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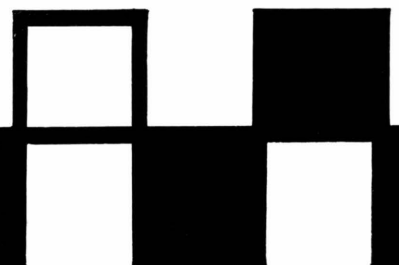
Commission

**Directorate-
General
for Economic
and Financial
Affairs**

**The economic situation
in the Community**

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1968



Quarterly survey

**Commission of the European Communities
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends
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NOTE

In the second half of November, when the present survey had already gone to press, the special money and capital movements which had been noted on the international foreign exchange markets for several weeks—affecting mainly the German mark and the French franc—assumed unusually large proportions. The German and the French Governments were therefore led to adopt various measures, some of them severe ones, to counter speculation and establish better internal and external equilibrium. The existing exchange parities were maintained. At almost the same time the United Kingdom adopted restrictive measures designed to help attain the same objectives.

A first general analysis of the measures adopted shows that certain quantitative forecasts for 1969 contained in the survey must be revised in respect both of the countries concerned and of the Community as a whole. To avoid delaying publication until the effects of the measures are clearly discernible, the survey is published in its original form. Quarterly Survey 1/1969, to be published next spring, will contain a thorough analysis of the effects of the measures and will indicate what changes must be made in the forecasts.

EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

SEPTEMBER/DECEMBER 1968

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Note :

This survey was completed by 14 November 1968. 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

The year 1968 has been one of very vigorous economic expansion for the Community. In spite of considerable production losses in France because of the strike in May and June, the real gross Community product rose by more than 5 % from 1967 to 1968, after an increase of barely 3 % from 1966 to 1967. This brings the growth of the real gross Community product since 1957 to 69 %, compared with 58 % in the United States and 38 % in the United Kingdom.

The determining factor in the brisk upturn of economic activity in 1968 was a rapid expansion of demand. At first the chief impulse came from external demand and from stockbuilding. In addition, fixed asset formation was running strong. In the course of the year private consumers' expenditure, in its turn, picked up more vigorously.

Visible exports from the Community expanded very strongly indeed, especially during the first half of the year, though it must be added that the increase owed much to special factors, especially in the case of sales to the United States and the United Kingdom. According to the foreign trade statistics, the value of visible exports to non-member countries rose by an estimated 8.5 % from 1967 to 1968, thus exceeding even the 1966-1967 increase of 7.5 %.

While the pace of expansion of external demand slackened appreciably as the year went on, internal demand displayed a clear and increasingly steep upward trend. In addition to a very considerable if temporary spell of restocking—although stocks were run down to a sizeable extent in France, investment in stocks probably expanded more in 1968 than at any time since the Common Market came into force—there was a growing propensity to invest on the part of firms. At the

same time public investment expenditure rose very appreciably. Gross fixed asset formation, which from 1966 to 1967 had risen in terms of value by only 1.6 %, consequently expanded at an estimated rate of 8.5 % from 1967 to 1968.

The increase in consumption expenditure gathered more and more speed as the year advanced. It is true that in most member countries, except France, the increase in public current expenditure on goods and services fell short of the preceding year's, but private consumers' expenditure had a decidedly upward trend, especially during the second half of the year. In value, the increase over 1967 was probably around 7.5 %, after a rise of 6.0 % from 1966 to 1967. Noteworthy was the speed at which private consumers' expenditure grew in France. Its total growth in the Community since 1957 works out at 67 % in overall terms and at 52 % per head of population.

The development of private consumer demand reflects, above all, a rapid advance in the disposable incomes of households. The increase was especially marked in France, thanks mainly to a massive rise in wages in connection with the events of May and June. But in other member countries, too, wage incomes rose appreciably, not least as a result of the improved employment situation. In most member countries, furthermore, transfer incomes rose strongly, and so did incomes from property and entrepreneurship.

In response to the dynamic rise in total demand, supply from within the Community expanded vigorously and, throughout the year, proved highly elastic. Agricultural production, it is true, rose relatively little after the preceding year's excellent results, but industrial production leapt ahead. In terms of the index of industrial production as defined by the Statistical Office of the European Communities, the year's increase, notwithstanding production losses in France, probably works out at around 7.5 %, compared with only 1.7 % in 1967. While the increase in production was by and large associated with corresponding productivity improvements, there was again an upward trend in employment figures during the year, coupled with an appreciable increase in the number of hours worked. Most member countries registered a decline of unemployment in the course of the year, especially Germany and the Benelux countries. In France, however, the events of May and June were followed by a temporary, steep increase in unemployment.

One result of the strong upswing in the Community was a vigorous recovery of imports from non-member countries. While the volume of visible imports had stagnated in 1967, the foreign trade statistics suggest that from 1967 to 1968 it rose by 8.5 %. Intra-Community trade probably expanded at the more rapid pace of 14 %, compared with an increase of only 5.5 % from 1967 to 1968. This means a more than fourfold increase since 1958.

The Community's balance of visible trade with non-member countries in 1968 is expected to show almost as large a surplus as in 1967. Since the deficit on capital account was considerably larger in 1968 than in the preceding year, the balance of payments deteriorated sharply. The Community's official net gold and foreign exchange reserves fell by 2 800 million u.a.¹ during the first 10 months of

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

the year, compared with a rise of more than 1 000 million u.a. during the same period of 1967.

Economic expansion in the Community should again be vigorous in 1969. Exports to non-member countries will no doubt grow a good deal less than in 1968, especially because of the expected slowdown of business activity in the United States, but internal demand may well expand even more rapidly than before.

Gross fixed asset formation is likely to expand more than in 1968 in nearly all member countries, mainly thanks to an increasing propensity to invest on the part of firms. At the same time private consumption will make an appreciably stronger impact on economic growth than it has done in the past year. For one thing, employment should be distinctly higher than in 1968, and secondly there is every likelihood that wages will rise more in most member countries in 1969 than they did in 1968.

Domestic supply is expected to expand very vigorously once more. In the first half of the year, at least, industrial production will still be rather elastic and (as defined for the index of the Statistical Office of the European Communities) might grow in the aggregate by about 8 % from 1968 to 1969. On the assumption of a relatively small increase in agricultural output and some further rise of value added in the services sector, the growth of the real gross Community product might thus be of the same order of magnitude as in 1968, that is, between 5 and 5.5 %.

In the light of these demand and supply prospects, unemployment in the Community may be expected to diminish further. In some member countries there may even be a recurrence of a tight situation on the labour markets.

Imports from non-member countries should again be in vigorous expansion in 1969. A possible tendency for raw material imports to slow down should be more than offset by a faster increase in imports of finished goods. Since exports are likely to expand at a slower rate, the surplus on the Community's trade account should diminish appreciably in 1969.

Intra-Community trade should expand even faster in 1969 than in 1968. In spite of the stabilizing effects deriving from rapid import growth and expanding intra-Community trade, prices may come under some upward pressure in the course of the year. For this reason more importance than before will attach to short-term economic policies designed to promote expansion without jeopardizing stability.

A. Balance sheet for 1968

The year 1968 brought with it events of major significance for the Community. Two important stages were reached on the road to economic union. The customs union came into force on 1 July 1968, 18 months before the date envisaged in the Treaty of Rome; internal customs tariffs between member countries were completely abolished, and at the same time the common external tariff came into force, at a general level considerably reduced by the first two instalments of the tariff cuts agreed at the Kennedy Round in GATT. Furthermore, the Council Resolution of 15 October 1968 established freedom of movement for labour within the Community and created additional safeguards for non-discrimination with respect to workers from other member countries.

The establishment of the customs union and of freedom of movement for labour in the Community took place in a favourable economic climate. The year 1968 was one of very vigorous and steadily spreading economic expansion for the Community. By the autumn, production was increasing at a pace so far matched only by the boom periods of 1959 and 1965. An appropriate setting for this was created by short-term economic policies designed to promote expansion without jeopardizing stability, such as were explicitly endorsed as necessary by the Council, on a proposal from the Commission, in its recommendation of 9 March and its Directive of 20 July 1968.

Nevertheless, the economy was not spared some difficult situations in 1968, which spelled considerable danger for the Community and possibly even for its very cohesion.

At the turn of the year 1967/68, the Community found itself faced with the recent currency devaluations in the United Kingdom and a number of other countries in Europe and overseas. After consultation, especially within the Monetary Committee, Member States decided not to alter the parity of their currencies. In practice, the devaluations outside the Community seem so far to have had relatively little effect on the competitive position of its industry. Similarly, the occasional bursts of currency speculation in the course of the year,

as well as the gold crisis in March 1968, had no more than negligible consequences for economic expansion. Furthermore, the slackening of world trade, which had been feared at the beginning of the year, materialized a good deal later than expected. It was not until the middle of the year, for instance, that the US Congress approved the tax increases proposed some time ago by the President, and their repercussions on world trade, like those of the restrictive measures in the United Kingdom, were relatively slow in taking effect. On the contrary, a number of special factors, such as unusually high steel deliveries to the United States and large sales of consumer goods to the United Kingdom, did much to stimulate Community exports during the first half of the year.

Special concern was caused by the events of May and June in France, which abruptly and unexpectedly paralysed broad spheres of production and subsequently led to massive wage increases. Thanks to the Community's solidarity and to the economic policy of the French authorities, it was possible more or less to normalize the economic situation of France again later in the year, without detriment to what the Community had accomplished so far and especially to the realization of the Common Market. For the first time since the Rome Treaties entered into force, the Council of the European Communities, acting upon a proposal the Commission had put forward after prior consultation with the Monetary Committee, decided that mutual assistance should be granted to a Member State. In addition, the Commission authorized the French Government to take protective measures, exceptionally and for a short while, to wit, to reintroduce exchange control for certain capital transactions, to introduce import quotas in order to contain the import expansion for a limited range of goods, and to promote exports by certain measures. To some extent, these measures have already been repealed or relaxed by the French Government during the last few months. Exchange control, for instance, was lifted again as early as the beginning of September, and import quotas for cars were abolished at the end of October. From 1 November the wage-linked export subsidies were halved.

On the other hand, the preferential discount rate for claims arising from foreign transactions was not raised, as had originally been intended. The French Government let it be known that they will completely abolish import quotas on 31 December 1968 and export subsidies on 31 January 1969.¹

1. The world economic situation in 1968

The brisk expansion which the world economy experienced during the second half of 1967 continued throughout the early months of 1968, but around the middle of the year assumed a rather more staid pace, in connection with a slight slowdown in the United States and the United Kingdom, where economic growth had, partly thanks to special factors, been vigorous during the first half of the year. The foreign trade repercussions of these developments were not fully offset by increasingly faster growth within the Community.

In the United States, no reversal of economic trends has so far been caused by the approval, last June, of the tax measures proposed by the Administration more than a year earlier (a 10 % increase in income and corporation tax), together with the sharp cuts in government spending compared with the original budget estimates for 1968/69. There has been virtually no let-up in the expansion of consumer spending, boosted by substantial wage increases both in industry and in the public sector as well as by a decline in the savings ratio of households, which previously had risen sharply in anticipation of the new tax provisions. Nor does the settlement of the wage dispute in the steel industry seem to have had more than a marginal effect on stockbuilding. In any event, the gross national product rose by another 1.2 % in the third quarter of 1968, following a rate of growth of 1.5 % from the first to the second quarter.

However, the figures available at the time of writing this report suggest that expansion slackened somewhat toward the end of the year. In particular, such indicators as invest-

ment programmes in industry, as well as the trend of residential building projects started during the first half of 1968, point to a slowdown in gross fixed asset formation toward the end of the year.

In spite of this slowdown, the real gross national product will on average turn out to be at least 4.5 % higher in 1968 than in 1967.

A distinct improvement occurred in the overall balance of payments of the United States. Imports increased greatly, not least because of the strike in the copper industry and expectations of a steel strike, while export growth was only moderate; but the capital account probably improved well beyond the target which the US Administration had set itself early in 1968. Calculated on a liquidity basis, the overall balance of payments deficit for 1968 may well turn out to have dropped to \$1 500 million from its 1967 figure of \$3 600 million.

In the United Kingdom the economy was slow to react to the devaluation. Domestic demand indeed kept expanding at a relatively high rate during the early months of 1968, mainly because private consumers' expenditure climbed steeply under the impact of the relaxation of incomes policy and hire-purchase regulations in the summer of 1967, and even more in anticipation of the fresh restrictions which, as the Chancellor announced after the devaluation, would be introduced in the 1968/69 budget. In addition, public expenditure kept rising, notwithstanding the Government's decisions to reduce it, for such decisions usually take effect only in the longer run. As the year went on, however, the trend gradually changed. During the second quarter the volume of private consumption declined in response, mainly, to the fiscal measures and to the price rises following the parity change. Certain signs of recovery during the third quarter led the Government to tighten its restrictions on consumer credit. From the second quarter on, expenditures by public authorities rose more slowly. By contrast, private investment gathered momentum, especially in manufacturing industry, where the propensity to invest of firms improved distinctly under the impact, in particular, of favourable export developments and rising profit margins.

After nearly two years of stagnation, industrial production entered a new phase of growth and, since the last quarter of 1967, has been

¹ Fuller information on the measures will be found in sec. I-C "Economic Policy" and sec. II-B "France".

expanding at an annual rate of about 5 %. The growth of real gross national product is likely to work out at almost 3 % for 1968. Because of considerable productivity improvements, however, the recovery in economic activity did little to alter the employment situation. At 2.5 % of the labour force, the unemployment ratio was as high in September 1968 as it had been a year earlier. The post-devaluation rise in import prices very definitely made its mark on domestic prices. Between November 1967 and June 1968 the retail price index rose by 4.5 % and, although the price increase now seems to have slackened somewhat, it did continue throughout the second half of the year.

With imports still expanding, the trade balance deteriorated once more. In spite of a marked improvement in the second half of the year, the foreign trade deficit is expected to be some \$150 million higher than in 1967. Virtually no change, on the other hand, is likely to have occurred in the United Kingdom's basic balance. Latest official estimates put the 1968 deficit at around £500 million, compared with £480 million in 1967.

Trends in other industrial countries outside the Community were pretty divergent in 1968. In the continental EFTA countries taken together, production probably expanded by around 3 % in 1968, as it did in 1967. In some countries where the trend had shown signs of weakening in 1967, the climate improved again in the course of 1968. This applies especially to Sweden, where economic growth had been very slow in 1967 and improved somewhat in 1968, mainly thanks to a vigorous export expansion and investment recovery in response to government measures. In Switzerland, real economic growth is similarly expected to be slightly in excess of the 1967 results. Industrial production, which had been stagnating throughout the preceding year, picked up markedly during the first six months of 1968. The revival owed most to buoyant exports, which brought with them an appreciable improvement in the year's current balance of payments.

In Austria the growth rate of the gross national product was certainly distinctly higher than in 1967, and may have reached around 4 % in real terms, given that business conditions improved noticeably as the year went on. After

a 2-year stagnation industrial production has been picking up steadily since the beginning of 1968. Exports continued to expand fairly rapidly, mainly thanks to a lively increase in demand from Germany.

Elsewhere, on the other hand, economic developments were in 1968 affected by government measures taken to combat inflationary tendencies. In Denmark, for example, regulation of demand took a definitely more restrictive turn, so as to contain the sharp rise in costs and prices and to achieve a tangible improvement in the trade balance after the devaluation of November 1967. The average growth rate of real gross national product for the year will probably have been at most 2.5 %, after 3 % in 1967. In Norway, economic activity similarly suffered from the weakening of private consumption and from less favourable investment trends, especially in shipbuilding.

In Spain, domestic demand had flattened out almost completely after the devaluation and the accompanying restrictive measures, but recovery set in again in the course of 1968. Exports rose very quickly, and during the first 8 months of 1968 their value, in terms of US dollars, exceeded by 17.5 % the corresponding figure for 1967. Together with a marked drop in imports, this is likely to have improved the trade balance considerably. In Canada, the restrictiveness of budget policy and credit policy had virtually no effect on prices and costs until the middle of the year; subsequently economic activity seems to have slackened somewhat, mainly as a result of a slower increase in demand from the United States. In Japan, the restrictive measures introduced in 1967 put a damper on economic expansion early in the year, but all in all the rate of economic growth was again very high. Gross national product at constant prices will probably have risen by more than 10 %, after an increase of approximately 13 % from 1966 to 1967. In the balance of payments, the current account again improved considerably, even though the rise in exports to the United States may have slowed down again after having been more rapid until the end of the summer.

Contrary to expectations, the rapid growth of import demand from the industrial countries, which had been in evidence since the middle of 1967, had practically no stimulating effect

on economic activity in the developing countries. Even though the volume of exports from these latter countries expanded considerably, especially up to the middle of the year—the average over the year was probably about 7 % higher than in 1967—the increase in earnings did not keep up with this development. Raw material prices generally were lower than in 1967. As a result, the developing countries' imports, which in the first half of the year had been held back largely by the loss of purchasing power suffered by many of these countries in connection with the devaluation of their own currencies or of sterling, expanded very hesitantly until the end of the year. In terms of dollar values, purchases abroad by these countries probably increased in 1968 by at most 2 %.

2. Demand

Total demand in the Community expanded distinctly faster in 1968. This development was favoured by strongly rising external demand and by stockbuilding. In addition, investment activity gained in strength and as the year went on private consumption picked up appreciably.

In response to the world economic trends described above, the Community's exports went through two phases in 1968. Until early summer, exports from member countries were stimulated by the revival of economic activity and especially by the appreciable expansion of demand in several major industrial countries. The main beneficiaries were exports to the United States and the United Kingdom. In the first case, there were important special factors such as the strike in the copper industry, expectations of a steel strike and fears of protectionist measures. Exports to the United Kingdom benefited in the early months of the year from the very high level of consumer demand, when the British were expecting restrictive measures at home. As a result, the dollar value of Community exports to the United States was during the first six months of 1968 35 % higher, and to the United Kingdom 11 % higher than during the corresponding period of the previous year. The overall expansion of visible exports from the Community to non-member countries from the second half of 1967 to the first half of 1968 was 8.5 %.

With the disappearance of the special factors, however, export growth slowed down somewhat during the second half of the year. The foreign trade statistics suggest none the less that for the full year visible exports to non-member countries increased at a slightly higher rate than in the preceding year; the increase in value was probably more than 8.5 % compared with 7.5 % in 1967.

Thanks to the exceptionally good results of the first six months, the total value of annual exports to the United States was some 29 % higher than in 1967, when they had risen by only 8 %; exports to the United Kingdom rose by about 13 % in both years. Community sales to continental EFTA countries expanded only slightly more briskly than in 1967, mainly because of the measures taken by some of them to dampen demand. Similar factors worked against Community exports to Spain and Japan, so that in both cases the annual rate of increase was distinctly lower than the year before. As in 1967, total exports to developing countries went up only a little, except for a steeper rise of sales to the associated overseas countries and territories. In exports to the countries of Eastern Europe, finally, the strong expansion of 1967 showed a distinct tendency to slacken.

Internal demand in the Community was much more vigorous, and its expansion gathered momentum as the year went on. In annual terms, gross fixed asset formation was much the most dynamic element. Near-stagnation in 1967 was followed in 1968 by an increase of about 8.5 % at current prices, and of about 6 % in real terms.

Investment in plant and machinery did particularly well. In Germany, where firms had in the second half of 1967 begun to show a greater readiness to incur capital expenditure, their propensity to invest rose further, and elsewhere in the Community it remained high. The only exception was Italy, where some degree of uncertainty about future economic developments made firms reluctant to go ahead with their investment programmes. Generally speaking, profit margins and, with them, self-financing capacity improved markedly in most member countries, though in France there was a sharp reversal in mid-year, as a result of the massive wage rises following the strikes in May and June. The general trend of economic

Visible exports to non-member countries

(Values and % changes on preceding year)

	1967		1968			
	Million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	Full year ⁵
All non-member countries	31 627	+ 7.5	+ 12	+ 2	+ 18.5	+ 8.5
of which :						
Industrial countries ²	20 473	+ 7	+ 13	+ 3.5	+ 16.5	+ 8.5
including :						
United States	4 423	+ 8	+ 41.5	+ 28.5	+ 40	+ 29
EFTA	10 425	+ 4.5	+ 8	— 0.5	+ 11.5	+ 5.5
United Kingdom	2 847	+ 12	+ 20.5	+ 1.5	+ 3	+ 13
Developing countries ³	8 296	+ 4.5	+ 10.5	+ 4	+ 22	+ 7.5
including :						
Associated overseas countries and territories	1 789	+ 5	+ 14.5	— 3.5	+ 28.5	+ 14
Other countries ⁴	2 858	+ 22.5	+ 11	— 13	+ 20	+ 10

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.

⁵ Commission estimates.

activity and the higher degree of capacity utilization also had a stimulating effect on investment. In addition, France and Italy last summer introduced, or at least announced, measures to promote business investment; this may have led, towards the end of the year, to some improvement in investment activity—though doubtless very limited at first, both geographically and in the range of industries affected.

The metal processing and base materials industries, except for mining, are thought to have

stepped up their investment programmes for plant and machinery appreciably, as is suggested in particular by the results of the spring and autumn business surveys in the EEC. The determining factor in this development was that at the very beginning of recovery, the base materials industries benefit from the revival of demand in connection with restocking and the favourable export trend, while some branches, especially the chemical industry, registered a relatively strong expansion of output in the preceding phase of recession. To judge by the flow of new orders and by sales of machinery,

the manufacturing industries have also been endeavouring since last spring to step up modernization of their plant.

After a pronounced slowdown in 1967, investment in building and construction again advanced quite vigorously. Enterprises spent considerably more on building new industrial premises; investment in industrial construction went up particularly fast in Germany and, at least during the first six months of the year, also in Italy. In the latter case, this is all the more remarkable as Italian firms were holding back expenditure for plant and machinery. The overall annual figures for residential building, too, make much better reading than they did in 1967, partly because of the growing impact of the measures which several member countries had introduced in 1967 and 1968 to promote subsidized housing.

The most vigorous increase was registered by residential construction in Italy, though partly thanks to certain chance factors. In Germany, recovery seems to have gathered more and more speed during the second half of the year, and the number of new residential building projects started probably went up in France as well. In the latter case the development no doubt owed something to the mid-year boost of purchasing power, which must have led households to buy more dwellings, with a resulting improvement on the real estate market during the second half of the year. Expenditure on public works, which account for the great bulk of public investment expenditure, was very considerably up on 1967, though in most countries some deceleration was unmistakably in evidence during the second half of the year.

Investment in stocks, which throughout the major part of 1967 had exerted a retarding influence, did much to raise total demand in 1968, especially early in the year. In Germany, especially, the tendency to run down stocks was reversed late in 1967, with considerable benefit to demand. In the Benelux countries, too, investment in stocks should prove to have been considerably higher, as firms not only rebuilt stocks previously depleted, but adjusted them to the higher current level of production. In Italy, where stockbuilding had in 1967 advanced rapidly, the pace was calmer, while in France stocks were run down quite considerably in

connection with the losses of output in May and June.

Expenditure on consumption made a good recovery in the second half of 1968, after a pronounced slowdown of expansion in 1967 and a moderate pace in the first six months of the following year.

In most member countries, public current expenditure on goods and services increased, in value terms, a good deal less than from 1966 to 1967. The main reason was that, except for France, pay in the public sector generally rose less, but in most member countries, too, public purchases of goods and services did not expand much.

In private consumers' expenditure there was a distinct tendency for the rate of expansion to gather speed in the course of the year, with the result that the annual average increase, at current prices, worked out at 7.5 % compared with 6 % in 1967. In real terms, the corresponding figures are 4.5 % for 1968 and 3.2 % in 1967, giving real increases of consumption per head of population of 3.5 % in 1968, 2.5 % in 1967.

It will be seen from the table below that the real expansion of private consumers' expenditure, which had been strikingly uneven as between different member countries in 1967, became increasingly more uniform in 1968. In all the countries except France consumer prices remained relatively stable. Another noteworthy feature is that private consumers' expenditure in Germany, which had barely risen at all during the preceding year, went up more markedly once again in 1968.

Looking at the situation of the Community as a whole, it is probably correct to say that the key to the more rapid expansion of private consumers' expenditure was a higher rate of increase in disposable incomes. This in turn is attributable to the improved employment situation, which will be described in more detail in the next section, and to the rise in negotiated wage rates, which was extremely strong in France and rather slower in the other member countries; in some countries, especially in Germany, the wage drift was faster. In most member countries, furthermore, transfer incomes again increased considerably in 1968. Incomes from property and entrepreneurship also

Private Consumers' Expenditure

(% change on preceding year)

	Value		Volume	
	1967 ¹	1968 ²	1967 ¹	1968 ²
Germany	2.4	6	0.6	4
France		10.5		5.5
Italy	9.3	6.5	6.1	4.5
Netherlands	8.4	7.5	5.1	4.5
Belgium	5.4	7	2.8	4
Luxembourg	2.2	8	0.3	5.5
Community	6.0	7.5	3.2	4.5

¹ General Statistical Bulletin of the European Communities, No. 7/8, 1968, Statistical Office of the European Communities.

² Commission estimates.

³ STATEC, Luxembourg.

expanded comparatively strongly, with the highest rates of increase reported by Germany. Another circumstance that helped to push up disposable incomes was that income tax was being paid, in part, on the two preceding years' incomes, which had risen relatively slowly. In Germany, however, this factor was more than offset by a surcharge levied since 1 January 1968, as well as by higher social security charges.

3. Production

In response to the vigorous expansion of demand, internal supply in the Community grew considerably more in 1968 than in 1967, and did so all the more briskly as virtually no bottlenecks occurred, either on the labour or the capital markets or in respect of technical production capacity. In general, therefore, the elasticity of production proved very high.

After the excellent results of the preceding year, agricultural production, it is true, rose comparatively little. Taking the Community as a whole, harvests were only marginally better

than in 1967—when, however, they had beaten all previous records. The Community's total grain harvest exceeded the previous year's by about 1%. In the case of root crops the increment was larger in quantitative terms, but they were of markedly poorer quality than in normal years. Output of fruit and vegetables, as well as of livestock products, especially milk and butter, was very appreciably higher than in 1967.

To judge by the production index of the Statistical Office of the European Communities, industrial production, excluding construction, food, beverages and tobacco, rose by about 7.5% from 1967 to 1968, compared with barely 2% in the preceding year. Expansion did, however, suffer a serious setback in the first half of the year, as a result of production stoppages in France during May and June. In the second half of the year, it proceeded at a faster pace. The quarterly index of industrial production, adjusted for seasonal and fortuitous variations, showed a year-to-year rise of about 1.5% each in the first and the second quarters, but the increment widened to 2.5% as between the third quarters.

In annual average terms, industrial production expanded most in Germany and in the Netherlands. In the first country expansion owed much to stockbuilding, to the faster pace of fixed investment by firms and, later, also of consumption; in the Netherlands a major contributing factor was that new plant was brought into commission in the natural gas and chemical industries. The main influence on industrial production in Belgium and Luxembourg came

from expanding foreign demand and the strength of the steel market. In France, the social disturbances in May and June left their mark on the year's results, even though much of the shortfall in output caused by the strike was made good during the second half of the year. In Italy, the rising trend was comparatively weak throughout the year, the expansion of domestic demand having been no more than moderate.

Industrial production in the Community¹

(% change on preceding year)

	1966	1967	1968 ²
Germany	+ 1.4	— 2	+ 9.5
France	+ 7.1	+ 2.2	+ 3.5
Italy	+ 12.5	+ 8.6	+ 6
Netherlands	+ 7.1	+ 4.4	+ 9.5
Belgium	+ 1.8	+ 0.2	+ 6
Luxembourg	— 4.3	+ 0.3	+ 4
Community	+ 5.3	+ 1.7	+ 7.5

¹ Industrial production according to the SOEC Index, excluding, that is, construction and food, beverages and tobacco.

² Commission estimates.

Some of the largest output increments were reported by a number of basic materials industries, which were in a good position to take advantage of stockbuilding and of the buoyancy of export demand. After a steady decline since 1964, mining output for the first time once more exceeded the preceding year's; only coal output dropped sharply again, which allowed stocks to be reduced. Very substantial progress was made by the steel industry, where output during the first nine months of the year was 9 % up on the same 1967 figure. The chemical industry, which had hardly been affected by the slowdown at all, registered another sizeable output increment.

In manufacturing, the capital goods industries benefited from the upsurge of demand. Pro-

duction increased appreciably nearly all along the line, even in shipbuilding, where activity had been quite sluggish for some time. In consumer goods, production rose less steeply than in capital goods, because consumer demand picked up only later in the year and the main initial impulses came from dealers building up stocks. None the less, some specific industries reported very high increases over the—admittedly often very low—levels of the preceding year; this applies, for instance, to motor vehicles (15 %) and textiles (10 %).

Real value added in building and construction, having virtually marked time in 1967, rose fairly quickly in 1968 without being impeded by any bottlenecks worth speaking of. Much of the recovery is attributable to a considerable

expansion of public building, but some considerable part must have been played also by increased activity in industrial building and, especially in Germany, by a revival of residential construction.

Similarly, value added in the services sector exceeded the 1967 figures, even though, in contrast with the trend in recent years, the growth of tourism lost appreciable momentum. This is no doubt mainly attributable to the fall in the number of American tourists and to cancellations in France in connection with the May/June events. Value added in retail trade probably increased very little during the first half of the year, but with the subsequent recovery of private consumers' expenditure there was probably a pronounced improvement later. The contribution to Community gross product made by transport services, banking and insurance, on the other hand, kept rising briskly throughout the year under the impact of the vigorous recovery.

All in all it can be assumed that the real gross Community product rose by more than 5 % from 1967 to 1968, compared with an increase of 2.9 % in 1967. In spite of the strikes and the connected production losses in France, the growth rate of 1968 was the highest since 1964. Germany leads the field with a real GNP growth rate of 6.5 % (0 % in 1967), followed by the Netherlands with 6 % (5.6 %); in Italy the figure was 5 % (5.9 %), in Belgium 4.5 % (3.5 %), in France, notwithstanding the production stoppages in May and June, it was still 3.5 - 4 % (about 5 %), and in Luxembourg 4.5 % (2 %). Since the Rome Treaties came into force, the gross Community product at constant prices has thus risen by altogether 69 %, compared with 58 % in the United States and 38 % in the United Kingdom.

The faster pace of growth in internal production was associated with useful gains in productivity (gross value added at constant prices per person employed).

The total number of persons in paid employment was probably barely higher than in 1967 in annual average terms. However, as the upswing gained ground in the course of the year, the situation on the labour market definitely improved: for the first time since 1965 employment expanded (apart from variations)

during the year in the Community as a whole. Unemployment tended to fall everywhere in the second half of the year, in spite of a relatively large number of school-leavers, and in most member countries the curve of job vacancies was upwards. Even in France, where unemployment rose abruptly after the May/June events, the most recent figures suggest that unemployment is again declining, and at the same time the economy's demand for labour is beginning to rise. But in annual average terms, the number of unemployed in France was probably still much the same as in 1967. Last September, the seasonally adjusted unemployment rate was 0.8 % in Germany, 1.8 % in the Netherlands, 2.5 % in Belgium, 2.5 % in France and 3.5 % in Italy.¹

The number of self-employed persons probably declined more in 1968 than in 1967, since there was an increased outflow of them from sectors with a relatively high proportion of marginal firms, a tendency which was reinforced by improved job opportunities in industry and in certain tertiary activities.

The total number of persons gainfully employed in the Community may well have declined slightly, as indeed it had already been doing in previous years. To some extent this tendency is explained by the higher school-leaving age and earlier retirement; but the decline was stemmed by the relatively large numbers of young people taking up their first jobs.

