0.01 for the answer "below normal", or " down".

Heavy imports were again needed to supplement domestic supply. Total merchandise imports in April/May exceeded the already very high level of November/December 1968 in volume by almost 14 % (calculated according to the external trade statistics and seasonally adjusted). The flow of imports of raw materials and finished manufactures was particularly heavy.

Upward price movements due to the supply/monetary demand situation again gathered momentum in the early months of the year. The increase in TVA rates on 1 January 1969 also had further effects. The INSEE index of consumer prices rose 2.4 % between December 1968 and April 1969; it was then 6.3 % higher than in April 1968. At the same time, the pattern of prices changed a little. While in the services sector the price freeze declared last November remained effective, prices of food and more particularly finished goods hardened more definitely at the retail stage. To judge from the EEC business surveys, industrial producers' prices appear to have risen more steeply in recent months. Given the pressure of demand in the industry, building costs rose particularly sharply.

The deficit on visible trade, which at the end of last year had reached considerable proportions, has tended to deteriorate further. The rate of cover of imports by exports, which, according to the external trade statistics (seasonally adjusted) had dropped from 97 % in the first quarter of 1968 to 85 % in November/December 1968, was down to 82 % by April/May 1969.[1] Since, however, the leads and lags effect has, if anything, improved as a result of exchange controls, and for the same reason the deficit on services has contracted, the current account probably closed with a considerably lower deficit than in the fourth quarter of 1968. Nevertheless the instability of the external financial situation remained considerable because of the further very heavy outflows of capital (principally short-term) in the early months of the year. According to the weekly bulletins of the Banque de France, official gold and foreign exchange reserves, [2] which had increased by about $175 million in January/February, dropped over $700 million in the following three months up to the end of May.

The restrictive effect of the heavy foreign exchange losses on domestic liquidity was more than offset by the expansion of loans to industry and by Treasury cash transactions with expansive effect. The increase in the money supply in the early months of 1969 was substantially greater than is usual for the time of the year; in addition, the velocity of circulation remained significantly higher than in the corresponding period last year. It is evident that the banks have not strictly observed the quantitative credit controls with a strict ceiling to permissible monthly lendings introduced last November and that such credits as are exempt from the ceiling have been substantially increased. At the same time, the Treasury was obliged to draw heavily on purely money-market resources to cover the budget deficit.

Strain on the money market remained unusually severe. The call-money rate was over 8 % in March and April; at the beginning of May it was 9 %, almost reaching the record of last November. On the capital market, too, interest rates were still tending to rise. The net yield of the main bond issues in March was more than 8 %. This did nothing to discourage the demand for equities. The upturn in quotations on the stock markets reached almost boom conditions; issues of new shares in the first quarter of 1969 were more than double those in the corresponding period of last year.

2. Outlook

Pending the election of a new President of the Republic, it is impossible to forecast with any degree of accuracy the general direction and the emphasis of economic and financial policy, and this makes the outlook very uncertain.

There is a good deal of evidence that growth will continue in the immediate future. In particular, almost all industries have heavy backlogs of orders at the present time, so that firms—

[1] Since the customs returns record imports cif (i.e. including insurance and transport), a cover rate of 92 % is generally regarded as the equivalent of equilibrium in visible trade on a balance of payments basis.
[2] Including variations in accounts held with the Banque de France by foreign banks.

which in any case expect boom business conditions to continue—should be induced to step up production in the near future as far as increases in capacity permit this; it must be added, however, that capacity is growing rather slowly. The demand for additional manpower will remain heavy, and strain on the labour market will continue, bringing with it a danger that wage increases will be conceded in excess of productivity improvements. Even if final demand were gradually to weaken, this would affect production only after a timelag, since at all levels of commerce and industry stocks are felt to be too low and would have to be worked back to a normal level in relation to sales. This means that the pressure on domestic resources should remain very heavy for some time and is likely to hamper, at any rate in the short term, efforts to revert rapidly to better external equilibrium conditions, although normally the maintenance—which is expected—of a heavy demand for imports in countries which are major customers of France, particularly the other five Community countries, would enable exports of French goods to be stepped up sharply. The longer the restoration of internal equilibrium is put off, the more unfavourable are becoming the conditions governing growth in 1970 and

Demand for and supply of goods and services

	1966 [1]	1967 [1]		1968 [2]		1969 [3]
	At current prices in FF '000 million	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports [4]	77.1	.	+ 5.9	+ 7	+ 8	+ 12
Gross fixed asset formation	133.1	.	+ 8.2	+ 4½	+ 8	+ 8
Public current expenditure on goods and services	65.9	.	+ 7.9	+ 5½	+ 13	+ 4
Private consumers' expenditure	320.8	.	+ 7.7	+ 5	+ 10	+ 6
Gross national product	531.9	.	+ 7.6	+ 4	+ 9	+ 7
Imports [4]	75.4	.	+ 6.6	+ 11	+ 11	+ 15

[1] Statistical Office of the European Communities; owing to a change in the calculating methods and the adoption of a new reference year for the old series, the volume figures for 1967 are not yet available.
[2] Commission estimates.
[3] Commission forecasts.
[4] Goods, services and factor income.

Note :
(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The estimates and forecasts are approximations based on certain hypotheses worked out by the Commission and generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries but are established and published on the sole responsibility of the Commission.

payments equilibrium. An important factor here is that it is by no means certain that world business activity will not gradually lose momentum towards the end of 1969 and into 1970.

All this means that not much room for manœuvre will be left for those responsible for short-term economic policy. Whatever the circumstances, top priority must be given to a rapid restoration of external equilibrium and to ensuring confidence in the currency on a lasting basis. This can only be done through a sharp curtailment of domestic demand effectively slowing down the flow of imports and widening the margin of exports. If this policy is pursued, a franc devaluation, which has sometimes been urged as a means of overcoming present difficulties, will be neither necessary nor desirable: the competitive power of the French economy on world markets does not seem to have been lastingly impaired, so that the measures taken to lighten the burden of taxation on industry should suffice. Moreover, a change in the parity of the franc could well lead to disturbances affecting economic integration in the Common Market and undermine the bases for the healthy development of the French economy itself: it will in any case not affect the need for a restrictive economic policy, which indeed would have to be even more severe since the danger of inflationary patterns of behaviour by producers, dealers and consumers would then be even greater. For it might revive the illusion that there is a simple solution for internal equilibrium problems and thus compromise the successes achieved so far in efforts made over the years to transform and modernize the structure of the French economy. What is really needed is that these efforts should be even further intensified to make the very most of the existence and the further development of the Common Market so as to achieve steady gains in productivity and in the standard of living.

An economic policy pursued along these lines will, in the future as in the past, have to take account of a number of basic requirements.

In the first place, as regards budgetary policy, the burden of taxation on the national income must be kept as light as possible by retrenchment in the field of public expenditure which is not directly productive, such as administrative expenditure. Subsidies, particularly to nationalized industries, should be carefully reviewed to ensure that no more is being spent than is necessary for economic efficiency. Economies are all the more necessary since the planned reform of the income tax in 1970 may well mean reduced revenues. On the other hand, there is a case for higher appropriations for infrastructure investments and for vocational training, to improve the mobility of capital and labour, which is vital if available productive forces are to be better deployed and unemployment reduced. Here, what is needed is a dynamic housing policy making more use of opportunities for obtaining funds from the capital market.

If harmonious economic development is to be ensured on a lasting basis, another essential requirement is the formation of a considerable pool of private saving. For one thing, a high propensity to save would be an important adjunct to the stabilization policy, since it would slow down the expansion of private spending on consumption; it would enable workers to build up assets of their own—this is also desirable for social reasons—and thus contribute to the "participation of workers in the fruits of the expansion of enterprises"; lastly, it would facilitate the financing of industrial investment and residential construction. The constitution of savings in this way is by no means an unrealistic objective. In the long run the prospect of stable prices is certainly the best way of encouraging saving, but it could also be rapidly promoted with measures such as those used in certain other countries, which are not confined to preferential treatment of income on savings but also allow of tax reliefs or premiums on the saved capital itself.

It will be possible to meet the requirements which are fundamental for long-term balanced growth all the more rapidly the sooner the authorities, using current economic policy measures, succeed in eliminating the gap between demand in monetary terms and real supply potential. The more restrictive policy introduced in November of last year is fully justified. It should therefore, whatever the circumstances, be maintained, until such time as adequate stability within the economy and confidence in the franc are restored. Indeed, in view of the fact that domestic demand is still too heavy for the potential of the French economy, it looks very much as if there is an urgent need to strengthen the restrictive policy for a time.

In particular, the precautionary measures adopted under the 1969 budget to curb the increase in expenditure and scale down the deficit should be strictly maintained, and the administration of the budget should be all the more strict since the existence of large unexpended balances carried over from 1968 means that the danger that public expenditure estimates will be exceeded is very great. And if there were to be any tax revenues in excess of estimates, these should be used to cut the deficit of FF 6 350 million budgeted for in the Finance Law. The balance of the deficit should be covered from domestic saving and the money market should be used as little as possible. In this connection, given the domestic liquidity situation, there may be a case for floating a government loan.

Similarly, the monetary and credit policy designed to hold down demand should be maintained, as is the intention of the monetary authorities, who, at the beginning of May, extended until the end of the year the restriction on the expansion of credit originally planned to lapse on 30 June: the expansion of short-term loans and of non-mobilizable medium- and long-term loans to commerce and industry will now be restricted to specified rates in the second six months of 1969 as well; all in all the expansion allowed between 30 June and 31 December 1969 has been fixed at only 3 %. In addition the banks have now been called upon to slow down the expansion of mobilizable medium-term loans. Lastly, it has also been decided to slow down the expansion of hire purchase sales by tightening up the terms on which loans for consumers can be granted. Should these measures not achieve the desired objective, it might prove necessary to restrict substantially the present exceptions made in credit ceiling arrangements. In these circumstances, the authorities should also make fuller use of powers to adjust interest rates and bank liquidity.[1]

If a short-term economic policy along these lines is implemented consistently, and if producers, dealers and consumers all co-operate actively, particularly in the field of wages and prices, it should be possible to restore a better internal and external equilibrium. In this way the foundations would be laid for rapid and balanced growth in the longer term as well as in the nearer future.

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[1] On 13 June 1969, after the closing date for this Survey, Bank rate, which had been 6 % since 12 November 1968, was raised to 7 %. At the same time, the Banque de France raised the preferential short-term discount rate for exporters from 4 to 5 % and the rate for advances on securities from 7.5 to 8.5 %.

TABLE 1: **Basic data 1967**

Total area ('000 sq. km.)	551.2
Total population ('000)	49 756
Density of population per sq. km.	90
Numbers in employment ('000)	19 733
Numbers in employment, breakdown by main sector (%):	
— Agriculture	15.8
— Industry	39.9
of which : Construction	9.6
— Services	44.3
Percentage share of gross domestic product:	
— Agriculture	8
— Industry	41
of which: Construction	8
— Services	52
Gross product per capita (FF)	10 771

TABLE 2: **Key indicators**

	% change by volume on preceding year							Volume indices (1958 = 100)	Contribution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	+ 4.4	+ 6.6	+ 5.2	+ 5.9	+ 4.2	+ 4.9	+ 4.4	156	—
Industrial production	+ 5.5	+ 6.7	+ 7.3	+ 8.5	+ 4.4	+ 6.4	+ 4.1	168	—
Total imports	+ 7.0	+ 8.7	+12.2	+12.4	+ 3.6	+11.1	+ 4.9	203	14.5
Private consumers' expenditure	+ 5.9	+ 6.4	+ 6.8	+ 4.8	+ 4.0	+ 4.7	+ 4.1	154	63.7
Public current expenditure on goods and services	+ 3.4	+ 4.3	+ 1.2	+ 4.8	+ 3.7	+ 3.5	+ 6.0	142	13.5
Gross fixed asset formation	+10.5	+ 7.9	+ 7.5	+10.1	+ 6.8	+ 5.8	+ 6.3	185	21.9
Total exports	+ 5.5	+ 3.1	+ 7.9	+ 7.7	+11.4	+ 6.9	+ 4.4	206	14.7
Gross national product per capita	+ 3.3	+ 4.6	+ 3.2	+ 4.6	+ 3.1	+ 3.9	+ 3.4	140	—
Gross national product per person gainfully employed	+ 4.4	+ 6.3	+ 3.9	+ 4.6	+ 4.2	+ 4.5	+ 4.1	152	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1962	1963	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports										
Total	+ 2.1	+ 9.8	+11.3	+11.8	+ 8.3	+ 4.5	+11.4	248	12.676	100
Intra-EEC	+12.0	+14.0	+12.8	+18.0	+12.0	+ 2.0	+16.0	480	5 453	43.0
To non-EEC countries	− 2.9	+ 7.3	+10.3	+ 7.8	+ 5.8	+ 6.3	+ 8.2	181	7 223	57.0
Exports of food, beverages and tobacco										
Total	− 2.9	+22.0	+14.4	+11.4	+ 7.5	+ 2.9	+19.9	319	2 120	16.7
Intra-EEC	+ 1.4	+34.5	+16.6	+26.3	+19.4	+ 6.0	+26.7	924	1 128	8.9
To non-EEC countries	− 5.1	+15.4	+13.0	+ 2.0	− 2.0	− 0,4	+13.0	183	992	7.8
Exports of raw materials and manufactures										
Total	+ 3.0	+ 7,8	+10.7	+11.8	+ 8.5	+ 4.8	+ 9.9	237	10.556	83.3
Intra-EEC	+13.9	+10.9	+12.1	+16.4	+10.5	+ 1.1	+13.5	427	4 325	34.1
To non-EEC countries	− 2.6	+ 6.0	+ 9.8	+ 8.9	+ 7.2	+ 7.4	+ 7.5	181	6 231	49.2
Visible imports										
Total	+12.6	+16.1	+15.4	+ 2.7	+14.5	+ 4.5	+12.6	248	13.935	100
Intra-EEC	+20.0	+23.9	+20.4	+ 6.7	+20.8	+10.7	+23 1	539	6.617	47.5
From non-EEC countries	+ 9.1	+12.2	+12.6	+ 0.3	+10.5	+ 0.2	+ 4.5	167	7.318	52.5
Imports of food, beverages and tobacco										
Total	+19.8	+ 5.1	+14.9	− 0.5	+ 8.4	− 2.6	+ 2.7	136	1.920	13.8
Intra-EEC	+37.6	+37.4	+26.2	+ 8.9	+ 1.3	+16.6	+31.8	638	588	4.2
From non-EEC countries	+17.4	—	+12.5	− 2.8	+10 3	− 7.4	− 6.4	101	1 332	9.6
Imports of raw materials and manufactures										
Total	+10.9	+18.8	+15.5	+ 3.4	+15.8	+ 5.9	+14.3	286	12 014	86.2
Intra-EEC	+18.7	+22.7	+19.8	+ 6.5	+22.9	+10.5	+22.4	531	6 029	43.3
From non-EEC countries	+ 6.6	+16.3	+12.6	+ 1.2	+10.6	+ 2.4	+ 7.3	196	5 985	42.9

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	123.3	124.3	125.8	124.3	123.2	127.4	109.8	75.3	121.9	127.6	131.7	132.3
	1968	127.2	130.6	133.9	135.6	93.6	108.6	118.9	83.2	129.8	143.8	148.5	150.7
	1969	143.6	145.1	144.6									
Unemployed ('000)	1967	193.8	194.3	189.2	188.7	179.0	168.3	168.2	174.4	193.4	216.9	238.2	248.1
	1968	271.7	273.7	264.0	250.6	237.5	243.0	232.3	237.8	251.1	260.8	262.3	258.3
	1969	271.9	263.9	246.2	226.9	210.1							
Construction: permits issued ('000)	1967	31.6	36.2	41.1	37.7	42.2	40.3	41.3	35.7	36.7	37.2	39.8	46.5
	1968	34.6	31.0	42.4	36.0	36.9	44.5	46,4	47,1	40.9	54.4	57.2	85.0
	1969	41.5	37.1										
Private consumers' expenditure: turnover of department stores (1962 = 100)	1967	127	110	137	129	133	139	131	119	157	139	149	226
	1968	134	121.	140	136	118	138	147	137	156	158	179	240
	1969	154	133	155	151								
Total visible imports (million u.a.)	1967	1 067	1 039	1 172	1 047	1 066	1 018	926	772	1 011	1 058	1 064	1 150
	1968	1 088	1 104	1 223	1 165	953	953	1 242	934	1 173	1 317	1 350	1 447
	1969	1 367	1 319	1 489	1 588	1 547							
Total visible exports (million u.a.)	1967	883	903	992	970	921	1 024	956	702	917	1 039	1 020	1 056
	1968	985	1 066	1 165	1 087	789	789	1 293	917	1 000	1 253	1 134	1 204
	1969	1 152	1 179	1 262	1 313	1 238							
Balance of trade (million u.a.)	1967	− 184	− 136	− 180	− 77	− 145	+ 6	+ 30	− 70	− 94	− 19	− 44	− 94
	1968	− 103	− 38	− 58	− 78	− 164	− 164	+ 51	− 17	− 173	− 64	− 216	− 243
	1969	− 215	110	− 227	− 275	− 309							
Official gold and foreign exchange reserves (gross, million u.a.)	1967	5 710	5 716	5 705	5 722	5 748	5 772	5 814	5 824	5 835	5 848	6 182	6 108
	1968	6 053	6 014	6 023	6 027	5 721	5 517	4 850	4 601	4 374	4 265	3 985	4 200
	1969	4 215	4 125	3 986	3 774	3 636							
Money supply (FF '000 million)	1967	187 8	185.6	188.3	192 5	189.6	194.8	197.6	193.4	194.7	193.9	190.3	199.6
	1968	192.5	189.8	190.9	191.5	—	207.8	209.3	205.6	209.5	208.3	206.1	216.1
	1969	209.1	208.2	211.2									

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

— Total population at mid-year.
— Numbers in employment at mid-year.
— Breakdown of gross domestic product at factor cost.
— GNP at market prices.

Table 2

— GNP at market prices.
— Industrial production: value added by industry.
— Total exports and imports: goods, services and factor income.
— Substantial changes have been made in the national accounts series for France with the change in the base year from 1959 to 1962. However, the new series, converted to international national accounts definitions, is not yet available.

Table 3

— Exports fob, imports cif. Conversion at official exchange rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

— Industrial production, excluding construction, food, beverages and tobacco.
— Unemployed : position at end of month.
— Construction. Building permits granted for housing. Source: Bulletin statistique du Ministère de la construction.
— Private consumer's expenditure. Index of value of total turnover of department stores ," 5 and 10's", and other non-specialized stores.
— Exports fob, imports cif. Conversion at official exchange rates.
— Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency held by the Banque de France and the Fonds de stabilisation des changes at end of month.
— Money supply. Source: Conseil national du crédit. Fiduciary circulation (total of coins and notes in circulation, excluding coins and notes held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with Post Office savings accounts or with Treasury agencies, plus the sight deposits relating to the activities pursued within France by the banks — registered banks, banques populaires, caisses de crédit agricole and the Banque française du commerce extérieur — no matter whether these deposits are shown in French francs or some other currency or whether they belong to residents or non-residents). End-of-month figures.

C. Italy

The distinctly livelier business trend which has been in evidence again for some time persisted in the spring. While exports continue to rise, an increasing contribution is being made by the expansion of domestic demand, for both investment expenditure—in particular investment in building and construction—and private consumers' expenditure are moving upwards vigorously. Despite protracted strikes, this trend was reflected in an appreciable expansion of production and imports and in greater stability of employment. The price level again went up more sharply. There was a further substantial decline in official gold and foreign exchange reserves over the period until the end of March owing to a deterioration in the balance of visible trade and, more particularly, to very heavy exports of capital.

During the rest of 1969 a further acceleration is expected in the growth of domestic demand. Although at present the elasticity of production still seems to be quite high, the danger of a deterioration in price conditions is becoming greater, especially as there may well be surges of consumption expenditure in the second half of the year. The surpluses on current account, though still heavy, will probably go on shrinking significantly in the period up to the end of the year.

1. Recent developments

In the spring the economic trend remained very dynamic, though in various industries strikes had a temporary impact on the expansion of production.

Exports of goods and services, which had soared in the fourth quarter of 1968, made a further appreciable advance in the first four months of 1969. The growth of exports to non-member countries, however, distinctly lost pace—partly because of the stevedores' strike in the United States, and perhaps partly as an initial reaction to the measures to damp down the economy in the United States and United Kingdom. Exports to the other member countries of the Community, on the other hand, were still markedly vigorous. Visible exports in the January-April period were running 20.7 % higher than a year earlier (value), while the year-to-year growth rate of exports of services on the basis of foreign exchange figures was 13.3 % in the first quarter.

The expansion of domestic demand, especially investments, accelerated. For example, the EEC Business Surveys undertaken by ISCO-Mondo Economico and the figures (sparse though they are) for the trend of production and external trade suggest that the upward movement of investment in plant and equipment was again more lively. Total investment in building and construction too, to judge by the incomplete information at present available, is still tending steeply upwards, although public works were if anything somewhat more sluggish than in the second half of 1968.

Investment in stocks, after declining in 1968, probably gained momentum again about the middle of 1969, as industry was obliged to replenish depleted stocks of raw materials and semi-finished products because of the vigorous expansion of production.

Private consumers' expenditure, too, is likely to have increased faster, though not so rapidly as investment. The main reason for this was probably a somewhat faster expansion of income from employment due to an increase in hours worked, and perhaps also the fact that the propensity to consume was growing again or at least becoming stable. Increases in agreed wages have —so far at least—remained very modest.

On the supply side, the trend of demand led to a vigorous increase in industrial production, with a particularly sharp expansion in the output of consumer goods. Despite a number of labour disputes, industrial production per working day was 7.3 % higher in the first four-month period than a year earlier.

Apart from variations, imports of goods and services also continued to mount sharply, although the rate of growth slowed down distinctly in comparison with the situation at the end of 1968. The advance of imports of services apparently faltered, but this was more than offset by a further vigorous expansion of visible imports. In January-April visible imports were 23 % higher than the admittedly exceptionally low level of a year earlier. Imports of raw materials and capital goods were the categories which expanded most.

The prediction that the growth in the number of persons in paid employment would persist into the first months of 1969 and that the decline in the number of unemployed would gather momentum was confirmed. According to ISTAT's quarterly sample surveys this was due

Demand for and supply of goods and services

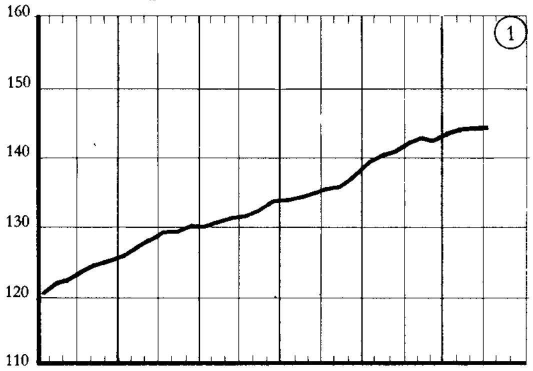
	1966 [1]	1967 [1]		1968 [1]		1969 [2]
	At current prices (in Lit. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports [3]	7 394	+ 6.2	+ 7.7	+ 15.4	+ 14.7	+ 12½
Gross fixed asset formation	7 283	+ 10.5	+ 13.0	+ 7.4	+ 9.9	+ 11
Public current expenditure on goods and services	5 221	+ 2.8	+ 4.7	+ 4.1	+ 9.2	+ 4
Private consumers' expenditure	25 561	+ 7.3	+ 10.4	+ 4.3	+ 5.4	+ 6½
Gross national product	39 829	+ 6.4	+ 9.3	+ 5.7	+ 7.3	+ 7
Imports [3]	6 317	+ 12.6	+ 13.9	+ 7.3	+ 6.7	+ 17½

[1] " Relazione generale sulla situazione economica del Paese (1968) ".
[2] Commission forecasts.
[3] Goods, services and factor income.

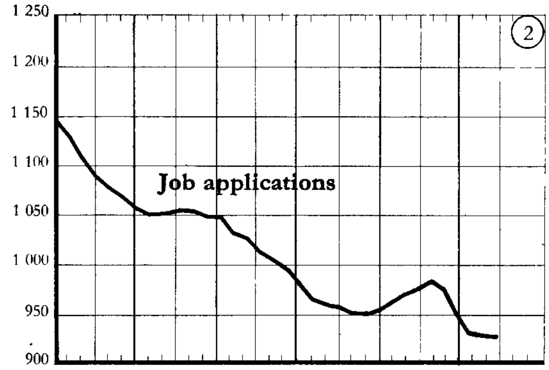
Note:
(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries, but are established and published on the sole responsibility of the Commission.

ECONOMIC INDICATORS

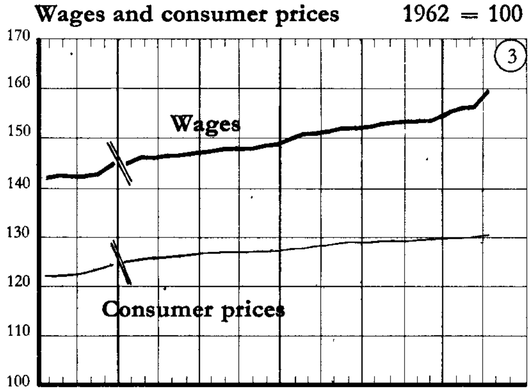
Industrial production 1963 = 100



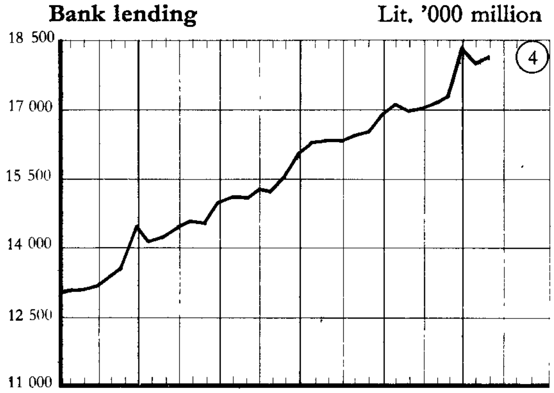
Labour market thousands



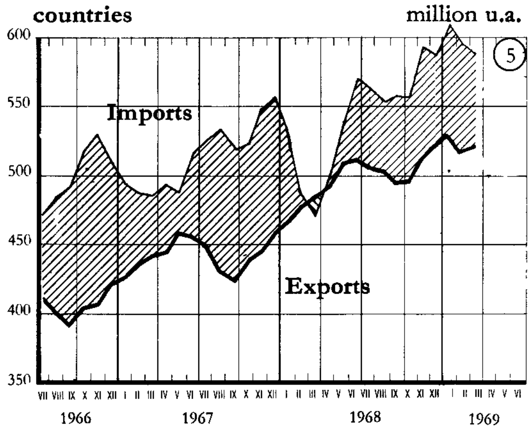
Wages and consumer prices 1962 = 100



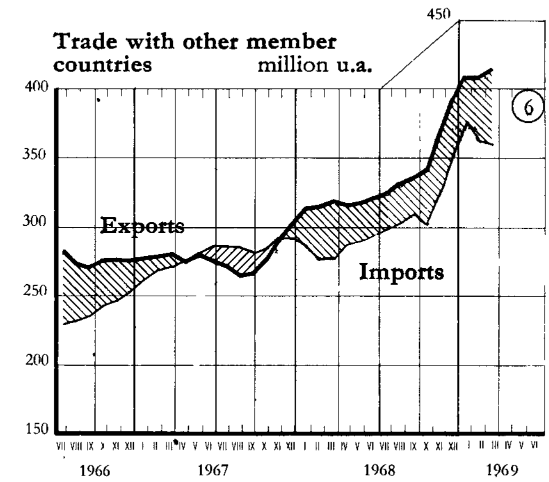
Bank lending Lit. '000 million



Trade with non-member countries million u.a.



Trade with other member countries million u.a.



NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco; provisional indices from January 1967 because of introduction of new series).

Graph 2. Number of registered unemployed, in thousands. Series seasonally adjusted. Three-month moving averages.

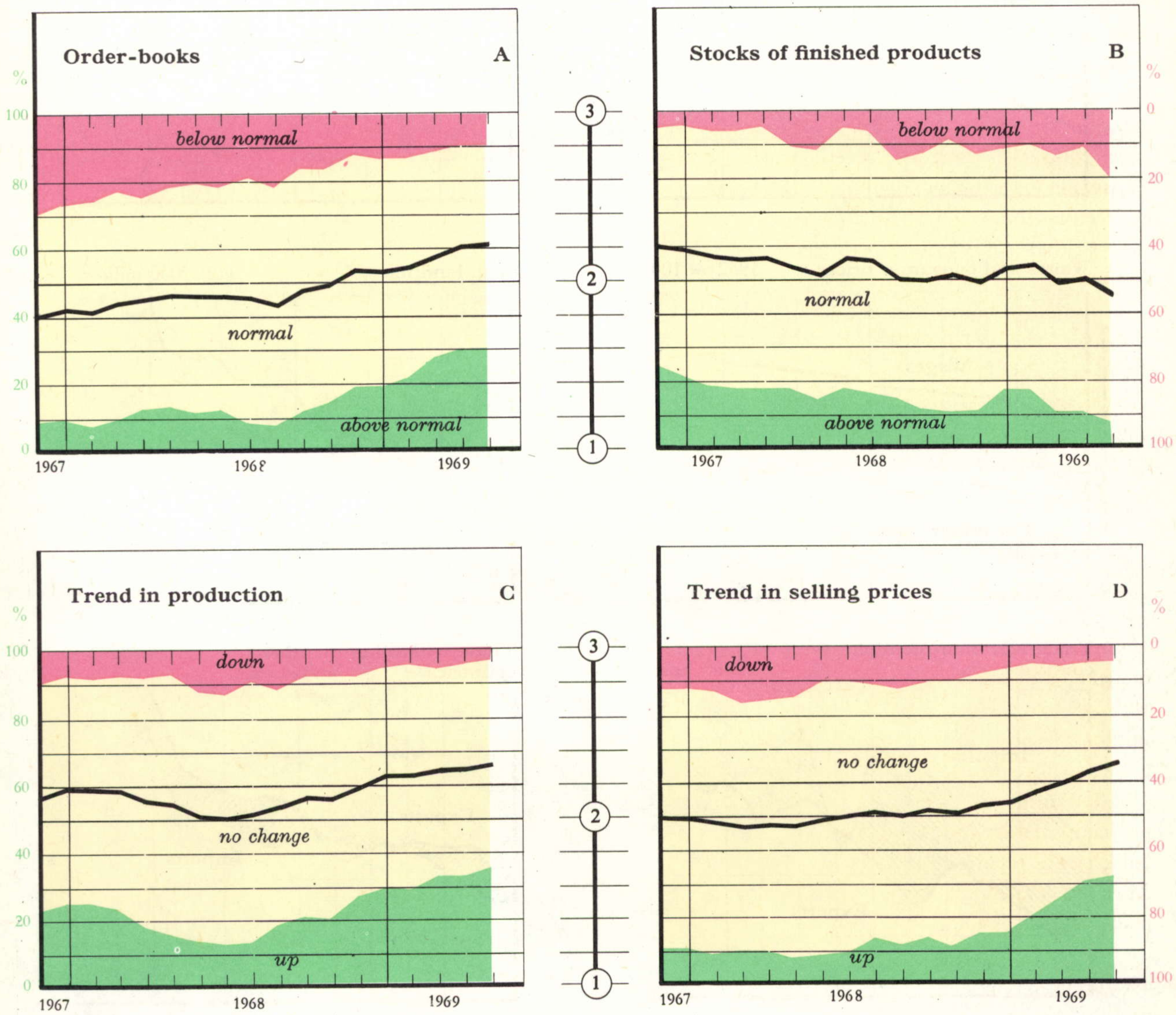
Graph 3. Source: ISTAT. Agreed minimum wages in industry (incl. family allowances). From January 1967 new index (base year 1966) with wider coverage and based on hourly wages. - Consumer prises: From January 1967 new index.