4. Balance of the markets

The Community's imports from non-member countries expanded very vigorously in 1968. In annual average terms, their value was probably about 8.5 % higher than in 1967, and, with import prices tending to fall, the volume of imports should have increased even more (9.5 %).

During the early months of the year the key to the increase in Community imports was rising demand for raw materials and semi-manufactures. Other factors worked against the expansion of imports during the first quarter, such as the persistent decline of agricultural purchases abroad after the preceding year's good harvests, the normalization of crude oil imports after an

¹ Partly based on estimates.

exceptional spurt of restocking late in 1967, and Italy's general weak import demand. As the upswing gained momentum in the course of the year, more manufactures were imported, at first mostly capital goods but later consumer goods as well. Since the middle of the year agricultural imports, too, have been rising again.

The main beneficiaries of the Community's vigorously expanding import demand, especially for manufactures, were the United States and the United Kingdom, whose sales to the Community had been declining in 1967. But imports from developing countries also did a good

deal better than in 1967. By contrast, the Community bought little more than before in the European countries of the Eastern bloc.

The faster growth of the Community's internal demand helped intra-Community trade, in its turn, to move on from the preceding year's pronounced slowdown to renewed vigorous expansion. Import statistics suggest that in 1968 the value of trade between member countries exceeded the previous year's figure by about 14 %, which means a more than fourfold increase in intra-Community trade since the Rome Treaties entered into force in 1958.

Visible imports from non-member countries

(Imports 1967 and % year-to-year changes)

	1967		1968			
	Million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	Full year ⁵
All non-member countries	30 767	+ 0	+ 6.5	+ 5	+ 14	+ 8.5
of which :						
Industrial countries ²	16 954	— 2	+ 6	+ 3	+ 17.5	+ 8
including :						
United States	5 858	— 2.5	+ 7	— 1.5	+ 20.5	+ 10
EFTA	7 093	— 2	+ 6.5	+ 4.5	+ 17	+ 9
United Kingdom	2 701	— 3	+ 5.5	+ 2.5	+ 17	+ 10.5
Developing countries ³	11 521	+ 1.5	+ 7	+ 8.5	+ 11	+ 10.5
including :						
Associated overseas countries and territories	2 275	— 0.5	+ 12	+ 4	+ 11	+ 9.5
Central and South America	2 743	+ 0.5	— 3.5	— 8	— 10	— 5
Other countries ⁴	2 292	+ 8.5	+ 11.5	+ 3.5	+ 0	+ 4.5

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.

⁵ Commission estimates.

It was the greatly increased import demand of Germany and France that did most to boost intra-Community trade in 1967. With the upswing gaining ground in Germany and especially with the recovery of private consumers' expenditure, German imports from other member countries expanded strongly in 1968—probably by more than 17 % in value terms. France, which had already stepped up its purchases from other member countries early in the year, bought even more after the May/June events, with the result that total 1968 imports from other EEC countries exceeded their previous year's value by almost 20 %. This is all the more remarkable because the French Government, with the Commission's approval, introduced temporary import quotas in July to contain the expansion of imports of certain "sensitive" goods like motor cars, steel, electrical household appliances and certain textile products. The Belgo-Luxembourg Economic Union and the Netherlands, whose imports from other member countries had hardly risen at all in 1967, increased their purchases under the impact of steadily growing economic expansion at home. In Italy, by contrast, domestic demand went through a comparatively quiet phase during the first half of 1968, with the result that imports marked time for a while in the early months of the year; subsequently they picked up again, but rather slowly until the autumn. The overall annual increase, in value terms, probably did not exceed 5 %.

Italian exports, on the other hand, captured the main share of the increment in import demand in Germany and France. Italian industry was all the better equipped to deal with this situation as slower domestic growth had made available an ample margin of spare capacity. But the dynamics of intra-Community trade were such as to enable all the other member countries to step up their exports to EEC partners.

In looking at the 1968 trade balances of each separate member country with the others, the most striking feature is the deterioration of the French position. Even though French exports to the rest of the Community did well enough, France ran up a deficit of something like 1 000 million u.a. on trade with the five, after 672 million u.a. in 1967. Germany's trade surplus, though reduced by the vigorous import expansion, was still high. In Italy, the moderate

increase in imports and the powerful upsurge of exports entailed a distinct improvement in the trade balance, which showed a surplus once again in 1968 following a deficit of 17 million u.a. in 1967. The Belgo-Luxembourg Economic Union had high surpluses in 1967, and higher ones in 1968. No significant change occurred in the intra-Community trade position of the Netherlands, which again showed a heavy deficit.

Prices in the Community spurted briefly early in 1968, and thereafter remained remarkably stable on the whole. The one exception was France, where they rose distinctly faster than in recent years. Retail prices were pushed up considerably early in the year by the extension of the tax on value added to retail trade and the services sector, and climbed even more steeply during the second half of 1968 as a result of the massive wage rises following the strikes in May and June. In Germany, the introduction of the tax on value added entailed considerably higher prices at the beginning of the year. At the same time, Dutch retail prices were rising under the impact of an increase in turnover tax rates. Italy enjoyed an absolutely stable price level throughout the whole of 1968—indeed wholesale prices actually declined a little in this country. In nearly all countries the effects of the 1967 price increases were still reflected in a rise of the price index of private consumption, adjusted by the GNP deflator.

Prices remained largely stable in most member countries in the course of the year, mainly because the elasticity of supply was relatively high. In addition, wage costs in industry exercised little upward pressure on prices. Except for France, wage costs per unit of output were very nearly stable, thanks in part to the reasonable attitude of both partners in wage negotiations and in part to the substantial productivity gains in most member countries due to the rapid pace of the upswing.

World prices for some staple raw materials were still weak, and this also helped to keep prices stable.

So did the decline of agricultural prices, at any rate during the first half of the year. The good harvests of 1967 and, in the case of some fruit crops, of 1968, forced the prices of crop products downwards during the first half of the year, after which they levelled out. Among

Rise in Private Consumption Prices¹

(% changes on preceding year)

	1966	1967	1968 ²
Germany	3.9	1.8	2
France	2.8	3.0	5
Italy	3.0	3.0	2
Netherlands	5.8	3.1	3
Belgium	4.3	2.5	3
Luxembourg	3.5	2	2.5
Community	3.5	2.6	3

¹ As defined for the national accounts.

² Commission estimates.

livestock products, pigmeat prices were still falling in the early months of the year, but hardened later. Beef prices, which in 1966 and 1967 had declined in most member countries or had at least shown no change, rose everywhere except in Italy during the course of 1968.

With wages keeping to a steady course, prices in the services sector rose less than during the preceding years. At any rate, public service charges were raised neither as often nor as much as in 1967. Rents, however, went up again, and possibly more than in 1967.

The Community's visible trade balance with non-member countries probably closed with a surplus (cif-fob) of the same order of magnitude as in 1967, when it had reached the high level of 860 million u.a.

The surplus on current account, calculated on a cash basis, probably declined, and the capital account is expected to show a considerably higher deficit than in 1967. The net outflow of both short-term and long-term capital increased very much, in connection, mainly, with the widening of the Eurodollar and the Euro-capital markets, and with speculative capital exports from France triggered off by the social disturbances.

To judge from the incomplete figures available when this report was prepared, the Community's overall balance of payments must have closed in 1968 with a sizeable deficit. The member countries' official net gold and foreign exchange reserves certainly declined by about 2 800 million u.a. during the first ten months of the year, compared with an increase of about 1 100 million u.a. during the corresponding period of 1967. At the same time, however, the net foreign exchange position of commercial banks improved very appreciably.

It follows that transactions with non-member countries had an inhibiting effect on liquidity in the Community taken as a whole. This applies especially to France, but also to the Netherlands and Belgium; in Italy and Germany the effect was expansionary—slight in the first case, but fairly strong in the second.

In all member countries, the cash transactions of the public authorities had liquidity-raising effects. In France, especially, the budget deficit of FF 2 500 million provided for in the original estimates was subsequently raised to FF 10 500 million in two supplementary budgets, and the cash deficit accordingly was very high. The bulk of the increase in expenditure occurred in consequence of the May/June events. In Italy

and in the Benelux countries the budget deficit was no doubt also larger than in 1967, and in the Netherlands it certainly was the main factor in the expansion of domestic liquidity. Only in Germany was there a tendency for the cash deficits of the Federal Government and the Länder to decline after their strong rise in the preceding year. Not only did tax revenue increase more than in 1967, but federal expenditure rose relatively little, and was indeed actually falling until July.

The volume of bank lending to business and private customers expanded in all member

countries, though in some of them more slowly than in 1967. Although profits were rising in Germany, firms needed more money for stocks and for their rapidly rising fixed investment, with the result that bank credits to business expanded sharply, after they had been virtually stationary in 1967. As the year went on, the banks were also lending more to private customers. The very considerable expansion of bank lending in France was in part attributable to the liquidity difficulties with which firms, and especially those of small and medium size, had to contend during and after the strikes in May and June, because of the

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ^{2 4}		1969 ^{3 4}
	At current prices in '000 million u.a. ⁵	% changes on preceding year				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	73.4	+ 0.7	+ 1.6	+ 6	+ 8.5	+ 7.5
Public current expenditure on goods and services	47.1	+ 4.2	+ 7.4	+ 3	+ 8	+ 3.5
Private consumers' expenditure	197.0	+ 3.2	+ 6.0	+ 4.5	+ 7.5	+ 5.5
Gross Community product	323.6	+ 2.9	+ 5.3	+ 5	+ 8.5	+ 5.5
Balance exports ⁶ less imports ⁶ (at current prices, in '000 million units of account)	+ 3.5		+ 5.7		+ 5.9	+ 4.5

¹ General Statistical Bulletin, 1968, No. 7/8, Statistical Office of the European Communities.

² Commission estimates.

³ Commission forecasts.

⁴ Based on Community totals of the aggregates of the individual member countries at official exchange rates.

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

⁶ Goods, services and factor income.

Notes :

(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.

production stoppages and the subsequent formidable wage increases; to help them, the Government introduced special credit facilities. Although private investment expanded vigorously in the Netherlands, bank lending to the private sector increased hardly more in absolute terms than in 1967, when admittedly the credit expansion had been exceptionally strong. On the other hand, companies borrowed more on the capital market in 1968. In Belgium, too, bank credits did not expand any more than in 1967. In Italy, finally, domestic demand was so calm that during the first seven months of the year the volume of credit expanded to only about two-thirds the extent of the increase recorded during the corresponding period of 1967.

The money markets were fairly liquid in most member countries during the greater part of the year. This affected the Eurodollar market, where interest rates eased. In Belgium, the central bank reduced its discount rate from 4 to 3.75 % in March. In France, large speculative capital outflows led the Government to reintroduce temporary exchange control at the end of May, and for balance-of-payments reasons the Banque de France twice raised the Bank rate—in July from 3.5 to 5 %, and in November to 6 %. At the same time it tightened up credit terms.

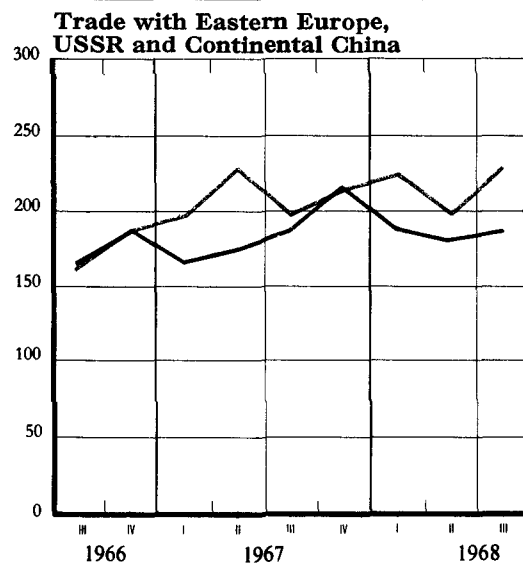
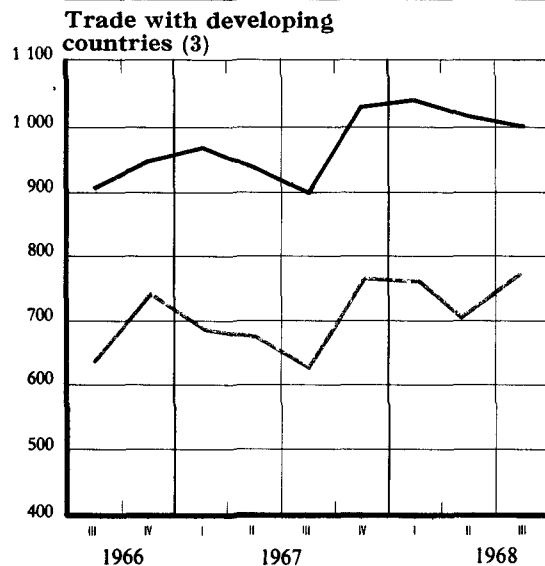
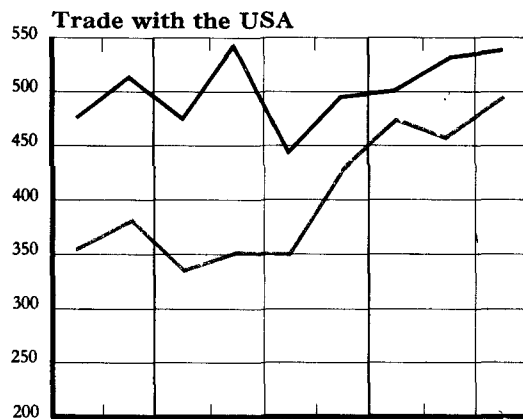
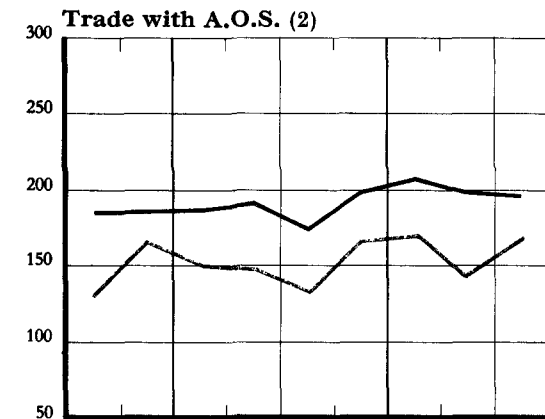
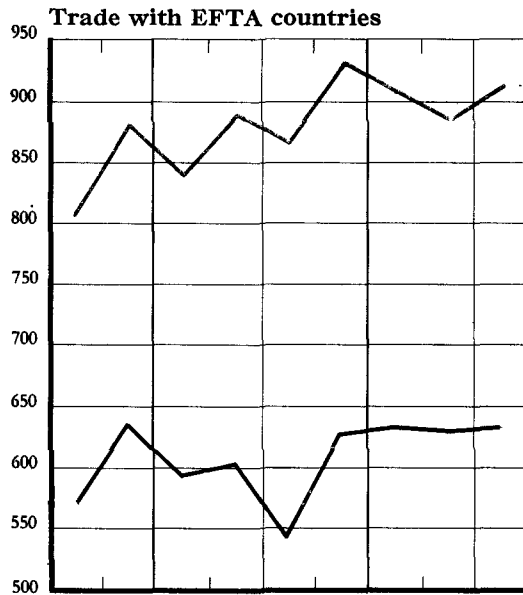
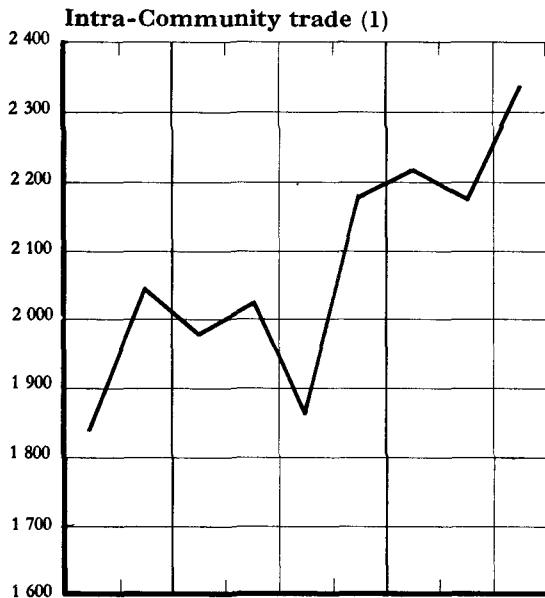
With prevalently easy conditions on bond markets in the Community, interests and yields were tending downward in some countries with the deliberate encouragement of those in charge of credit policy. In Germany, yields declined fairly sharply from April onwards, in spite of a large volume of new issues floated mainly by public authorities and foreign borrowers. In Belgium and Italy, yields were virtually stable, even though in the latter country new bond issues assumed an unprecedented scale. In France, too, yields were fairly stable, apart from a temporary steep climb in May; it should be added, however, that during the second half of the year the public authorities displayed great restraint in their recourse to the bond market. The only country where interest rates rose—and here they showed only a moderate increase—was the Netherlands, no doubt largely because of heavy debenture issues by companies.

The equity market in most member countries reflected the optimistic view of the business situation taken by investors. Share prices were less buoyant only in Italy and in France. In France, the upward trend of equity prices came to an abrupt end in May and June, as a result of the strikes and the related production stoppages, and in Italy share prices were depressed by the slackening pace of expansion and by psychological factors.

COMMUNITY TRADE

Monthly averages

In million u. a. *



----- Exports

———— Imports

(1) According to import returns.

(2) A.O.S. : Associated Overseas States (overseas departments, countries and territories).

(3) According to GATT classification : non-industrialized regions other than A.O.S.

* 1 unit of account = 0.888671 gramme of fine gold.

Some of the data for the third quarter of 1968 are estimates only.

B. Forecasts for 1969

When the time came round for working out forecasts for 1969, the upward trend of world economic conditions, which had been fairly steep up to the middle of 1968, had already lost a little momentum. This tendency is likely to continue into 1969, though it is hard to tell at present what proportions it will assume, how long it will last and whether it will give way to a recovery some time in the course of the coming year.

No doubt the United Kingdom and the United States will go on trying to achieve equilibrium in their balance of payments, and their efforts in this direction could well slow down the growth of world trade in 1969. But the success of these efforts is still too uncertain to allow at this stage of any conclusions regarding the possible reorientation of these countries' economic policies in the early months of 1969, and it is on this that world economic conditions in the second half of the year will largely depend. On top of that there are the uncertainties, especially important for the United States, about developments in Vietnam and about the new Administration's economic policy.

In these circumstances, the forecasts concerning world economic trends in 1969, and especially during the second half of the year, had to be based on a set of working hypotheses. It was assumed that the restrictive measures introduced so far by the United States and the United Kingdom would be sufficient to contain inflationary pressures in the United States and to reduce the external disequilibria of both countries. For the United States it was assumed, in addition, that any cessation of hostilities in Vietnam would not as yet have an appreciable effect on public expenditure in 1969. Finally, it was assumed that the predicted vigorous expansion of internal demand in the Community will prove a strong expansionary factor in world trade.

In an attempt to assess likely economic developments in the United States, it would seem appropriate to make a distinction between the first and the second half of the year, because the budgetary restrictions introduced apply so far only to the current fiscal year ending in

mid-1969. Domestic demand has hardly responded as yet to these restrictive measures, but they should begin to bite during the first half of 1969, for a number of reasons. For one thing, the additional tax payments to which taxpayers are liable as a result of the retroactive application of the increase in direct taxes are not due until the spring of 1969. As of 1 January 1969, furthermore, social insurance contributions are raised by \$3 000 million without any corresponding increase in benefits; half the increment will come from households. Finally, the greater part of the total reduction of the budget deficit from \$25 000 for the fiscal year 1967/68 to about \$5 000 million for 1968/69 is to take effect during the first two quarters of 1969. It may be, however, that the expenditure cuts of \$6 000 million will turn out to be rather smaller than originally intended, because the items which escaped cuts at the time may prove to occasion higher costs than was estimated. All in all, it must be expected that the restrictive measures will considerably slow down the expansion of the major components of domestic demand during the first half of 1969, and possibly even cause it to stagnate. Under the impact of a profit squeeze and an increase in spare capacity corporate investment may lose momentum, but above all there will no doubt be a marked slowdown in private consumers' expenditure. The effect may be reinforced should the savings ratio of households, which has recently been falling, stop doing so or indeed if the propensity to save of households should again increase. It is unlikely that the inhibiting impact of trends in corporate investment and private consumers' expenditure will be made good by the expected improvement in residential construction, especially since, in view of the slight effects of the budgetary restrictions so far, no significant easing of credit policy can be expected for some months.

There should be another improvement in the US visible trade balance, though with domestic prices still rising the competitive position of American industry must be suffering. In the event that prices continue to rise to any marked degree early in 1969, the US authorities may be led to maintain their restrictive measures beyond the middle of the year.

Allowing for the level of production already reached at the end of 1968 and for the fact that the present restrictive measures entail no danger of the demand expansion being cut back too sharply, the gross national product at constant prices may be expected to rise in 1969 by 2-3 %. The growth rate is likely to be the closer to the upper figure the more quickly prices stop rising and the sooner, therefore, a relaxation of the restrictive measures can be contemplated. The rate of import expansion is likely to fall far short of the soaring pace of 1968.

If the American economy takes the course described above, the effects on the United Kingdom in 1969 are likely to be far-reaching. Given that British export growth in 1968 owed much to the steep rise of sales to the United States, even a temporary weakening of US demand would significantly affect the rate of increase of British exports. To make matters worse, demand from other EFTA partners and from developing countries is not expected to rise more than a little in 1969. Provided, however, that export prices remain reasonably stable for the next few months, there is, nevertheless, a presumption that the beneficial effects of the sterling devaluation will be felt more and more, so that the United Kingdom may look forward to a larger share in world trade next year.

But even allowing for devaluation, British exports are unlikely to expand so fast as to make room for any major reflation of domestic demand in 1969, if the Government is to achieve its aims of balancing external payments in accordance with the time schedule for repayment of the United Kingdom's foreign debts; the country's propensity to import is too high for that. Given that recent surveys suggest that firms are planning to invest a good deal more next year, the balance of payments can be brought into equilibrium only if the rise of private consumers' expenditure is kept within narrow limits. All in all, the real growth rate of GNP must be estimated at around 2.5 %, with imports of goods and services rising only very slightly for the year as a whole.

The slowdown to be expected during the first half of next year in the United States and, to a lesser extent, also in the United Kingdom is

bound to weaken import demand in these two countries and hence will no doubt curtail economic growth in the other industrial countries outside the Community. The recovery which set in during 1968 in some of them may well be slowed down. This applies particularly to Sweden, where the expansion was definitely export-led. Elsewhere, notably in Denmark and Norway, the climate will certainly improve less fast in 1969 than was originally expected in the light of the progressive relaxation of anti-inflationary measures. Japan and Spain may well find that the improvement in their trade balances, which is a priority aim of their Governments and was very distinct in 1968, is jeopardized by demand developments in the United States, their chief export market. The same factor may cause some deceleration of economic growth in Canada. Except for Austria and Switzerland, it certainly does not look as though the above-mentioned adverse effects could be fully compensated by such impulses as can be expected to derive from continuing economic expansion in the Community.

For developing countries, the outlook is not particularly favourable, so that no major contribution to activity on world markets can be expected from this quarter. Since import demand in a number of industrial countries is likely to weaken, developing countries may find their markets expanding only very moderately in 1969. They must also expect continuing pressure on their foreign exchange reserves in 1969, because of relatively low world prices for raw materials and because international development aid is unlikely to rise more than a little. A relevant factor is that the foreign exchange reserves of the developing countries have been gradually concentrating in only a small number of them.

If such is the world economic outlook for 1969, the Community must expect its export growth to slow down considerably, however favourably costs and prices may have developed in the last two years in most member countries. At this stage it cannot be assumed, therefore, that the value of the Community's visible exports to non-member countries will rise by more than about 6 % in 1969. Even this figure is based on the assumption of livelier development of exports during the second half of the year.

The growth of internal demand in the Community, by contrast, should pick up further impetus in 1969. In particular, gross fixed asset formation and private consumers' expenditure may be expected to expand faster than in 1968.

Throughout the Community, business investment in plant and machinery should increase at a higher rate. In Germany, there is every indication of a further substantial increase in the propensity to invest. In France and Italy, the measures taken in 1968 to promote productive investment should show their full effects in 1969. Everywhere in the Community circumstances favour a stronger propensity to invest, thanks to such factors as rising profits, good sales prospects and increasing capacity utilization, not to speak of last year's stable and, in some member countries even declining, long-term rates of interest and the current generally rather favourable conditions for raising funds on European money and capital markets. Nor is it certain that foreign investment by American companies, which had slackened in 1968 under the impact of the US Administration's restrictive measures, may not revive somewhat next year, thanks, especially, to the improved borrowing opportunities with the Community.

As before, investment should be most active in manufacturing industry—especially in some of the basic materials industries and in the capital goods sector—and in the building industry.

Building expenditure as such, however, which rose very vigorously in 1968, is not likely to pick up further impetus next year in the Community as a whole. In real terms, the expansion may even slow down somewhat, given that building prices may well rise rather more markedly in several member countries. In industrial construction, it is true, a further general and very considerable expansion may be expected, since increasing capacity utilization should lead to large-scale plant extension programmes in several member countries. But building activity in the public sector is likely to expand less than in 1968. In some countries, as in Germany, the countercyclical measures introduced in 1967 and 1968 will have run their full course and budget policy as a whole will be less expansionary; in others, like France and Belgium, where public spending as such is

expanding sharply, its structure has been altered in the sense of a shift away from investment expenditure. As regards residential construction, available figures on building permits and financing commitments suggest a faster rate of increase next year in Germany, and the same applies to France, thanks especially to measures to promote the construction of subsidized housing. In Belgium, too, a gradual improvement should follow the decline of 1968. In the remaining member countries, however, residential construction will probably fall short of its 1968 rate of increase. Certainly this must be assumed for Italy, even though a large number of building permits were outstanding by the end of 1968; but the special factors which did so much to boost demand for new housing last year, must now be losing their effectiveness.

It is hard to predict what will happen to investment in stocks, but this demand component is likely to make a rather smaller contribution to growth than in 1968. The expected brisk expansion of consumer demand in its various components and also of producer demand will no doubt require larger stocks, but on the other hand the special factors which in 1968 led to such unusually heavy stockbuilding will hardly be operative any more—except in France, where manufacturers' and dealers' stocks had dropped sharply by the end of 1968 in consequence of the production stoppages in May and June and of the spurt of consumer demand during the second half of the year.

Consumption expenditure may be expected to be a highly dynamic growth factor next year, even though, to judge by known budget estimates, public consumption on goods and services at current prices should not expand more than in 1968 in most member countries. But there is a strong presumption that private consumers' expenditure in the Community will forge ahead a good deal faster than in 1968. If, as may be estimated at this stage, private consumers' expenditure at current prices rises by about 9% and if prices do not rise more than is at present assumed, this would be the highest real increment since 1962. It is assumed in these calculations that the savings ratio will be much the same as in 1968, or, if anything, slightly higher. The key to the rise in private consumption will be the growth of households' disposable incomes.

Wage incomes should gain from next year's expected faster increase in total hours worked. Wage rates should also be rising more steeply. In several Member States, and especially in Italy and Germany, wage agreements are due for renewal in nearly all major industries, and in the light of the general economic situation, of the relative calm on the wage front in 1968, of the improved financial position of firms and, in Germany, also of a progressive labour shortage, the negotiations may well result in appreciably higher wage increases. In the Netherlands, the greater negotiating freedom of employers and workers should work in the same direction. Even in France, where the pace of wage increases is expected to slacken a good deal in the course of next year, the rise from one end of the year to the other should not be much less than in 1968. In several member countries, finally, the dynamics of economic expansion should strengthen the wage drift.

On the assumption of a sustained and steep rise of incomes from property and entrepreneurship, of a rather slower increase of transfer incomes in most member countries, and of an increased percentage incidence of direct taxation on gross incomes because most income taxes are graduated, disposable income should expand more next year in nearly all member countries than in 1968.

Internal supply in the Community should expand very vigorously in 1969, though not more so than in 1968. In annual average terms, the growth of the real gross Community product could well be a little higher than in 1968, that is, by 5 to 5.5 %. The key to growth will again mostly be demand, but limiting factors may turn up on the supply side to the extent that, especially in Germany and in the Netherlands, bottlenecks may develop in some economic sectors, particularly with respect to the recruitment of labour.

Assuming normal weather conditions, agricultural production is unlikely to expand much after the record harvests of the preceding two years; such output increments as accrue will probably come mostly from livestock production.

For industrial production, 1969 should be a year of very rapid expansion. Production levels were very high at the end of 1968—about 4 % higher than the annual average for the same

year—and on this basis the Community's industrial production (as defined by the Statistical Office of the European Communities, that is, excluding construction and food, beverages and tobacco) may be expected to rise by another 8 % by the end of 1969. Industrial production should expand fast in all member countries, though perhaps a little less in the Benelux countries than elsewhere.

As regards the contribution of separate industries to the gross Community product, the share of the basic industries is likely to fall a little. In chemicals and construction materials, output will no doubt expand strongly again, but in the steel industry, where stockbuilding must be expected to level off and external demand to weaken perceptibly, the output increment will no doubt prove considerably smaller than in 1968. With the propensity to invest improving rapidly, the capital goods industries should do well and the consumer goods industries in their turn should greatly expand their output.

Value added in building and in the service sectors should have a distinct upward trend.

Given the outlook prospects for continuing fast expansion of production in the Community, employment should again increase. Demand for labour will no doubt grow quite generally, and indeed in some member countries the labour market may once more begin to show symptoms of overstrain. The scale of the demand for labour will, of course, be conditioned by the extent to which it proves possible to achieve bigger improvements in productivity per hour of work, and in the light of the current rationalization drive prospects for this are fairly bright. But it should prove more difficult than in 1968 to lengthen the effective working time per person employed. For one thing, the number of contractual working hours is tending to decline, and secondly the year starts with very few people on short time. In any event, therefore, the number of wage- and salary-earners in the Community is again likely to rise considerably in annual average terms.

Although a fairly large increase is expected in the labour force, annual average unemployment should drop considerably, but probably not quite to its record low in 1966. The trouble is that much of the Community's unemployment at present is structural, which means that a

favourable trend in the general economic situation could not suffice alone to eliminate it. Structural, and especially regionally concentrated, unemployment may well therefore persist in spite of overheating on some labour markets. For the rest, freedom of movement for workers within the Community should help considerably in establishing a better equilibrium among labour markets.

The Community's imports of goods and services should again expand very vigorously. With stocks restored to more normal levels, there may be some slackening of imports of raw materials and semi-manufactures, but this should be more than offset by the buoyancy of import demand for finished products. As capacity margins shrink in the Community's industry and as delivery delays therefore lengthen, buyers will be more inclined to turn to foreign suppliers, the more so as private consumers' expenditure will grow faster in 1969 and certain consumer goods can be bought on excellent terms in non-member countries. There should also be appreciably higher imports of capital goods, especially from the United States, in so far as firms, more than ever intent on modernization, are forced to acquire more sophisticated equipment not yet available in Europe.

If the export forecasts (calculated subject to the reservations mentioned at the beginning of this chapter) prove correct, the Community's trade balance will deteriorate sharply. The surplus on current account is, therefore, likely to diminish considerably, even if the trend on services account shows no change.

The vigorous expansion of internal demand, the progressive reemployment of spare technical capacity and the diminution of labour reserves might well put increased pressure on prices. However, prices in the Community as a whole are unlikely to rise more next year than in 1968, when the implicit price index went up by about 3 %. Part of the expected price increase in 1969 will be attributable to exogenous factors, such as decontrol of rents or at any rate a rise in controlled rents, or the effects of the introduction of the tax on value added in the Netherlands as of 1 January 1969. To some extent, it will simply be a consequence of price increases in 1968, especially in France, or else of the disappearance of the stabilizing influences previously exercised by agricultural prices. But beyond that several member countries have to face the danger of renewed interest inflationary pressure, both of the demand-pull and of the cost-push varieties.