Graph 4. Short-term loans. Source : Banca d'Italia.

Graphs 5 and 6. Series adjusted for seasonal variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

u.a.: one unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Italy by ISCO-Mondo Economico.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

by 0.03 for the answer "above normal", or "up";
by 0.02 for the answer "normal", or "no change";
by 0.01 for the answer "below normal", or "down".

mainly to the fact that industry—particularly building and construction—expanded its labour force considerably.

Since the beginning of the year the level of prices has risen more distinctly. Cost-of-living allowances based on the sliding scale wage agreements in force in the leading industries were therefore increased further in early May (by 2 percentage points, i.e. by as much as in the whole of 1968). The sharper upward movement of prices was mainly due to the fact that because of harvest shortfalls the supply of some crop foodstuffs failed to keep pace with the expansion of consumer demand. Furthermore, in sectors connected with building there were also further considerable price increases. To a limited extent dearer petrol because of taxation contributed to higher prices too. On the whole, however, the year-to-year price increment for April was also small; for wholesale prices it was 1.6 % and for consumer prices 1.7 %. For both these categories, however, the increase for the first four months was equivalent to 4 % for the full year.

The deterioration in the visible trade balance—more than usually sharp for the season—and in particular a very heavy increase in net exports of capital forced the overall balance for the first quarter of payments into a very large deficit—Lit. 349 000 million compared with Lit. 44 000 million a year earlier. The net decline in official gold and foreign exchange reserves, was at Lit. 192 000 million, appreciably smaller than the payments deficit, for funds held abroad by the banks were repatriated on a very large scale in April in connection with certain arrangements made by the monetary authorities.

The domestic liquidity of the banks contracted in the first months of the year more than is usual at this time. This was not only due to payment transactions with abroad, but also to the Treasury's cash transactions and an appreciable increase in minimum reserves, indirectly due to a spurt in the demand for bank loans.

On the securities market equities rallied towards the end of February after a fairly long decline: the improvement was mainly due to favourable company reports and rumours of an early authorization of Italian unit trusts. In March-April it became very pronounced after the monetary authorities had taken a number of measures to promote the sale of Italian securities (see below). In May, however, the trend was once again more settled.

2. Outlook

Growth will probably gather momentum in the second half of 1969, and the contribution made by domestic demand should increase.

The outlook for exports of goods and services, however, is still fairly expansionary. Although it is probable that towards the end of the year there will be a distinct levelling off or even a halt in the growth of visible exports to non-member countries, especially on account of the anti-inflationary measures taken in the United States and United Kingdom, the vigour of exports to the member countries may well go far to offset this trend. Furthermore, the recent replenishing of the export credit fund and the extension of the Government guarantee for such credits will no doubt give exports a boost.

On the domestic demand side, the expansion of fixed investment, which has recently been encouraged by special measures relating to the capital market, may well gather momentum. This applies first and foremost to investment in plant and machinery, for the increasingly distinct tendency for costs to rise and the intensive competition from abroad provide a strong incentive to invest in rationalization. With more and more firms working nearer capacity, as shown by the results of the EEC Business Surveys, capital expenditure for purposes of expansion is also becoming an increasingly urgent need. Rationalization and expansion have, moreover, become all the more pressing because last year the implementation of many investment schemes was postponed.

In view of the outlook for investment in plant and machinery, industrial investment in building and construction should also continue to expand vigorously, one indicator of this being the rapid increase in the number of building starts. There will doubtless likewise be a further vigorous expansion of residential construction. Last but not least, the pace of public works may well accelerate.

Initially, investment in stocks, too, will probably make a further vigorous contribution to growth.

There is a good deal of evidence that consumption expenditure will boost growth. There is likely, in particular, to be a sharp expansion of transfer incomes following the pension reform, [1] which took effect in May, and an appreciable increase in *per capita* earned income as a result of the April agreement on the abolition of wage areas and also because of the coming pay rises for civil servants and the conclusion of new wage agreements at the end of the year in leading industries, in particular building and construction and metal products.

On this assumption, it is to be expected that on the supply side there will be a fast and probably even accelerated increase in production and imports up to the end of 1969. The real growth of the gross national product for 1969 may well be about 7 %. This rate has been adjusted upwards by comparison with the figures in the last Quarterly Survey because the national accounts figures revised by ISTAT, which were recently published for 1965 to 1968 on the basis of a new input/output table, suggest, at any rate for 1967 and 1968, a substantially higher growth rate for services than the old system did.

According to tentative forecasts for 1970, the growth of gross national product in real terms should be about 6.5 % but this is assuming that a slowdown in the expansion of export demand—in particular from non-member countries—will be accounted for by a continuing fast increase in domestic demand.

The danger is growing that in the second half of 1969 prices will already begin climbing more sharply, [2] especially as a powerful impetus will come from the sharp expansion of income resulting from the pension reform, which will benefit a section of the population which naturally has a very high propensity to consume. That there will be a distinct upswing of prices is also suggested by the fact that the number of managements who, according to the EEC Business Surveys, predict higher prices—in particular for capital and consumer goods—has risen steeply in recent months.

In the period from February to April the monetary authorities adopted a number of measures affecting the money and capital markets. First of all they allowed the dollar rate on the Italian foreign exchange market to rise for a time to just below the permitted maximum, in order to curb exports of short-term funds and of capital. A few weeks later the commercial banks were asked to repatriate by 30 June all the net foreign exchange assets—a good $ 800 million—that they had built up in the preceding eighteen months. At the same time it was decided that the interest rate on certain fixed-term loans against securities should be raised step by step from 3.5 % to 5 % if the loans were extended within six months. At the end of March the Banca d'Italia suspended its authorization to Italian banks to participate in consortia issuing and underwriting foreign securities; authorization is given only in the case of units of a foreign unit trust with a portfolio consisting of at least 50 % of Italian securities. Furthermore, since the beginning of April the export of foreign currency in connection with the transfer of an Italian national's residence abroad must first be approved by the authorities. In April, moreover, it was decided that purchases of units of foreign unit trusts would in future have to be authorized by the authorities. It was also decided that the interest rate should be fixed by the authorities each month on twelve-month Treasury Certificates which do not belong to the minimum reserves, with a view to improved alignment on the current situation in the credit market.

The main aim of these measures, namely the expansion of the supply of money and capital in order to satisfy domestic demand for credit, itself corresponds to the economic policy requirement of not allowing financial obstacles to curb the upswing of the business trend in its early stages. The need for credit has grown sharply in the course of the action begun in mid 1968 to promote domestic demand and also as a result of the subsequent recovery of the propensity to invest, and will doubtless continue to grow. The pension reform alone—of the programmes covering several years, this is so far the one which will cost most—will require an

[1] For details see Quarterly Survey No. 1/69, p. 51.
[2] For details see Quarterly Survey No. 1/69, pp. 51-52.

additional securities issue in 1969 amounting to almost Lit. 400 000 million.[1] There is, therefore, substantial danger of strain arising on the capital market. From the Community's angle, however, it would have been preferable to make investment conditions in Italy more attractive in order in this way to expand the supply of capital. A rapid authorization of Italian unit trusts, plans to create which were made some time ago, would make an important contribution here, provided the funds are in a position to offer conditions equivalent to those offered by foreign trusts.

Although firms are working appreciably nearer capacity and there are certain signs of new strains on the labour market, there should still be sufficient margin for growth which is fast and yet free of strain. As suggested in the last Quarterly Survey, those responsible for short-term economic policy should take prompt but not abrupt action to ensure that available capacity is adequately exploited so as to avoid overheating of the economy. It is right that the decision to abolish the wage areas, which was taken by both sides of industry in conjunction with the Government, should be implemented only in stages. The ensuing increase in costs should be taken into consideration in the wage negotiations at the end of 1969. It seems advisable, furthermore, to refrain from further overall measures to encourage growth, particularly because of the scale of the additional government expenditure on pensions (which cannot later be cut back) and in view of the dynamism of the economy's spontaneous growth momentum and of the price trend, which is once again rising. This line of action is probably all the more desirable as guiding government spending in Italy in an anti-cyclical direction is particularly difficult for structural reasons. Experience has shown that curbing an excessive growth of demand takes time and entails the risk of actual growth losses. Considerable caution, therefore, already seems called for in working out budget policy for 1970. If necessary, in forward planning—for the public and government controlled sector—special appropriations designed to spur on growth could be provided for which would be used only if—and this is unlikely—the forces inherent in the economy itself should not be dynamic enough to ensure optimum utilization of capacity.

[1] In 1968 the value of total net issues of bonds and shares amounted to Lit. 3 565 000 million.

Italy

TABLE 1: **Basic data 1968**

Total area ('000 sq. km.)	301.2
Total population ('000)	52 778
Density of population per sq. km.	175
Numbers in employment ('000)	19 069
Numbers in employment, breakdown by main sector (%) :	
— Agriculture	22.3
— Industry	41.4
of which : Construction	10.1
— Services	36.3
Percentage share of gross domestic product :	
— Agriculture	12.4
of which: Construction	40.4
— Industry	6.9
— Services	47.2
Gross product per capita (Lit.)	885 600

TABLE 2: **Key indicators**

	% change by volume on preceding year							Volume indices (1958 = 100)	Contribution (in %) to GNP
	1962	1963	1964	1965	1966	1967	1968	1968	1968
Gross national product	6.2	5.5	2,8	3.6	5.7	6.4	5.7	(180)	—
Industrial production	9.1	6.8	2.1	3.1	8.0	8.1	8.1	(202)	—
Total imports	16.4	22.4	– 5.1	1.9	13.7	12.6	7.3	(333)	16
Private consumers' expenditure	6.3	8.9	2.5	2.7	5,9	7.3	4.3	(181)	64
Public current expenditure on goods and services	5.4	5.1	3.4	3.7	3.5	2.8	4.1	(149)	14
Gross fixed asset formation	10.2	8.5	– 6.5	– 8.4	3.4	10.5	7.4	(177)	19
Total exports	12.3	6.9	11.6	20.1	13.2	6.2	15.4	(365)	20
Gross national product per capita	5.5	4.6	1.8	2.8	5.0	5.1	5.0	(167)	—
Gross national product per person gainfully employed	7.5	7.1	3.1	5.5	7.3	4.8	5.6	(194)	—

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1962	1963	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports										
Total	11.4	8.2	18.0	20.7	11.7	8.3	17 0	395.2	10 183.2	100
Intra-EEC	23.7	10.3	26.4	27.6	12.8	3.3	20.9	670.6	4 079.1	40.1
To non-EEC countries	5.8	7.0	13.4	16.4	11.0	11.6	14.5	310.1	6 104.1	59.9
Exports of food, beverages and tobacco										
Total	14.5	− 3.4	2.4	20.5	1.5	4.7	− 3.7	170.5	870.1	8.5
Intra-EEC	23.4	− 8.7	8.8	31.4	0.4	− 1.7	− 1.3	239.3	453.4	4.4
To non-EEC countries	6.5	2.1	− 3.3	9.5	2.8	12.4	− 6.1	129.9	416.7	4.1
Exports of raw materials and manufactures										
Total	10.9	10.2	20.5	20.7	13.1	8.7	19.4	450.6	9 313.1	91.5
Intra-EEC	23.9	15.6	30.4	26.9	15.2	4.2	24.4	865.7	3 625 7	35.6
To non-EEC countries	4.5	7.7	15.5	17.2	11.8	11.5	16.3	345.2	5 687.4	55.9
Visible imports										
Total	15.9	24.5	− 4.1	1.6	16.7	12.9	4.3	318.8	10 252.6	100
Intra-EEC	22.9	31.1	− 4.5	− 3.1	21.6	21.5	9.1	539.6	3 709.2	36.2
From non-EEC countries	13.0	21.5	− 3.9	3.9	14.4	8.8	1.8	258.8	6 543.4	63.8
Imports of food, beverages and tobacco										
Total	7.3	57.5	2.4	18.9	9.7	0.7	8.5	353.5	1 930.7	18.8
Intra-EEC	10.0	73.1	15.7	20.6	13.5	26.6	29.0	799.6	622.1	6.1
From non-EEC countries	6.8	54.4	− 0.6	18.4	8.7	− 6.4	0.9	279.4	1 308.6	12 7
Imports of raw materials and manufactures										
Total	17.5	19.2	− 5.5	− 2.4	18.6	16.1	3.4	311.7	8 321 9	81.2
Intra-EEC	24.1	27.8	− 6.6	− 6 3	23.0	20.7	5.8	506.4	3 087.1	30.1
From non-EEC countries	14.4	14.8	− 4.8	− 0.2	16.3	13.5	2.0	254.1	5 234.8	51.1

TABLE 4 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1966 = 100)	1967	103.4	103.2	114.8	109.9	112.9	111.6	113 2	80.3	114.1	117.2	112.7	105.7
	1968	108.8	112.5	117.6	114.7	121 0	113 3	122.4	84.6	120.8	130.3	116.8	116.4
	1969	118.8	114.6	127.3	(125.3)								
Unemployed ('000)	1967	878	.	.	628			584	.	.	669		.
	1968	812	.	.	640		.	658	.	.	665		.
	1969	791			596								
Building : domestic turnover of building materials (1964 = 100)	1967	98.7	86.9	109.6	108.0	121.3	131.7	122 0	125.0	101.1	127.7	130.9	113.8
	1968	106.6	92.0	99.7	122.2	142.1	128.9	151.9	131.8	118,0	174,5	127,4	142.7
	1969	132.4	128 5										
Private consumers' expenditure . turnover of department stores (1963 = 100)	1967	116	94	130	117	136	140	134	110	148	149	143	248
	1968	123	110	126	149	144	150	154	129	153	175	162	260
	1969	140	110	144									
Total visible imports (million u.a.)	1967	827	760	796	810	785	810	851	689	791	871	879	839
	1968	756	736	828	846	878	852	862	765	912	821	1 053	948
	1969	1 018	942	936	(998)								
Total visible exports (million u.a)	1967	661	690	771	715	768	708	745	615	715	818	754	745
	1968	739	773	858	821	844	830	880	776	824	902	1 004	909
	1969	889	913	1 022	(1 027)								
Balance of trade (million u.a.)	1967	− 166	− 70	− 25	− 95	− 17	− 102	− 106	− 74	− 77	− 52	− 125	− 94
	1968	− 17	+ 37	+ 30	− 25	− 34	− 22	+ 18	+ 10	− 88	+ 81	− 50	− 39
	1969	− 129	− 29	− 86									
Official gold and foreign exchange reserves (net, million u.a.)	1967	4 514.0	4 472.8	4 535 5	4 646.8	4 708.2	4 721.0	4 876 2	5 135.2	5 232 6	5 359.5	5 335.3	5 238.1
	1968	5 138.7	5 149.6	5 104.5	5 081.9	5 042.4	5 086.4	5 140 9	5 269.7	5 188,3	5 194,9	5 069,1	4 878,3
	1969	4 727 2	4 636.3	4 492.6	(4 578)								
Money supply (Lit. '000 million)	1967	15 840	15 662	15 981	16 157	16 417	16 576	16 778	16 623	16 964	16 956	17 075	18 877
	1968	17 863	17 652	17 976	18 235	18 463	18 795	18 993	18 975	19 379	19 373	19 695	21 104
	1969	20 440	20 379	20 836									

( ) Provisional figures

Italy

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

Source: Relazione generale sulla situazione economica del Paese (1968).
- Present-in-area population (resident population less persons temporarily abroad). Average for year.
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

Source for 1967-1968 : Relazione generale sulla situazione economica del Paese (1968). The national accounting arrangements have been revised by the Istituto Centrale di Statistica, and the data for 1967 and 1968 are therefore not fully comparable with those for the preceding years.
- GNP at market prices.
- Industrial production: value added by industry at factor cost.
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

- Industrial production. Source: Istituto Centrale di Statistica.
- Unemployed. Source : Istituto Centrale di Statistica.
- Construction. Internal trade in building materials, calculated from turnover taxes. Source : Istituto Nazionale per lo Studio della Congiuntura.
- Private consumers' expenditure. Retail sales of department stores, based on the turnover of 22 department stores and "single-price" stores. Not very typical of the trend in private consumption as a whole.
- Exports fob, imports cif. Conversion at official exchange rate.
- Official gold and foreign exchange reserves. Source: Ufficio Italiano dei Cambi.
- Money supply. Notes and coin in circulation excluding cash holdings of the Treasury. Sight deposits of non-banks with registered credit institutions; banks drafts in circulation (whether vaglia or assegni) issued by the Central Bank and other banks and credit institutions.

D. The Netherlands

After a temporary slowdown during the early months of the year, the vigorous economic upswing continued again in the spring. In particular, exports to other EEC countries and firms' expenditure on investment expanded rapidly. Other factors making for expansion, however, were residential construction and consumer expenditure. The growth in industrial production appears to have encountered hardly any technical bottlenecks to speak of. On the labour market, however, demand was running well ahead of supply. At the same time a very sharp upward trend in prices developed.

The present phase of sustained expansion of the Dutch economy will probably continue in the months ahead. In spite of the restrictive measures introduced just recently by those responsible for economic policy, monetary demand in particular is likely to continue expanding rapidly in the immediate future. In view of the reduced elasticity of domestic supply, there will therefore be some appreciable strain at first. As a result, prices will be subject to considerable pressure and the current account will probably tend to deteriorate.

1. Recent developments

In recent months there have been considerable strains on the Dutch economy as the vigorous upward trend of overall demand continued, slowing down only temporarily at the beginning of the year.

Exports of goods and services increased fairly sharply again, though there was unmistakably a certain loss of momentum compared with the fast pace of growth at the end of 1968, which was partly due to special factors. The chief reason for this slowdown was the trend of trade with non-member countries. There was even a period in the course of this year when exports to non-member countries actually dropped; this was mainly due to the dockers' strike in the United States but may also have been partly the result of the restrictive economic policies that have been pursued in several major industrial countries for some time now. Exports to the other EEC countries, however, continued to rise: the rate of growth was faster, in fact. All in all, the seasonally adjusted figure for visible exports in March/April was 18.5 % (in value) higher than in March/April 1968.

Domestic demand continued to expand very rapidly. This is particularly true of expenditure on investment. The readiness of firms to step up their purchases of capital goods and expenditure on construction appears to have increased appreciably again. Public investment and expenditure on housing are also likely to have risen more steeply again.

After a temporary lull early in the year, private consumption once more gathered momentum. The main factor here was the very marked rise in wages per person employed, though the total number in employment increased too. Income from entrepreneurship and property also appears, as a result of the widening of profit margins by many firms, to have risen steeply. Transfer incomes were raised as well, chiefly in order to maintain the purchasing power in real terms of the underprivileged sections of the community. Public current expenditure also rose sharply, especially as civil service pay was brought closer into line with rates in the private sector.

In recent months domestic supply had increasing difficulty in keeping pace with the rapid expansion of overall demand, since advances in productivity seem to be gradually diminishing.

In any case the underlying growth of industrial production, which in the second half of 1968 proved to be particularly vigorous, was less pronounced—quite apart from the slowdown in January and February, which can be put down to special factors. According to the CBS index, total industrial production per working day in April was 11 % higher (in manufacturing industry 6.5 % higher) than in April 1968.

The labour market was strained in the spring, though the decline in unemployment eased off perceptibly. The unemployment rate (seasonally adjusted percentage of unemployed in the total civilian labour force) was 1.4 % in May this year compared with 1.8 % the previous year. In addition, the number of vacancies rose by almost 50 % over the year. The still relatively large number of unskilled unemployed registered and the persistence of regional differences in the level of unemployment appear to indicate that the manpower still available is inadequate for the economy's needs.

The supply and demand situation on home markets led to appreciably more reliance being placed on supplies from abroad, though import prices were again higher. The increase in visible imports embraced all the major product groups, and most of the increase was in goods from the other EEC countries. According to customs returns the volume of imports in March/April was 16.5 % up on the previous year.

There was a further substantial rise in the general level of prices. The consumer price index, which between December 1968 and March 1969 had already gone up 5.2 %, rose another 0.9 % in April. It fell slightly in May, chiefly owing to a price freeze imposed by the Government. The cost of living in May was 8.1 % above the May 1968 figure—the highest increase recorded in a member country over the last ten years. The upward trend of prices is largely due to independent factors such as the consequences of changing over to the tax on value added and the increase in food prices, rents and import prices, but there can be no doubt that it also reflects the aggravation of the underlying trend towards disequilibrium.

Although the visible trade deficit was kept within bounds, thanks to the fairly favourable trend of exports, the current account on a transactions basis showed a deficit of Fl. 250 million over the first four months of 1969, compared with an adverse balance of Fl. 80 million in the same period of 1968 (though this was particularly low). However, the overall balance of payments showed a surplus of Fl. 150 million since firms increasingly resorted to short-term borrowing. As the commercial banks improved their foreign currency position by Fl. 300 million, the official gold and foreign exchange reserves shrank by Fl. 150 million during these first four months.

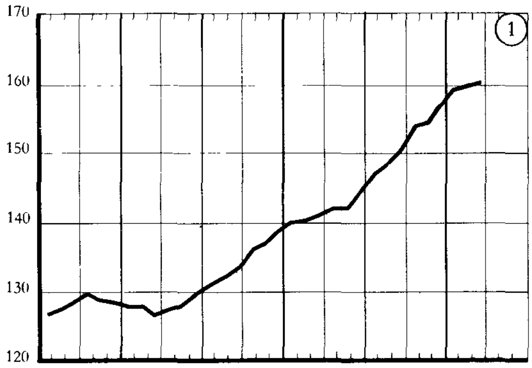
Although the cash transactions of the public authorities again helped to expand bank liquidity, the tendency for the money and capital markets to harden persisted. Mainly because borrowing was dearer, the banks' total short-term advances to firms between January and April remained within the permissible limits set by the monetary authorities (6 % of average lendings between September and December 1968). Short- and long-term interest rates followed the upward movement on international markets and reached a new peak. Corporate issues of securities were very few in January-May, whereas the public sector increased its bond issues.

2. Outlook

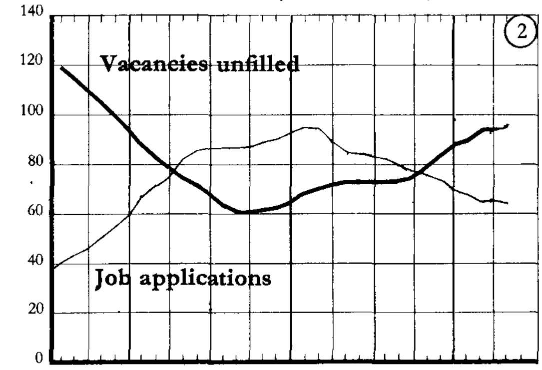
Dutch exports of goods and services will probably expand appreciably again during the months ahead, mainly because of the growth of demand (most likely to be vigorous) emanating from the other EEC countries, which at present absorb some 60 % of the country's visible exports. Nevertheless, the possibility of a certain slowdown in expansion during the second half of the year cannot be dismissed. On the

ECONOMIC INDICATORS

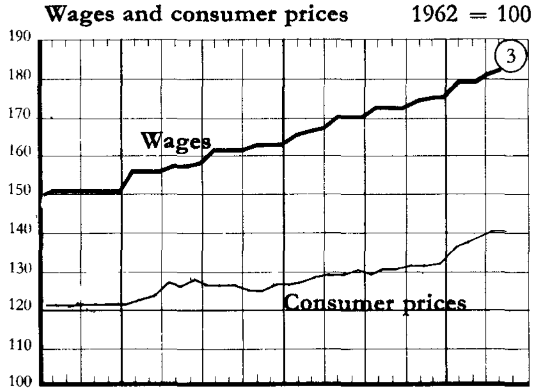
Industrial production 1963 = 100



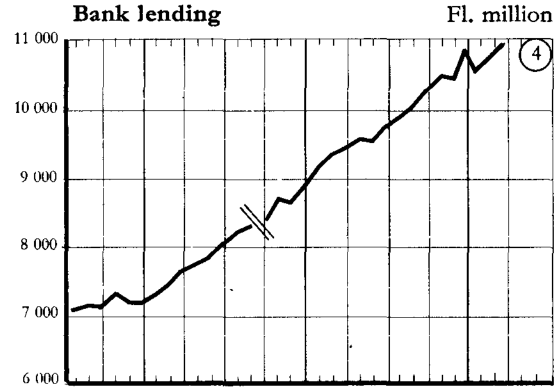
Labour market (thousands)



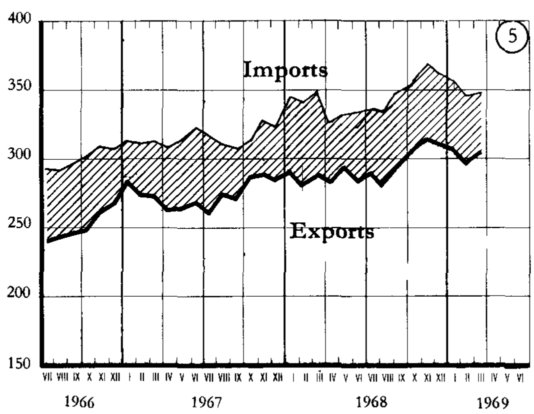
Wages and consumer prices 1962 = 100



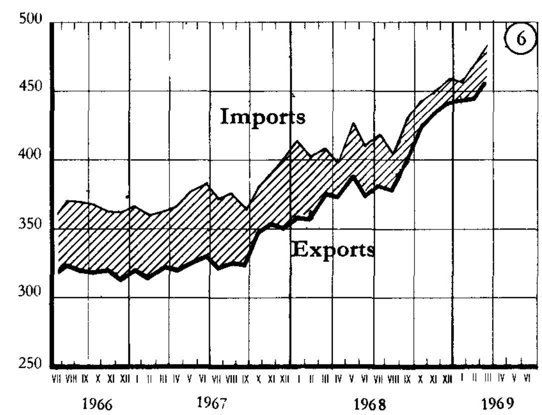
Bank lending Fl. million



Trade with non-member countries million u.a.



Trade with other member countries million u.a.



NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph. 1. Serie adjusted for seasonal and irregular (trend) variations. Exl. building, food, beverages and tobacco.

Graph 2. Adjusted for seasonal variations. Three-month moving averages.

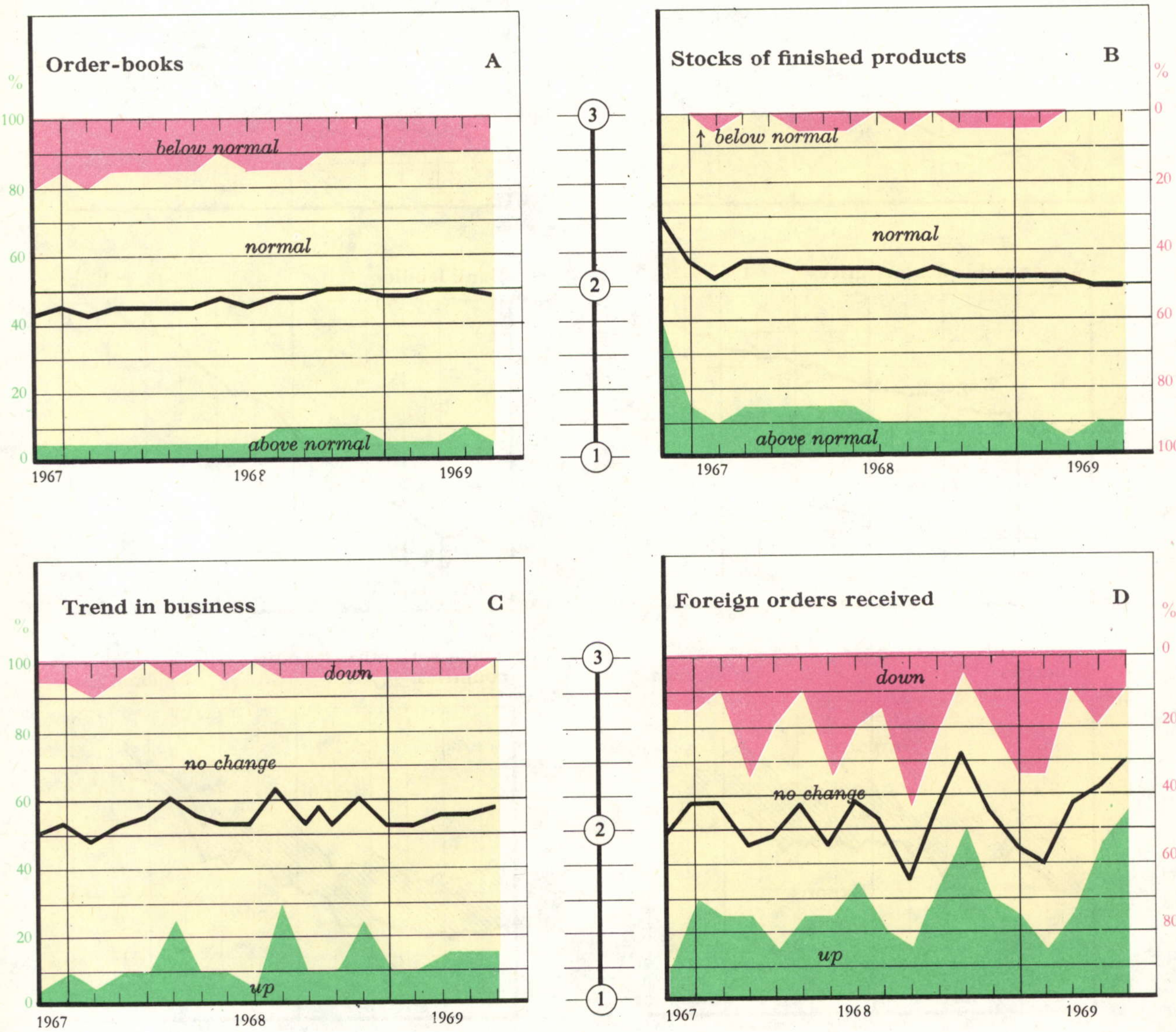
Graph 3. Cost of living for manual and office workers. Source : CBS. Wages—index of gross hourly earnings in industry (excluding mining, quarrying and construction). Index of negotiated wages.