C. Short-term economic policy

By 1968 the spell of slackness in the Community economy—which, in 1966/67, had been most marked in Germany but had also affected most of the other countries—was definitely a thing of the past. At the beginning of 1968, the main economic policy aim was to consolidate the existing forces of recovery and, in some member countries, to strengthen them by additional measures, so as to arrive at a more intensive and rational use of labour reserves and technical production capacity, without jeopardizing internal and external equilibrium in the longer run. The Council approved this approach in a recommendation which, upon a proposal by the Commission, it addressed to Member States on 3 March 1968.

Until May, economic developments by and large took a satisfactory course and one in line with the aims expressed by the Council, partly because the measures taken by the United States and the United Kingdom in an effort to redress their balance of payments had until then hardly affected the Community's exports; but with the events of May and June in France there came a hiatus in the trend which, in view of the advanced stage of economic interpenetration, was a matter of great concern for the whole of the Community. The strikes in France caused production losses estimated at about 2.5 % of the country's gross national product. At the same time the massive wage increases in France threaten to weaken the French economy's competitive position very seriously. In the climate of uncertainty engendered by these events, the effects of a pronounced deterioration in the current account were so severely aggravated by speculative capital exports that, within a few weeks, France lost more than one third of its official reserves, including its automatic drawing rights with the International Monetary Fund. Finally, the Government's agreements with workers and employers, the loss of tax revenue caused by the production stoppages, and the emergency measures introduced immediately by the Government to assist (among others) agriculture and nationalized industries, caused a sharp increase in the budget deficit.

In these circumstances and in view of the threat they held for the progress made by the Com-

munity in the past ten years and especially for the functioning of the Common Market, which, with the abolition of customs tariffs within the Community and with the introduction of the common external tariff on 1 July 1968, had just ended the most important stage on the road to completion, the Commission decided to set in motion the procedures envisaged in Article 108 of the Treaty of Rome. After careful investigation of the economic situation in France and of the measures already taken by the French Government, the Commission addressed to the French Government a recommendation on 5 July 1968 concerning the economic policy which, in the given circumstances, the Commission considered most appropriate. In the light of the exceptional difficulties facing the French economy, the Commission thought it necessary that the Community in its turn should take action to help in the solution of the problems in France and in particular to obviate the danger of persistent imbalance in the French economy. To this end, the Commission, having consulted the Monetary Committee and the Short-term Economic Policy Committee, recommended to the Council that mutual assistance should be granted to France under Article 108. This was unanimously decided upon by the Council on 20 July 1968.¹ The Council specifically recommended that Member States should pursue a policy of rapid expansion without jeopardizing the stability of their economies, and that, if the growth rates threatened to remain too low, Member States should take additional measures of support for expansion. At the same time, the policy of stabilizing interest rates was to be continued. Member States were, in addition, to accept as far as possible the flotation on their capital markets of loans contracted by French borrowers. Member States were, furthermore, to adopt, within the framework of Community decisions, a common attitude in discussions and exchanges of views on France's situation held in international organizations of an economic character, such as OECD, GATT and the International Monetary Fund. Beyond that, the Member States had already participated not only in the financing of a drawing made by

¹ The text of the Directive is annexed to this section.

France on the International Monetary Fund at the beginning of June, but also in the opening by the Central Banks of short-term lines of credit for the Banque de France.

In its Decisions of 6 and 23 July 1968, the Commission furthermore authorized the French Republic to adopt exceptional and temporary protective measures, i.e. to reintroduce exchange control for certain capital transactions, to curb the growth of imports of certain items (steel, motor cars, certain textile products and domestic appliances) and to promote exports by certain measures.

It is extraordinarily difficult, if not indeed impossible to assess how much all these measures contributed to the rapid consolidation of the economic situation in France; it is certain, however, that, thanks to the energetic action of the French authorities, which was largely in line with the Commission's recommendation of 5 July 1968, and thanks to support from the Community, the immediate danger of an inflationary wage/price spiral or of large-scale under-employment in France after the events of May and June was successfully averted. In the meantime, the process of "normalization" has got into full swing in nearly all spheres of the French economy, and the deterioration of internal and external equilibrium on the markets for goods and services has been kept within bounds. At the beginning of September the French Government discontinued exchange control, and the import quotas for cars were lifted on schedule on 31 October 1968. At the same time the export subsidies linked to wage costs were halved. On the other hand the French Government did not raise the preferential discount rate for claims arising from foreign transactions, as it had planned to do on 1 November and as was provided for in the Commission Decision of 23 July 1968.

Rapid expansion in the other member countries did much to ease the return to normal in France. In Italy, where growth has been comparatively weak in relation to the spare capacity available, the Government has been proposing a number of expansionary measures since July and most of them have in fact already been introduced. Nearly all countries were successful in their policy of stabilizing long-term interest rates and in Germany rates on the capital market have indeed fallen further since July. Two French

loans were floated in Germany, one by the French State Railways for DM 120 million and one by the French Post Office for DM 200 million; a DM loan by Electricité de France is now being arranged.

In spite of the successes so far achieved in consolidating economic conditions in France, a considerable number of important policy problems remain to be solved if rapid expansion without jeopardy to internal and external stability is to be ensured in the longer run.

It should be stressed in this connection that, in view of what is now a high degree of interpenetration of the six economies and in view of the establishment of the customs union, intensive co-ordination of short-term economic policies at Community level is becoming more and more essential. The events in France, their actual and potential repercussions on the economies of the other Member States, and the joint action by the Member States with a view to lending effective support to the normalization of the economic situation in France have shown what needs to be done and what can be done in this sphere. It is a matter of urgency now so to intensify the co-ordination of economic policy aims and to achieve such mutual alignment in the actual use of policy instruments, that the Community becomes a "Community of growth and stability", and as such can make a more effective contribution, in the wider setting of the world economy as well, to the solution of existing or potential imbalances. Thus it would cease to be merely the passive object of impulses emanating from world economic conditions and could, as an economic area as fully unified as possible, deliberately make its own active contribution to improving world trade.

The year 1969 will be one in which the Member States should be able to assume major responsibilities in this respect. Economic expansion in the Community is expected to be sustained and vigorous—for example, the real gross Community product is expected to grow by 5.5 %—and should at least partly offset the adverse effects which the slacker conditions in the United States and the United Kingdom may have on world trade.

Without doubt it is now more difficult in most member countries than a year ago to achieve rapid and yet balanced expansion. But in a

sober appraisal of the possible margin for expansion it must not be overlooked that all Member States do possess some reserves, though greatly varying in extent—reserves of manpower, spare production capacity and external “strategic reserves”. Economic policy for “expansion with stability” therefore demands a judicious blend of various policy instruments, each separate measure being applied in exact proportions.

From the point of view of balance, most member countries will have to be specially watchful to make sure that the upswing does not—as it did in previous business cycles—degenerate into a widespread inflationary price-wage spiral, such as might at a relatively early stage force the authorities to adopt restrictive measures which would curtail growth more than the supply potential warrants, and would, in addition, entail a pronounced loss of momentum in the longer run. A danger of price-wage inflation may arise in the first place if, as may happen in Germany, bottlenecks should occur on the labour market in the course of next year at a time when demand is forging ahead. Nor is it to be ruled out that a similar danger may arise in France, where the results of the new wage negotiations due in March will assuredly be influenced by the price rises since the middle of 1968 and by the price climate obtaining in March. But France, with its as yet precarious internal and external equilibrium, is more vulnerable than most countries to a persistent price-wage inflation, which would throw up extremely serious problems, the solution of which would presumably entail heavy sacrifices for the French economy and indirectly also for the economy of other member countries. The aim of price policy, especially in France, should therefore be to forestall any renewed inflationary price rise; this can be done by intensifying competition and, especially in industries sheltered from competition by reason of their structure, by using all existing means of exercising an indirect influence on price formation. A price policy of this kind could do much to help make sure that wage rises do not exceed the limits compatible with improved internal and external equilibrium. In this connection it should be explicitly stressed that in all member countries one of the bases of rapid economic growth must be a rise in private consumption generated by an expansion of mass incomes, lest the upswing be arrested prematurely. This is particularly

important at a time when world business trends could well be losing momentum. On the other hand, due account must be taken also of the danger, which is in large part due to psychological factors, that a consumption boom in full swing may easily get out of hand. For this reason prudence and circumspection should govern wage negotiations. In particular, thought should be given to the extent to which, in the light of each member country’s own special conditions, workers may be allocated a share in the fruits of expansion by means of measures to promote asset ownership, thereby improving the prospects of price stability.

At the same time, efforts should be made to mobilize to the utmost such productive reserves as still exist and thus improve the conditions for balanced economic growth. In Italy, especially, there are still plenty of unused resources; in the event that the measures which the Government has already taken to encourage investment, do not sufficiently revive the propensity to invest in the next few months, such further reflationary measures should be adopted as will ensure an adequate level of investment. In countries where, as in Germany, the danger of excessive strain on the labour market looms especially large, the recruitment of foreign labour should be intensified: this should be an easier task now that full freedom of movement for workers within the Community has been established.

Furthermore, advantage should be taken of the upswing to make quicker progress with the solution of structural problems. In most member countries the unemployment rate is admittedly still relatively high, but the problems involved arise largely in individual industries or regions. Across-the-board expansionary measures can hardly provide relief, but would merely aggravate the danger of inflation. The right policy is to provide vocational training and retraining for workers and thereby to fit them for new and properly remunerated employment in other industries, where the outlook is brighter. Special attention should be paid in this connection to the training of young people.

These measures should benefit not only the unemployed, but also workers who at present are employed in firms or trades with relatively low productivity and poor prospects. This involves appropriate structural changes in regions

where a relatively large number of workers are at present still employed in such firms or trades. Such a policy should be associated with measures to encourage the efforts of firms to modernize.

In particular, full advantage should be taken of the productivity-raising effects of intra-Community trade. One way of doing this would be to press forward as quickly as possible with the removal of remaining administrative obstacles.

The current-account surpluses of most member countries constitute an important growth potential, of which less than adequate use was made in 1968. The upswing in Germany did not lead to a more than negligible reduction of the external surplus, in Italy the surplus actually rose because domestic demand was weak, and the Netherlands also earned a bigger surplus. The deterioration of the Community's current balance of payments with non-member countries in the course of 1968 was overwhelmingly due to developments in France. For this reason, and also in view of their ample gold and foreign exchange reserves, the other member countries should do more to use this external potential, by drawing more heavily on foreign sources to meet domestic demand. A rapid increase of demand on the part of the surplus countries would be an important element as such, but it could be reinforced by the dismantlement of such obstacles as still obstruct imports in various ways. This will be all the easier to do, the more successfully the problem of manpower in the structurally weak industries can be solved along the lines indicated above, since most of the remaining import obstacles concern items competing directly with those produced in these industries.

Heavy exports of long-term capital can certainly continue to do much to counterbalance current-account surpluses. As far as Italy is concerned, however, there is so much to do in the way of economic development within the country, that high capital exports can be no more than a temporary expedient; in the longer run the balance of external payments can be improved only by more vigorous expansion of domestic demand. But in the case of Germany there is still a strong case for high capital exports, especially in the shape of direct investments, and not only for reasons of the balance of

external payments. Given that capital exports from Germany have largely come to replace those from other countries which are trying to redress a balance-of-payments deficit, any weakening of German capital exports would presumably cause the level of international rates of interest to rise appreciably, with adverse effects on world business conditions.

There is no case for structural interference with the Community's monetary system in the shape of alterations in the currency parities. They are neither necessary nor desirable. Such steps would be bound to engender serious problems and risks, from the point of view both of the elaboration of common policies—the common agricultural policy is only one example—and of continued economic growth in the Community. Nor would they, in view of the increasing interpenetration among the economies of member countries, eliminate the need to arrive as quickly as possible at closer co-ordination of economic policy aims and at a mutual alignment of short-term policy measures within the Community.

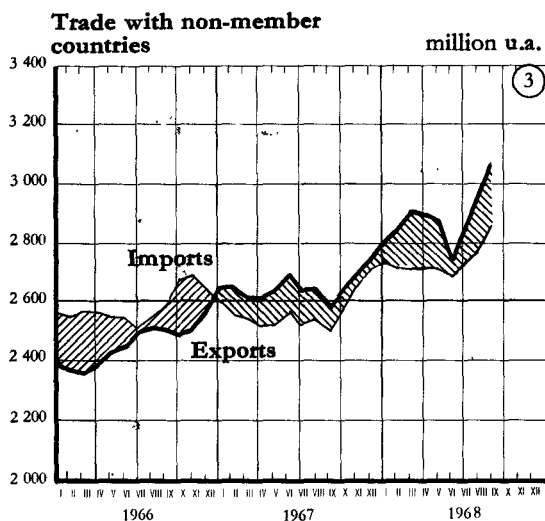
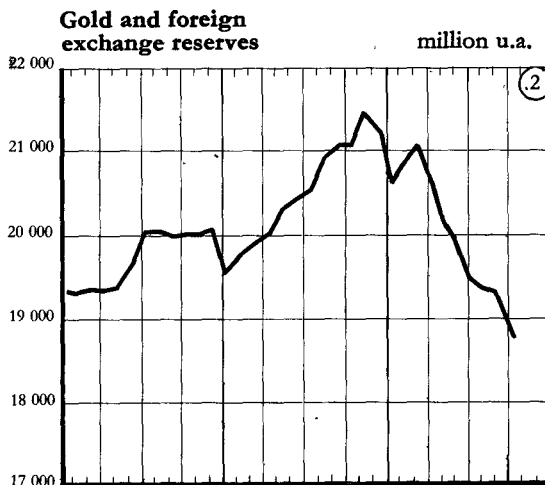
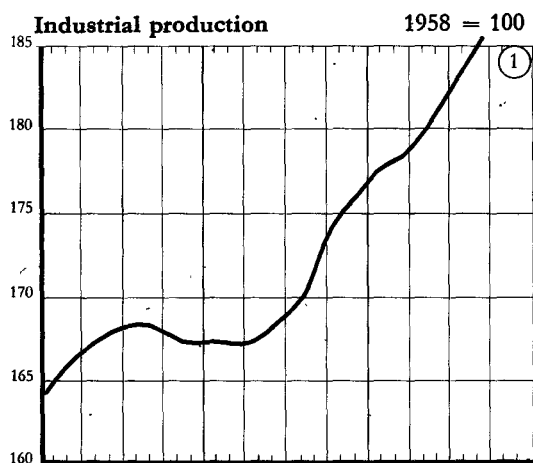
Budget policy can play an extremely important part in the judicious control of the expansion of overall demand. This applies especially to France, where, largely as the direct or indirect consequence of the events of May and June 1968, public expenditure will still grow very fast in 1969 and the budget deficit will be relatively large. In all countries, barring Italy, it would seem that, in the light of the vigorous upswing in the Community, economic policy should be less expansionary than in 1968. The budget proposals of the central governments are largely in line with these requirements. Special care should be taken not to exceed the expenditure estimates and as far as possible to cover budget deficits without recourse to credits from the central bank. Any increments of tax revenue should normally not be used to finance additional expenditure increases. Should the deflationary effects of world economic conditions significantly impair economic growth in the countries of the Community and cause underutilization of labour and technical capacity, it might be valuable (this has already been done in Belgium) to include special appropriations in the draft budgets, designed to spur on growth, or, in countries with public finance programming covering several years, to bring forward

expenditure scheduled for subsequent years. Finally, continued efforts should be made to get the spending of other public authorities more into line with current requirements; in countries with ample capacity in the building sector, an attempt should be made to channel more public expenditure towards investment.

In Italy, with its available margins of supply, budget policy should remain expansionary. But the volume of unspent budget appropriations carried over from previous years (“residui passivi”) is extraordinarily large, and even here, therefore, there is a case for flexibility in public expenditure.

Generally speaking, the control of overall demand by means of budget policy will be all the more important as the high degree of bank liquidity in most member countries would seem to leave little scope for efficacious control by means of monetary and credit policy, to say nothing of the undesirable repercussions this might cause in international capital movements. In any event countries liable to be beset by strains should not allow credit policy to add yet further to the liquidity potential of the banking system. In particular, it is important that in such countries the government should finance budget deficits by recourse to domestic credit channels rather than to the central bank.

ECONOMIC INDICATORS



NOTES :

Source : Statistical Office of the European Communities.

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.

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)	Contri- bution (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	2.9	156	—
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	3.2	155	61
Gross fixed asset formation	10.1	7.1	5.1	8.7	3.3	3.2	0.7	174	22
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	2.2	142	—

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	162	167	170	173	173	175	158	133	170	173	178	172
	1967	165	169	171	174	172	175	158	134	173	179	186	184
	1968	171	177	184	187	171	184						
Imports from non-member countries (cif, million u.a.)	1966	2 522	2 375	2 789	2 524	2 566	2 626	2 418	2 295	2 605	2 687	2 631	2 675
	1967	2 607	2 302	2 610	2 515	2 564	2 654	2 366	2 376	2 444	2 620	2 784	2 837
	1968	2 696	2 606	2 811	3 709	5 408		2 850	2 608				
Exports to non-member countries (fob, million u.a.)	1966	2 153	2 179	2 567	2 372	2 451	2 485	2 505	2 226	2 460	2 626	2 527	2 849
	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				
Balance of trade (million u.a.)	1966	- 369	- 196	- 222	- 152	- 115	- 141	+ 87	- 69	- 145	- 61	- 104	+ 174
	1967	- 44	+ 21	+ 68	+ 166	+ 31	+ 67	+ 177	- 18	+ 81	+ 298	- 21	+ 39
	1968	+ 85	+ 165	+ 214	+ 139	- 85		+ 356	+ 164				
Intra-Community trade (million u.a.)	1966	1 667	1 790	2 091	1 861	1 903	1 968	1 852	1 696	1 960	2 015	1 977	2 013
	1967	1 925	1 861	2 145	2 002	1 974	2 009	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				

NOTES

Source : Statistical Office of the European Communities.

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).

Council directive of 20 July 1968

granting mutual assistance

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

HAVING REGARD to the Treaty establishing the European Economic Community, particularly Article 108(2),

HAVING REGARD to the recommendation from the Commission, which has consulted the Monetary Committee,

WHEREAS the French economy has run into exceptional difficulties, and these difficulties are inevitably having an impact on its external equilibrium;

WHEREAS the whole of the Community could well be affected, because of the steadily advancing interpenetration among its economies, particularly since a major advance has just been made in the establishment of economic union and the implementation of the common policies;

WHEREAS the Commission, having under Article 108(1) of the Treaty examined the situation of the French economy and the measures already adopted by France under Article 104 of the Treaty, has recommended that this Member State should adopt under the same Article 104 a number of additional measures;

WHEREAS the action taken by the French Government under this Article 104 must, if it is to contribute to the earliest possible restoration of stability in the French economy, be supported by moves to the same end made by the other Member States as part of mutual assistance;

WHEREAS, in the monetary field, the Member States have already participated in the financing of a drawing made by France on the Interna-

tional Monetary Fund at the beginning of June and in the opening by the Central Banks of short-term lines of credit for the Bank of France;

WHEREAS the other Member States also need to pursue a policy of rapid and balanced expansion, at a high rate, without jeopardizing the stability of their economies and this expansion can constitute an important factor in the recovery of the French economy inasmuch as it will lead to an increase in French exports to the other Member States;

WHEREAS it is appropriate that the Member States other than France should continue the policy of stabilizing interest rates recommended by the Council on 9 March 1968¹, especially since the French authorities are having, for reasons connected with the problem of equilibrium, to pursue a more restrictive monetary policy;

WHEREAS it is appropriate that, in order to improve France's external finances while facilitating the financing of investments essential for the recovery of its economy, the other Member States should as far as possible accept the flotation on their capital markets of loans contracted by French borrowers;

WHEREAS it is important that, in accordance with Article 116 of the Treaty and the decisions taken by the Community, the Member States should concert their action in international organizations of an economic character so as to present a common attitude,

¹ Official gazette No. L 63, 12 March 1968, p. 5.

HAS ADOPTED THE PRESENT DIRECTIVE:

Article 1

The Member States other than France shall adopt the measures necessary:

(a) To achieve high growth rates without jeopardizing the stability of their economies and, should these rates threaten to remain too low, to introduce a policy of support for expansion;

(b) To continue a policy of stabilizing interest rates;

(c) To accept as far as possible the flotation on their capital markets of loans contracted by French borrowers.

Article 2

All Member States shall take the steps necessary to adopt, within the framework of Com-

munity decisions, a common attitude in discussions and exchanges of views on France's situation held in international organizations of an economic character, such as OECD, GATT and the International Monetary Fund.

Article 3

Before 31 December 1968 the Council shall consider whether the provisions of the present directive should be adapted to developments in the economic situation.

Article 4

The present Directive is addressed to the Member States.

Done at Brussels, 20 July 1968
By the Council

.....

President

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Germany

At the end of 1968 the German economy is booming. While initially the main contribution came from export demand, stock replenishment and a more and more vigorous growth of investment, later in the year private consumers' expenditure also gathered momentum. In general, supply followed the trend of overall demand, which on the whole was extremely expansive, with great elasticity. From the autumn of 1968 onwards there was full employment. Although firms were running nearer capacity, prices remained largely stable in the course of the year. Although imports climbed, there was only a small reduction in the external surplus.

The outlook for 1969 points to rapid growth with domestic demand assuming a more important role. Apart from a vigorous expansion of investment in plant and machinery, consumption expenditure, in particular private consumers' expenditure, should be the main factor in demand growth, but exports and investment in stocks will probably also continue to forge ahead. Despite the bottlenecks on the labour market, domestic production will make further appreciable progress. At the same time the share of imports in total supply will probably grow perceptibly. On the labour market there may be increased strains, and the price climate will be less subdued than in 1968, so that the maintenance of a high growth rate while internal stability is ensured will be more difficult.

1. Balance sheet for 1968

In 1968 the upswing of the business trend gained more and more momentum. The recovery, which had begun about mid-1967, made rapid progress and in autumn 1968 the level of production was appreciably higher than the peak (seasonally-adjusted) reached in 1966. The unemployment rate was unusually low.

As in the previous year, export demand again made a very vigorous contribution to the growth of the economy. Indeed, for a time the demand for exports was quite forceful—they were further boosted by the complete elimination of customs duties in intra-Community trade and the first world-wide tariff reductions negotiated in the Kennedy Round.

Individually, the markets of the other EEC countries were more receptive than in 1967; in particular the Benelux countries imported considerably more visible merchandise from Germany. Exports to Italy, on the other hand,

were affected in the first half of the year by the slowdown of the business trend there. Sales to France climbed sharply despite the strikes in May and June. Exports to the EFTA countries, which account for a little less than a quarter of all German exports, grew relatively more slowly.

Sales to the United States expanded very considerably; in the first nine months of the year they were nearly 50 % higher than during the same period of 1967. Factors here were the rapid growth of demand in the United States and special circumstances, such as the prospect that restrictive measures would be adopted and the expectation of a strike in the US steel industry. According to the foreign trade figures, the overall increase in visible exports from 1967 to 1968 may be put at some 10.5 % in value as opposed to 8 % from 1966 to 1967. If, moreover, the somewhat slower expansion of receipts from exports of services is borne in mind, exports (as defined for the national ac-

counts) may well have increased from 1967 to 1968 by some 10 % in value, compared with an increase of 8 % from 1966 to 1967.

Another—indeed the principal—aspect of the recovery was the brisk upturn of domestic demand, which gradually spread to all the main industries.

The key to the expansion of domestic demand was the continuing improvement in the general investment climate, which led to a distinct growth of expenditure on gross fixed asset formation. Besides the two programmes to boost economic activity already decided upon by the public authorities in 1967, the most important factors here were the radical improvement in sales prospects, the continuing fast growth of business profits, and favourable financing conditions. Another point was that in the second half of the year firms were once again becoming more keenly aware of the dangers of future labour shortages, and this was a stronger incentive to rationalization. As a result, investment in plant and machinery, which had dropped in 1967 by 9.4 %, probably increased again by some 9 % in 1968. The growth rate for building investment, too, was high, though the pace varied somewhat according to type of construction. Firms, for example, stepped up considerably their expenditure on building, which in 1967 had been sharply curtailed. Similarly, public building investment contributed appreciably to the general recovery of demand. Residential construction, on the other hand, which accounts for a good two fifths of all building investment, increased relatively little over the full year. The reduction in interest rates, however, caused demand for building loans to rise sharply in the course of the year and this did not fail to affect actual spending on the building of new homes.

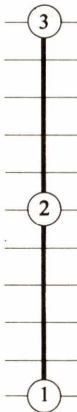
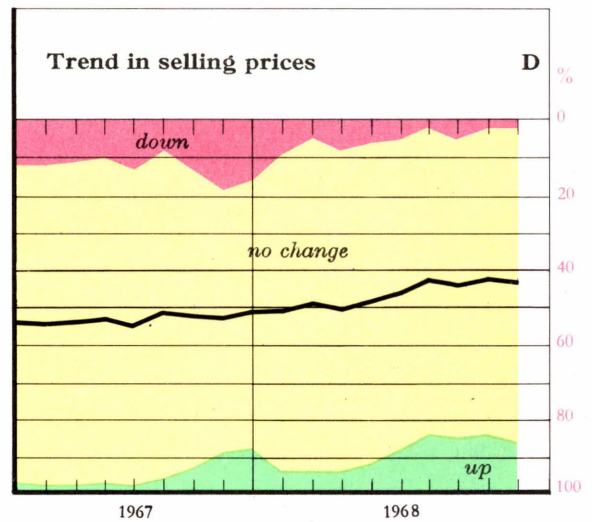
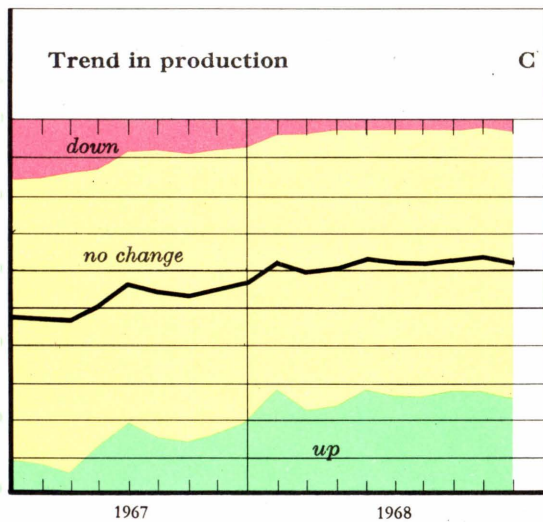
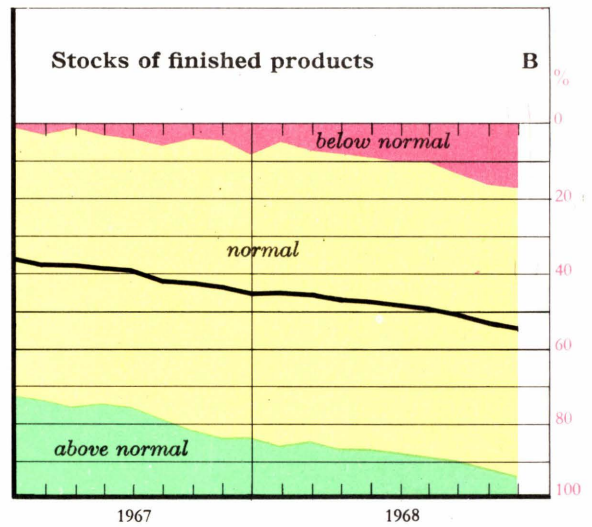
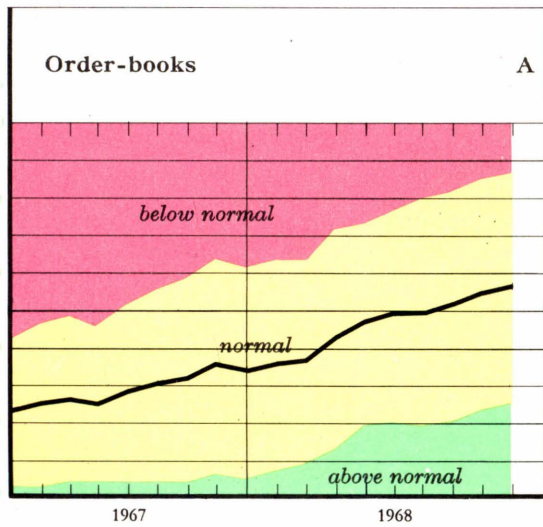
A stimulating factor of particular importance in 1968 was investment in stocks. Whereas the decline of this demand component in the preceding year had considerably aggravated the slowdown of the business trend, its impact on the economy in 1968 was definitely expansionary, particularly in the first few months of the year. Even after that, however, both manufacturers and dealers seem to have gone on adding to stocks.

Contrasting with investment activity, the recovery of which dates back to 1967, consumer

demand began to gather appreciable momentum only in the course of 1968. The trend of public current expenditure on goods and services was quite hesitant, particularly in the first half of the year. Later, however, the growth of this aggregate was somewhat more marked, partly because of the raising of public officials' salaries on 1 July. The acceleration of private consumers' expenditure, which is important if a recovery is to spread throughout the economy, got under way only in the spring. Private consumers' expenditure was held back, in particular at the beginning of the year, not only by the switch to tax on value added and the consequent changes in price structure, but also by the introduction of a supplement to the income tax, the raising of social insurance contributions and the extension of compulsory social insurance; because of these measures the growth of net income, which structurally is generally weaker by comparison with gross income because some taxes are graduated, was held back even more this year. Furthermore, at least in the first half of the year, a larger proportion of income was being put into savings than in the preceding year. In the full year, however, private consumers' expenditure probably exceeded the preceding year's results by nearly 6 %. The trend of incomes, which climbed more and more vigorously in the course of the year, made a decisive contribution to the acceleration of private consumers' expenditure during the year; in the autumn the level of agreed wages established on a weekly basis was 4.5 % higher than a year earlier. Since in 1968 the gap between agreed wages and actual wages widened again, the increase in gross income per person employed was somewhat larger (5.5 %). The amounts withdrawn from their businesses by self-employed persons also rose very appreciably because of the favourable trend of profits.

Despite sharp productivity gains, there was a rapid and fundamental change in the labour market situation in 1968, and towards the end of the year there were symptoms of over-employment in many areas and industries. The number of persons in employment increased appreciably in the course of the year and by the end of the year non-seasonal unemployment was almost completely eliminated. Only in areas with structural unemployment did the number of unemployed remain at a relatively high level. At the end of September—the seasonal peak for

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".

employment—the total figure was still only 174 500, as against 340 000 a year earlier. The unemployment rate (number of unemployed as percentage of the total labour force) consequently still amounted to only 0.8 %. Short-time working, which a year earlier still affected 44 000 workers, had almost disappeared altogether, while the number of unfilled vacancies was 610 000. As a result firms endeavoured to meet their growing labour requirements by recruiting foreign workers. The number of foreign workers employed in Germany rose by 186 500 to 1.1 million from January to the end of September; but it was still 224 000 short of the peak reached in September 1966.

Despite the shortages on the labour market, the elasticity of supply remained very high throughout the year. An important factor here was that there was a good deal of spare capacity at the beginning of the business upswing, and this allowed the level of production to be raised rapidly through substantial productivity gains.