Graph 4. Short-term bank advances. Revised series as from September 1967.

Graphs 5 and 6. Series adjusted for seasonal and accidental variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

u.a.: one unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Source : Business survey of the Centraal Bureau voor de Statistiek.

Note : The survey includes construction but not paper, petroleum, non-metallic minerals.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

by 0.03 for the answer "above normal", or "up";
by 0.02 for the answer "normal", or "no change";
by 0.01 for the answer "below normal", or "down".

demand side, for one thing, sales prospects are likely to become less encouraging in a number of major non-member countries; and then the increase in supply available for export may tend to diminish since a good deal of production capacity is being fully utilized. Furthermore, the competitive position of the Netherlands, which improved in 1967 and 1968 because wage costs were kept down, appears to have been deteriorating of late.

As a result of the restrictive measures decided upon by the Government (summarized at the end of this section), the rapid growth of domestic demand might be inhibited slightly during the second half of the year, though experience has shown that the time needed for such measures to take effect is fairly long. The first item to be affected will probably be fixed investment. The abolition of the special depreciation facilities and the greater difficulty in borrowing funds, combined with the price freeze, might damp down entrepreneurs' propensity to invest. It should not be overlooked, however, that businesses have more funds of their own at their disposal, since the cost increases at the beginning of the year were to a large extent passed on in prices, and tax reductions resulting from

Demand for and supply of goods and services

	1966 [1]	1967 [1]		1968 [2]		1969 [3]
	At current prices (in Fl. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports [4]	35.14	+ 6.6	+ 6.8	+ 12½	+ 11½	+ 11½
Gross fixed asset formation	18.95	+ 7.2	+ 10.8	+ 10½	+ 13½	+ 5½
Public current expenditure on goods and services	12.09	+ 3.9	+ 10.4	+ 2	+ 7½	+ 2
Private consumers' expenditure	43.39	+ 5.1	+ 8.4	+ 5½	+ 8½	+ 4
Gross national product	74.81	+ 5.6	+ 10.0	+ 6½	+ 10½	+ 5
Imports [4]	35.66	+ 6.7	+ 5.9	+ 13	+ 9½	+ 10½

[1] Statistical Office of the European Communities, General Statistical Bulletin No. 7-8/1968.
[2] Estimates made by the Dutch Central Plan Bureau.
[3] Commission forecasts.
[4] Goods, services and factor income.

Note :
(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The forecasts are approximations based on certain hypotheses worked out by the Commission and generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

the introduction of the tax on value added were not accompanied by price cuts; in addition, refunds of turnover tax are to be paid out to firms from 1 July in respect of their stocks. Mostly as a result of the cutback in the state-subsidized housing programme, the stimuli exerted by residential construction will probably become appreciably weaker. A slowdown in the growth of public investment later in the year also seems quite likely.

In contrast with demand for capital goods, the growth of consumption is unlikely to slacken off much in the second half of the year. This applies not only to public current expenditure but also —in fact, more so—to private consumers' expenditure. With the continued rise in hourly wage rates and increasing employment, the incomes of households will go up sharply, all the more because the upward trend of prices will probably entail demands for bigger wage increases. Under collective agreements already in operation, certain wage increases to compensate for the rise in prices took effect on 1 July. An increase in wage drift must again be expected as well.

Considering these prospects on the demand side, domestic supply will probably expand further during the months ahead, though presumably at a moderate rate only—given the current degree of capacity utilization. In support of this assumption there is the fact that in spite of an increase in the number of school-leavers, the labour shortage is likely to become still more acute over the next few months.

In all probability, therefore, there will be a further increase in imports. As imports will probably rise more steeply than exports, the current account may deteriorate somewhat during the second half of the year, especially as the terms of trade are more likely to take an unfavourable turn for the Dutch economy.

Despite the increased reliance on supply from abroad, the unstable tendencies on home markets are liable to be aggravated again. Owing to the price freeze, however, this will not have much effect on the official price indices. Moreover, the Government intends to lower the turnover tax on certain priority goods and services.

The main correction required in the figures forecast for 1969 in the last Quarterly Survey (1/1969) is in respect of exports and imports, which will probably expand more than was expected. A 5 % increase in the gross national product at constant prices can be reckoned upon over the full year.

Forecasts of the economic trend in 1970 are still subject to many factors of uncertainty, since the probable line of economic policy is still unknown and it is particularly difficult to gauge how management and labour will react to the wave of rising prices in 1969. The export prospects will probably turn out less favourable on the whole since demand from the member countries is more likely to expand a little more slowly and demand from outside the Community will probably weaken further, at least during the first half of the year. The expansion of domestic demand, especially fixed investment by firms and the public authorities, may prove to be smaller than in 1969. All in all, then, the growth rate of the gross national product in terms of volume will probably be somewhat below the 1969 rate, especially as the elasticity of supply is likely to fall further—mainly because of the expected reduction in the working week. Provided that wage increases remain within reasonable limits, prices will probably tend increasingly to settle down.

As a result of the increased strains in the economy, the authorities responsible for economic and monetary policy have introduced further restrictive measures in addition to those reported in the last Quarterly Survey. On 8 April, for instance, a general price freeze as a temporary measure was announced. Accordingly, not only are the prices of goods and services to be frozen at the level of 14 March but in future they are not to exceed the level of the prices obtaining on 1 October 1968 plus the increases due to tax modifications and other cost increases outside the control of firms between 1 October 1968 and 14 March 1969. The price control offices are to be reinforced, too. The country's Economic and Social Council has also been asked to give its opinion on how the inflationary tendencies can be restrained. At the same time the special tax facilities for depreciation in respect of investments, which had already been reduced at the beginning of the year, have been withdrawn before the date planned. And the authorities have stated that clauses concerning reductions in the working week contained in a number of collective agreements are not legally binding.

To turn to monetary policy, the Nederlandsche Bank raised the Bank rate from 5 % to 5.5 % on 9 April. Besides this, the ceiling imposed on lending by the private banks has been extended until August, and the savings banks too can now be required to keep within this limit.

The pegging of prices alone certainly cannot be expected to eliminate internal disequilibria, but a freeze might be justified as a stop-gap measure to delay, at least in the short run, a price/wage spiral. In the long run, however, a price freeze may seriously affect the efficiency of an economy because it prevents the price mechanism from functioning properly and guiding supply and demand.

It is therefore essential that all the instruments of short-term policy be brought to bear on the rapid removal of existing and potential imbalances. If policy is already being directed towards this end, it may well be that the instruments are not being applied with sufficient vigour.

The disequilibria in the Dutch economy also seem to have been aggravated to some extent by the powerful stimuli of government spending. A major effort should therefore be made to keep the rise in public expenditure both in 1969 and in 1970 lower than the rise, in money terms, of the gross national product. In view of the present tendencies towards disequilibrium, the reduction in income tax planned for 1 January should also be put off for a time as a contribution towards an anticyclical budget policy.

If vigorous budgetary measures are not taken, it cannot be expected that the two sides of industry will be as moderate during their wage negotiations in 1970 as is required by the economic circumstances.

Netherlands

TABLE 1: **Basic data 1967**

Total area ('000 sq. km.)	33.5
Total population ('000)	12 597
Density of population per sq. km.	376
Numbers in employment ('000)	4 533
Numbers in employment, breakdown by main sector (%):	
— Agriculture	8.1
— Industry	40.8
of which : Construction	10.3
— Services	51.1
Percentage share of gross domestic product :	
— Agriculture	7.2
— Industry	41.2
of which: Construction	(7)
— Services	51.6
Gross product per capita (Fl.)	6 531

TABLE 2: **Key indicators**

	% change by volume on preceding year							Volume indices (1958 = 100)	Contribution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	+ 3.4	+ 3.8	+ 3.7	+ 8.9	+ 5.0	+ 1.9	+ 5.6	156	—
Industrial production	+ 4.7	+ 4.3	+ 4.1	+11.0	+ 6.3	+ 5.1	+ 6.5	181	—
Total imports	+ 6.3	+ 7.3	+ 9.3	+14.9	+ 6.6	+ 7.4	+ 6.7	233	45.9
Private consumers' expenditure	+ 5.4	+6.2	+ 7.1	+ 6.0	+ 7.0	+ 2.9	+ 5.1	163	57.2
Public current expenditure on goods and services	+ 3.4	+ 4.3	+ 6.6	+ 1.7	+ 1.6	+ 2.2	+ 3.9	131	16.2
Gross fixed asset formation	+ 6.6	+ 4.3	+ 1.9	+18.0	+ 4.9	+ 6.0	+ 7.2	198	25.5
Total exports	+ 3.3	+ 6.0	+ 6.3	+11.6	+ 7.4	+ 5.4	+ 6.6	198	45.6
Gross national product per capita	+ 2.0	+ 2.3	+ 2.3	+ 7.5	+ 3.6	+ 0.5	+ 4.4	138	—
Gross national product per person gainfully employed	+ 1.9	+ 1.7	+ 2.4	+ 7.0	+ 3.9	+ 0.9	+ 6.2	140	—

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1962	1963	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports										
Total	+ 6.5	+ 8.2	+17.0	+10.1	+ 5.6	+ 7.9	+14.5	259	8 342	100
Intra-EEC	+10.0	+17.3	+22.1	+10.2	+ 5.3	+ 6.7	+19.7	358	4 790	57.4
To non-EEC countries	+ 3.2	− 0.6	+11.2	+10.0	+ 6.0	+ 9.4	+ 8.2	178	3 552	42.6
Exports of food, beverages and tobacco										
Total	+ 6.9	+ 9.3	+ 9.5	+13.0	+ 0.3	+ 9.9	+15.9	224	2 002	24.0
Intra-EEC	+10.0	+12.1	+12.8	+19.7	− 0.2	+ 9.6	+22.1	308	1 295	15.5
To non-EEC countries	+ 3.3	+ 5.8	+ 5.1	+ 3.6	+ 1.0	+10.5	+ 6.1	150	707	8.5
Exports of raw materials and manufactures										
Total	+ 6.3	+ 7.9	+19.6	+ 9.2	+ 7.3	+ 7.3	+14.0	273	6 340	76.0
Intra-EEC	+10.0	+19.4	+25.6	+ 7.1	+ 7.4	+ 5.8	+18.8	382	3 495	41.9
To non-EEC countries	+ 3.2	− 2.4	+13.1	+11.9	+ 7.3	+ 9.1	+ 8.7	202	2 845	34.1
Visible imports										
Total	+ 4.6	+11.6	+18.2	+ 5.9	+ 7.5	+ 4.0	+11.5	256	9 297	100
Intra-EEC	+ 6.7	+14.9	+19.0	+ 8.7	+ 8.7	+ 5.0	+13.2	339	5 146	55.4
From non-EEC countries	+ 2.5	+ 8.3	+17.4	+ 2.9	+ 6.0	+ 2.9	+ 9.5	197	4 151	44.6
Imports of food, beverages and tobacco										
Total	+ 6.3	+15.5	+16.2	+ 3.5	+ 3.9	+11.3	+ 9.7	224	1 253	13.5
Intra-EEC	− 7.0	+11.8	+22.0	+13.1	+ 8.8	+22.7	+28.1	484	387	4.2
From non-EEC countries	+10.0	+16.3	+14.9	− 1.2	+ 2.5	+ 7.6	+ 3.2	181	866	9 3
Imports of raw materials and manufactures										
Total	+ 4.3	+11.0	+18.6	+ 6.3	+ 8.0	+ 2.9	+11.8	262	8 044	86.5
Intra-EEC	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	+ 3.9	+12.1	331	4 759	51.2
From non-EEC countries	+ 0.7	+ 6.1	+18.0	+ 4.2	+ 7.0	+ 1.6	+11.3	202	3 285	35.3

TABLE 4 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	122	125	126	130	125	129	108	122	131	139	143	143
	1968	134	139	141	141	142	145	118	136	144	155	162	164
	1969	150	157	159									
Construction (Fl. million)	1967			2 036			2 362			2 503			2 383
	1968			2 314			2 637			2 798			2 896
	1969			2 378									
Unemployed ('000)	1967	108.5	105.9	91.4	81.7	69.9	67.2	77.0	73.9	74.6	80.4	91.3	113.6
	1968	123.1	113.1	96.2	80.7	68.6	64.9	71 4	66.1	64.6	66.9	70.3	82.1
	1969	86.8	85.0	72 4	59.2	51.8							
Investment (Fl. million)	1967			4 640			5 388			5 307			5 652
	1968			5 294			5 973			5 949			6 560
	1969												
Private consumers' expenditure (1963 = 100)	1967	142	125	146	144	149	151	152	144	152	149	161	172
	1968	152	141	155	156	165	155	167	157	155	168	180	189
	1969												
Total visible imports (million u.a.)	1967	680	639	719	690	694	737	650	652	683	733	746	718
	1968	823	693	788	704	815	697	776	742	775	859	816	811
	1969	816	809	890	883								
Total visible exports (million u.a.)	1967	601	532	606	582	592	642	536	605	641	686	665	601
	1968	681	615	670	663	725	598	686	653	742	821	751	736
	1969	746	698	799	781								
Balance of trade (million u.a.)	1967	− 80	− 107	− 113	− 108	− 102	− 95	− 114	− 46	− 42	− 47	− 81	− 117
	1968	− 142	− 78	− 118	− 41	− 90	− 99	− 90	− 89	− 33	− 38	− 65	− 75
	1969	− 70	− 111	− 109	− 102								
Official gold and foreign exchange reserves (million u.a.)	1967	1 970	1 995	1 998	1 995	2 065	2 094	2 104	2 064	2 104	2 229	2 271	2 268
	1968	2 194	2 164	2 082	2 028	2 008	1 988	2 000	2 030	2 001	1 972	1 968	1 967
	1969	1 892	1 937	1 954									
Money supply (Fl. '000 million)	1967	17.89	17.97	18.27	18.74	19.31	19 98	19.67	19.33	19.55	19.19	19.44	19.51
	1968	19.59	19.31	19.71	20.16	20.92	21.70	21 36	21.23	21.14	20.93	21.31	21.66
	1969	21.76	21.53										

Netherlands

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

— Total population at mid-year.
— Numbers in employment, average for year. Source : CBS.
— Breakdown of GNP at factor cost.
— GNP at market prices.

Table 2

— GNP at market prices.
— Industrial production: value added by industry.
— Total exports and imports: goods, services and factor income.

Table 3

— Exports fob, imports cif. Conversion at official exchange rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

— Industrial production. Source: Centraal Bureau voor de Statistiek (CBS). General index, adjusted for number of working days.
— Construction. Source: CBS. Building production. Total value, quarterly figures.
— Unemployed. Source : CBS. Total unemployed.
— Investment. Source: CBS. Gross fixed investment. Total value, quarterly figures.
— Private consumers' expenditure. Source : CBS. Index of value of private consumption.
— Exports fob, imports cif. Conversion at official exchange rates.
— Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency held by the official monetary institutions.
— Money supply. Notes and coin in circulation, excluding cash holdings of monetary institutions. Sight deposits with credit institutions.

E. Belgo-Luxembourg Economic Union

Belgium

Spurred on by exports, investment and private consumption, economic activity was tending to expand in the spring. Production and employment continued to grow. At the same time there were, however, signs of an increasing deterioration in the conditions governing equilibrium. Prices, in particular, were rising more distinctly once again.

The trend is unlikely to change to any significant extent in the months ahead. The expansion of exports to non-member countries, of stockbuilding and of public investment are all likely to slow down, but this will probably be more than offset by private investment—managements will still be very anxious to step up their expenditure on plant and machinery and building—and by private consumption, which will gather momentum. As the elasticity of production will, if anything, decline, the danger of a deterioration of the price climate, already under considerable strain as a result of the introduction of the tax on value added at the beginning of 1970, may well increase.

1. Recent developments

In the past few months, the key to the economic trend in Belgium has been an acceleration of the expansion of demand, which has impaired the conditions governing equilibrium.

Export demand has continued to expand very rapidly, with the favourable market situation prompting many managements to put up their export prices. Intra-Community trade has accounted for most of the increment: although sales to the Netherlands have expanded at a comparatively modest rate only, visible exports to the other member countries have gathered momentum, with demand for chemical products, textiles and transport equipment showing particular vigour. The trend of exports to the non-member countries, by contrast, has been distinctly weaker, the main factor being a pronounced fall in deliveries to the United States. In March-April total visible exports were running 14.7 % higher than a year earlier.

The expansion of domestic demand has gathered speed. With demand for residential construction picking up (partly for speculative reasons) and the propensity to invest now much stronger in industry, the revival of fixed investment has gained more ground. As against this, public investment expenditure, which was mounting in the period up to the end of 1968, appears to have been growing more slowly, possibly because of financing difficulties.

Private consumers' expenditure, too—as department store sales and sales of passenger cars indicate—has been making a more vigorous contribution to the economy.

The more dynamic trend is evidently mainly due to the more substantial improvement in incomes of households, itself attributable to a slightly faster rise in the total wage-bill. The rise in employment has been fairly distinct; at the same time, hourly wages have also been rising faster than in the preceding months. The savings ratio of households also appears to have declined further.

All in all, domestic supply, being relatively elastic, has continued to adapt to the rise in demand. In the first quarter of 1969 the growth of industrial production was still running at a rate equivalent to 8 % per annum. In building and construction, the rise in production may have been even larger in the past few months.

Although the expansion of production has again been accompanied by substantial productivity gains, the tendency for the situation on the labour market to improve, which had started to make itself felt in the winter, has continued. In April, the unemployment rate[1] was 2.4 % (as against 2.7 % at the end of 1968), and the number of unfilled vacancies was more than double the figure of a year earlier.

Indeed, the rapid growth of imports has gathered a little further momentum. In March-April, visible imports were 21 % up on the level of a year earlier.

[1] Number of fully unemployed persons drawing unemployment benefit, expressed as a percentage of the total civilian labour force, seasonally adjusted.

Demand for and supply of goods and services

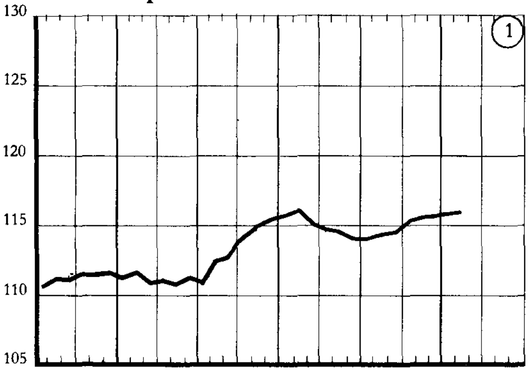
	1966 [1]	1967 [1]		1968 [2]		1969 [3]
	At current prices (in Bfrs. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports [4]	350.1	+ 6.4	+ 7.3	+ 11	+ 12	+ 12
Gross fixed asset formation	196.6	+ 4.0	+ 8.0	+ 2	+ 5	+ 7
Public current expenditure on goods and services	119.7	+ 7.0	+ 11.2	+ 3½	+ 8	+ 4½
Private consumers' expenditure	595.9	+ 2.8	+ 5.4	+ 3½	+ 6	+ 5½
Gross national product	916.3	+ 3.5	+ 6.6	+ 4	+ 7	+ 5½
Imports [4]	353.5	+ 3.7	+ 4.3	+ 12½	+ 13	+ 12

[1] Statistical Office of the European Communities, General Statistical Bulletin, 1968, No. 7-8.
[2] Preliminary figures calculated on the basis of the estimates by the Belgium Ministry for Economic Affairs.
[3] Commission forecasts.
[4] Goods, services and factor income.

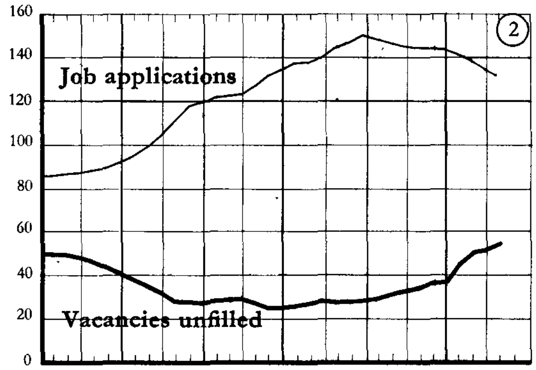
Note:
(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

ECONOMIC INDICATORS

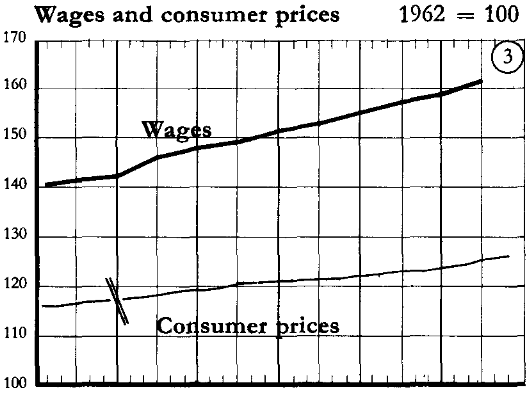
Industrial production 1963 = 100



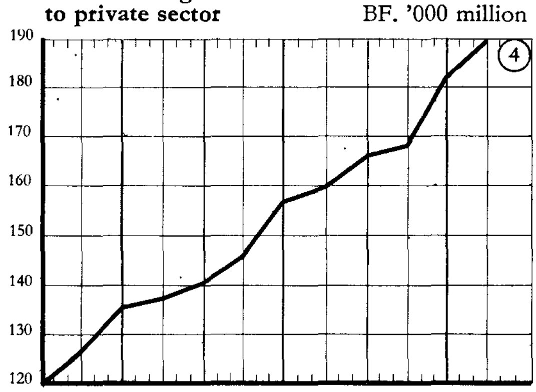
Labour market 1962 = 100



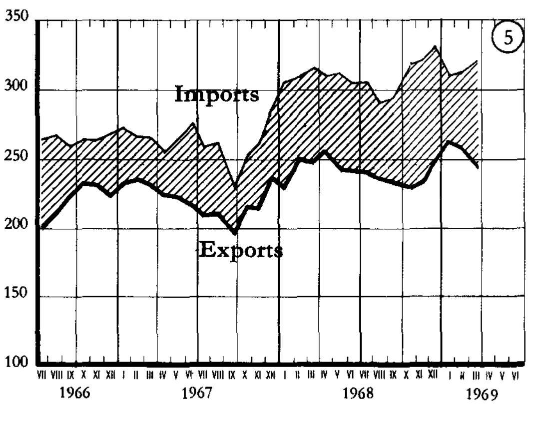
Wages and consumer prices 1962 = 100



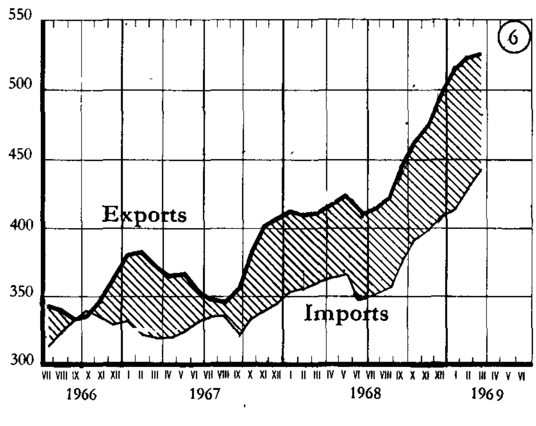
Bank lending to private sector BF. '000 million



Trade with non-member countries million u.a.



Trade with other member countries million u.a.



NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph. 1. Serie adjusted for seasonal and irregular (trend) variations. Exl. building, food, beverages and tobacco.

Graph 2. Completely unemployed persons, receiving unemployment benefit. Adjusted for seasonal variations. Three-month moving averages.

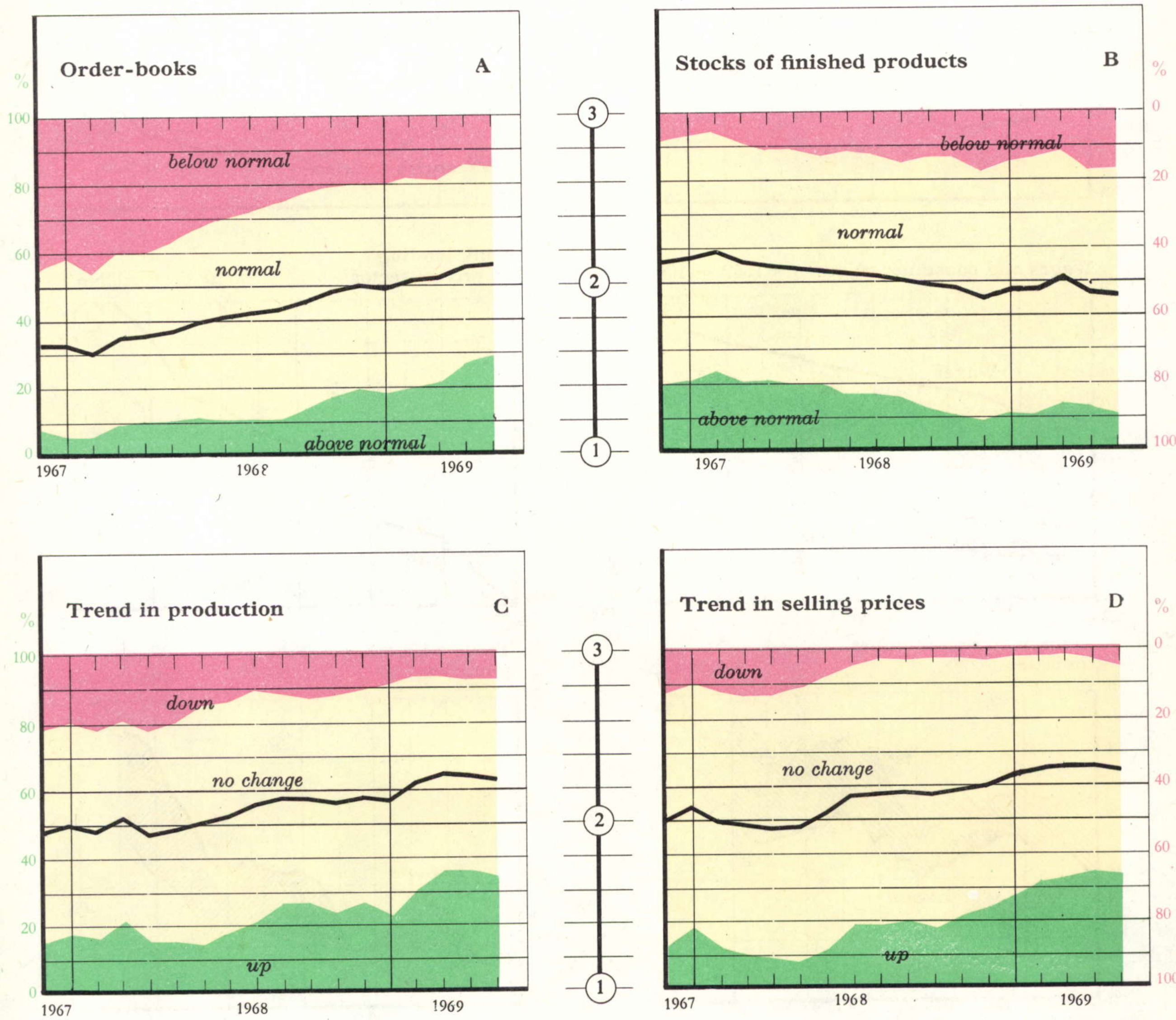
Graph 3. Consumer prices. New index as from januari 1967. Source: Ministère des Affaires Economiques. Agreed wages for operatives, all branches. Source: Ministère du Travail et de l'Emploi.

Graph 4. Loans made by monetary institutions.

Graphs 5 and 6. B.L.E.U., series adjusted for seasonal and accidental variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rates.

u.a.: one unit of account = 0.888671 g of fine gold = US $1 at the official exchange rate.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Belgium by the National Bank.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

by 0.03 for the answer "above normal", or "up";
by 0.02 for the answer "normal", or "no change";
by 0.01 for the answer "below normal", or "down".

With the business situation steadily improving, the general price trend is now climbing faster once more. Since the beginning of 1969, for instance, not only have wholesale prices risen appreciably, but consumer prices, too, have also advanced: since the beginning of the year they have risen by 2%, and in May they were 3.8% up on the May 1968 level.

Although there has of late been a slight deterioration in the trade balance, the surplus on current account in the first four months was larger than in the corresponding period of the previous year (Bfrs. 4 000 million against Bfrs. 2 200 million). As regards capital movements, the effects of a fresh and appreciable net outflow of private capital (largely due to security transactions) were more than offset by non-recurrent capital inflows through loans floated by certain public financial institutes. All in all, the overall balance of payments showed a surplus of Bfrs. 4 600 million for the first four months.