This was particularly true in industry, where production has definitely been expanding again since as early as the middle of 1967. In the third quarter of 1968, production, after adjustment for seasonal variations, was 10.5 % higher than the peak achieved in the second quarter of 1966 during the preceding business cycle. In the year taken as a whole it may well have surpassed the preceding year's level by over 10 %. The increase in the output of basic products was again very marked. In the industries which had had to cut back production when there was a downturn in the business cycle, production climbed vigorously once again. For example, the output of capital goods rose again appreciably. Production of consumer goods grew with particular vigour, but in some industries, in particular the motor industry, output was clearly running ahead of expanding domestic demand.

Value added by the other sectors, in particular the services sector, was also swollen by the upswing of demand. In addition, agricultural production, which is not very sensitive to changes in the economic situation, again made an appreciable contribution to the increase in overall supply. Livestock production, for example, continued to expand vigorously. Despite the very bad weather in some areas, the grain harvest exceeded in total volume even the bum-

per harvest of 1967. The vegetable and, in particular, fruit crops were in general larger than in 1967, but the output of root crops fell.

As a result GNP at constant prices, which in the previous year had not increased at all, probably rose in 1968 by about 6.5 %.

The expansion of imports, which was already very fast in the last quarter of 1967, continued in 1968. Here the building up of stocks, particularly in the first half of the year, entailed heavier imports of raw materials and semi-manufactures. Imports of finished products also grew appreciably in the course of the year, though growth was at first more moderate than had generally been expected, because of the high elasticity of domestic supply. Visible imports as a whole increased by a good 17 % in terms of volume, with their prices falling. If the considerably more sluggish expansion of imports of services is included, the figure for the increase in total imports (as defined for the national accounts) for 1968 is some 14 % in volume, compared with a decline of 0.4 % from 1966 to 1967.

The price trend in the course of 1968 reflected economic growth largely free of strain. The switch at the beginning of the year to the TVA system could hardly have been better timed from the angle of the business situation. It was used by firms, nevertheless, as an opportunity for raising prices. The overall cost-of-living index, which as a result increased appreciably at the beginning of the year, remained largely stable until the autumn thanks to lower prices for food, beverages and tobacco. In October it was 2 % higher than in October 1967 (excluding food - 3.6 %).

After rising vigorously at the beginning of the year because of the TVA, the trend of producers' prices was relatively very stable in the following months. In the second half of the year, however, price rises in industry became more frequent.

The external contribution, i.e. the difference between the value of exports and imports as defined for national accounts purposes, remained high in 1968, though the import deficit decreased a little in the course of the year. The external contribution in 1968 is estimated at DM 15 500 million as against DM 16 000 million in 1967. As a percentage of GNP it there-

fore probably eased down from 3.3 % in 1967 to 3 %.

In the first nine months of the year the visible trade balance earned only a slightly smaller surplus than in the same period of 1967: DM 11 900 million as against DM 12 600 million. Since the services deficit was exceptionally small and transfers reached more or less the same level as in 1967, the current-account surplus—totalling DM 7 000 million for the first nine months—was, on a year-to-year basis, no smaller than for 1967. In 1968, however, it was counterbalanced by a sharp increase in net exports of capital, which were even larger than

the surpluses on current account. As a result the basic balance closed with a deficit of DM 1 600 million. Since, however, considerable funds accrued as a result of repeated waves of currency speculation in short-term funds and since the residual item in the balance of payments showed an appreciably larger surplus—mainly a matter of “leads and lags”—the German foreign exchange position improved considerably. In the first nine months of the year the official gold and foreign exchange reserves went up by DM 4 000 million and at the same time the foreign exchange position of the commercial banks deteriorated by about DM 600 million.

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ²		1969 ³
	At current prices (in DM '000 million)	% change on preceding year				
		Volume	Value	Volume ₅	Value	Volume ₅
Exports ⁴	103.0	+ 9.5	+ 8.0	+ 11	+ 10	+ 8.5
Gross fixed asset formation	121.9	— 7.4	— 9.4	+ 7	+ 9	+ 8
Public current expenditure on goods and services	75.5	+ 3.4	+ 6.7	+ 1	+ 4	+ 3.5
Private consumers' expenditure	274.9	+ 0.6	+ 2.4	+ 4	+ 6	+ 5.5
Gross national product	480.8	0	+ 0.6	+ 6.5	+ 8.5	+ 5
Imports ⁴	96.5	— 0.4	— 1.3	+ 14	+ 12	+ 11

¹ Federal Statistical Office, “Wirtschaft und Statistik”, No. 9/1968.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

⁵ 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 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.

The expansion of the volume of money accelerated further in the course of the year although a more and more neutral credit policy was applied. Firms disposed of relatively large liquidity reserves mainly because costs developed favourably up to the end of the year. The demand for credit, however, increased rapidly, particularly from the second quarter on, and not only short and medium-term but also long-term borrowing increased greatly. The public authorities, on the other hand, were clearly largely concerned with consolidating their short-term indebtedness by converting more and more of this kind of debt to long-term. All in all, the cash situation of the central public authorities improved distinctly because of the faster growth of tax receipts. Judging by the trend of the cash situation in the first ten months, the cash deficits of the Federal Government and the Länder as a whole may fall short of the sums budgeted for: DM 7 000 million and DM 4 000 million respectively.

In 1968 interest rates on the capital market fell, which was to be desired from the angle of the domestic economic situation and the balance of payments. Although sales of fixed-interest securities increased considerably, interest rates on the market declined. As a result, average yields for new domestic public issues were only a little over 6 % in September. The tendency up to the autumn for interest rates to fall encouraged foreign issuers to sue the bond market more than they had ever done before in Germany. In the first three quarters alone, foreign DM loans were floated to the value of over DM 4 000 million. On the equity market, too, the total volume of new issues being made rose again. The favourable economic outlook and the appreciable improvement in corporate profits helped to bring about a sharp upturn in share prices, which was held up for a time only by the crisis in Czechoslovakia and speculation on a change in the parity of the DM.

2. Outlook for 1969

Whereas a year ago the outlook was still overshadowed by some uncertainty as to the intensity of the recovery of demand and the ensuing contribution to the growth of the economy, the expansion of real GNP in 1969 will be limited

primarily by the potential of supply. Changes in the structure of demand are very probable. Export demand, for example, could play a somewhat less important role. This is suggested by the fact that in the United States and the United Kingdom there is likely to be no more than a relatively small growth of the economy. Nor can it be expected that exports to these two countries will again be favoured to such an exceptional degree by special factors as they were in 1968. Exports to EEC member countries, on the other hand, should continue to increase quite vigorously. The competitiveness of German industry, in any case, seems to have improved in the last two years, one sign of this being the vigorous increase in orders from abroad: in the third quarter of 1968 they were running 5 % higher than deliveries. In addition, the EEC Business Survey shows that up to very recently managements considered that their export position had improved. If, furthermore, the high (seasonally adjusted) level of exports already reached by the end of 1968 is taken into account, the year-to-year growth rate for 1969 can hardly be very much lower than from 1967 to 1968.

The most important contribution made by demand to economic growth comes, however, from domestic demand. Here a persistent dynamic upsurge of gross fixed asset formation is to be expected. The expansion of investment in plant and machinery may even accelerate further, for towards the end of the year the propensity of firms to invest increased very appreciably because of improved profits. Consequently the order-books of manufacturers of capital goods lengthened to a remarkable extent despite increased production; in the third quarter of 1968 domestic orders in the capital goods industry were 13 %—in mechanical engineering as much as 15 %—higher than actual deliveries in the same period.

Investment in building and construction also expanded rapidly. Building demand among firms, for example, is likely to be livelier than in 1968, because with increasing utilization of capacity, the extension of productive capacity depends largely on the implementation of the necessary building projects. Public expenditure on civil engineering projects will grow appreciably as a consequence of building permits already issued. Public expenditure on building, on the other hand, could show a weaker growth trend,

unless the Länder and communes adjust their investment projects upwards. Available data on building permits and grants of building loans suggest that in the short term there will be a fast expansion of residential construction, but in the longer run it is expected that demand for dwellings will level off.

The contribution to growth made by investment in stocks, which was particularly important in 1968, will also fall off somewhat in the course of 1969.

Expenditure on consumption is bound to grow at a faster rate in 1969. Appreciably higher growth rates than in 1968 are to be expected for public current expenditure on goods and services, even if budget estimates are not exceeded. Private consumers' expenditure must also be expected to grow more rapidly. A decisive factor here is that the incomes of households will grow more vigorously than hitherto as a result of the upswing, which is already well under way, of the business trend. An increase in the total number of hours worked will in all likelihood be accompanied by a faster upward movement of hourly wage rates. As a result, furthermore, of rising turnover, income from property and entrepreneurship is expected to grow considerably. Lastly, by comparison with 1968, the increase in the gross incomes of households will probably be accompanied by a somewhat slower growth of deductions, so that if the saving ratio is assumed to remain unchanged, households' expenditure on consumption will show a distinct increase.

At first it will probably still be possible to adjust the growth of supply to the expansion of overall demand with a fair degree of elasticity. Despite the high level of utilization of capacity achieved by the end of 1968, this applies to most branches of domestic production, if not all. Even industrial production, which grew exceptionally fast in 1968, should expand (on average) by a good 7 % in 1969. Although in some industries the greater shortage of manpower will certainly be felt more acutely, firms still have considerable reserves of capacity and productivity, which they have built up in the last few years by rationalization. Assuming an appreciable expansion in value added by the services sector and a normal harvest, there should be a growth in real GNP from 1968 to 1969 of 5 %.

At the same time an acceleration in the growth of imports can be expected. Firstly, even if the stock replenishment process of 1968 has already passed its peak, imports of raw materials and semi-finished products will expand again following the further increase in production. Secondly, precisely because of the large degree of integration of the German economy with the economies of the other member countries, an acceleration of imports of finished products is to be expected as a result of the continuing upswing of the business trend.

In view of the trend of imports, the surplus on foreign trade will probably continue to contract, and should do so faster than in 1968, but the external contribution will be larger than is desirable from the point of view of general equilibrium. Its share in GNP will probably drop to 2-2.5 %, which would be roughly the same as the average for 1952-1967.

The price climate may turn out in the course of 1969 to be less favourable than in 1968. Firstly, the stabilizing influences provided by the trend of agricultural prices may well become weaker and, secondly, the very vigorous expansion of demand and the increasing utilization of capacity may entail price increases. Furthermore, the trend of wage costs in 1969 may be less favourable than in the preceding two years, when the gap between the growth of wages and that of profits widened considerably to the disadvantage of firms. It is doubtful whether firms would accept even a small increase in wage costs without raising prices and whether they would adopt—as would be desirable—a sales policy aimed at quantity, which would mean that, even with some paring of profit margins, total profits would go up appreciably. In this connection it should be noted that price increases on the domestic markets would probably lead to even higher wage claims, for most of which the labour market situation would probably ensure success. The result could be a general upsurge of prices and wages and this could relatively soon oblige the authorities responsible for economic policy to take restrictive measures curbing growth more sharply than is necessary in view of supply potential. Consequently, the arrangements made for concerted action between the Government and both sides of industry, introduced successfully during the period of upswing, will be needed again in 1969. Their final objective should be to win

over both sides of industry to an attitude towards prices and wages that would allow optimum economic growth while maintaining economic stability. In this connection it should also be considered whether workers cannot be given a larger share of the fruits of expansion through measures to promote asset ownership, without internal stability being jeopardized in the process.

Besides encouraging stability-orientated behaviour on both sides of industry, the primary aim of economic policy should be to widen the margin of supply as far as possible, which is the best way of promoting rapid expansion free of strain. Since the labour market constitutes a bottleneck in the production process, manpower reserves still available should be mobilized, firstly by intensifying the recruitment of foreign labour and, secondly, by facilitating the movement of manpower from structurally weak industries to highly productive industries benefiting more than most from the expansion of demand. The means to this end would be a suitable policy on regional structure and, in particular, a liberal vocational training and retraining policy. Such a policy, however, presupposes that advantage is taken of the upswing of the business trend to accelerate the adaptation of the least efficient industries as regards international competition by a concentration of production in the most competitive companies. In this respect, there are still considerable reserves of productivity in the economy as a whole.

This would at the same time enable the supply of imports to be increased further, for stabilization of or even a decline in domestic supply in these industries could lead to greater recourse to foreign suppliers, and arrangements to maintain the competitiveness of these industries (subsidies, special arrangements for exports, import quotas, sales limitation agreements, etc.) could be discontinued. At the same time it would be a good thing if companies transferred more of their production operations abroad, because in this way exports of capital and also imports, in so far as their products are for the German market, would be increased further.

Both from the angle of stability and from that of the balance of payments, measures must in any case be taken to reduce the external contribution—which is still large—faster than if events were allowed to follow their normal

course; this must be done by the basis of the international division of labour.

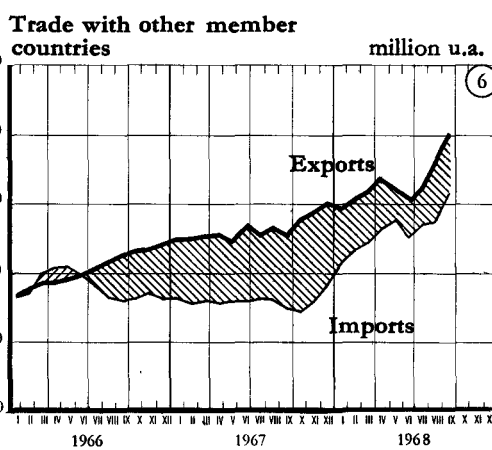
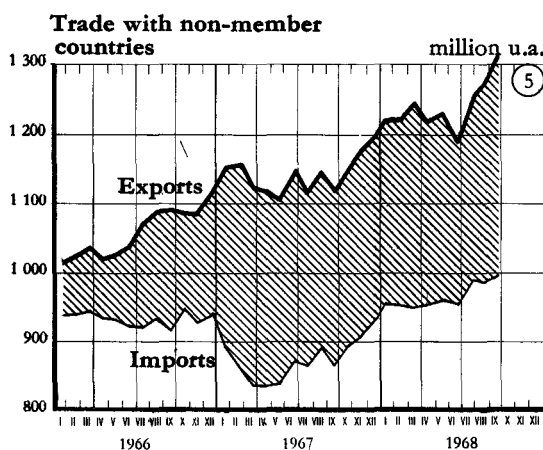
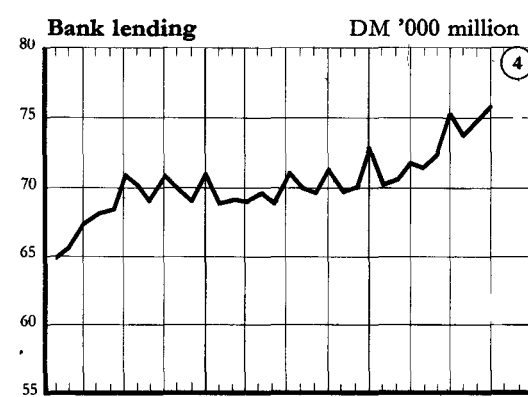
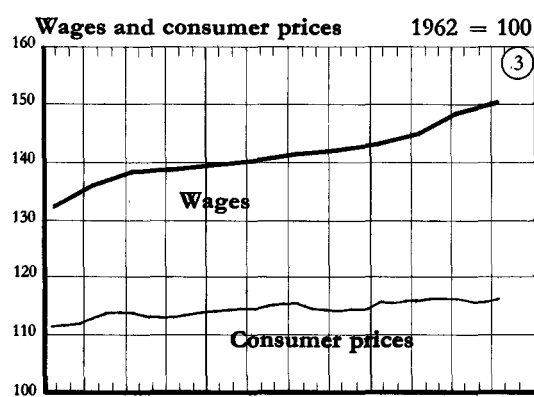
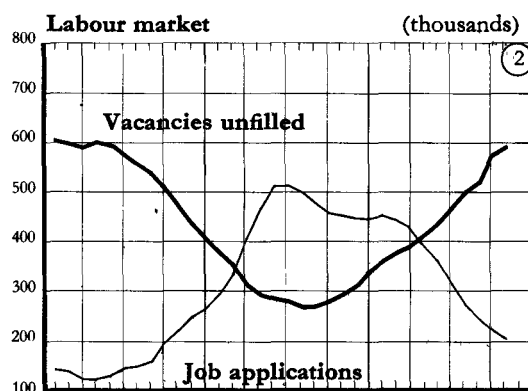
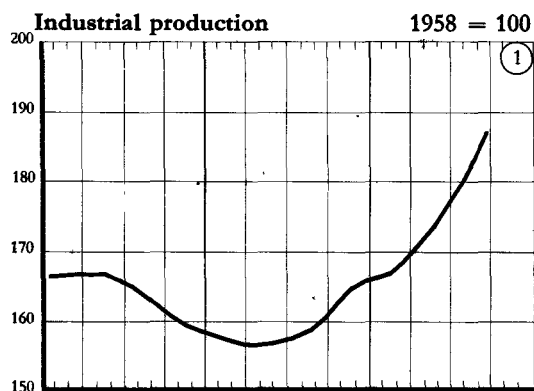
The more stability-orientated behaviour on both sides of industry is ensured in the context of concerted action and the more successfully a policy of expanding supply is pursued, the longer measures to curb the expansion of demand can, in general, be avoided. Such measures, in any case, would sooner or later bring with them the danger of losses of growth. Economic policy, nevertheless, should already be aimed at cautiously guiding the expansion of demand. The emphasis in so doing should be placed on budgetary policy.

The draft Federal budget for 1969 is already on these lines. Net borrowing, which in 1968 still amounted to some DM 7 000 million, is estimated at DM 3 600 million for 1969. One factor encouraging the contraction of borrowing will be an increase—probably faster—in tax receipts, expected to grow by nearly 11 % in comparison with 1968. Total expenditure, which in 1968 was still influenced to a special degree by the implementation of the two Programmes to promote economic activity, should go up by only about 5.5 % in 1969.

An increase in expenditure above this rate should be avoided. Experience gained in 1965 has shown that this is not an easy objective for Parliament and Government to achieve in an election year. Any additional tax receipts resulting from the upswing of the business trend should be used to reduce public indebtedness in accordance with the Law on ensuring the stability and growth of the economy. At the same time co-ordination of the budgetary policies of the Federal, Land and communal authorities should be taken further in order to ensure in this way that demand is guided along lines permitting both growth and stability.

The scope, on the other hand, for a restrictive credit policy is very narrow. The banks' liquidity potential is extremely high and so any measures taken would have to be quite severe in order to obtain worthwhile results. Furthermore, measures of this kind would entail a higher interest level, which would jeopardize exports of capital; this would prompt fresh flows of liquidity into Germany and would increase the strains in the international payments system.

ECONOMIC INDICATORS



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.

Germany

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	248.5
Total population ('000)	59 873
Density of population per sq. km.	241
Numbers in employment ('000)	26 292
Numbers in employment, breakdown by main sector (%)	
— Agriculture	10.4
— Industry	47.1
of which : Construction	7.7
— Services	42.5
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)	8 082

TABLE 2: Key indicators

	% change by volume on preceding year								Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	8.8	5.4	4.2	3.4	6.6	5.6	2.3	0	152	—
Industrial production	10.7	6.3	4.5	2.7	8.5	6.7	1.9	— 2.3	158	—
Total imports	16.9	8.1	11.4	8.0	10.7	15.0	2.8	— 0.4	232	19.7
Private consumers' expendi- ture	6.9	6.8	5.9	2.9	5.3	6.3	3.5	0.6	153	58.2
Public current expenditure on goods and services	7.6	7.8	11.5	7.5	— 0.5	6.9	1.1	3.4	168	16.7
Gross fixed asset formation	11.3	9.4	5.9	2.9	12.0	6.5	0.2	— 7.4	165	22.8
Total exports	13.0	3.5	3.9	9.0	9.6	7.2	11.0	9.5	212	23.0
Gross national product per capita	7.7	4.0	2.8	2.2	5.3	4.3	1.2	— 0.4	138	—
Gross national product per person gainfully employed	7.0	4.0	3.4	3.0	6.2	4.9	2.6	2.9	148	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.s.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	11.1	4.5	10.2	10.9	10.3	12.5	8.0	247	21 736	100
Intra-EEC	19.6	20.9	20.8	8.4	6.7	16.0	9.4	333	8 002	36.8
To non-EEC countries	7.6	1.0	4.7	12.5	12.4	10.6	7.2	215	13 734	63.2
Exports of food, beverages and tobacco										
Total	4.3	7.3	16.0	20.5	25.0	- 2.0	27.0	296	541	2.5
Intra-EEC	1.0	8.1	23.9	22.1	22.6	6.6	61.2	436	285	1.3
To non-EEC countries	6.3	6.9	11.5	19.5	26.6	- 7.3	2.7	218	255	1.2
Exports of raw materials and manufactures										
Total	11.3	4.5	10.1	10.8	10.0	12.9	7.5	246	21 195	97.5
Intra-EEC	20.1	12.2	20.8	8.1	6.3	16.3	8.1	330	7 717	35.5
To non-EEC countries	7.6	0.9	4.6	12.3	12.1	11.0	7.2	214	13 478	62.0
Visible imports										
Total	8.3	12.2	6.0	12.2	19.6	3.2	- 3.7	236	17 352	100
Intra-EEC	13.3	16.6	8.7	17.4	30.7	4.2	- 1.1	362	6 864	39.6
From non-EEC countries	6.1	10.3	4.7	9.7	13.6	2.5	- 5.4	192	10 488	60.4
Imports of food, beverages and tobacco										
Total	7.9	20.1	- 8.3	8.3	21.6	2.4	- 4.2	184	3 582	20.6
Intra-EEC	15.8	15.9	- 0.0	9.3	28.0	6.8	0.1	286	1 442	8.3
From non-EEC countries	4.4	22.2	-12.2	7.8	18.1	- 0.1	- 6.9	149	2 140	12.3
Imports of raw materials and manufactures										
Total	8.4	9.9	10.7	13.3	19.0	3.3	- 3.6	254	13 769	79.4
Intra-EEC	12.5	16.8	11.5	19.7	31.3	3.5	- 1.4	389	5 422	31.3
From non-EEC countries	6.7	6.8	10.3	10.2	12.5	3.2	- 5.0	207	8 347	48.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1962 = 100)	1966	112	117	121	128	126	127	116	107	122	125	127	117
	1967	106	111	114	119	119	117	112	104	122	126	131	130
	1968	111	118	125	131	132	142	120	123	139			
Unemployed (1000)	1966	269	236	141	121	108	101	102	106	113	146	216	372
	1967	621	674	576	501	458	401	377	359	341	361	395	526
	1968	673	590	460	331	265	227	203	188	174	180		
New orders received (1958 = 100)	1966	173	178	216	193	193	188	176	170	192	192	183	169
	1967	160	162	187	176	179	190	171	170	194	216	207	195
	1968	184	189	203	210	219	186	207	192	219			
of which:													
home orders	1966	163	170	208	186	185	178	169	161	184	181	169	150
	1967	144	145	171	163	165	171	160	153	182	206	192	173
	1968	163	171	188	193	201	170	188	182	203			
foreign orders	1966	211	213	250	227	230	234	207	208	232	243	248	255
	1967	229	239	260	237	243	277	227	223	249	261	271	291
	1968	274	269	273	288	297	260	296	255	286			
Construction: permits issued (DM '000 million)	1966	2.95	2.97	4.00	3.75	3.85	4.03	4.15	4.03	4.04	4.13	3.33	3.47
	1967	2.76	2.63	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	3.38	3.72	3.63	4.16					
Private consumers' expenditure: Retail turnover, value (1962 = 100)	1966	109	109	133	133	131	122	131	120	125	135	144	179
	1967	115	109	134	127	129	123	129	122	127	134	144	192
	1968	113	112	132	140	137	126	136	131	129			
Total visible imports (million u.s.)	1966	1 446	1 397	1 685	1 476	1 541	1 544	1 473	1 449	1 482	1 607	1 530	1 533
	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		
Total visible exports (million u.s.)	1966	1 492	1 490	1 757	1 559	1 701	1 645	1 708	1 537	1 727	1 809	1 719	2 012
	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	1 923	2 056	2 390	2 390	
Balance of trade (million u.s.)	1966	+ 46	+ 93	+ 72	+ 83	+ 160	+ 101	+ 230	+ 88	+ 246	+ 201	+ 189	+ 479
	1967	+ 357	+ 352	+ 373	+ 461	+ 321	+ 327	+ 325	+ 246	+ 377	+ 410	+ 292	+ 372
	1968	+ 316	+ 324	+ 444	+ 275	+ 325	+ 254	+ 349	+ 313	+ 379	+ 431		
Official gold and foreign exchange reserves (million u.s.)	1966	6 190	6 139	6 150	6 072	5 974	6 193	6 441	6 433	6 454	6 616	6 652	6 771
	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	7 080	6 842	6 732	6 733	6 709	6 695	6 962	6 665		
Money supply (DM '000 million)	1966	74.0	74.5	74.2	75.9	76.9	77.7	77.3	77.7	76.7	76.5	79.3	79.5
	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	84.3	85.7	86.8			

Germany

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

- Changes based on 1958 prices; for 1967, however, the base- year is 1954.
- 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 most decisive event in the economic development of France in 1968 was the social upheaval which in May and June suddenly interrupted the very dynamic growth that had characterized production, leading to a massive rise in mass incomes, a considerable deterioration in the financial position of firms and an appreciable disturbance of transactions with abroad. Although the process of normalization, supported by various measures taken both in France itself and at Community level, got under way comparatively fast—this was particularly evident in the vigorous rise of industrial production after the summer holiday season—real gross national product for the full year will probably have been only some 3.5-4 % higher than in 1967. The general price level went up by nearly 5 % and the balance of payments showed a considerable deficit.

The outlook for 1969 shows that the internal and external equilibrium of the French economy is still exposed to considerable risks; however, if the short-term economic policy pursued is on principle aimed at expansion while—in view of the very rapid expansion of domestic liquidity—caution is exercised in the action taken to influence developments, it should be entirely possible to achieve a rapid growth of production and a gradual reduction of employment combined with more normal price and wage trends. The consumption boom will doubtless continue to be very lively, and the propensity to invest of enterprises can be expected to rise vigorously as firms find the margin of production capacity eroded and their investment is encouraged by substantial tax concessions. The external balance, which may well be affected for a while by a very heavy demand for imports and a not particularly dynamic trend in exports, may later in the year be inclined to level out gradually.

1. Balance sheet for 1968

The balance sheet for 1968 reflects incompletely the events of May and June and the far-reaching consequences they have had for the French economy. The figures for the year are only an average based on the widely divergent results of three periods in which the business situation differed distinctly.

As a result of the combined influence of exogenous and endogenous factors, the business trend became very dynamic in the early months of the year. With demand from major importing countries tending generally to regain vigour, exports were stepped up rapidly; while in 1967 dealers had been running down stocks prior to reform of the turnover tax on 1 January, they

have subsequently had to replenish stocks; and finally, the Government in January launched a programme to promote economic activity, with a net increase of FF 3 500 million in the 1968 budget, to be spent in approximately equal proportions in support of private consumption and of investment.¹ Both production and imports responded to this situation by expanding at a distinctly faster pace. In April, industrial production (as reflected in the INSEE index, excluding construction) was about 8 % above the figure for the corresponding month of 1967, without any reduction being apparent in the margin of productive capacity which had risen steeply as a result of substantial investment

¹ See the comments in Quarterly Survey 1/1968.

activity in the two preceding years. The level of unemployment also remained comparatively high despite the dynamic economic trend.

The social crisis that erupted suddenly in mid-May and dragged on till the middle of June caused a radical break in the trend of supply and demand that had been registered in the spring. The strike movement reached unusual proportions: of about 15 million in paid employment, some 10 million went on strike; 750 million working hours were lost, which for industry alone was equivalent to a stoppage of production for about 2.2 weeks. Seen for the year as a whole, the loss of production due to the strikes reached an estimated 2.5 % of the gross national product and the loss of wages due to the strikes about 2 % of the annual wages of the persons in paid employment. The negotiations to settle the crisis, held first at national level between the Government on the one hand and the two sides of industry on the other, and subsequently at the level of the individual industries between employers' and workers' associations, led to massive wage increases and improvements in welfare payments.¹

The third phase of the economic trend corresponds almost exactly with the second half of the year. It is marked by the efforts of industry to make good production losses and the delays in delivery to the greatest possible extent, and by the measures which the authorities took to facilitate rapid normalization of the flow of goods and money, to limit the rise in prices and to avoid too abrupt a deterioration in transactions with abroad, as such a deterioration would probably have exacerbated the difficulties which producers and dealers were already experiencing in adjusting themselves to the new situation.

Of these measures, which in part took effect during the period of social unrest and most of which were of a temporary nature, the following are the most important:

In the field of monetary and credit policy, a system of special loans was introduced in June to benefit small and medium-sized firms, the interest being fixed at a preferential rate of 5 %

and the maximum period at 18 months. Applications for these loans, which were to be rediscountable outside the official ceilings, had to be filed by 31 October 1968. The commercial banks were moreover granted additional refinancing facilities: their rediscount ceiling was raised by 20 % until the end of October 1968, and the compulsory holding of medium-term bills was reduced in two stages from 16 % to 13 % of customers' deposits. Finally, the Banque de France on 3 July raised the discount rate from 3.5 % to 5 % in view of the way the balance of payments was developing;¹ at the same time various measures were taken to keep the increase in the cost of credit for business within fairly narrow limits.

In the field of budget policy, fiscal measures were adopted with a view to promotion of investment activity: a tax credit for plant and machinery (normally 10 % of the purchase price) ordered from 1 May 1968 onwards and delivered within certain time-limits; full deductibility as from 1 September of the tax on value added charged on plant and machinery; a 15 % reduction in the flat-rate payroll tax to be paid by enterprises, with effect from 1 November 1968. To limit the budget deficit the taxes affecting households were increased appreciably: surcharge of 10 % to 25 % on income tax payable in 1968 by persons drawing high incomes; raising of various indirect taxes such as motor vehicle tax, tobacco tax, etc.

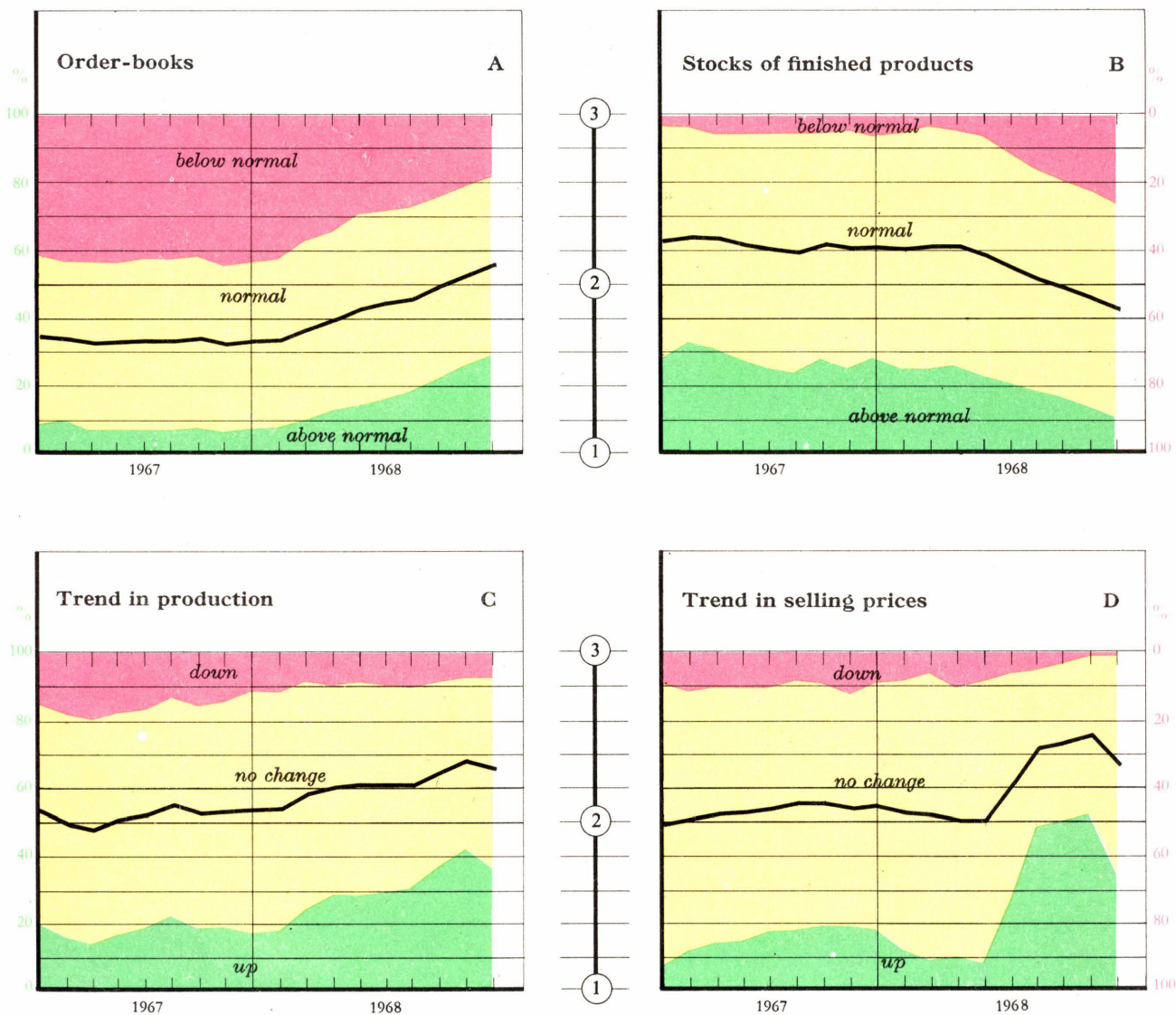
With price policy aimed at keeping price increases in the second half of 1968 down to 3 %, the measures taken in this field included in particular the introduction of a system of "supervised freedom" for trade margins and the price of services, and the wider application of the system of direct agreements with individual branches of industry and trade, particularly on the prices of industrial products. In exceptional cases a price freeze was ordered.

Where policy on foreign trade and currency was concerned, exchange control was introduced on 29 May (to be lifted again on 4 September 1968) and for visible trade certain arrangements were made in conformity with the Commission

¹ For fuller details, see Quarterly Survey 2/1968.

¹ The discount rate was raised again on 13 November as part of a limited reshaping of monetary and credit policy. For details, see p. 62.

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".

decisions of 6 and 23 July 1968.¹ Until 31 January 1969 at the latest, exports will benefit from various preferential arrangements: special subsidies amounting till 31 October 1968 to 6 %, and till 31 January 1969 to 3 %, of the wage cost element in all products exported except those which already benefit from the export guarantee arrangements; maintenance and extension of the insurance covering "economic risk"; maintenance but reduction of the preferential rediscount rate for claims arising out of export transactions. For imports, quotas were fixed which would cover specified periods (for motor vehicles, 1 July to 31 October 1968; for products of the iron and steel industry, textile products and domestic electrical appliances, 1 July to 31 December 1968). There was moreover a tightening of the administrative supervision of certain other products.

The combined effect of these changes decisively influenced economic developments in the second half of 1968. Although the statistical data available at this stage are still incomplete, a variety of individual pieces of information warrant the assumption that in most sectors of the economy the process of normalization on the markets for goods and services has got fully under way and that there has been no undue deterioration in the internal or the external equilibrium of the country.

After declining appreciably in May and June, exports for instance were rapidly back to a very high level, the result being that the value of visible exports for the first ten months of the year was still 11 % higher than in the corresponding period of 1967. The rapid recovery after the events of May and June was no doubt in part attributable to the clearing of arrears in deliveries; in doing so, managements appear to have been giving some degree of priority to their foreign customers, but it is not possible to say how far this was due to their attempts to strengthen their long-term position on foreign markets or to a desire to benefit from the specific and temporary aids to exports. With these aids being gradually reduced and with demand mounting on the domestic markets, it

is however possible that exports will have lost some of their momentum in the last quarter of 1968. Even so, aggregate exports of goods and services (as defined for the national accounts, in terms of value) for the full year are still likely to be almost 8.5 % higher than in 1967, with rates of increase of 10 % for visible exports and slightly under 5 % for exports of services, the latter having suffered particularly badly—especially where tourist trade is concerned—from the strikes.

After the middle of the year domestic demand, which had been moving distinctly upwards in the early months of 1968 but was suddenly disrupted in May and June, was affected by appreciable changes in the structure of incomes and consequently in the weight of the individual components of demand.

The decisive influence came from the abrupt and massive rise in the general wage level, which made possible not only the reconstitution of savings that had been eaten into during the strike but also a sharp expansion in demand, in particular the demand for consumer durables. Compared with 1967, gross incomes from wages and salaries in 1968 are likely to have risen by 12 %, despite a decline of about 1.5 % in the total number of hours worked. There was at the same time a substantial increase in transfer incomes, especially family allowances and pensions. The trend of income from entrepreneurship and property is more difficult to assess because on the one hand trading and other establishments in the services sector benefited from appreciable tax reliefs under the turnover tax reform and the figures for agricultural output were exceptionally good, but on the other, the events of May and June led to considerable losses particularly in the industrial sector. All in all, the gross income of households may have risen by about 10.5 % from 1967 to 1968. The rise in disposable incomes is likely to have been less steep, since the various tax measures taken in the course of the year to influence the business trend (tax reliefs at the beginning of 1968 amounting to about FF 600 million, tax increases of some FF 1 500 million after the crisis of May and June) have on balance had a restrictive effect. Expenditure on private consumption in 1968 is nevertheless likely to have risen by more than 10 % in view of the fact that, partly as a result of a change

¹ Published in the official gazette of the European Communities, Nos. L 159 of 6 July 1968 and L 178 of 25 July 1968.

in the pattern of incomes to the advantage of persons with small incomes,¹ the propensity to save of households was weaker than in 1967.

The events of May and June had a direct—and very expansionary—influence also on the trend of public expenditure on goods and services. For the full year this expenditure was probably a good 12.5 % higher than in 1967, following comparatively modest growth rates in the preceding years; the sharpest increase, caused by higher pay for government employees (rises averaged 13 % to 14%) and certain changes in the salary pattern, was in expenditure on wages and salaries, but expenditure on property and materials also rose distinctly faster (by some 10 % from 1967 to 1968).

The trend of gross fixed asset formation in the past few months has been less clear cut. There are, however, several reasons to support the view that the recovery in the propensity to invest of private enterprises, which before the events of May and June had been in evidence again thanks in no small degree to the measures to promote economic activity that had been adopted early in the year, has by no means ceased, despite the temporary financial difficulties encountered by enterprises. The prospect of a vigorous expansion stimulated by the increased purchasing power of households, the need to offset the rise in wage costs as fully as possible by rationalization investments, the comparatively favourable terms for investment credit and the new tax reliefs on purchases of plant and machinery have induced managements to refrain from substantial modification of their investment programmes. Compared with 1967, the value of productive investment by private enterprises may therefore still have risen some 5.5 %, that by public enterprises about 8.5 %. Investment in residential construction probably increased by 7 % in terms of value; this was in the main attributable to the appreciable rise in expenditure on publicly assisted housing, while for residential construction financed without public assistance demand was not very dynamic

¹ In this connection mention should be made of the exceptionally sharp rise of 35 % in the guaranteed minimum industrial wage and of 56 % in the guaranteed minimum agricultural wage. Both these came into force on 1 June, and there was to be a further advance of approximately 2 % on 1 December, to offset the rises that have occurred in prices.

during the greater part of the year and has only recently started to show a more distinct upward tendency. For the year as a whole, the stimulus provided by the investment activity of the public authorities was more than usually expansionary. The original targets appear to have been exceeded despite the events of May and June, with growth reaching a rate of about 14 % in terms of value. All in all, gross fixed asset formation may in 1968 have been almost 8 % higher than in 1967.

Investment in stocks, by contrast, was decidedly lower than in the previous year, although stocks of farm products rose considerably, as is usual after particularly good harvests. The early months of 1968 saw the beginning of a strong tendency for industrialists and dealers to replenish their stocks, but because of the long break in production during May and June and the need to accord priority to overdue deliveries managements will hardly have been able to restore their stocks to a level that bears a normal relationship to their sales.

This being the state of demand, domestic production in the second half of the year was completely dominated by efforts to offset as rapidly as possible the losses caused by the strike. In July-August, industrial production (as reflected in the seasonally adjusted INSEE index) was already back to the high level reached in April; in September and doubtless also in the following months it continued to tend upwards at a rate equivalent to some 8 % to 10 % in a full year. In the aggregate, however, industrial production in 1968 will probably be barely 3.5 % higher than in 1967, as losses due to the strike must be put at about 4 % to 5 %, of which less than one third will probably have been made good by the end of the year. The contribution in real terms made by the services sector is also likely, on balance, to have risen much less vigorously than a year earlier as a result of the appreciable dislocation caused by the events of May and June, especially in the tourist trade. These events appear to have had a less serious impact on building output, which may still have been a good 5 % higher than in 1967, largely owing to the lively demand of the public authorities for building work. Lastly, agricultural production showed an increase of 6 % over 1967, both crop products and livestock products having done well. In the circumstances it can be expected

that in 1968 the real gross national product will still be some 3.5 % to 4 % higher than in 1967.

The growth in real gross national product over the previous year rested entirely on gains in productivity. Although in the autumn months there were signs of a distinct tendency for trade and industry to take on additional labour, total numbers in employment probably showed virtually no change from 1967 to 1968. After account is taken of the losses of working hours, of which less than one third were made good, the total number of hours worked throughout the year may even have been some 1.5 % lower than in 1967. Although because of the longer period of compulsory education the increase in the labour force was smaller than in 1967, these trends of production and employment led in 1968 to a further deterioration in the situation on the labour market. The number of unemployed, which in 1967 averaged about 367 000, continued to rise in the first half of 1968, with a particularly steep rise in May and June. Only in the autumn did the number of persons seeking employment decline appreciably. For the year as a whole, the average number of persons out of work can be estimated at 470 000, i.e. almost 2.5 % of the labour force.

In 1968 supply from abroad contributed in substantial measure to the satisfaction of demand on the domestic markets. Imports, which in the early months of the year were already showing a distinct upward trend, rose at an unusually rapid pace after the events of May and June. Despite the quotas introduced for some products, the rate of increase over the corresponding period of the previous year reached almost 25 % in the third quarter. The pressure to import was particularly strong for raw materials and semi-manufactures and for those consumer goods not subject to the quota restrictions. Although in the closing months of the year some return to normal can be expected in the pace of imports, aggregate imports of goods and services (as defined for the national accounts) will probably have been some 11 % higher in volume than they were in 1967, the increase being some 11.5 % for goods and about 7 % for services.

Keen competition from abroad, slightly checked on only a few markets by restrictive measures on imports, was a major factor influencing the price policy of industry and trade. The author-

ities were in addition trying, by the surveillance of trading margins and by concluding special agreements (*contrats de programme* or *conventions*), to limit the effects of the sudden and massive rise in wage costs which occurred after the events of May and June. As a result, the prices for industrial consumer goods have so far shown no more than a comparatively modest upward tendency. In the services sector, by contrast, prices went up distinctly faster, particularly since here the rise that occurred in the autumn months in numerous public utility charges (rates for domestic supplies of gas and electricity, telephone charges, railway charges for passenger transport, etc.) was having a strong impact. The rise in the index covering 259 articles may nevertheless be no more than 3 % to 3.5 % in the second half of 1968. After account is taken of the price trend recorded in the first half of the year, a trend that was marked by an appreciable rise as a result of the system of tax on value added having been extended in January to retail trade and by a quiet tendency in the subsequent months, the rise in the level of consumer prices from 1967 to 1968 is likely to be just short of 5 %.

The events of May and June placed the external balance under exceptional strain. Trade with foreign countries, which—as defined for the national accounts—had as recently as 1967 closed with a surplus of FF 1 500 million, is in 1968 likely to show a deficit of some FF 1 000 million. This sharp deterioration in the balance on goods and services was accompanied by a very appreciable deterioration in the leads and lags situation and by a massive outflow of short-term funds, so that the balance of payments for 1968 closed with a far higher deficit still. In the three months from May to July alone the deficit amounted to \$900 million. Although the gold and convertible currency reserves held by the Banque de France at the outbreak of unrest in May amounted to a good \$6 000 million, the monetary authorities had occasion not only to make full use of their drawing rights on the IMF (amounting to \$885 million) but also to call on up to \$1 300 million of credit facilities made available in mid-July by the BIS, the Federal Reserve Bank in New York and the Central Banks of the other EEC countries. All in all, the net foreign exchange position of the monetary

authorities may have deteriorated between the end of December 1967 and the end of September 1968 by between \$3 000 million to \$3 500 million, while over the same period the net foreign exchange position of the commercial banks improved by \$1 500 million.

The restrictive influence on domestic liquidity exerted by the sharp deterioration in the balance of payments was far more than compensated by a more rapid rise in the volume of credit financed by the Banque de France. In particular, the methods used to finance the Treasury's cash deficits, which were covered largely by the issue of short-term paper, contributed immensely to liquidity. In the four months May to August, the shortfall in the Treasury's balance of income and expenditure (exclusive of debt redemption) amounted to almost FF 9 900 million; a year earlier it had been just FF 4 600 million. Thanks to the massive rise in ordinary expenditure coupled with the loss of revenue caused by the strikes, the deficit on the 1968 budget may prove to be as much as FF 14 000 million; at any rate, the third supplementary budget for 1968 reckons with a deficit of this order of magnitude. The sharp expansion of credit accorded to business and private customers also contributed to the expansion of domestic liquidity. The volume of outstanding credit, which in the first four months of 1968 had registered practically no advance, rose between the end of April and the end of August by 8.6 %, against 5.3 % a year earlier; in October and September the increase is likely to have been particularly sharp, primarily as a result of the massive demand for short-term credit and for the special credits available to small and medium firms at favourable rates of interest. These credits were financed largely by rediscounting them with the Banque de France.

The very considerable acceleration in the expansion of credit reflects the rapid rise in the liquidity of the economy after the upheaval in May and June; the monetary authorities tried, by pursuing an exceptionally easy monetary and credit policy, to obviate an unduly sharp rise in interest rates, as this could have an adverse effect on the capital investment plans made by enterprises. For a time the Banque de France confined itself to what was, in view of the disturbed state of the external balance, no more than a modest rise in the discount rate (from 3.5 % to 5 %), and it used selective open

market operations to keep interest rates on the money market comparatively low (about 6 %); but in view of the appreciable difference between these rates and the interest rates ruling in major financial centres abroad, the Banque de France found it necessary, once foreign exchange controls had been lifted at the beginning of September, to allow call money rates to climb to 7 % and even, for a time, to over 8 %. From 13 November the discount rate was also raised further, to 6 %. At the same time as money was made dearer—except export credits and the special credits available to small and medium firms—a number of restrictive quantitative measures were taken to slow down the excessive rise in the liquidity of the economy and so to reduce the risk of inflationary developments and of speculative moves by transactors. The minimum reserves which the commercial banks are required to hold with the central bank were raised from 4.5 % to 5.5 % and compulsory holding of medium-term bills was raised to 14 % of customers' deposits, after having been reduced from 16 % to 13 % in the aftermath of the social upheaval. In addition, a limit of 4 % for the period 30 September to 31 December 1968 and of 1 % for the period 30 September 1968 to 31 January 1969 was placed on the expansion of short-term lending and of medium-term credits not available for mobilization. Credits needed to finance exports, residential building and investment by enterprises were not included in this ceiling.

On the capital market, too, developments in the second half of the year reflected the social troubles of May and June. The flow of new issues, which had completely dried up during the strikes, was again distinctly lively in the third quarter. The private sector of the economy even made considerably heavier calls on the capital market (particularly by issuing new shares) than in the corresponding period of the previous year, while the public authorities, the savings institutions under public law and public enterprises refrained by and large from floating new issues. The public enterprises, however, made larger calls on foreign markets for the issue of loans. Although the capital market was comparatively soon in operation again, the total volume of new issues floated in the first nine months of 1968 was nevertheless some 15 % lower than that floated in the corresponding period of 1967.

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	—	—	—	+ 7	+ 8.5	+ 7.5
Gross fixed asset formation	—	—	—	+ 4.5	+ 8	+ 7.5
Public current expenditure on goods and services	—	—	—	+ 5	+ 12.5	+ 4
Private consumers' expenditure	—	—	—	+ 5	+ 10.5	+ 6.5
Gross national product	—	—	—	+ 3.5	+ 9	+ 7
Imports ⁴	—	—	—	+ 11	+ 11.5	+ 13

¹ Owing to a change in the calculating methods and the adoption of a new reference year for the initial series, the figures for 1966 and 1967 are not yet available.

² Commission estimates.

³ Commission forecasts. On the assumption that production losses caused by the strikes will after all have been so far offset by the end of 1968 that the growth rate for 1968 reaches 4 % instead of 3.5 %, the growth rate for 1969 will be correspondingly diminished. In each case the rate of annual growth of the gross domestic production as defined in the French national accounts is higher.

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.

2. Outlook for 1969

Although it clearly emerges from the figures for 1968 that the normalization of general economic activity has got vigorously under way and that the deterioration in the internal and external balance on the markets for goods and services has so far been limited, this in no way means that all obstacles to the further expansion of the French economy have been removed. The risk of the sudden and massive rise in the level of costs affecting the financial strength and consequently the propensity to invest of enterprises in a way that would exert a deflationary

influence on the level of production and employment no longer appears to be acute; on the other hand however there appears, in view of the very large margin of liquidity available to the economy, to be still some risk that a wage-price-wage spiral might lead to a more protracted inflationary trend, and this could have serious effects on various items, including in particular commercial and financial transactions with abroad. The persistence of these latest dangers appreciably limits the margin for manoeuvre in short-term economic policy, where there is already the difficulty of having, for social and other reasons, to re-establish internal

and external equilibrium at the same time as action is taken to ensure a gradual reduction in the high level of unemployment.

Provided expansion is the basic aim of the cautious and selective measures that should be taken to guide developments, there is a chance that in 1969 the economic trend will develop along comparatively satisfactory lines; the buoyancy of demand would then be safeguarded in large measure, while the available reserves of technical capacity and especially of manpower suggest that supply will on the whole still show a high degree of flexibility.

For the present at least it seems that demand from abroad may be expected to follow business activity in the main importing countries, developing along fairly dynamic lines. In the United States its expansion may, it is true, be increasingly inhibited by the budgetary measures taken in 1968, and Great Britain too can hardly be expected to register a more vigorous growth; but in the other EEC-countries—and together these usually take more than 40 % of France's exports—economic activity generally is certain to maintain its strong upward trend. To what extent, however, French firms will take advantage of the opportunities thus offered for a vigorous increase in their sales abroad will depend not only on the way they calculate their prices once they lose the export aids due to expire on 31 January 1969 but also no doubt on the vigour of domestic demand which might incline firms to reduce the priority they give to exports. All in all, it is hardly to be assumed that the increase in the value of visible exports from 1968 to 1969 will be much over 8.5 %. Exports of services, by contrast, will register a considerably faster expansion—if only because of the expected return to normal in tourism.

The decisive factor determining the vigour of domestic demand in 1969 will be the attitude to capital expenditure adopted by the private sector of the economy. Conditions are already ripe for a vigorous increase in outlay by enterprises on industrial building and on plant and machinery. The sales outlook can be considered as favourable, and in major sectors of the consumer goods industries this may comparatively soon lead to investment in additional plant, as a rapidly increasing number of establishments are reaching the limits of their capacity and delivery periods are growing longer. There is

in any case strong pressure to invest further in rationalization now that the share of wages in the value added by enterprises has risen appreciably as a result of the social crisis in May and June 1968. Moreover, the conditions for securing the requisite funds are, despite the increased pressure of wage costs on profits, comparatively good in view of the various measures taken by the Government to reduce the tax burden on business; for 1969 alone these measures may release more than FF 5 000 million. Expenditure on residential construction, too, can be expected to gather momentum, largely as a result of the extension of the programmes for publicly assisted housing. Government investment, however, is not likely—at least to judge by the present budget estimates—to increase as vigorously from 1968 to 1969 as it did a year earlier.

Investment in stocks is expected to be a particularly expansionary factor in domestic demand in 1969. The restocking process is hardly likely to have made much progress by the end of 1968—quite apart from the fact that the rise in the volume of production and sales will in general call for a higher level of stocks. The contribution to the gross national product made by investment in stocks can therefore be expected to reach more than 1.5 %.

The trend of public current expenditure on goods and services is likely to reflect in the main the measures adopted during 1968 in connection with the events in May and June; these measures have in particular led to a vigorous expansion of expenditure on wages and salaries. New expenditure for 1969 has been kept within narrow limits in the draft budget—although it may well be that certain items, and in particular the additional improvements in wages and salaries in the public sector, may exceed the amount provided for in the estimates.

Although there is no doubt that private consumers' expenditure will in the early months of 1969 again expand very vigorously as an after-effect of the massive rise in personal incomes that occurred in the second half of 1968, it is impossible to assess its future trend without making certain assumptions as to the rise in wages during 1969. Decisive importance attaches in this respect to the negotiations to be conducted in March between the two sides of industry and the Government. If it is

assumed that there will be a return to normal, i.e. that hourly wage rates rise in the course of the year by about 6 %, as they did in the years 1965 to 1967, and when account is taken of some advance in employment, the increase in total income of households from wages and salaries between 1968 and 1969 is, if anything, likely to be still somewhat higher than from 1967 to 1968. As the other types of income, particularly income from entrepreneurship and property, can also be expected to rise more steeply than a year earlier, the average household would in 1969 dispose of an income 11.5 % higher than in 1968, despite heavier taxation. Although a certain improvement can be expected in the propensity to save, this would lead to another very vigorous expansion of private consumption.

Given this pattern of demand, in which consumption and investment in stocks will clearly continue to be main elements during the early months of 1969 but in which the emphasis will, as the year advances, shift gradually to fixed investment, domestic production will expand vigorously. The growth rates for 1969 may be particularly high in those fields where 1968 showed appreciable losses as a result of the events in May and June and where as a consequence the rate of output will for some time yet receive additional strong stimuli from efforts to catch up with arrears. The contribution to the national product made by industry may in real terms be some 9 % up on 1968, following a rise of just on 3.5 % from 1967 to 1968, and the services sector too is expected to expand appreciably faster than from 1967 to 1968. As building output is also likely to rise more sharply than it did from 1967 to 1968, the real gross national product may in 1969 grow by some 6.5 % to 7 %, despite an output in agriculture which, if weather conditions are normal, will probably show little if any rise over the exceptionally good results of 1968.

This comparatively vigorous growth will be accompanied by a rapid increase in the degree of utilization of technical production capacities. Some branches of industry may even suffer from bottlenecks, which will lead not only to a heavier backlog of orders and to longer delivery dates but probably also to higher imports. Though still very appreciable, advances in productivity will probably be somewhat less marked than in the preceding years. The likeli-

hood of more calls for additional manpower is enhanced by the probability that the effective length of the working week will be reduced. The wage agreements which were concluded following the negotiations held at the end of May between the Government and the two sides of industry provide that by the end of 1969 at the latest, the effective length of the working week shall be reduced by one or two hours in the sectors where so far more than 45 hours have actually been worked. There may also be repercussions from the ending of the additional hours that were to be worked to offset the time paid for but not worked during the strikes. In the circumstances it is entirely possible that from 1968 to 1969 the number of persons in paid employment will rise by some 1 %. This would lead to a gradual reduction in the number of unemployed as the year advances.

The rapid expansion to be expected in demand will have a particularly strong impact on the trend of imports. The competitiveness of foreign suppliers has probably increased distinctly as a result of the appreciable rise in the level of production costs in France. Account must in addition be taken of the fact that the quantitative import restrictions on certain industrial products which were introduced after the events in May and June will expire at the end of 1968 and that a certain pent-up demand may have arisen. The need for firms to build up their stocks to a level that is in line with the expansionary trend of production and sales is quite generally likely to lead, especially in the early months of the year, to a strong pressure to import, particularly where raw materials and semi-manufactures are concerned. In the circumstances, the volume of visible imports will probably expand by at least 13 % from 1968 to 1969.

This being so, the external balance for 1969 can be expected to close with an appreciably higher deficit than that of 1968. It will, however, be mainly in the early months of 1969 that higher deficits are likely, and later in the year they may show some tendency to settle down. The trend of the balance of payments can also be expected to improve gradually, especially if the leads and lags situation and short-term capital movements return to normal under the influence of a monetary and credit policy designed to have this effect.

The relatively high elasticity of domestic supply, the keenness of competition from imports and the considerable measure of tax relief accorded to enterprises should assist them in their endeavour to maintain greater stability in their prices. The upward pressure on prices threatens none the less to be still fairly powerful in 1969. In view of the prospective vigour of demand producers and dealers will probably be able to pass their cost increases on to the consumer at least in those markets which are not faced with foreign competition or influenced by official measures. If it is assumed that in the course of the year the rise in prices returns to a "normal" pace, the general price level in 1969 would none the less be some 4.5 % to 5 % higher than in 1968.

The risk that in the framework of a growth-oriented economic policy prices and wages might "go off the rails" and in doing so place a further burden on the external balance confronts the French authorities with a delicate task of guidance. It calls for a judicious combination of the various instruments and for carefully balanced mix of the individual measures. The Commission has already called attention to this point in the recommendation which, in accordance with Article 108(1) of the Treaty of Rome, it addressed to the French Government at the beginning of July 1968.

After the events of May and June, price policy was strictly applied to keeping the rise in prices within limits which can be accepted both from the economic and the social angle. In this connection nothing should be done to change the present policy of managing without a general and direct price control, which has in most cases proved to be administratively difficult to enforce and to have a harmful effect on the efficiency of an economy; it would seem wiser to develop the ways and means of exerting indirect influence, particularly in those fields which owing to their structure are exposed to little if any competition.

A gradual return to the normal price trend would moreover make it easier to implement a wages policy which should attempt, particularly for reasons connected with foreign trade and payments, to bring the future trend of wages better into line with the advances that can be made in productivity. In this connection,

mention should in particular be made of the "rendezvous" between the Government and the two sides of industry scheduled for March 1969; its outcome is certain to be influenced not only by the increase that will by then have been recorded in the cost of living but also by the prevailing price climate. Consideration should also be given to the case for taking, in the framework of wages policy, measures to promote the formation of wealth in the hands of workers. In addition to the influence the increased participation of workers in the fruits of expansion would have in the field of social policy, such measures would offer economic advantages. Funds which otherwise would be spent on consumption would remain available for the financing of investments; at the same time, the renunciation of further rises in consumption would have a stabilizing influence on prices in a business situation where the risk of an excessive expansion of consumption undoubtedly exists. Fuller use could be made of the opportunities already available for stimulating the savings activity of households, one method being to extend certain benefits to the additional savings thus accumulated.

The sharp increase expected in the financing requirements not only of enterprises but also of the public authorities will reinforce the need for adequate savings by households. The draft budget for 1969 shows a deficit of more than FF 11 500 million, as account had to be taken not only of the direct consequences of the events of May and June 1968 (in particular extra expenditure for wages, salaries, welfare payments) but also of the need to promote the expansion of productive investment by budgetary measures. In order to avoid undue expansion of domestic liquidity, however, care will have to be taken that when the 1969 budget is implemented the estimates for individual items of expenditure are nowhere overstepped and that deficits are financed largely from domestic savings and not by recourse to the Central Bank. Where the tax measures themselves are concerned, the basic decision to promote investment by appreciably reducing the burden on enterprises while limiting the increase in the budget deficit by heavier taxation of households is entirely consistent with the recommendations made by the Commission at the beginning of July; it may none the less be that the very general measures used to promote

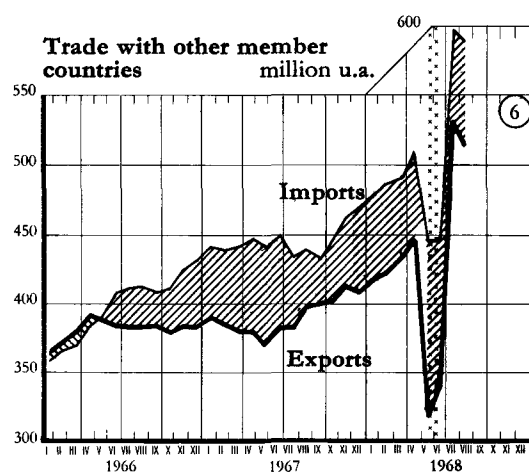
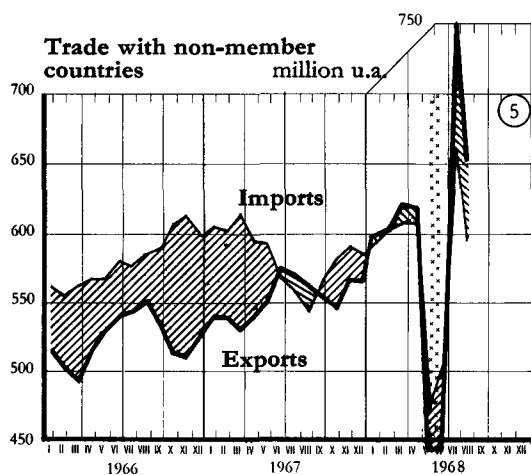
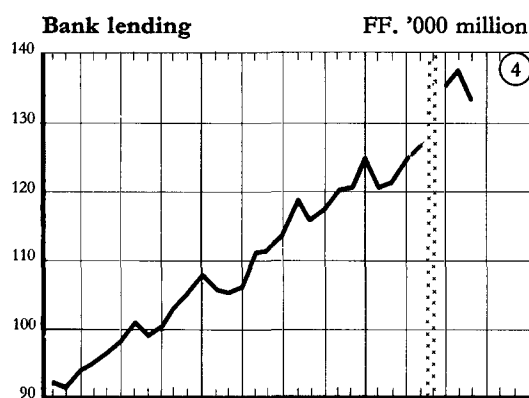
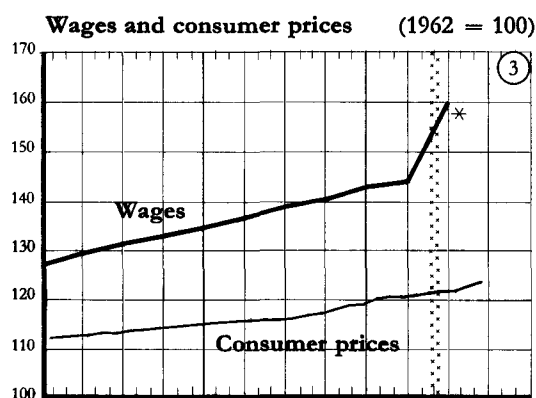
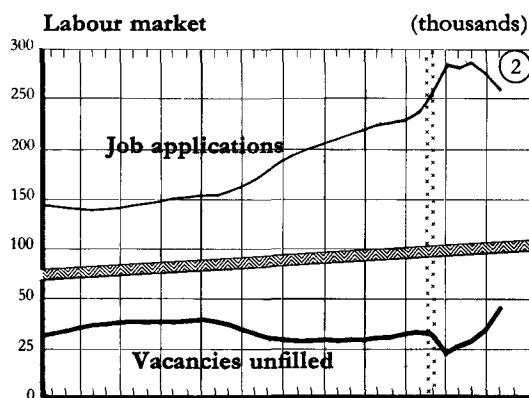
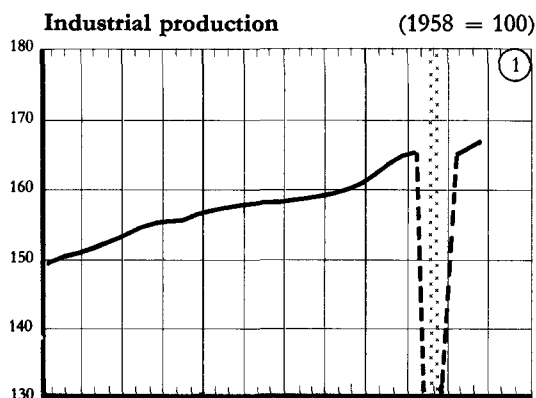
investment should also take into account selective criteria, and so provide incentives for the sort of investment which would contribute to a particularly rapid advance of general economic productivity and improve the ability of those enterprises which are largely export-oriented to compete on world markets.