Despite the expansionary effect of transactions with abroad on domestic liquidity—and the impact, also expansionary, of the transactions of the public authorities—strain on the money and capital market has again increased. The international monetary situation and heavy company borrowing are mainly responsible for this development. Bank lending to private customers has risen again; in the first quarter, the year-to-year increase was some 19 %.

2. Outlook

The basic assumptions on the general economic trend in the second half of the year, as set out in the last Quarterly Survey, are still valid: there is little prospect that the restrictive meaures recently taken by the Government and the monetary authorities will curb the expansion of production and employment to any significant extent in the immediate future.

The outlook in the other member countries suggests that exports to these countries will expand vigorously in the second half of the year as well. This will probably largely offset the expected slackening of demand for Belgian products from non-member countries. A general point is that the rules applied since April for refunds of the multi-stage turnover tax constitute an export incentive.

The demand components likely to be affected most by the more restrictive economic policy adopted at the end of 1968 and by the credit squeeze (loans are both dearer and harder to come by) are fixed investment by the public authorities, the expansion of which might well slow down appreciably in the second half of the year, and stockbuilding. Residential construction, by contrast, will continue to expand appreciably for the time being as the level of orders on hand is still very high. The revival of investment by firms is also likely to continue for a while: with more and more firms running at or near capacity and profits rising there is a strong inducement to extend and modernize production facilities.

The expansion of private consumers' expenditure is likely to gather additional momentum in the months ahead, mainly as a result of an appreciable rise in disposable incomes of households. Total wages, for instance, are likely on the whole to increase somewhat more vigorously than so far, for the rise in employment should continue and that in hourly earnings will probably gather momentum. In addition, transfer payments by the State to households will go up more sharply than in the first half of the year: on 1 July, for instance, old age pensions were raised by 4 % and children's allowances increased. Lastly, towards the end of the year consumption could well grow as there is likely to be a wave of "beat-the-tax" buying ahead of the introduction of the TVA, although the Government has recently decided to charge lower TVA rates than first planned for a large number of items.

Given the outlook for overall demand, domestic supply is likely to expand further. As labour productivity will, if anything, rise more slowly now that many firms are working at or near capacity, unemployment will probably continue to fall. The seasonally adjusted rise in industrial production is nevertheless likely to weaken towards the end of the year.

Imports will probably continue to mount sharply in the second six months; there will, in particular, be a specially strong rise in imports of finished products, whether consumer or capital goods. It is therefore possible that the balance of trade may deteriorate slightly.

Even assuming normal harvests, the price climate on the domestic markets will remain under strain in the months ahead, so that the comparison of the annual averages of consumer prices for the two years will show an increment of more than 4 %.

In view of current expansionary trends, the quantitative forecasts for 1969 as a whole given in the last Quarterly Survey must be revised upwards. The gross national product can now be expected to expand by some 5.5 % in real terms for 1969.

Tentative forecasts for 1970 suggest that real growth will lose a little momentum. The slackening of business in some major non-member countries and the weakening of growth to be expected in the Community will probably curtail sharply the expansion of Belgian exports. By 1970 the trend of investment by firms should already have passed its peak. Following the introduction of the tax on value added, however, stockbuilding by firms, should, if it shows any change at all, once again be making a more vigorous contribution. With incomes rising faster, private consumer demand is also likely to expand more rapidly provided the savings ratio of households does not increase appreciably. As productivity gains may be expected to decline, costs may well again show a more vigorous upward tendency with the result that the price climate, already under considerable strain as a result of the introduction of tax on value added, will deteriorate further.

At present the Commission estimates that the gross national product will grow by about 4 % in real terms in 1970.

The restrictive economic policy measures adopted for the period up to the beginning of March to combat the increasing tendencies towards disequilibrium (these measures were outlined in the last Quarterly Survey) have since been tightened up. The *Banque nationale,* which had already increased Bank rate in two stages from 3.75 % to 5 %, raised it to 5.5 % on 10 April and 6 % on 29 May. At the end of April, the monetary authorities called upon the banks to hold down the expansion of lending to private borrowers in 1969 to 14 % of the loans granted until the end of 1968. For the first time the Central Bank also imposed visa and rediscount ceilings. In addition, the rediscount facilities for Road Fund bills will be withdrawn completely as from September. A recommendation to the banks at the end of 1968 to keep the rise in their net foreign exchange position within narrow limits was followed by the introduction of a ceiling on the current balances in foreign currencies and convertible francs held by the credit institutions. In June the *Commission bancaire* introduced, for one year, a coefficient linking short-term credit with short-term debit transactions which will facilitate official financing operations. An upper limit was also placed on the rise in the commitments of savings banks, insurance companies and some semi-public institutions such as the *SNCI (Société nationale de crédit à l'industrie)* and the *CGER (Caisse générale d'épargne et de retraite).*

In the field of budget policy it was decided not to make use of the special "conditional" appropriation of Bfrs. 7 500 million under the extraordinary budget for 1969 and to apply more rigid criteria in administering the ordinary budget.

The implementing details of the tax on value added to be introduced on 1 January 1970 have also been changed with a view to mitigating the incidence on prices of the changeover. Intermediary rates, between the upper and lower limits, have been cut, and various goods and services have been classified in categories attracting tax at a lower rate. The burden which the tax relief on stocks and investment will place on the Treasury has been eased inasmuch as refunds will be staggered over a longer period and the tax advantages originally envisaged will be smaller. So as to prevent the introduction of the tax on value added leading to unduly sharp price increases, a number of institutional arrangements have been made, particularly with regard to price supervision. Furthermore, hire purchase and personal loans have been restricted as from June.

By and large, these measures are in line with requirements: they are needed to counter, rapidly and as far as possible in advance, the development of excess monetary demand and the consequent upward tendency of prices. Without them, an inflation might well ensue which sooner of later would force the authorities to take measures which might well cut sharply into growth and constitute a threat to the security of employment. Special emphasis should be placed on the measures taken in implementation of the budget, all the more so as there has of late been a further deterioration in the pattern of government expenditure (faster rise in expenditure on consumption and in transfers, and slower growth of expenditure on investment) and of receipts (in particular, a disproportionate increase in short-term indebtedness). In view of the disequilibria already present and of those now becoming discernible, care should be taken not to exceed the budget estimates fixed originally or at least to keep any overspending within very narrow limits. Similarly, when drafting the 1970 budget, the authorities, while endeavouring to improve its structure, should ensure that the public finances help more to combat disequilibria.

Belgium

TABLE 1: **Basic data 1967**

Total area ('000 sq. km.)	30.5
Total population ('000)	9 581
Density of population per sq. km.	318
Numbers in employment ('000)	3 721
Numbers in employment, breakdown by main sector (%):	
— Agriculture	5.6
— Industry	44.3
of which : Construction	8.3
— Services	50.1
Percentage share of gross domestic product:	
— Agriculture	5.6
— Industry	41.1
of which : Construction	7.2
— Services	53.3
Gross product per capita (Bfrs)	102 000

TABLE 2: **Key indicators**

	% change by volume on preceding year							Volume indices (1958 = 100)	Contribution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	+ 4.9	+ 5.6	+ 4.7	+ 6.9	+ 3.9	+ 2.8	+ 3.5	148	—
Industrial production	+ 4.8	+ 7.3	+ 6.1	+10.5	+ 3.0	+ 4.1	+ 2.1	162	—
Total imports	+ 6.7	+ 4.6	+ 7.8	+10.7	+ 6.6	+ 8.4	+ 3.7	201	37.7
Private consumers' expenditure	+ 2.1	+ 4.3	+ 5.5	+ 3.6	+ 4.6	+ 3.2	+ 2.8	139	64.3
Public current expenditure on goods and services	+ 1.6	+ 9.0	+11.5	+ 4.0	+ 5.6	+ 4.3	+ 7.0	168	13.6
Gross fixed asset formation	+10.8	+ 5.3	— 0.1	+12.5	+ 3.7	+ 6.6	+ 4.0	186	21.7
Total exports	+ 8.8	+ 7.7	+ 7.0	+11.1	+ 7.7	+ 3.8	+ 6.4	194	38.5
Gross national product per capita	+ 4.3	+ 5.0	+ 3.9	+ 5.9	+ 2.9	+ 2.1	+ 2.9	139	—
Gross national product per person gainfully employed	+ 3.8	+ 3.9	+ 3.9	+ 5.5	+ 3.6	+ 2.3	+ 3.8	141	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1962	1963	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports										
Total	+10.2	+11.9	+15.5	+14.2	+ 5.2	+ 3.0	+16.0	267	8 155	100.0
Intra-EEC	+17.7	+19.6	+19.0	+12.8	+ 6.1	+ 3.2	+18.5	381	5 248	64.4
To non-EEC countries	+ 1.9	+ 1.6	+10.3	+16.5	+ 3.9	+ 2.5	+11.7	174	2 907	35.6
Exports of food, beverages and tobacco										
Total	+29.6	+29.6	+ 3.2	+31.5	+ 8.4	+18.8	+15.5	418	640	7.8
Intra-EEC	+31.2	+30.7	+ 5.2	+31.6	+ 5.4	+25.7	+24.6	597	524	6.4
To non-EEC countries	+25.7	+26.8	− 2.1	+31.3	+17.1	+ 1.3	−13.4	177	116	1.4
Exports of raw materials and manufactures										
Total	+ 9.2	+10.9	+16.4	+13.1	+ 5.0	+ 1.8	+16.0	259	7 515	92.1
Intra-EEC	+16.7	+18.8	+20.1	+11.4	+ 6.2	+ 1.3	+17.9	366	4 724	57.9
To non-EEC countries	+ 0.9	+ 0.7	+10.8	+15.8	+ 3.2	+ 2.6	+13.0	173	2 792	34.2
Visible imports										
Total	+ 8.0	+12.2	+15.9	+ 7 6	+12.6	0	+15.3	264	8 276	100.0
Intra-EEC	+ 8.9	+15.5	+17.5	+10.1	+15.4	− 0.6	+13.7	310	4 533	54.8
From non-EEC countries	+ 7.1	+ 8.8	+14.0	+ 4.8	+ 9.1	+ 0.6	+17.3	224	3 742	45.2
Imports of food, beverages and tobacco										
Total	+11.0	+ 9.0	+16.8	+15.2	+ 8.1	+10,0	+ 2.5	215	1 006	12.2
Intra-EEC	+ 3.2	+17.2	+16.3	+22.5	+10.6	+11.8	+23.7	334	519	6.3
From non-EEC countries	+15.9	+ 4.3	+17.2	+10.6	+ 6.4	+ 8.6	− 3.3	156	487	5.9
Imports of raw materials and manufactures										
Total	+ 7.6	+12.7	+15.7	+ 6.6	+13.2	− 1.4	+17.4	272	7 270	87.8
Intra-EEC	+ 9.4	+15.4	+17.6	+ 8.9	+16.0	− 1.9	+12.6	307	4 014	48.5
From non-EEC countries	+ 5.6	+ 9.6	+13.4	+ 3.7	+ 9.7	− 0.7	+23.9	239	3 255	39.3

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1967	150	147	160	151	149	159	119	148	162	167	162	156
	1968	155	155	164	162	162	160	132	154	172	187	168	168
	1969	176	164	180									
Construction (1958 = 100)	1967	148	164	202	191	197	210	124	201	205	211	202	137
	1968	137	151	178	175	165	183	137	189	201	214	185	150
	1969	165	109										
Unemployed ('000)	1967	82.5	85.7	84.4	83.8	81.9	77.9	79.1	78.1	80.3	87.5	96.0	106.7
	1968	114.5	113.7	110.3	106.4	101.5	95.3	96.5	93.5	93.9	97.1	101.4	108.8
	1969	109.4	106.5	96.6	90.4	83.8							
Investment (1961 = 100)	1967	134 6	151.1	167.0	167.7	170.4	176.8	122.1	159.1	160.2	175.9	176.9	141.8
	1968	127.3	146.2	165.2	166.3	160.4	168.7	133.3	157.6	176.5	185.0	177.5	163.5
	1969												
Private consumers' expenditure (1961 = 100)	1967	147.3	148.7	151.8	153.7	155.3	159.3	155.7	152.8	154.7	153 3	156.3	163.2
	1968	159 6	164.3	160.7	170.2	168.7	169.6	168.7	165.3	165.7	166.1	169.2	177.4
	1969	172.1	175.6	175.8									
Total visible imports (million u.a.)	1967	590	545	628	574	607	655	465	598	514	640	689	649
	1968	624	704	708	644	706	612	625	638	669	817	706	742
	1969	743	746	822	813								
Total visible exports (million u.a.)	1967	608	570	607	599	586	597	525	460	530	697	618	649
	1968	621	675	705	705	666	631	694	547	676	796	705	757
	1969	843	698	803	803								
Balance of trade (million u.a.)	1967	+ 18	+ 25	− 20	+ 25	− 20	− 58	+ 60	− 138	+ 16	+ 57	− 71	0
	1968	− 2	− 29	− 3	+ 60	− 40	+ 19	+ 69	− 91	+ 7	− 21	− 1	+ 15
	1969	+ 100	− 48	− 19	− 10								
Official gold and foreign exchange reserves (million u.a.)	1967	1 970	1 939	1 951	1 972	2 044	2 118	2 152	2 196	2 212	2 220	2 244	2 202
	1968	2 168	2 116	2 150	2 116	2 090	1 996	1 972	1 964	1 888	1 896	1 902	1 886
	1969	1 898	1 890	1 880	1 950								
Money supply	1967	324.9	320.4	326.4	333 8	335.1	347.5	339 4	337.2	343.2	338.5	341.1	350.5
	1968	341.0	337.0	350.9	355.6	362.3	372.7	361.4	361.8	361.8	359.7	363.2	376.5
	1969	362 4	364.9	372.1									

Belgium

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

— Total population at mid-year.
— Numbers in employment at mid-year.
— Breakdown of gross domestic product at factor cost.
— GNP at market prices.

Table 2

— GNP at market prices.
— Industrial production: value added by industry.
— Total exports and imports: goods, services and factor income.

Table 3

— Data refer to BLEU. Exports fob, imports cif. Conversion at official exchanges rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

— Industrial production. Source: Institut National de Statistique (INS). General index.
— Construction. Source : INS. Production.
— Unemployed. Source : Ministère de l'Emploi et du Travail. Wholly unemployed in receipt of unemployement benefit.
— Investment. Source: Département de l'économie appliquée de l'Université libre de Bruxelles (DULBEA). Gross fixed asset formation at current prices.
— Private consumers' expenditure. Source : DULBEA. Current prices.
— Exports fob, imports cif. Conversion at official exchange rate.
— Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency of the official monetary institutions.
— Money supply. Notes and coin in circulation, excluding cash holdings of the Treasury, the Central Bank and other banking institutions other than the Postal Cheque Office. Residents' sight deposits (up to one month) with banking institutions. Holdings of the special agencies of the Treasury and non-residents' holdings on postal cheque accounts.

Grand Duchy of Luxembourg

The past few months have seen a further improvement in the business climate. Production has expanded vigorously and employment has continued to rise, but there has been no threat to domestic equilibrium.