In the coming year, those responsible for monetary and credit policy will be facing a delicate task of guidance. The measures applied will have to leave sufficient freedom for productive investment not to be hampered, but they will at the same time have to be strict enough to serve as a brake on the excessive growth of internal liquidity, as this could involve fresh threats to internal equilibrium and, in particular, to the balance of payments. In the autumn the monetary authorities were already intervening selectively, on the money market in particular, and from the middle of November they were also using quantitative restrictions on credit in order to exert increased pressure on the growth of internal liquidity.

It may nevertheless be wondered whether there ought not in addition to be some tightening of the conditions for hire purchase.

It would moreover be much easier to restore lasting equilibrium in the economy generally if solutions were found as soon as possible for the problems of regional structure and the problems raised by the structure of individual industries. In the industrial field, action should be taken to promote modernization and combination as well as the establishment of industries with new production methods, as this in turn would stimulate technical progress. Where the labour market and employment are concerned, the efforts to provide vocational training for young workers and to retrain older workers for other occupations should be increased; action should also be taken, in particular through an appropriate housing policy, to increase the mobility of labour—the problem of unemployment in France being largely a structural one which cannot be solved even by large-scale action in the field of short-term economic policy.

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 actual 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.

For graphs 2, 5 and 6, the figures for May and subsequent month have been corrected for seasonal variations, but in view of the May and June strikes have not been calculated as three-month moving averages.

France

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)	Contri- bution (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' expendi- ture	+ 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
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	+ 5.1	+ 2.1	+ 9.8	+11.3	+11.8	+ 8.3	+ 4.5	222	11 377	100
Intra-EEC	+18.7	+12.0	+14.0	+12.8	+18.0	+12.0	+ 2.0	414	4 701	41.3
To non-EEC countries	- 0.6	- 2.9	+ 7.3	+10.3	+ 7.8	+ 5.8	+ 6.3	168	6 676	58.7
Exports of food, beverages and tobacco										
Total	+17.4	- 2.9	+22.0	+14.4	+11.4	+ 7.4	+ 3.0	266	1 769	15.5
Intra-EEC	+26.1	+ 1.4	+34.5	+16.6	+26.3	+19.4	+ 6.0	730	890	7.8
To non-EEC countries	+13.6	- 5.1	+15.4	+13.0	+ 2.0	- 2.0	0	162	879	7.7
Exports of raw materials and manufactures										
Total	+ 3.3	+ 3.0	+ 7.8	+10.7	+11.8	+ 8.5	+ 4.8	216	9 608	84.5
Intra-EEC	+17.5	+13.9	+10.9	+12.1	+16.4	+10.5	+ 1.1	376	3 811	33.5
To non-EEC countries	- 2.7	- 2.6	+ 6.0	+ 9.8	+ 8.9	+ 7.2	+ 7.4	168	5 797	51.0
Visible imports										
Total	+ 6.3	+12.6	+16.1	+15.4	+ 2.7	+14.5	+ 4.5	221	12 377	100
Intra-EEC	+13.8	+20.0	+23.9	+20.4	+ 6.7	+20.8	+10.7	438	5 373	43.4
From non-EEC countries	+ 3.2	+ 9.1	+12.2	+12.6	+ 0.3	+10.5	+ 0.2	160	7 004	56.6
Imports of food, beverages and tobacco										
Total	- 2.3	+19.8	+ 5.1	+14.9	- 0.5	+ 8.4	- 2.6	132	1 870	15.1
Intra-EEC	-12.3	+37.6	+37.4	+26.2	+ 8.9	+ 1.3	+16.6	484	446	3.6
From non-EEC countries	- 0.8	+17.4		+12.5	- 2.8	+10.3	- 7.4	108	1 424	11.5
Imports of raw materials and manufactures										
Total	+ 8.5	+10.9	+18.8	+15.5	+ 3.4	+15.8	+ 5.9	250	10 507	84.9
Intra-EEC	+16.3	+18.7	+22.7	+19.8	+ 6.5	+22.9	+10.5	434	4 927	39.8
From non-EEC countries	+ 4.5	+ 6.6	+16.3	+12.6	+ 1.2	+10.6	+ 2.4	182	5 580	45.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	151	157	157	158	158	162	142	95	154	161	166	167
	1967	160	161	163	161	159	165	142	97	158	165	170	171
	1968	166	171	174	174	177	139	151	106				
Unemployed ('000)	1966	171.3	167.3	155.7	145.6	134.0	122.7	121.1	124.4	137.2	153.7	165.7	173.5
	1967	193.8	194.3	189.2	188.7	179.0	168.3	168.3	174.4	193.4	216.9	238.2	248.2
	1968	271.8	273.8	264.0	250.6	237.5	243.0	232.3	237.8	251.1	260.8		
Construction: permits issued ('000)	1966	41.3	36.3	42.1	48.0	36.6	49.4	44.2	40.5	38.2	42.1	44.2	47.2
	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	45.7	45.0	44.0				
Private consumers' expenditure: turnover of department stores (1962 = 100)	1966	121	107	126	127	124	135	129	114	141	140	143	222
	1967	127	110	137	129	133	139	131	119	157	139	149	226
	1968	134	121	141	137	121	137	142	134	158			
Total visible imports (million u.a.)	1966	897	935	1 098	994	1 002	1 060	929	779	993	1 030	1 054	1 104
	1967	1 067	1 039	1 172	1 047	1 066	1 018	927	772	1 011	1 058	1 064	1 150
	1968	1 088	1 104	1 223	1 165	796	1 112	1 242	934	1 179	1 325		
Total visible exports (million u.a.)	1966	774	873	1 023	947	915	960	951	729	843	950	920	1 013
	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	786	798	1 293	917	1 009	1 258		
Balance of trade (million u.a.)	1966	- 123	- 62	- 75	- 47	- 87	- 100	+ 22	- 50	- 150	- 80	- 134	- 91
	1967	- 184	- 136	- 180	- 77	- 145	+ 6	+ 29	- 70	- 94	- 19	- 44	- 94
	1968	- 103	- 38	- 58	- 78	- 10	- 314	+ 51	- 17	- 170	- 67		
Official gold and foreign exchange reserves (gross, million u.a.)	1966	5 468	5 503	5 571	5 649	5 724	5 821	5 967	5 963	5 893	5 856	5 798	5 744
	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		
Money supply (FF '000 million)	1966	174.5	173.5	175.6	177.3	177.7	182.1	186.3	184.0	184.7	185.0	182.7	190.7
	1967	187.8	185.6	188.3	191.7	189.6	194.8	197.6	193.7	195.4	193.3	190.3	199.6
	1968	192.5	189.8	190.9	192.2		208.0	209.3	205.6				

France

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 vigour of Italy's industrial boom, which in contrast to 1967 was due mainly to demand from abroad, declined in 1968. During the early months of the year in particular, there was some easing in the trend of activity, as, despite very rapidly rising investment in building and construction, the progress made by domestic demand was hesitant and the expansion of exports, though decidedly vigorous, did not provide the compensation needed. In the second half of the year domestic demand may however have picked up again. Prices have continued to be remarkably stable and the payments surplus has risen.

Economic development and the expansion of employment should be appreciably more lively in 1969. This assumption is based in part on certain as yet not very pronounced symptoms that suggest some recovery in economic growth during the second half of 1968, in part on the expectation that the measures proposed by the Government at the end of July—subsequently supplemented and already partly in force—will strengthen the spontaneous forces carrying the economy forward. Investment of enterprises and private consumers' expenditure are the two sectors which in consequence are likely to expand again appreciably. At the moment it seems entirely reasonable to expect that for 1969 the increase in real gross national product will be some 6 %.

1. Balance sheet for 1968

In 1968 Italy experienced a further appreciable advance in business activity, although the trend is likely to have been less vigorous than in 1967. Towards the end of the year business activity seems to have regained something of the lost impetus.

In contrast to 1967, exports of goods and services were the most important factor in the upward trend. The strongest stimulus came from visible exports, which rose sharply, despite the devaluation of various currencies in autumn 1967 and certain losses caused by the crisis in France, especially in the first half of the year. The main factors in this development were: the rapid intensification of world trade noted in the first half of the year; Italy's relatively strong competitive position, which led to her gaining a greater share of world trade; the rapid increase in the amount of goods available for export as a result of the quieter trend in

Italy's domestic demand; and last but not least, the elimination of customs duties within the Community, and the first world-wide tariff reductions following the Kennedy Round.¹ On the other hand the growth of Italian exports in the second half of the year may have been affected by the import restrictions temporarily imposed on certain goods by France, and by Great Britain's surcharge on imports of Italian refrigerators.

While exports of foodstuffs, which account for more than 10 % of total exports, tended if anything to decline as a result of the good harvests in many countries, other exports rose rapidly—especially textiles, private cars, plant and machinery, and products of the iron and steel industry. Up to the middle of the year the most rapid expansion was recorded by exports to non-member states, but here Italy was enjoying the benefit of the special factors

¹ Cf. Quarterly Survey No. 2/1968, p. 62.

described in Part I above, which deals with the overall situation.

The value of visible exports, as defined for the customs returns, is estimated to have risen in 1968 by 14 % (15 % in terms of volume), as against 8.3 % (and 7.5 %) in 1967.

Exports of services showed a marked upward tendency in 1968, although earnings from tourism again rose fairly slowly. Wage transfers by Italians temporarily employed abroad showed signs of a certain recovery.

As defined for the national accounts, the value of exports of goods and services as a whole will have been some 13 % up in 1968, as against 7.4 % in 1967.

The expansion of domestic demand as a whole declined noticeably.

To judge from the available but incomplete indicators investment, particularly in plant and machinery, tended to weaken, at least in the first few months of 1968. In addition to psychological reasons, the narrowing of profit margins noted in 1967 may also have had a restricting effect. The second half of the year, however, brought some recovery in this sector. Investment in building and construction followed a different course, advancing briskly throughout the year. The figures for both starts and completions reflected the rapid expansion occurring both in residential and industrial construction; but it should be pointed out that this may be in part due to a special factor, namely the desire to commence building before certain legal provisions expired on 1 September 1968. Public works seem to have been less dynamic, at least in the first half of the year.

Total expenditure on gross fixed asset formation rose in 1968 by an estimated 10 %, as against 12.9 % in 1967.

Investment in stocks, which in 1967 had risen with abnormal vigour because of an exceptionally abundant harvest and an increase (partly involuntary) in manufacturers' stocks of finished goods, fell back considerably in 1968.

The growth in public current expenditure on goods and services in 1968 will probably have been appreciably greater than in 1967. At all events the corresponding outlays by the Treasury in the first half of 1968 rose considerably

faster than in the preceding six months. According to the Government's "Forecast and Planning Report for 1969", submitted at the end of September, public current expenditure may have risen between 1967 and 1968 by about 8 % in money terms, as against 4.8 % between 1966 and 1967.

On the other hand the rise in private consumers' expenditure slackened, but because of movements in stocks the extent of the change was certainly less than might be suggested by the production and foreign trade statistics for consumer goods. According to provisional calculations the slowdown may be entirely the outcome of a decline in expenditure on consumer goods, which had been rising rapidly in the two previous years; the recent decline may well be connected with the strong rise registered by investment in residential construction. Disposable personal incomes probably rose in 1968 at approximately the same rate as the year before; they may have been affected by some slowing in the growth rate of the total wages bill, but this seems to have been offset by a sharp rise in public transfer payments following improvements in pension rates.¹

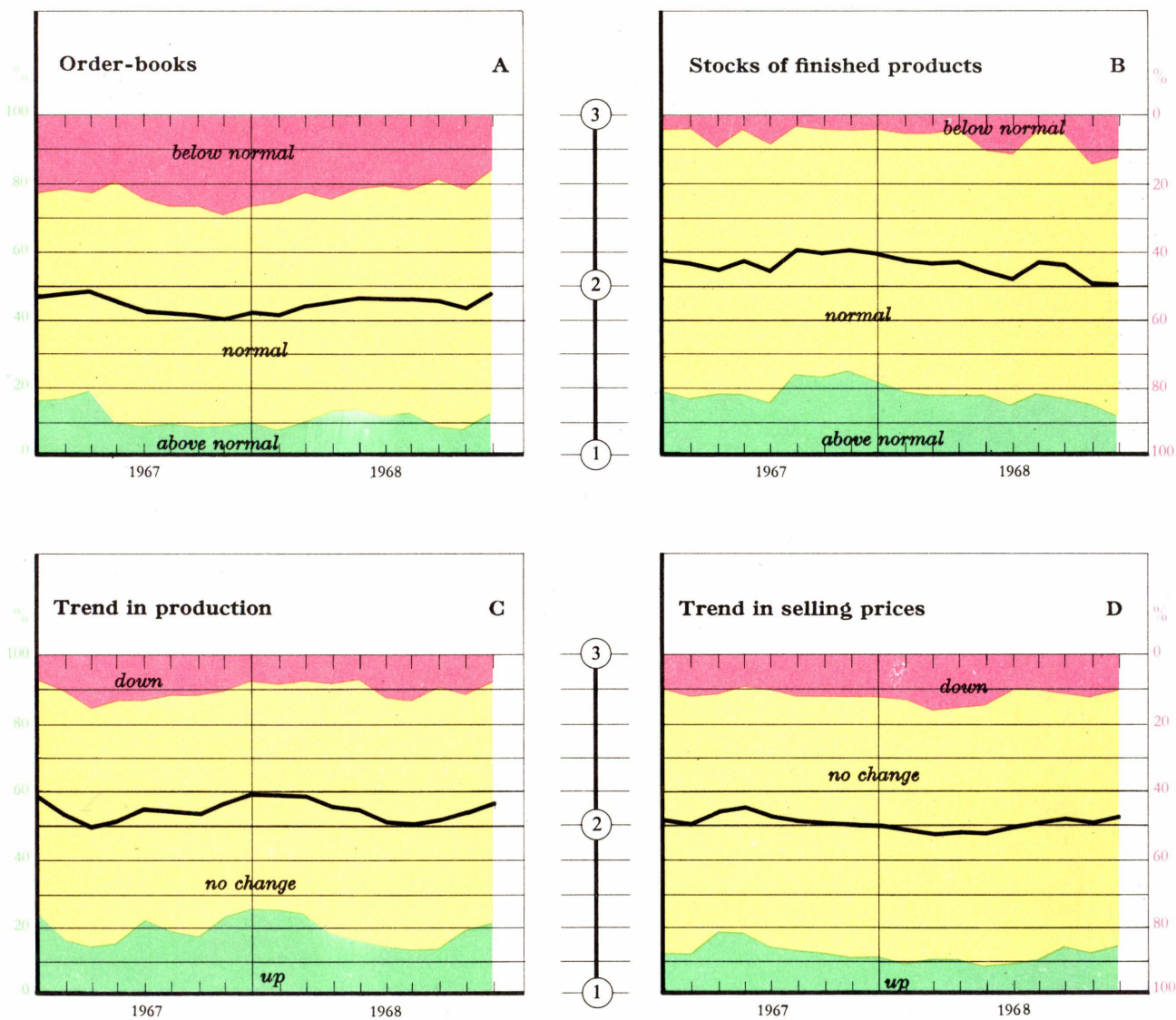
The shift towards the more expensive consumer goods has probably persisted, as may be seen from the considerable rise in expenditure on items such as tourism. While the number of new private cars registered in the first ten months was 3.3 % below the corresponding figure for the previous year, it must be remembered that because of the effect of special factors (replacing vehicles lost in the floods of autumn 1966) the 1967 level was somewhat inflated. In the first six months of 1968 there was a distinct upward trend in the registration of private cars, but this later became more hesitant, in part, perhaps, because people expected prices to be reduced.

Private consumers' expenditure, as defined for the national accounts, is estimated to have risen by 6.5 % in 1968, as against 9.3 % in 1967.

On the supply side, the growth of the contribution to real gross domestic product made by agriculture may have been down to about 1 % in 1968, but here again it must be remembered that agricultural production had risen very rap-

¹ Cf. Quarterly Survey No. 2/1968, p. 58.

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".



idly in 1967 (+5.2 %). The increase recorded in 1968 was due especially to the heavy harvest of fruit, while the rise in output of vegetables and even more in that of cereals was at best slight. Livestock production, which had fallen off in 1967, picked up again.

There was a further distinct rise in industrial production, but the rate of its growth again slowed down, the year-to-year drop being more pronounced than the weakening registered during the year; but as the process of bringing stocks back down to normal drew to a close, industrial production may towards the end of the year have regained greater dynamism. The slower rate of growth affected practically all main categories of goods, particularly machinery and plant; the production of building materials, which experienced a lively expansion, proved to be an exception. As in 1967, the production of textiles declined in absolute terms. Vehicle production also fell below the level recorded in the previous year; but here too a part was doubtless played by special factors which, as mentioned above, influenced domestic demand for private vehicles. The ISTAT index of industrial production may have risen by about 6 % for the year, as against 8.2 % in 1967.

Building and construction (value added at constant prices) may have exceeded the 1967 level by more than 10 %, against a rise of 6.4 % in 1967.

Value added in the services sector is estimated to have risen some 4.5 % in real terms, a figure similar to that for 1967.

The overall growth rate of the real gross national product was a good 5 %, as against 5.9 % in 1967.

The numbers in paid employment increased more slowly in 1968, both during the year and in the year-to-year comparison; according to the ISTAT quarterly sample surveys, the increase from 1967 to 1968 was 1 %, compared with 2.2 % a year earlier. The decline in growth may be attributed not only to the weaker trend of production but also to considerable increases in productivity. These seem to have been exceptionally large, particularly in the construction sector where, according to the statistics, the numbers in paid employment dropped by 2 % despite the rapid advance of production. Changes in the structure of employment were mainly

in the form of an accelerated movement of workers out of agriculture into other sectors of the economy, and in the sharply declining number of family workers. These developments have contributed to an increase in the average productivity level in the economy as a whole.

The figure for unemployment in 1968 will, it seems, be at best slightly below the 1967 figure. For a time it was even rising again, as there was still a tendency for the working population to increase; one reason for this tendency, which had been in evidence since 1967, was the particularly high number of school-leavers. According to the ISTAT surveys, the number of unemployed in the first three quarters of the year was slightly above the corresponding figure for 1967 (+1 %). During this period the decline in the number of short-time workers was down to 2.5 %, compared with a fall of about 17 % from 1966 to 1967. Payments from the Wages Equalization Fund to workers affected by stoppages rose in the first half of the year (they had fallen in 1967), but this was in the main due to the weather.

Imports of goods and services tended in the aggregate to expand decidedly less during the year than in 1967, and the increase for the year was also smaller. This is attributable almost exclusively to the trend in visible imports, which, as defined for the customs statistics, are estimated to have passed the 1967 level by a mere 6 % in volume and 5 % in value, while in 1967 the corresponding figures were 13.2 % and 12.9 % respectively. In the first three months of the year imports even fell back sharply. Here, however, it should be recalled that, as was pointed out in the last Survey,¹ the import figures for the first few months of 1968 were in part distorted by special factors, even though the underlying trend was also weakening. With the disappearance of these factors, the curve representing seasonally adjusted visible imports again pointed distinctly upwards from the second quarter onwards; in the second half of the year it may have become still steeper as a result of the customs measures already mentioned, the return to a normal level of investment in stocks and some revival of investment in plant and machinery. The highest percentage growth rates were for imports of means

¹ See p. 58.

of transport and of petroleum products, the lowest for imports of iron and steel and of agricultural products.

According to the foreign currency statistics imports of services continued to make very lively progress in 1968.

Imports of goods and services, as defined for the national accounts, may consequently have grown by 7.5 % in volume in 1968 as against 10.5 % in 1967.

The trend of prices in 1968 was remarkable for its stability. The main reasons for this are: the calmer expansion of total demand in money terms; the gradual disappearance of a number of factors which had exerted pressure on prices in 1967 (special tax increases introduced to finance state aid to flood victims; the reversion to employers of social contributions defrayed for a time by the State); a return to normal of certain prices raised during the Middle East crisis; a decline in the development of unit wage costs, helped in particular when at the end of August the State once again accepted responsibility for some of the social contributions normally payable by certain enterprises; and, last but not least, the elimination of customs duties within the EEC on 1 July, which had a moderating effect on prices. According to EEC surveys, however, employers seem to expect that prices will harden again slightly in the last few months of the year.

In the first nine months of the year consumer prices (seasonally adjusted) remained stable, and wholesale prices even eased slightly. In September the consumer was paying 0.4 % more than a year earlier, although wholesale prices were 0.8 % down. The implicit price deflator of the gross national product is estimated to have risen by about 2 % in 1968, compared with 2.6 % in 1967.

The differing tempo in the trend of exports and imports led to a considerable fall in the deficit on foreign trade (according to customs statistics this is estimated to be Lit. 160 000 million, against Lit. 622 000 million in 1967). Although net receipts from services were again down, the surplus on current account, after dropping in 1967, moved up again.

The surplus on the overall balance of payments in 1968 was certainly considerably smaller than

the improvement on current account, mainly because the persistence of a gap between interest rates in Italy and those offered abroad led to a fresh rise in exports of capital. According to the foreign exchange statistics, net exports of capital in the first eight months alone amounted to Lit. 531 000 million, compared with Lit. 378 000 million in the same period a year earlier. Since on balance the commercial banks exported a considerable amount of short-term money, the net official gold and foreign exchange reserves remained practically unchanged. In the first nine months of 1968 they declined by about Lit. 30 000 million, compared with a rise of about Lit. 346 000 million in the corresponding period in 1967.

This meant that in 1968 the domestic liquidity of the banking system was scarcely influenced by transactions with abroad; on the other hand the Treasury's cash operations were an expansionary factor which, at least in the first half of the year and partly as a result of fortuitous circumstances, proved to be of quite considerable importance. Since the demand for bank advances grew relatively slowly, and in the first eight months of 1968 exceeded the corresponding 1967 level by only 13.5 %, compared with 16.3 % for the same period in the previous year, the banks decided to purchase a greater quantity of securities than they had done in 1967; from December 1967 to August 1968 their portfolios rose by Lit. 999 000 million, as against Lit. 542 000 million in the same period of the previous year. Moreover, during the first half of the year, they reduced their debts to the Central Bank by more than is customary for that period of the year—but here it should be noted that towards the end of 1967 these debts had risen at an exceptional pace under the influence of special factors (public reaction to the announcement of strike action by bank employees). Towards the middle of the year the trend in the demand for credit seems to have become more lively.

Developments on the securities market were again distinctly lacking in uniformity. The stock market continued to be very thin, with prices irregular and tending to slip. Against this, the authorities put the net figure of fixed interest securities issued as high as Lit. 3 000 000 million or Lit. 3 200 000 million, over 25 % more than in 1967. A large proportion of these securities, mainly in the form of government securities

and of bonds issued by state-controlled enterprises, were subscribed by the banks. The net yield on bonds remained practically steady

in 1968, a tendency supported by the Banca d'Italia through its credit policy including measures such as its open market operations.

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ²		1969 ³
	At current prices (in Lit. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	7 397	+ 6.0	+ 7.4	+ 12.5	+ 13	+ 9.5
Gross fixed asset formation	7 080	+ 10.1	+ 12.9	+ 8	+ 10	+ 8.5
Public current expenditure on goods and services	5 541	+ 2.7	+ 4.8	+ 4	+ 7.5	+ 4
Private consumers' expenditure	24 332	+ 6.1	+ 9.3	+ 4.5	+ 6.5	+ 5.5
Gross national product	38 493	+ 5.9	+ 8.7	+ 5	+ 7.5	+ 6
Imports ⁴	6 317	+ 10.5	+ 12.5	+ 7.5	+ 8	+ 14

¹ Statistical Office of the European Communities, General Statistical Bulletin No. 7-8, 1968.

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.

2. Outlook for 1969

Economic expansion in Italy should begin to gather momentum again in 1969. The rapid advances made during 1968 in exports and in investment in building and construction will probably impart greater buoyancy to the economy as a whole; in addition, the Government has in the second half of the year taken measures to stimulate economic activity, and these should contribute to a more dynamic trend.

Export demand can again be expected to develop favourably; this assessment rests mainly on Italy's strong competitive position and the generally good economic prospects in the other Member States. The anticipated economic trend in Germany and the complete elimination of import quotas in France at the beginning of 1969 should considerably assist Italian exports to these countries; at the beginning of 1969, too, the second step in the tariff reductions agreed at the Kennedy Round will be taken by several

countries which are among Italy's main customers. By and large, however, exports will probably advance at a considerably more moderate tempo than in the first half of 1968, one reason being that, with domestic demand likely to rise, the supply of goods available for export is unlikely to grow as rapidly as before.

The pace at which domestic demand will expand during the coming year is, as indicated above, likely to rise. Under the heading of fixed asset formation, investment in plant and machinery should, if the situation remains normal, make appreciable progress. In 1968 it has not yet quite returned, at current prices, to the level reached in 1963, even though production has since 1963 risen by a quarter. Sooner or later further investment will therefore be indispensable and the rapid rise of investment in industrial building in 1968 is itself an additional pointer in this direction. Furthermore the Government, in its Forecast and Planning Report, stresses the urgency of modernizing the structure of the production network, a requirement which is becoming increasingly important as competition from abroad intensifies. Investment in building and construction can be expected to maintain a rapid, though perhaps not quite so rapid, rate of growth. Public works, in particular, should benefit from the measures taken by the Government to stimulate economic activity; investment in residential construction and in industrial building should also make rapid progress, although this sector is at present having to cope with certain institutional problems in connection with the building regulations (town planning requirements).

Investment in stocks, which in 1968 had dropped back to a more normal level, should again make a significant contribution to economic growth in 1969.

Consumer expenditure, too, may be expected to stimulate economic activity quite appreciably. Public current expenditure on goods and services may grow at approximately the same rate as in 1968, while private consumers' expenditure will probably show a rise of about 5.5 % in terms of volume. The main pointers to a more rapid growth in private consumers' expenditure in 1969 are the prospects for a sharper rise in employment, a more appreciable increase in *per capita* wages (this takes into consideration the large number of collective wage agree-

ments which come up for reappraisal in 1969) and stabilization or even a further rise in the propensity to consume of households.

Such a development should lead to a rise in the pace at which production is expanding. The growth rate in 1969 for industrial production and also for building and construction may come to about 8 %, and for production in the services sector to some 4.5 %. If the rise in agricultural production is normal (+2.5 %), the real gross national product should be about 6 % higher in 1969. It seems, then, that overall production will once again, as in 1966 and 1967, have grown at an appreciably faster rate than the 5 % provided for in Italy's five-year plan 1966-70.

The prospect of higher demand and expanding production means that there should be a very vigorous and increasingly rapid rise in imports not only of raw materials and semi-manufactures but also of finished goods. In view of the probable trend of exports as outlined above, the external contribution, as defined for the national accounts, can therefore be expected to decline appreciably.

Since the Italian economy seems at present to possess ample reserves of capacity (this view is supported by the EEC business survey) the chances of rapid and balanced economic growth are favourable, especially as in addition there are considerable opportunities for using foreign resources. For the present, then, short-term economic policy should therefore continue to support the expansionary tendencies. At the same time the authorities should act with the greatest flexibility and vigilance, so that they can revert to a more neutral line once the spontaneous forces of expansion are giving sufficient support to the economic upswing. It would certainly be much easier to pursue such a policy effectively if further advances were made in improving and perfecting the set of instruments with which to analyse the economic situation, especially short-term economic statistics. Within the context of this short-term policy, the fullest possible account should be taken of the requirements of structural policy. It seems that greater efforts will have to be made to increase the industrial and geographical mobility of workers if bottlenecks are to be avoided in the labour market. Everything possible should be done to improve the vocational training of young people and the retraining programmes.

The Government proposed a series of expansionary measures in connection with the budget estimates for 1969, which were submitted at the end of July, and many of these were put into operation a month later by ordinance ("superdecree"). But when the ordinance was given parliamentary approval at the end of October parts of it were substantially amended. The parliamentary examination of the estimates themselves and of certain other proposals arising from considerations of short-term economic policy was still in progress at the time of writing, so here too there may still be changes when the final decision is taken.

In comparison with the corresponding amounts budgeted for in 1968, the estimates submitted by the Government for 1969 provide for an increase in total revenue of 10.1 % (+13.4 % in the budget for 1968), an increase in total expenditure of 14.4 % (+11.5 %) and a rise in the deficit from Lit. 1 150 000 million to Lit. 1 699 000 million. According to the budget the rate of growth of current revenue will decline in 1969 and that of current expenditure will rise slightly. By far the greatest relative rise in disbursements is in redemption of debt, which at Lit. 549 000 million corresponds exactly to the estimated increase in the deficit. The estimates include, it is true, a slight reduction (in absolute terms) of expenditure on investment; but the expansionary nature of government spending plans for 1969 is evident in the very substantially increased figures for that part of government expenditure on or in support of investment which is to be initially financed outside the budget by calls on the capital market. This type of expenditure, the budget estimates for which had declined in the two previous years, accounts for Lit. 1 029 000 million against Lit. 561 000 million in the 1968 budget. If this expenditure estimate, which is rising largely in connection with the new drive to stimulate economic activity, is included, the deficit amounts to Lit. 2 728 000 million, and this is more than Lit. 1 000 000 million above the corresponding figure for the previous year.

The short-term economic policy proposals put forward by the Government in July 1968 are aimed principally at providing fiscal incentives to investment and at accelerating investment in infrastructure. The content of the law which

has taken the place of the above-mentioned "superdecree" may be summed up as follows:

(i) Further loan funds and interest rebates are to be made available for small and medium-sized commercial and industrial enterprises and the craft industries.

(ii) In calculating their taxable revenue for the current and the two following business years firms may deduct 50 % of any amount spent on domestic fixed investment in excess of the average corresponding expenditure in the previous five years. Tax reductions granted to enterprises in southern Italy for reinvested profits will also be increased.

(iii) Any capital increases undertaken by enterprises during the two years up to the end of August 1970 will be exempt from the duty on government authorizations (*tassa di concessione governativa*).

(iv) For those enterprises situated in southern Italy the State is from now on until the end of 1972 to take over ("fiscalize") part of the social charges normally borne by industrial and craft enterprises and their employees. The part taken over from the employers is equivalent to 8.5 % of the total wages bill, excluding overtime, from the workers 1.5 %; in respect of workers enrolled after 30 September, the amount taken over from employers will be 18.5 % of the wages earned by these workers.

(v) Taxes imposed on the consumption of electric current are reduced.

(vi) A further Lit. 60 000 million is to be made available from the public purse to assist depressed areas in north and central Italy during the period 1968 to 1970.

(vii) The state railways are authorized to borrow Lit. 650 000 million on the capital market between now and the end of 1973 for additional investment in rationalizing and extending the system.

(viii) A fund of Lit. 100 000 million to finance applied industrial research is created; it is to be maintained by the yield from special issues of government securities during 1968 and 1969.

In addition the Government has proposed some further laws bearing mainly on structural changes, but also inspired to some degree by considerations of short-term economic policy; among

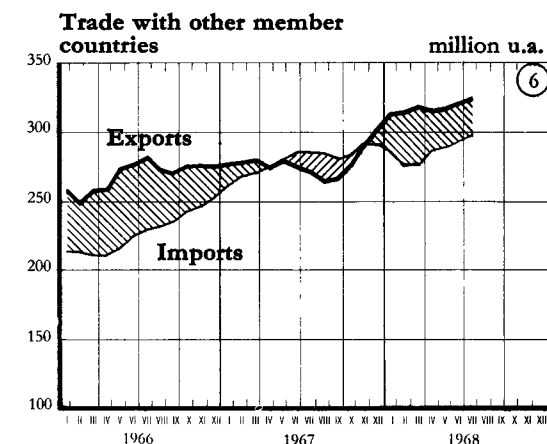
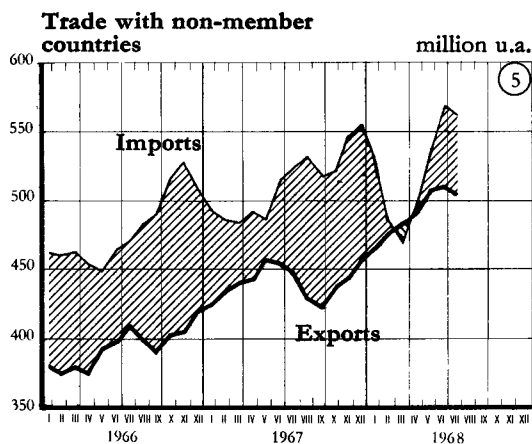
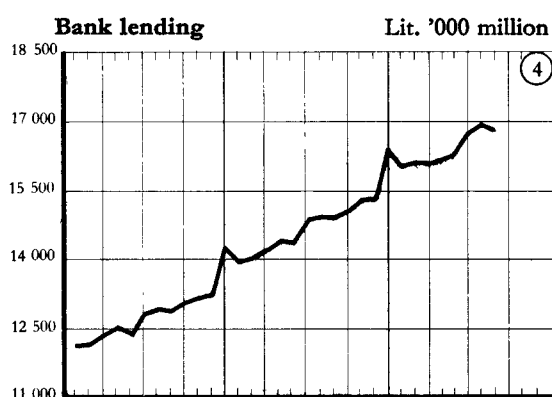
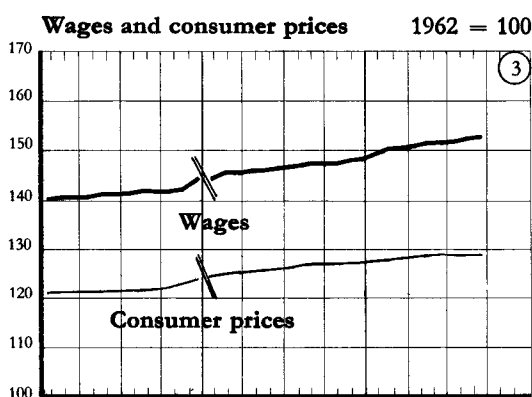
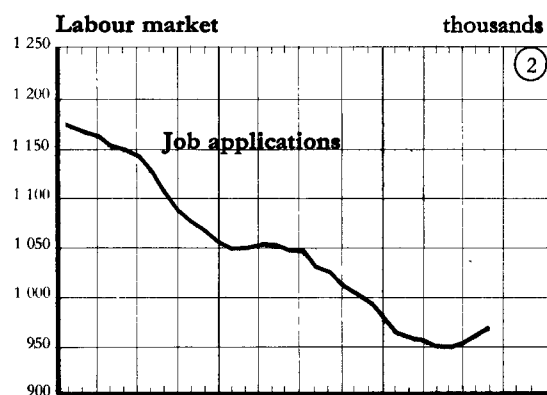
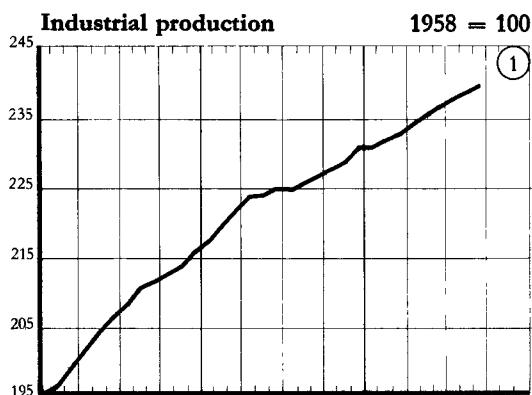
the matters covered are: credit at reduced rates of interest for financing imports of highly technical capital equipment not yet manufactured in Italy; extension and intensification of action undertaken to develop the economy in southern Italy; acceleration of the workers' housing programme; an increase in assistance granted to persons put out of work or underemployed because of crises (this has already been passed by Parliament); a restructuring of social contributions paid by enterprises with a view to increasing the employment of women workers; in certain circumstances the granting of credit at reduced interest to the textile industry for financing investment in rationalization programmes and conversion of production programmes to other products.

As regards the probable short-term effects of these measures, the very fact that they have been announced should definitely have positive influence on the propensity to invest of enterprises. It is of course impossible to predict with certainty what use will be made of the incentives to invest, since this depends essentially on the general psychological climate. There are however many reasons for thinking that they will lead to a marked rise in investment. The reduction in production costs following the partial "fiscalization" of social char-

ges (a similar provision was in existence before 1 January 1967) takes effect immediately; but this is not linked to any obligations to invest. The intended acceleration in public investment may this time be achieved somewhat more easily, since there will now be a larger proportion of autonomous establishments concerned in making the individual investments.

The potential for expansion contained in the measures that have been proposed, and in most cases adopted, is certainly considerable. It should be handled with great circumspection and flexibility, in order to avoid an overheating of the economy, such as could arise if the total of unexpended appropriations to be carried forward (*residui passivi*), which has risen sharply in the last few years, were reduced, or if there were a lively recovery of the spontaneous forces inherent in the market, or if both these possibilities occurred together. It is for this reason that in its Forecast and Planning Report for 1969, which is based on the certainly justifiable assumption that in 1969 there is a sufficient margin for a distinctly accelerated growth in production without causing disequilibrium, the Government has evoked the possibility of strains appearing and stressed that the authorities must therefore be ready to take appropriate corrective measures should the need arise.

ECONOMIC INDICATORS



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 prices: 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.

Italy

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	301.2
Total population ('000)	52 409
Density of population per sq. km.	174
Numbers in employment ('000)	19 107
Numbers in employment, breakdown by main sector (%):	
— Agriculture	23.9
— Industry	40.7
of which: Construction	10.1
— Services	35.4
Percentage share of gross domestic product:	
— Agriculture	10.9
of which: Construction	35.6
— Industry	7.3
— Services	41.4
Gross product per capita (Lit.)	799 000

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	8.2	6.3	5.5	2.8	3.6	5.7	5.9	166	—
Industrial production	9.3	8.8	7.9	2.0	3.1	8.0	7.9	189	—
Total imports	14.8	16.4	22.4	- 5.1	1.9	13.7	10.5	306	17
Private consumers' expendi- ture	7.3	6.7	8.9	2.5	2.7	5.9	6.1	184	64
Public current expenditure on goods and services	4.8	5.4	5.1	3.4	3.7	3.5	2.7	145	14
Gross fixed asset formation	11.8	10.0	8.5	- 6.5	- 8.4	3.4	10.1	161	19
Total exports	16.5	12.2	6.9	11.6	20.1	13.2	6.0	320	19
Gross national product per capita	7.7	5.6	4.7	1.8	2.7	4.5	5.0	155	—
Gross national product per person gainfully employed	8.0	7.4	7.6	3.1	5.8	7.5	4.6	174	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	14.7	11.4	8.2	18.0	20.7	11.7	8.3	337.7	8 701.7	100
Intra-EEC	21.8	23.7	10.3	26.4	27.6	12.8	3.3	554.5	3 373.0	38.8
To non-EEC countries	11.8	5.8	7.0	13.4	16.4	11.0	11.6	270.7	5 328.7	61.2
Exports of food, beverages and tobacco										
Total	10.6	14.5	- 3.4	2.4	20.5	1.5	4.7	176.9	903.0	10.4
Intra-EEC	14.7	23.4	- 8.7	8.8	31.4	0.4	- 1.7	242.3	459.1	5.3
To non-EEC countries	7.4	6.5	2.1	- 3.3	9.5	2.8	12.4	138.3	443.9	5.1
Exports of raw materials and manufactures										
Total	15.5	10.9	10.2	20.5	20.7	13.1	8.7	377.4	7 798.7	89.6
Intra-EEC	23.9	23.9	15.6	30.4	26.9	15.2	4.2	695.3	2 913.9	33.5
To non-EEC countries	13.7	4.5	7.7	15.5	17.2	11.8	11.5	296.4	4 884.8	56.1
Visible imports										
Total	10.6	15.9	24.5	- 4.1	1.6	16.7	12.9	301.6	9 697.1	100
Intra-EEC	17.2	22.9	31.1	- 4.5	- 3.1	21.6	21.5	493.1	3 389.9	35.0
From non-EEC countries	8.1	13.0	21.5	- 3.9	3.9	14.4	8.8	249.5	6 307.2	65.0
Imports of food, beverages and tobacco										
Total	5.3	7.3	57.5	2.4	18.9	9.7	0.7	325.7	1 778.9	18.3
Intra-EEC	- 1.3	10.0	73.1	15.7	20.6	13.5	26.6	619.7	482.1	5.0
From non-EEC countries	6.6	6.8	54.4	- 0.6	18.4	8.7	- 6.4	276.9	1 296.8	13.3
Imports of raw materials and manufactures										
Total	11.6	17.5	19.2	- 5.5	- 2.4	18.6	16.1	296.6	7 918.2	81.7
Intra-EEC	19.2	24.1	27.8	- 6.6	- 6.3	23.0	20.7	477.0	2 907.8	30.1
From non-EEC countries	8.4	14.4	14.8	- 4.8	- 0.2	16.3	13.5	243.2	5 010.4	51.6

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1966 = 100)	1966	90.7	91.8	105.1	97.5	106.6	99.2	105.6	78.0	108.5	107.8	103.8	105.4
	1967	103.4	103.2	114.8	109.9	112.9	111.6	113.2	80.3	114.1	117.2	112.7	106.7
	1968	108.4	111.8	117.0	114.7	121.0	112.7	121.9	84.8	119.7			
Unemployed ('000)	1966	1 012	.	.	665	.	.	719	.	.	681	.	.
	1967	878	.	.	628	.	.	584	.	.	669	.	.
	1968	812	.	.	640	.	.	658
Building: domestic turnover of building materials (1964 = 100)	1966	78.2	70.8	97.2	100.2	106.8	103.3	110.5	111.1	94.2	111.6	105.4	103.7
	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				
Private consumers' expenditure: turnover of department stores (1963 = 100)	1966	119	88	106	121	123	130	118	103	127	146	137	227
	1967	116	94	130	117	136	140	134	110	148	149	143	248
	1968	123	110	126	149	144	150	154					
Total visible imports (million u.a.)	1966	716	665	729	665	717	706	707	561	815	802	754	734
	1967	827	760	796	810	785	810	851	689	791	871	879	839
	1968	756	736	828	846	878	852	862					
Total visible exports (million u.a.)	1966	572	598	712	612	722	699	723	592	681	758	678	685
	1967	661	690	771	715	768	708	745	615	715	818	754	745
	1968	739	773	858	821	844	830	880					
Balance of trade (million u.a.)	1966	- 144	- 66	- 17	- 53	+ 5	- 7	+ 16	+ 31	- 134	- 44	- 76	- 48
	1967	- 166	- 70	- 25	- 95	- 17	- 102	- 106	- 74	- 77	- 52	- 125	- 94
	1968	- 17	+ 37	+ 30	- 25	- 34	- 22	+ 18					
Official gold and foreign exchange reserves (net, million u.a.)	1966	4 422.6	4 382.7	4 329.5	4 395.9	4 424.2	4 534.1	4 769.9	4 902.8	4 755.0	4 670.4	4 639.7	4 679.3
	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	5 233.1
	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				
Money supply (Lit. '000 million)	1966	14 029	13 933	14 046	14 118	14 321	14 598	14 850	14 744	15 003	15 182	15 274	16 373
	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	18 992	18 975				

() 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 (1967).

- 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 1966-67 : Relazione generale sulla situazione economica del Paese (1967).

- 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 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 *asegni*) issued by the Central Bank and other banks and credit institutions.

D. The Netherlands

The Dutch economy has been expanding since the spring of 1967 and this trend gathered strength in 1968, with production rising at a slightly faster pace and the situation on the labour market steadily improving. Export demand gained considerably in strength in 1968. Fixed investments by firms, too, advanced at a more lively rate than in the previous year. As against this, consumption and the other categories of investment made a somewhat weaker contribution to growth. The elasticity of production was relatively high, mainly because of sharp productivity gains. Equilibrium was on the whole better than in 1967. The upward thrust of costs and prices weakened. Until the summer at least, the current account was improving.

Overall demand in money terms can be expected to go on expanding vigorously in 1969. Although the contribution of export demand may weaken, domestic demand will accelerate somewhat as firms invest more and consumer demand expands faster. Given the outlook for demand, production and imports will again increase vigorously. The situation on the labour market is likely to improve further. As the year advances, however, an increasing number of bottlenecks may appear, and prices, which at the beginning of the year had already come under pressure because of the switch to the value-added tax system, may tend to deteriorate.

1. Balance sheet for 1968

The rapid expansion of the Dutch economy which got under way half way through 1967 continued in 1968.

The key to continuing growth was a faster increase in exports of goods and services: customs returns show that in the first ten months of the year the value of visible exports, adjusted for seasonal variations, climbed by almost 14 %.

These results are in the main attributable to the upswing of demand from the partner countries in the EEC and more particularly from Germany and France. Exports to non-member countries developed along much less dynamic lines so that the increase for 1968 was smaller than that for 1967. Exports benefited from the commissioning of new plant, particularly for natural gas and petrochemicals. Production costs in manufacturing industry probably once again developed more favourably in the Netherlands than in competing countries.

Receipts from services expanded at much the same pace as in 1967, and the increase in the value of exports of goods and services from 1967 to 1968 can therefore be put at some 10 %, compared with 6.8 % from 1966 to 1967.

Domestic demand, unlike export demand, showed a somewhat less vigorous year-to-year increase than in 1967, owing to a slowdown in the expansion of consumer demand and to a somewhat weaker contribution from stock-building.

The fact that gross fixed asset formation continued to expand at much the same vigorous pace as in 1967 is all the more remarkable as in the previous year fortuitous factors had contributed to a particularly steep increase in investment in building, particularly residential construction. The year-to-year rise in the value of investment in new housing, which had reached 18.5 % in 1967, was probably down to some

8 % by 1968, the expansion of non-subsidized housing, in particular, having lost a lot of momentum.

On the other hand, investment expenditure by firms expanded at an appreciably faster pace. While there was a steep rise in investment by (mainly foreign) petrochemicals companies, a rise which was largely attributable to the favourable location of the Dutch ports and was therefore mainly determined by structural requirements, the current economic trend was also a spur to further investment by private firms—relevant factors here were the improvement in profits and liquidity, the more favourable economic outlook in the Community and official regional policy measures to promote investment. Investment by public enterprises, which in 1967 had declined, also rose considerably. The value of investment by the company sector as a whole probably rose by 9.5 %, compared with 6 % in 1967.

Investment by the authorities expanded very rapidly throughout the year. The key component in this trend was the slightly faster rise in expenditure by the central government and in particular the work now undertaken to combat regional unemployment. Though still considerable, the rise in investment expenditure by regional and local authorities was smaller than in the previous year.

The contribution which exports and fixed investment made to expanding economic activity was reinforced by efforts to replenish stocks of raw materials and semi-manufactures rapidly. Towards the end of the year, however, firms may have become more cautious in placing orders for additions to stocks, owing to the introduction of the tax on value added on 1 January 1969 and the problems thus raised with regard to the tax treatment of old stocks.

Public expenditure on goods and services probably rose at an appreciably slower pace than in 1967. The slowdown made itself felt both in purchases of goods and services and in expenditure on wages and salaries. In the public sector, nevertheless, per capita wages and salaries rose faster than the private sector. Overall, public current expenditure on goods and services probably rose in terms of value by some 9 % from 1967 to 1968, compared with 10.4 % from 1966 to 1967.

Although demand for consumer durables tended to expand more vigorously, private consumers' expenditure made a comparatively modest contribution to the business trend. Nonetheless, assuming that the prospect of the introduction of the tax on value added on 1 January 1969 led households to step up their purchases somewhat towards the end of the year, the value of private consumers' expenditure may well, in view of the high level reached at the end of 1967, have risen by more than 7.5 % in 1968, compared with a rise of 8.4 % in the previous year.

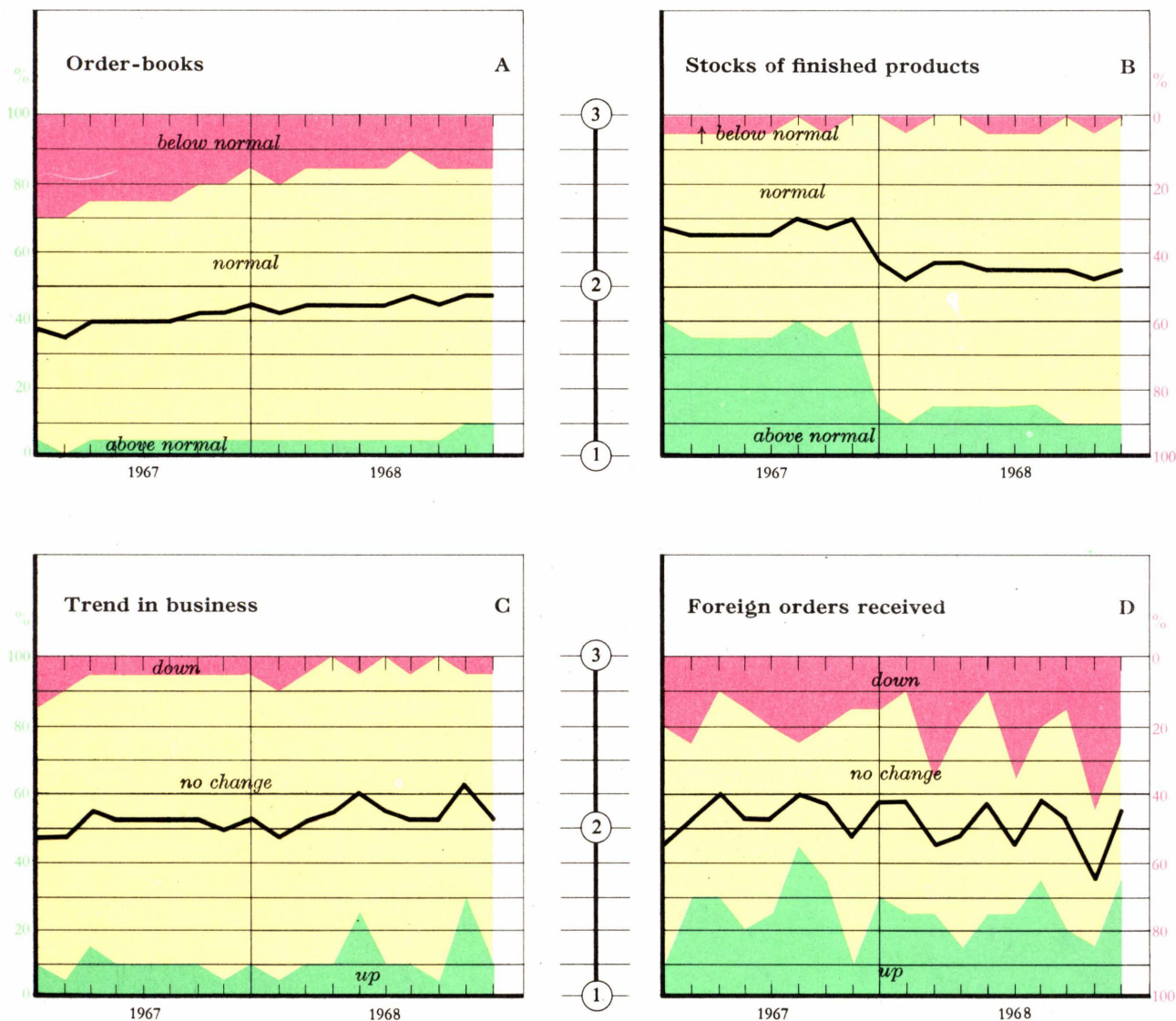
The trend of expenditure on consumption was probably less the result of a slower rise in incomes than of the fading of the impact of the wage and income tax cut made in the middle of 1967 and of the reticence of households with regard to purchasing decisions in the first half of the year, if not thereafter. At all events, the savings ratio rose appreciably in the first half of the year, though in the second half it was, if anything, tending downwards. The expansion of the total wage- and salary-bill is likely to have slowed down only a little in 1968 since the slower rise in wages per worker was almost completely offset by an increase in the total number of hours worked; the increment can be put at some 7.5 %, compared with 8 % in the previous year. Income from property and entrepreneurship probably again rose more rapidly than income from wages and salaries.

The demand boom led to a slightly faster rise of supply.

Although in the first half of the year the expansionary trend showed some signs of weakening, the rise in industry's contribution to GNP at constant prices may have exceeded 9 % and may thus have been well clear of the growth rate of 5.5 % registered in the previous year. When a comparison is made of these two rates it must, however, be borne in mind that the rate of increase for 1968 is influenced by the vigorous upward trend of production in the second half of 1967: the index of the Statistical Office of the European Communities, adjusted for seasonal and fortuitous variations, shows that between the end of 1967 and August 1968 industrial production rose by 6 % on an annual basis.

The performance of all major industries except the food industry was better than in 1967, with

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".

natural gas, petrochemicals and textiles registering the highest increase in production. In the building sector, the slowdown in expansion registered in 1968 was mainly attributable to the disappearance of special factors which in 1967 had made for an appreciable acceleration of the growth of production. Productivity gains, which had been very high in the previous year, were therefore a good deal more modest.

After the excellent results in 1967, the output growth rate in agriculture slowed down appreciably. Poorer weather and the reduction of the area under cultivation led to a fairly sharp fall in the output of crop products. The output of livestock products, by contrast, showed a further vigorous rise. The contribution of the services sector, particularly that of commerce and transport, rose distinctly faster than in 1967.

All in all, the gross national product at constant prices probably grew by almost 6 %, compared with 5.6 % the year before.

The continued upswing of economic activity, which was initially accompanied by substantial productivity gains, is having an increased influence also on the situation on the labour market. The number of persons in paid employment in industry probably ceased to decline in the second quarter of 1968, while the number employed in the building industry started to rise once again. All in all, the rise in the total number of persons in paid employment in 1968 may well have more than offset the slight decline registered in 1967. On a seasonally adjusted basis, unemployment tended to decline from the end of the spring onwards. In October 1968, the unemployment rate (percentage of unemployed in the total civilian labour force, seasonally adjusted) was down to 1.8 %, compared with 2.2 % a year earlier. Regional differences in unemployment have, however, persisted. While in the west of the country there is an acute shortage of manpower, the task of finding employment for the excess supply of manpower in the other regions continues to pose serious problems to the authorities.

Customs returns show that it was not until the summer that visible imports, adjusted for seasonal variations, rose above the level they had reached at the end of 1967; it must, however, be borne in mind here that this high level had in part been due to buying-in in anticipation

of the increase in import taxes due to be effected as part of the transitional measures to introduce the tax on value added. In the first ten months of 1968 the volume of visible imports averaged out at 12.5 % higher than the average for the corresponding period of the previous year. The acceleration in year-to-year growth is mainly due to changes in the pattern of domestic demand in favour of goods the import content of which is relatively high (plant and machinery, consumer durables and raw materials). As imports of services and factor income also advanced more rapidly than in the previous year, the increase in imports of goods and services in 1968 may in real terms be estimated at 9 %, compared with 6.7 % in the previous year.

Though prices continued to tend upwards, they did so at a pace that was on the whole slower than in the preceding years. The implicit price index of the gross national product is likely to have risen by some 3 %, which is the lowest rate of increase since 1962.

Indeed, wholesale prices actually declined a little in the first half of 1968. The somewhat faster increase in prices for finished goods, which occurred despite the levelling out of wage costs per unit of output in industry, was more than offset by a decline in prices for farm products and imported goods. Consumer prices, by contrast, continued to rise, largely because of the impact of autonomous factors (increase in indirect taxes and controlled rents). The increase in the implicit consumer price index can be estimated at 3 % and is thus of the same order of magnitude as in the previous year.¹

With the terms of trade improving further, the deficit on the balance of trade tended to decline slightly, at least until the summer. Despite the somewhat less favourable trend of services and of factor incomes, the current account (on a cash basis) closed in the first nine months of the year with a surplus of Fl. 99 million, compared with a surplus of Fl. 67 million in the corresponding period of the previous year.

¹ Owing to the introduction of a new cost-of-living index (1964 = 100), the information available at the time this report was drafted covered only the months from March to September 1968. In this period the index rose by 1.8 %.

Net capital exports, by contrast, rose significantly, since the increased outflow of private short-term funds substantially exceeded net receipts from sales of securities. The deficit on the overall balance of payments for the period January-September was therefore Fl. 377 million, compared with Fl. 81 million in the corresponding period of the previous year. While the foreign exchange position of the commercial banks improved by Fl. 51 million, the official gold and foreign exchange reserves fell by Fl. 428 million (including an improvement by Fl. 668 million in the position with the IMF).

The restrictive influence which transactions with abroad were exerting on domestic liquidity was more than offset by transactions in the other sectors. Adjusted for seasonal variations, the

liquidity ratio (relationship between liquidity and national income) reached towards the middle of the year its highest level in more than four years. The information so far available suggests that the cash transactions of the public authorities exerted a strong influence on domestic liquidity, since the Treasury and to a lesser extent also the regional and local authorities showed an increasing tendency to finance their deficits by recourse to the money market. Private-sector demand for short-term loans remained brisk. In September, these loans were still about one fifth up on the level of a year earlier.

With the Government increasingly tending to finance its deficits by recourse to the money market and consequently making comparatively

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	+ 10.5	+ 10	+ 8.5
Gross fixed asset formation	18.95	+ 7.2	+ 10.8	+ 8	+ 10.5	+ 6
Public current expenditure on goods and services	12.09	+ 3.9	+ 10.4	+ 2.5	+ 9	+ 3
Private consumers' expenditure	43.39	+ 5.1	+ 8.4	+ 4.5	+ 7.5	+ 4
Gross national product	74.81	+ 5.6	+ 10.0	+ 6	+ 9.0	+ 5
Imports ⁴	35.66	+ 6.7	+ 5.9	+ 9	+ 8.5	+ 8.5

¹ General Statistical Bulletin, 1968, No. 7-8, Statistical Office of the European Communities.

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 the experts of the member countries but are established and published on the sole responsibility of the Commission.

few calls on the capital market, the private sector was able to make a considerably larger volume of new issues without this entailing any very sharp rise in long-term interest rates. The increase in the business done on the share market was reflected in a steady rise in share quotations, which at the beginning of October reached their highest level since 1961.

2. Outlook for 1969

In 1969 the Dutch economy will continue to grow. Overall demand in money terms will probably expand at much the same pace as in 1968. As there is a very great danger that the introduction of the tax on value added on 1 January 1969 may help to spur on the upward movement of domestic prices, production in terms of volume may, however, grow less vigorously than in 1968.

Although exports of goods and services will in 1969 continue to contribute substantially to expansion, the upward trend may well lose a little vigour. The main factor here will probably be a moderate slowdown in the expansion of import demand from non-member countries due to the measures adopted by the United States and the United Kingdom to restore balance-of-payments equilibrium, since the inhibiting effects of these measures on Dutch exports will certainly outweigh the gains accruing from the second tariff cuts to be made by these two countries as agreed upon in the Kennedy Round. As against this, demand from the other member countries for Dutch goods is likely to go on expanding rapidly, backed by the increasingly vigorous upswing of economic activity in the Community. The main obstacle to export growth will probably be a less rapid increase of supply, especially that of farm products and natural gas, which climbed particularly sharply in 1968.

All in all, the 1969 increase in the exports of goods and services (as defined for the national accounts, value) can at present be put at roughly 9 %.

The trends in domestic demand over the next year are hard to assess, particularly since it is extremely difficult to forecast how producers, dealers and consumers will react to the change-over to the tax on value added on 1 January 1969. But it is safe to assume that under the

influence of rapidly increasing expenditure on consumption and a drive to replenish depleted stocks, domestic expenditure will expand even more briskly than in 1968.

The growth of gross fixed asset formation, by contrast, may slacken somewhat, mainly as a result of a slowdown in the expansion of public expenditure on investment: once a number of "job creation" programmes designed to reduce regional unemployment have been completed, investment expenditure by the central government may well level out. The propensity to invest will probably remain high, especially since profits are improving and the sales outlook remains favourable. Special factors, such as the return to a normal pace of what in 1968 had been an unusually rapid rise in purchases of motor vehicles, may, however, affect the trend. Investment in residential construction must be expected to increase somewhat more slowly than in 1968, particularly since the 1968 trend in non-subsidized residential construction can hardly be expected to switch to a new course in the near future. All in all, gross fixed asset formation will probably, in terms of value, rise by a good 10 % in 1969.

Stockbuilding will probably make a more vigorous contribution than in 1968, since the cautious policy adopted by managements in the autumn of 1968 (mainly because of the impending change-over to a new turnover tax system) is likely to be relaxed.

Public current expenditure on goods and services, too, will probably show a more pronounced upward tendency than in 1968, especially as a result of the faster increase in staff and in wages and salaries per person employed.

The expansion of private consumers' expenditure is likely to gather momentum in 1969. Incomes of households, for instance, can be expected to expand somewhat more briskly than in 1968, especially since incomes from wages per person in paid employment may rise at a faster pace. The total number of hours worked should, moreover, rise somewhat more sharply than in the previous year. Incomes from property and entrepreneurship and income transfers will, if anything, be rising somewhat more slowly. A last point to be borne in mind is that even though the increase in disposable incomes will be smaller than that in gross incomes, the recent increase in the personal allowance

for wages tax purposes works in favour of households spending a relatively large proportion of their incomes on consumption. Even if it is assumed that the savings ratio of households will rise slightly—which, in the light of the expected upward thrust of prices, would be rather optimistic—the value of total private consumers' expenditure could well therefore increase by close on 9 % in 1969.

Given the outlook for demand, domestic supply can be expected to expand appreciably. Industrial production will probably be growing at much the same pace through the year; as in 1968 the growth rate for the full year is, however, likely to be somewhat lower than for 1968, since the expansion of production already achieved at the end of 1968 ("overloop") was somewhat smaller than that recorded a year earlier. The growth of production in the building industry, by contrast, will probably weaken as a result of the slow pace at which demand for building is advancing. As growth in the services sector must also be expected to slow down, the gross national product at constant prices can be expected to be about 5 % up on 1968, assuming normal harvests.

The expected increase in demand for labour may not only enable the comparatively large number of young people entering the labour market to find employment but may also help reduce unemployment further. Taking the average for the year, the unemployment rate (percentage of unemployed in the total civilian labour force) could well therefore decline from 1.9 % in 1968 to 1.6 % in 1969.

Imports of goods and services in their turn will continue to expand vigorously in 1969, so that the rate of growth in terms of volume may reach some 8.5 %. While imports of raw materials and semi-manufactures will increase more rapidly than in 1968 because stocks, which had been cut back at the end of 1968, will have to be adjusted to the rise in production, the expansion of purchases of consumer durables and capital goods, notably motor vehicles, may slow down. Nevertheless a surplus may once again be achieved on current account.