Growth is likely to slow down slightly in the second half of 1969 but will presumably slacken more sharply in 1970. The danger of strain may nevertheless increase, particularly as it must be feared that the introduction of the tax on value added at the beginning of 1970 and price increases for imported products are bound to impair the price climate.

1. Recent developments

With export demand for iron and steel products and chemical products expanding at a more lively pace, the rise in Luxembourg's exports, seasonally adjusted, has gathered some speed. In contrast with the trend in the period up to the end of 1968, the growth of exports to the other member countries is now matched by a revival in sales of iron and steel products to non-member countries, though this is unlikely to prove lasting.

The growth of domestic demand is still very vigorous. This applies in particular to fixed investment, which early in the year staged a recovery that has continued. Public investment has tended to weaken, but this has been more than offset by stronger private industrial investment and a firmer growth trend in residential construction. The trend of private consumers' expenditure, by contrast, appears to be somewhat less dynamic, although incomes have again risen fairly vigorously as a result of the continued rise in employment and the increase in wage incomes—the latter being mainly a matter of higher bonus payments in the iron and steel industry.

Despite bad weather there has been a distinct and indeed even faster expansion of domestic supply. The new STATEC index shows that in the first quarter industrial production was 16.3 % higher than in the corresponding period of the previous year. Imports have also risen appreciably.

Appreciable productivity gains have continued to account for the expansion of production. At the same time, the number of persons in paid employment has also continued to rise, particularly because the numbers employed in the iron and steel industry have stopped declining. On the labour market the supply of manpower, particularly of skilled manpower, has contracted.

The increase in consumer prices has remained relatively moderate. By yearly comparison it reached 2.1 % in April.

2. Outlook

The outlook for the trend of overall demand until the end of the year is in general fairly favourable, though the tempo of growth must be expected to slow down gradually.

The key to the demand slowdown will be the export trend, which will be less lively. It is, however, difficult to assess at this stage how

Demand for and supply of goods and services

	1966 [1]	1967 [1]		1968 [1]		1969 [3]
	At current prices (in Lfrs. million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports [4]	27 994	+ 2.5	+ 3.0	+ 8	+ 7½	+ 9½
Gross fixed asset formation	9 805	— 17.9	— 15.8	+ 2½	+ 6½	+ 15
Public current expenditure on goods and services	4 013	+ 1.5	+ 6.2	+ 2	+ 7½	+ 2
Private consumers' expenditure	21 174	0	+ 2.2	+ 5½	+ 8	+ 4
Gross national product	34 665	+ 2.0	+ 4.0	+ 4	+ 6	+ 5½
Imports [4]	28 441	— 5.3 [2]	— 4.2	+ 8½ [2]	+ 9	+ 10½

[1] Service central de la Statistique et des Etudes économiques (STATEC), Luxembourg.
[2] Commission estimates.
[3] Commission forecasts.
[4] Goods, services and factor income.

Note:
(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

far iron and steel exports to the non-member countries will slacken.

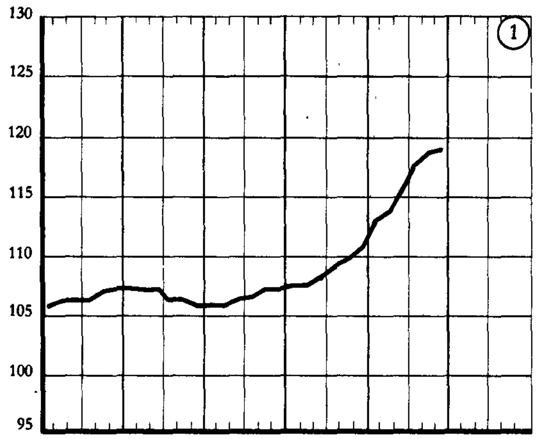
The fairly lively expansion of private consumers' expenditure, on the other hand, is likely to continue, though the effects of the income tax reform will have worked themselves out. There is, in particular, every likelihood that before the end of 1969 the Government will decide to raise old age pensions and the minimum wage. An increase in public service wages and salaries is also being contemplated. Even without these factors, demand from households may pick up towards the end of this year, if only temporarily and for speculative reasons, as the introduction of the tax on value added is expected to entail an increase in the prices of certain articles.

The implementation of the medium-term programme on the modernization of the iron and steel industry and increased investment in several new industries can be expected to lead to a sharp rise in fixed investment by firms. Residential construction, too, will expand vigorously. Public works, by contrast, are hardly likely to make any notable contribution to economic growth.

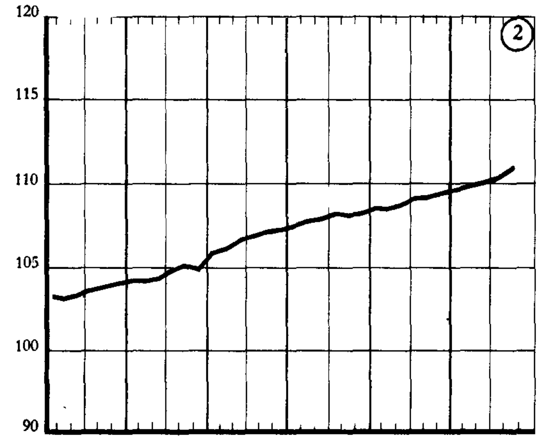
In view of the outlook and given the diminished elasticity of domestic supply, the upward tendency of domestic prices is, if it changes at all,

ECONOMIC INDICATORS

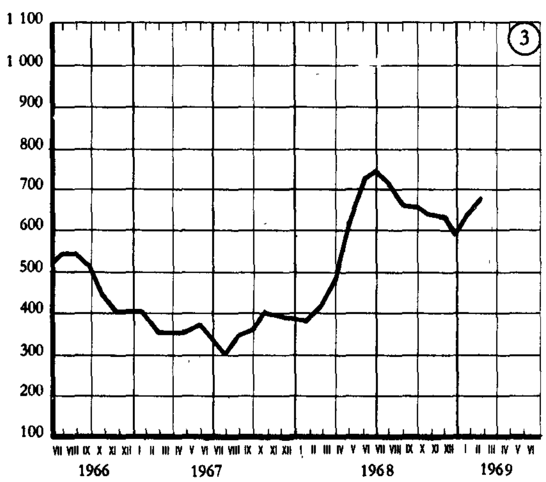
Industrial production 1963 = 100



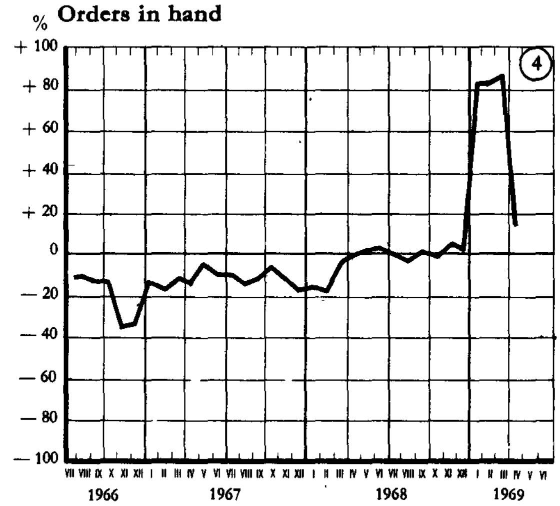
Consumer prices 1965 = 100



Vacancies unfilled number



% **Orders in hand**



NOTES:

Source: Statistical Office of the European Communities (except as otherwise indicated).

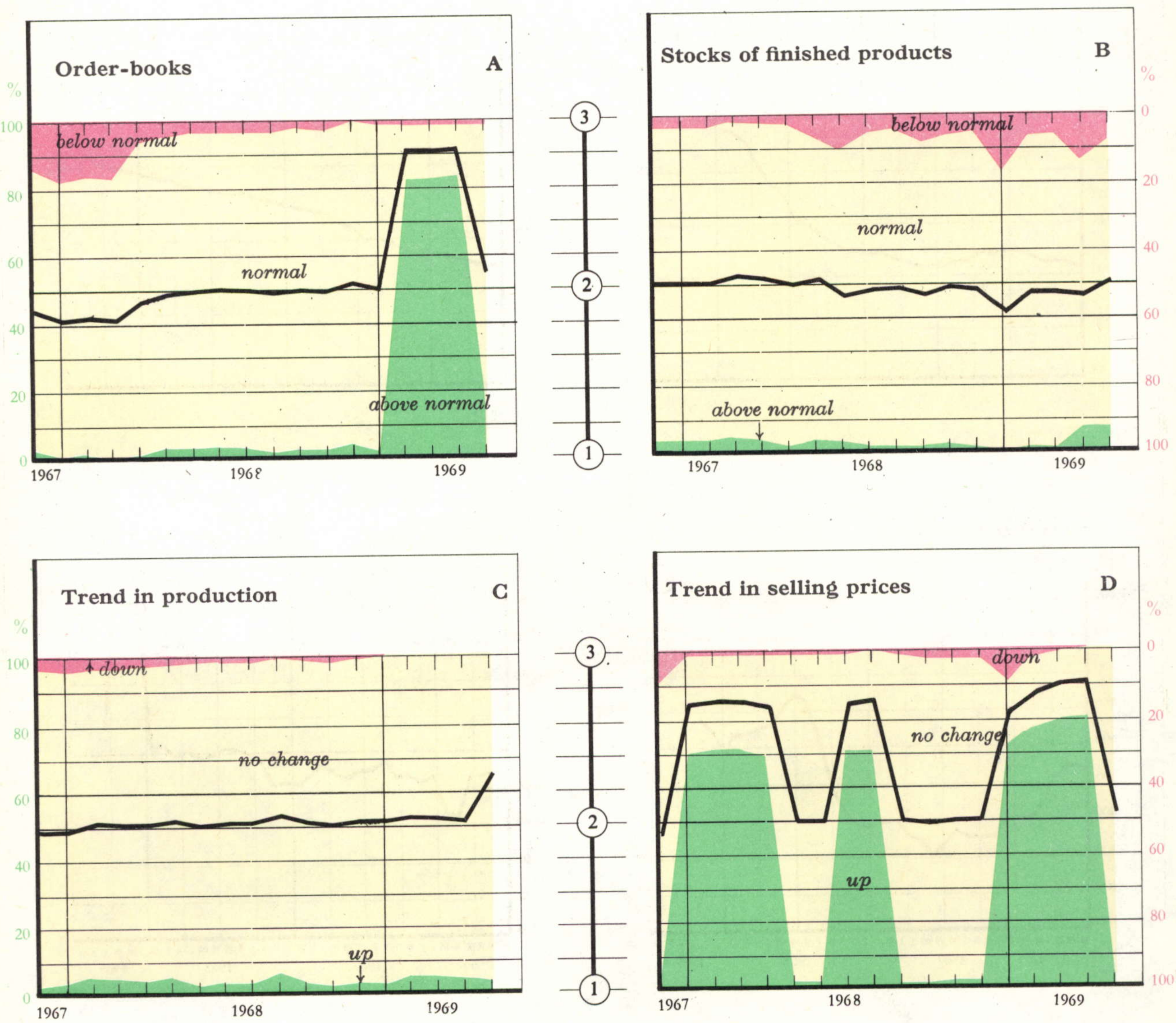
Graph. 1. Serie adjusted for seasonal and irregular (trend) variations. Exl. building, food, beverages and tobacco.

Graph 2. Source: STATEC. New index.

Graph 3. Index adjusted for seasonal variations. Three-month moving averages.

Graph 4. Source: EEC business survey.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Grand Duchy of Luxembourg by STATEC.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

by 0.03 for the answer "above normal", or "up";
by 0.02 for the answer "normal", or "no change";
by 0.01 for the answer "below normal", or "down".

likely to strengthen in the period up to the end of the year, even if harvests are normal and import prices rise modestly.

Given the outlook for supply and demand, the forecasts for 1969 as a whole and particularly the figure for the growth of the gross national product must be revised upwards. The real growth of the gross national product can now be estimated at about 5.5 %.

Tentative forecasts of the trend of economic activity in 1970 suggest that the main factor affecting growth could well be a distinctly slower expansion of the major demand components. In addition, there will probably be a somewhat faster rise in domestic prices because of the switch to the tax on value added—though the planned rates are relatively low—and because of the danger of a sharper rise in import prices. The real growth of the gross national product may be put at some 3.5 %.

In February, the Government announced the main points of its economic policy. For short-term economic policy, the new line of budget policy is the most important innovation. After the draft budget for 1969 had been changed several times, the deficit budgeted for has now been cut from Lfrs. 1 226 million to Lfrs. 1 096 million. This decision, which is in line with the Commission's views set out in Quarterly Survey 1/69, will probably prove fully justified from the economic angle, were it only because of the need to check the downward tendency of Government saving. In 1970 this policy line should be maintained for a while, even if the outlook for the trend of demand might seem to warrant a gradual and cautious changeover to a less restrictive course.

Luxembourg

TABLE 1: **Basic data 1967**

Total area ('000 sq. km.)	2.6
Total population ('000)	335
Density of population per sq. km.	129
Numbers in employment ('000)	138.4
Numbers in employment, breakdown by main sector (%):	
— Agriculture	12.6
— Industry	45.3
— Services	42.1
Percentage share of gross domestic product in 1965:	
— Agriculture	6.3
— Industry	52.5
— Services	41.2

TABLE 2: **Basic monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1967 = 100)	1967	99.3	99.8	101.0	103.6	105.7	102.2	100.0	90.2	99.1	99.5	102.5	97.2
	1968	96.0	98.2	104.6	107.6	111.5	110.9	105.7	99.0	110.3	109.0	110.6	109.8
	1969	114.1	115.3	118.2									
Crude steel production ('000 m.t.)	1967	371	360	389	379	372	377	376	356	382	375	376	368
	1968	375	377	398	393	408	380	410	407	412	445	422	406
	1969	456	423	462	455	450							
Construction (1967 = 100)	1967	59.9	70 5	103.8	109.5	122.2	117.3	117.1	105.0	106.4	106.2	98.6	83.5
	1968	60.2	73.1	98.9	112.3	112.7	100.4	115.3	105.9	104.2	111.1	91.7	81.4
	1969	63.2	63.7	97.9									
Workers employed in the iron and steel producing industry and in mining ('000)	1967	23.5	23.4	23.4	23.3	23.3	23.2	23.1	23.0	23.0	22.9	22.9	22.8
	1968	22.7	22.6	22.6	22.6	22.5	22.5	22.5	22.4	22.5	22.5	22.5	22.5
	1969	22.4	22.4	22.4	22.5	22.4							
Retail prices (1965 = 100)	1967	104.29	104.25	104.37	104.73	105.02	104.80	105.93	105.96	106.65	106.75	106.97	107.12
	1968	107.23	107.79	107.90	108.13	108.03	108.13	108.33	108.32	108.50	109.00	109.16	109.58
	1969	109.79	109.90	110.11	110.36	110.84							

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

— Total population at mid-year.
— Breakdown of gross domestic product at factor cost.

Table 2

— Industrial production. Source : Service central de la statistique et des Etudes économiques (STATEC).
— Crude steel production. Source : STATEC.
— Construction. Index based on number of man-hours worked. Source: STATEC.
— Workers employed in the iron and steel producing industry and in mining. Source : STATEC
— Retail prices. New index published from 1 November 1967 onwards. Source: STATEC.

As was done last year, Quarterly Surveys 3 and 4 will be published in December as a double number.