The price trend may in 1969 be strongly influenced by the measures to replace the multi-stage turnover tax by the value-added tax system being introduced throughout the Community. The standard rate of turnover tax will

be 12 %; a reduced rate of 4 % will be charged on goods and services considered essential. To judge by estimates of the purely "technical" effects of this type of taxation, the new tax system may in 1969 lead to price increases of up to about 1.3 % for private consumption and 1.2 % for public consumption. Prices for flats and houses and particularly the cost of public investments are also expected to rise since for tax purposes these items are not considered as capital goods in the normal sense. It will, by contrast, not be until 1970 that the elimination of taxes on investment, to become operative only progressively, will begin to lead gradually to a decline in the cost of fixed investments made by firms. In the circumstances it may well be that, as a result of the rapid expansion of demand and a rise in wage costs that will probably be somewhat stronger, domestic prices will tend to rise more vigorously than in 1968.

The outlook for the economy and especially the prospect of a more vigorous rise in prices, will entail a special degree of caution in the field of economic policy. The problems posed by the business trend are reinforced by structural problems, which are in part a direct consequence of economic developments in the preceding years. The fact, for instance, that the rise in wages was often considerably higher than the productivity gains achieved in the economy as a whole tended to add to the structural problems of individual industries and, to the extent that the latter exerted a decisive influence in a region, also to the structural problems of that region. The rise in wage costs over the past few years has had only a limited influence on the competitiveness of the Netherlands' economy and on the current account, since the import content of products manufactured in the Netherlands is comparatively high and since the pattern of exports has shifted in favour of products for which the wage-cost element in total costs is comparatively small, such as petrochemicals or, of late, natural gas; this change in pattern is in part attributable to structural factors, namely on the one hand to the favourable location and the extension of the ports and on the other to the opening up to exploitation of new deposits of natural gas.

The Government's decision—announced in the Queen's speech—to adopt a number of new measures the ultimate aim of which is the mobilization of regional production reserves must

therefore be welcomed. As a first step, the Government intends to set up a "Labour Market Council" to study practical ways and means of solving the labour-market problems besetting industry. The Government has also published a memorandum on the regional policy to be pursued in the period 1969-1972. In this memorandum it sets out guidelines for the improvement of the infrastructure in the regions which are faced with unemployment. Government aid to promote investment by firms in these regions has also been stepped up. Lastly, the Dutch Economic and Social Council has been asked to advise on the feasibility of introducing a payroll tax, the yield of which would be used to subsidize firms in the regions where unemployment is high.

From the point of view of short-term economic policy, these measures may have an appreciable impact in so far as they lead to a fairly rapid improvement in the regional mobility of factors of production. Special importance attaches in this connection to the measures to help labour to adjust to the requirements of the market.

With regard to wages policy, the Government submitted in September a draft law, which, though based on the principle of free wage formation, confers on the Government certain rights of intervention. The new line taken in wages policy seems to leave to the Government quite enough room for manoeuvre to correct a wage trend that is not compatible with the requirements of balanced economic growth. The Government would thus have the power not only to declare specific wage agreements "invalid" where the need arises, but also to extend the validity of expired wage agreements by a maximum of six months ("wage pause"). Given the disadvantages that would result from an un-

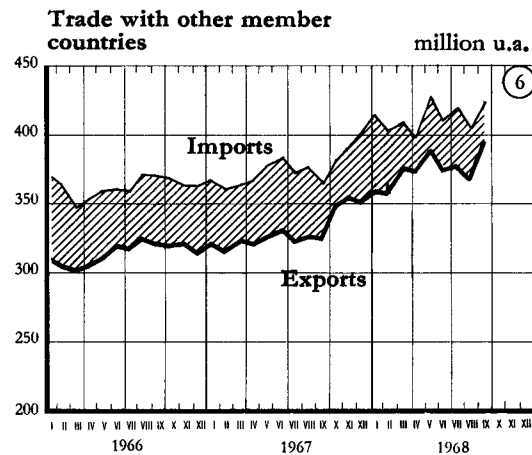
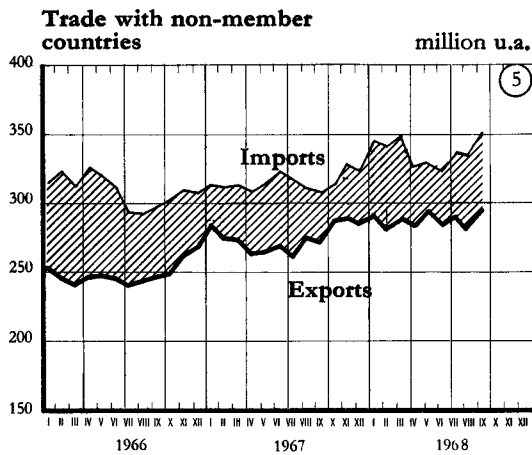
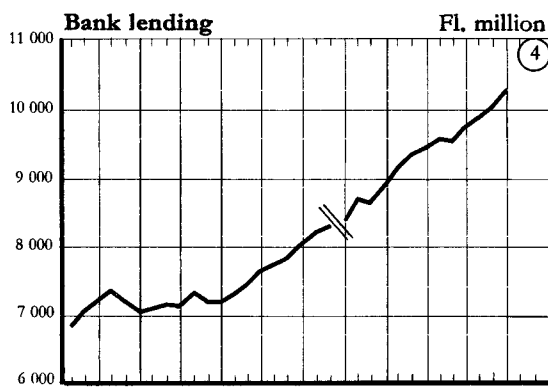
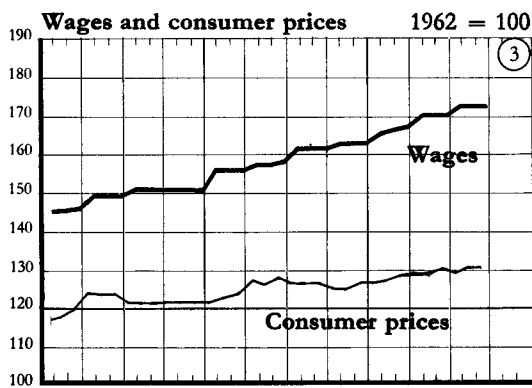
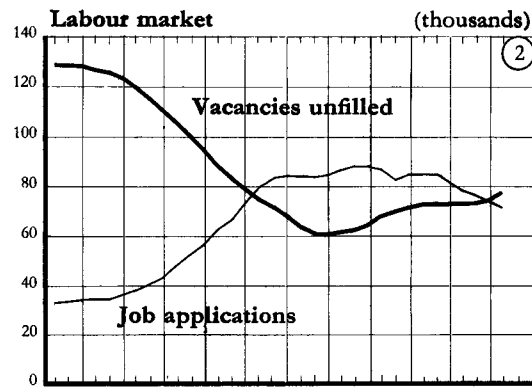
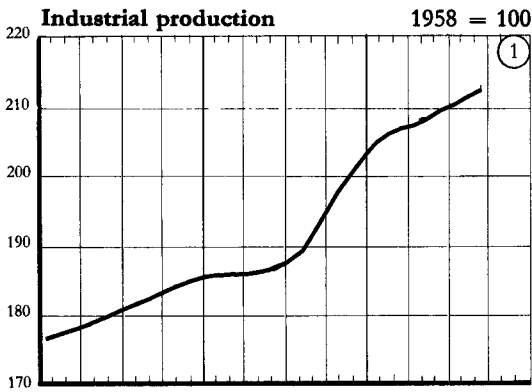
duly rapid upward tendency of wages, the authorities should consider whether it would not be possible to curtail too strong an upward thrust of wages by adopting measures to influence the formation of wealth, for instance in the form of a "sparing-loan";¹ these measures could offer workers a share in the fruits of expansion without stepping up consumer demand and thus strengthening any tendency for the economy to overheat; they would at the same time ensure that the funds thus accumulated would remain directly available for the financing of investments. Prices should also be carefully monitored and appropriate budgetary policy measures should be adopted to forestall any tendencies for the economy to get out of hand.

The draft budget for 1969 is already a first step in this direction. To judge by this draft, Government transactions will make an appreciably more modest contribution to economic activity than in 1968. Allowing for autonomous tax changes and the graduated nature of many taxes, the increase in the contribution to activity of those public expenditures affecting the economy should drop from 13.1 % in 1968 (estimate) to 5.8 % in 1969. The budgetary deficit is likely to fall from Fl. 2 800 million in 1968 to Fl. 2 500 million in 1969.

Budget policy, then, seems to be in line with the current requirements of economic policy. Care must, however, be taken to see that the budget estimates are not exceeded, as has happened in previous years. Nor should the deficit be financed by recourse to the money market.

¹ Literally "savings-wage"—a device whereby part of any wage increase would be paid in the form of securities not immediately realizable save under penalty.

ECONOMIC INDICATORS



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. 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.

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)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	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' expendi- ture	+ 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
	1961	1962	1963	1964	1965	1966	1967			
Visible exports										
Total	+ 6.9	+ 6.5	+ 8.2	+17.0	+10.1	+ 5.6	+ 7.9	226	7 288	100
Intra-EEC	+10.9	+10.0	+17.3	+22.1	+10.2	+ 5.3	+ 6.7	299	4 003	54.9
To non-EEC countries	+ 3.6	+ 3.2	- 0.6	+11.2	+10.0	+ 6.0	+ 9.4	175	3 285	45.1
Exports of food, beverages and tobacco										
Total	+ 0.8	+ 6.9	+ 9.3	+ 9.5	+13.0	+ 0.3	+ 9.9	193	1 728	23.7
Intra-EEC	+ 3.1	+10.0	+12.1	+12.8	+19.7	- 0.2	+ 9.6	252	1 061	14.6
To non-EEC countries	- 1.8	+ 3.3	+ 5.8	+ 5.1	+ 3.6	+ 1.0	+10.5	141	667	9.1
Exports of raw materials and manufactures										
Total	+ 9.2	+ 6.3	+ 7.9	+19.6	+ 9.2	+ 7.3	+ 7.3	239	5 560	76.3
Intra-EEC	+14.3	+10.0	+19.4	+25.6	+ 7.1	+ 7.4	+ 5.8	321	2 942	40.4
To non-EEC countries	+ 5.2	+ 3.2	- 2.4	+13.1	+11.9	+ 7.3	+ 9.1	186	2 618	35.9
Visible imports										
Total	+12.8	+ 4.6	+11.6	+18.2	+ 5.9	+ 7.5	+ 4.0	230	8 340	100
Intra-EEC	+21.1	+ 6.7	+14.9	+19.0	+ 8.7	+ 8.7	+ 5.0	300	4 547	54.5
From non-EEC countries	+ 5.8	+ 2.5	+ 8.3	+17.4	+ 2.9	+ 6.0	+ 2.9	180	3 793	45.5
Imports of food, beverages and tobacco										
Total	+ 5.9	+ 6.3	+15.5	+16.2	+ 3.5	+ 3.9	+11.3	204	1 142	13.7
Intra-EEC	+41.5	- 7.0	+11.8	+22.0	+13.1	+ 8.8	+22.7	373	302	3.6
From non-EEC countries	- 1.0	+10.0	+16.3	+14.9	- 1.2	+ 2.5	+ 7.6	175	840	10.1
Imports of raw materials and manufactures										
Total	+14.0	+ 4.3	+11.0	+18.6	+ 6.3	+ 8.0	+ 2.9	235	7 198	86.3
Intra-EEC	+20.0	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	+ 3.9	295	4 245	50.9
From non-EEC countries	+ 7.7	+ 0.7	+ 6.1	+18.0	+ 4.2	+ 7.0	+ 1.6	131	2 953	35.4

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1966	117	119	123	126	125	124	105	115	125	133	135	132
	1967	123	126	127	130	126	130	108	122	132	140	144	145
	1968	136	141	141	141	142	144	117	135	143			
Construction (Fl. million)	1966			1 554			2 029			2 204			2 122
	1967			2 086			2 362			2 503			2 383
	1968			2 314			2 637			2 793			
Unemployed ('000)	1966	54.8	55.3	84.5	30.7	25.6	26.3	32.1	32.6	35.7	41.7	58.5	86.7
	1967	104.7	101.8	87.4	78.2	67.2	64.7	74.4	71.4	72.2	73.3	89.4	111.7
	1968	121.2	111.3	94.0	78.4	66.4	62.6	69.3	64.0	62.3			
Investment (Fl. million)	1966			4 085			4 928			4 883			5 055
	1967			4 640			5 383			5 307			5 652
	1968			5 294			5 973						
Private consumers' expenditure (1963 = 100)	1966	129	114	130	141	138	136	148	132	136	142	147	159
	1967	142	125	146	144	149	151	152	144	152	149	161	172
	1968	152	141	155	156	165	155	167	158				
Total visible imports (million u.a.)	1966	625	626	759	701	630	684	652	620	696	670	663	638
	1967	680	639	719	690	694	737	650	652	683	733	746	718
	1968	823	693	738	704	815	697	776	742	775	859		
Total visible exports (million u.a.)	1966	500	470	572	570	544	612	549	498	632	597	615	593
	1967	601	532	606	582	592	642	536	605	641	686	665	601
	1968	681	615	670	663	725	593	636	653	743	822		
Balance of trade (million u.a.)	1966	- 125	- 156	- 188	- 131	- 86	- 71	- 103	- 122	- 64	- 72	- 53	- 95
	1967	- 80	- 107	- 113	- 108	- 102	- 95	- 114	- 46	- 42	- 47	- 81	- 117
	1968	- 142	- 78	- 118	- 41	- 90	- 99	- 90	- 89	- 32	- 37		
Official gold and foreign exchange reserves (million u.a.)	1966	1 970	1 972	1 997	1 943	1 953	1 913	2 012	2 010	1 996	2 002	2 036	2 036
	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	2 032	2 028	2 008	1 983	2 000	2 030	2 001			
Money supply (Fl. '000 million)	1966	17.09	17.07	17.04	17.50	18.10	18.58	18.43	18.04	17.98	17.77	18.03	18.34
	1967	17.89	17.97	18.27	18.74	19.31	19.93	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				

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

The economic upswing which got under way in the summer of 1967 continued in 1968 and spread increasingly throughout the economy. With exports, particularly exports to other Community countries, expanding vigorously, overall demand grew faster. Domestic demand was strengthened by stock replenishment and heavier public investment, but also, to a growing extent during the year, by private consumers' expenditure. Domestic supply remained very elastic, largely owing to a big advance in productivity. An improvement of the situation on the labour market was discernible from mid-1968 onwards; for the first time in four years there was a tendency for the adjusted unemployment figures to drop back. There was a sharp increase in imports and it looks as if the current account deteriorated in 1968. Prices again rose slightly.

In 1969 there should be a continuing increase in production and an improvement in the employment situation. It is to be expected that the rate of expansion of exports will decline a little, mainly because of a fall-off in import demand in non-member countries. Prospects for the expansion of final domestic demand, however, indicate that the trend of economic activity will be just as dynamic as in 1968. Gross fixed asset formation will probably increase at an accelerated pace since there are signs of a more marked upward trend of industrial investment and the recovery in residential construction will probably continue. Private consumption, too, could increase more vigorously. The current account will continue to show a surplus. The price situation could deteriorate during the year.

1. Balance sheet for 1968

The recovery in the trend of demand noted since the summer of 1967 was maintained during 1968. Since there were no important bottlenecks in respect of the various factors of production, growth remained largely free from strain.

The vigorous expansion of export demand, which had been the key to growth in 1967, began to lose some of its momentum from the second quarter of 1968 onwards because demand from non-member countries slackened. Deliveries to other EEC countries, however, forged ahead throughout the year. All in all then, it looks as if, for the first time since 1965,

there has been an improvement in the competitiveness of Belgian industry on foreign markets. The brisk increase in exports may admittedly be partly due to special factors such as the exceptionally heavy sales of metals, but other important factors also had a beneficial effect on competitiveness. The establishment of new foreign firms in Belgium helped to diversify the pattern of exports, increasing the proportion of products for which world demand is more lively. And a drop in wage costs per unit of output improved the competitive position of Belgian industry.

According to BLEU customs returns, visible exports in the first nine months were approximately 16% higher by value than in the corresponding period of the previous year. Total

exports of goods and services as defined for the national accounts are estimated to have increased by some 12 % in terms of value in 1968, as against 7.3 % for 1967.

The recovery of domestic demand, which was originally purely a matter of replenishing depleted stocks, spread to final demand more and more as the year advanced. However, despite government support measures, the overall growth rate of domestic demand was, by the autumn of 1968, still fairly moderate.

The main reason for this was the sluggish trend of expenditure on gross fixed asset formation. Public investment did increase quite considerably but firms were reluctant to commit funds to new investments because, relatively speaking, they were running well below capacity. Nor, apparently, was there any increase in foreign investment, which had been expanding very rapidly in recent years. It looks as if the propensity to invest of Belgian industry may, however, have increased once again since the beginning of the second half of the year, presumably mainly because of a distinct improvement in profit margins and the favourable outlook for the expansion of overall demand. Although it is particularly difficult to assess the trend of residential construction because of inadequate statistics, it must be assumed that investment in this field was lower than the average level of a year earlier. There was probably, however, a modest recovery here, too, in the second half of the year.

To judge from provisional estimates, total expenditure on gross fixed asset formation probably increased by only 5 % in terms of value between 1967 and 1968, compared with 8 % a year earlier.

Investment in stocks, which was showing a lively rate of increase as long ago as the second half of 1967, continued to spur on economic activity in 1968. Expansion here has however, slackened somewhat since the summer months because stocks have now reached a normal level.

There is evidence that the expansion of private consumers' expenditure gradually gained strength as the year advanced. An increase in the propensity to consume of households, associated with the improved economic climate and a better labour market situation, were the main

factor here. The increase in wages per person employed, which had already slowed down in 1967, proved weaker again in 1968. The average increase for 1968 is unlikely to have been more than 5 %. However, the total wages and salaries bill probably increased almost as rapidly as in the previous year thanks to an increase in employment (total number of hours worked). Moreover, for the first time for many years, incomes from property and entrepreneurship are likely to have expanded more rapidly than incomes from wages and salaries, and transfer incomes, too, rose quite rapidly. The increase in private consumers' expenditure as a whole, then, can be estimated at 7 %, compared with 5.4 % in the previous year.

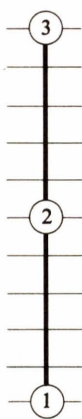
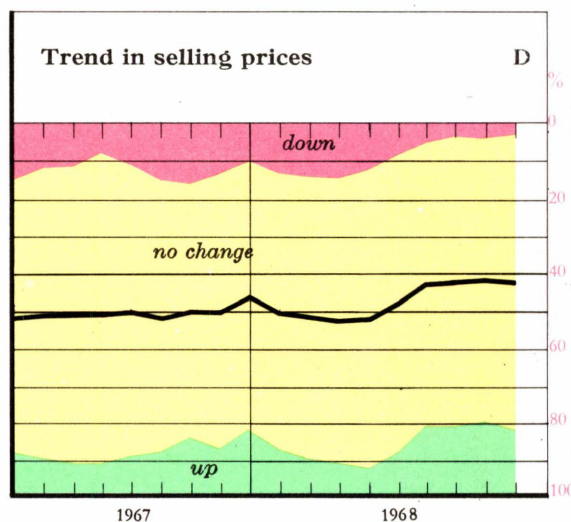
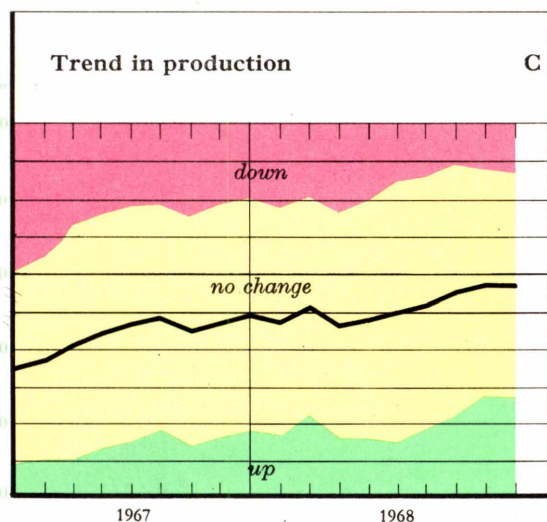
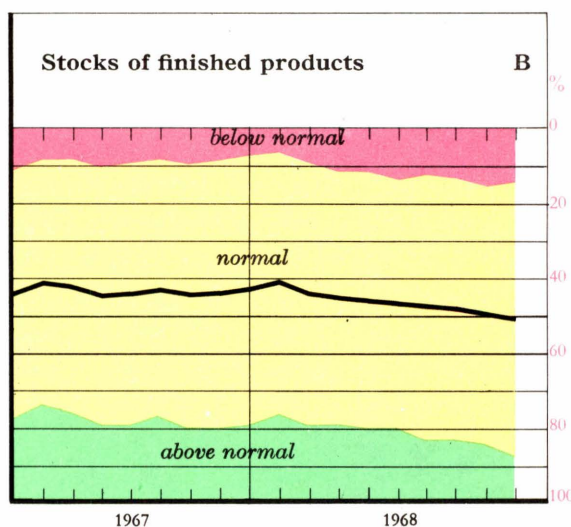
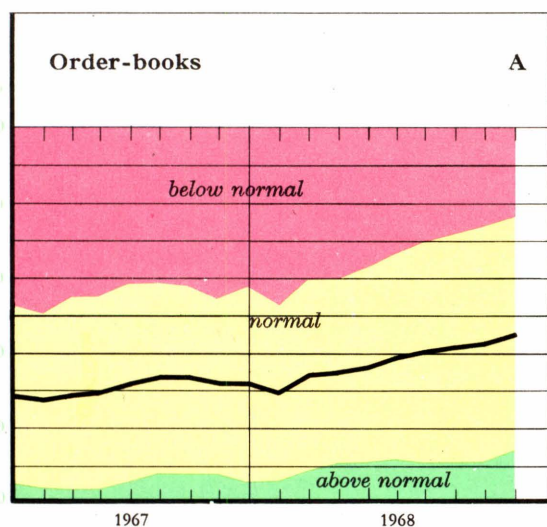
Public current expenditure on goods and services expanded at a more rapid pace than in 1967—to judge from national budget data at any rate.

The main effect of the recovery in the trend of overall demand was a vigorous advance in industrial production, maintained throughout the year. According to the Index prepared by the Statistical Office of the European Communities, which is adjusted for seasonal and fortuitous variations, production probably increased at an annual rate of about 10 % until the summer months. The increase in production of capital goods was more rapid than that of consumer goods. For the year as a whole, the value added by industry at constant prices in 1968 is likely to have been some 6 % higher than the 1967 average, compared with an increase of only 2.1 % between 1966 and 1967. In building and construction, on the other hand—where the growth rate had been 2.3 % in 1967—annual average production showed no increase despite a modest recovery in residential construction in the second half of the year. Agricultural production is hardly likely to have fallen much below the very high level of 1967.

Activity in the services sector gathered considerable momentum; this is particularly true of trade and transport, two sectors which benefited from dynamic foreign trade.

All in all gross national product at constant prices probably rose by 4.5 % between 1967 and 1968, following a 3.5 % increase in the previous year.

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".

The main effects of the continuing upswing of production in 1968 were sharp productivity gains and a lengthening of the actual number of hours worked per week. However, the upswing also led to a stabilization of the situation on the labour market during the year. Unemployment reached a peak in mid-1968 and fell slowly in the months that followed; at the same time, the number of unfilled vacancies rose once again. Despite this the unemployment rate still stood at 2.5 % in September and was therefore higher than in the corresponding period of the previous year, when it was running at 2.2 %.¹

Imports of goods and services rose considerably. One important reason for this was that stocks of raw materials and semi-manufactures were being replenished. As a result, for the first time in many years, the trend of visible imports from non-member countries was more dynamic than that of visible imports from other EEC countries. Following a particularly vigorous expansion in the early part of the year, however, the seasonally adjusted increase in imports fell as stocks gradually reverted to a normal level.

As defined for BLEU customs statistics, the year-to-year growth rate of imports in the first nine months of the year was 16 % in terms of value. As defined for the national accounts, imports of goods and services at constant prices probably increased by 12 % between 1967 and 1968, compared with only 3.7 % a year earlier.

The improvement in the price climate noted in 1967 continued in 1968. This trend was favoured by the stability of wage costs per unit of output and, until the autumn months at least, by the steady fall in agricultural prices. As a result wholesale prices remained stable. The increase in consumer prices was slightly slower in the first ten months of the year than over the corresponding period of the previous year. In October, according to the new official index, they were 2.5 % above the level of a year ago.

¹ The number of fully unemployed persons in receipt of unemployment benefit as a percentage of the total civilian labour force. If severely handicapped unemployed persons are excluded, the unemployment rate was 2.1 % as against 1.8 % in September 1967.

Strengthened by a "leads and lags" effect, the decline in the current account surplus was very marked. In the first nine months the surplus was only Bfrs. 1 000 million as compared with Bfrs. 9 800 million in the corresponding period of the previous year. The deficit on official capital transactions during the same period was considerably smaller than in 1967. As against this, private capital movements showed a deficit of Bfrs. 3 600 million compared with a surplus of Bfrs. 5 800 million in the corresponding period of 1967, mainly because of increased buying of foreign securities by residents. The BLEU overall payments balance showed a deficit of Bfrs. 6 000 million compared with a surplus of Bfrs. 7 600 million in the first nine months of the previous year. Net official gold and foreign exchange reserves fell by Bfrs. 7 000 million while the net foreign exchange position of the commercial banks and other financial institutions improved slightly.

In contrast with the trend in 1967, transactions with abroad had a restrictive effect on domestic liquidity. The cash transactions of the public authorities made, however, a substantially more expansive contribution than in 1967. The financing requirements of the Government rose appreciably and were partially covered by increased recourse to Central Bank funds. The wider margin available for financing road fund projects, coupled with the increased rediscounting facilities granted the Treasury by the Banque Nationale—the rediscount ceiling was raised from Bfrs. 10 000 million to Bfrs. 16 000 million on 1 September—favoured this development. The expansion of short-term lending by the banks to business and private customers did not gather speed since firms showed an increased propensity to finance their investments by long-term borrowing. Nevertheless, because of the very fluid money market interest rates persisted until the autumn—apart from temporary variations—at the relatively low level of the earlier months of the year. Yields from fixed-interest securities remained stable during the year and in October were running at 5.7 %. There was a steady improvement in prices on the stock market. Presumably this reflected, amongst other things, the growing optimism of investors in view of the trend of business activity and of the prospect of larger profits in industry.

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	+ 10
Gross fixed asset formation	196.6	+ 4.0	+ 8.0	+ 2.5	+ 5	+ 5
Public current expenditure on goods and services	119.7	+ 7.0	+ 11.2	+ 4.5	+ 10	+ 3.5
Private consumers' expenditure	595.9	+ 2.8	+ 5.4	+ 4	+ 7	+ 4.5
Gross national product	916.3	+ 3.5	+ 6.6	+ 4.5	+ 7.5	+ 4.5
Imports ⁴	353.5	+ 3.7	+ 4.3	+ 12	+ 13.5	+ 9.5

¹ General Statistical Bulletin, 1968, No. 7-8, Statistical Office of the European Communities.

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.

2. Outlook for 1969

At present virtually all forward indicators point to relatively vigorous growth of the Belgian economy in 1969, although the reaction of firms and consumers to the changeover to the tax on value added system on 1 January 1970 does represent an element of uncertainty.

A slight decline in the rate of expansion of exports of goods and services is to be expected. Not only is it likely that some of the special factors which had a particularly stimulating influence on exports in 1968 will cease to operate but it is also probable that there will be a very noticeable slowdown in the trend of demand

from non-member countries, notably the United States and the United Kingdom. Intra-Community trade, which accounts for more than 63 % of Belgium's exports, is however, likely to expand briskly, so that the growth rate of visible exports as a whole will remain high: it is estimated at 11 % in terms of value. The export trend will be favoured by the growing improvement in the pattern of Belgian exports, the relatively high elasticity of domestic supply and finally by a no more than moderate increase in wage costs per unit of output in 1969.

In contrast to export demand, the growth of domestic demand is hardly likely to fall off. The stimulus provided by stockbuilding will, if

anything, be weaker but the upward trend of all other components of domestic demand will probably be even more lively than in 1968.

The rate of expansion of private consumers' expenditure could well gather a little momentum since the rate of growth of disposable incomes is likely to gain in strength in 1969. For one thing, wage rates may increase more vigorously in view of the continuing upswing in business activity and the improved labour market situation. Secondly, it is possible that the total wages and salaries bill may grow somewhat more rapidly because of the expected increase in employment. At the same time an appreciable upward movement in incomes from property and entrepreneurship can be expected because of the renewed improvement in the profits situation. In view also of the fact that the growth rate of transfer incomes in 1969 will approach that registered in 1968 and that the propensity to consume of households could well expand because of the steady improvement in the economic climate, the growth rate of private consumers' expenditure can now be estimated at some 8 % in terms of value.

According to tentative budgetary forecasts, which may, however, prove a little too low, public current expenditure on goods and services is likely to expand at the same pace as in 1968.

It is probable that there will be a more vigorous increase in gross fixed asset formation. In the first place, the expected rapid advance in production will mean a higher level of capacity utilization and consequently will stimulate investment in plant extension. For another, it can be expected that improved profits will induce managements to increase investment. The picture with regard to investment by foreign companies in Belgium is, however, somewhat less clear.

The recovery of residential construction may gain in strength, especially as the various measures adopted since 1967 to promote subsidized housing should become increasingly effective. By contrast, the trend of public investment can be expected to slow down somewhat because of less dynamic spending by the central government and this will be only partially offset by a probable increase in regional and local authorities' investment.

All in all, then, an 8.5 % increase in gross fixed asset formation at current prices can be expected at the present time.

The generally rather vigorous rhythm of expansion of demand will probably be matched by a high degree of elasticity of supply. Industrial production will continue to expand fairly rapidly. The increase in output in the building industry is likely to remain steady. Since the value added by the services sector will also increase considerably, gross national product at constant prices should again increase by some 4.5 %, assuming that harvests are normal.

Increased production will favour a further reduction in unemployment. The tendency for the unemployment rate to fall will not be very marked, however, because of expected advances in productivity. The employment situation will also continue to vary considerably from one area to another and from one industry to another.

Imports of goods and services will probably expand fairly vigorously. The upward trend of imports of raw materials and semi-manufactures will, however, be much less marked than in 1968 because stocks have now reverted to normal. Consequently visible imports from non-member countries are the ones which should slow down most. All in all a 9.5 % increase in imports of goods and services in terms of volume can be forecast.

In view of the scale of the expected increase in exports there is unlikely to be any notable change in the surplus on current account.

The price situation could worsen somewhat during 1969. It is probable that agricultural prices will cease to have a stabilizing influence. Moreover, the trend of wage costs per unit of output may be less favourable than in 1968; with firms operating steadily nearer capacity, this trend is creating less favourable conditions for price stability.

A satisfactory growth rate and a higher level of employment were Belgium's main economic objectives in 1968. In the coming year factors inherent in the market should be the main ones making a more vigorous contribution to activity and helping towards the attainment of these objectives. The principal aim of economic policy should therefore be to consolidate condi-

tions for optimum economic growth, in the longer term as well as for the immediate future.

Efforts have already been made in the draft budget for 1969 to meet these requirements. The ordinary budget has been balanced and the increase in extraordinary budget expenditure (including the Road Fund) is likely to slacken once again in 1969 following the sharp increase of 1968. According to budget estimates, net borrowing requirements should stand at Bfrs. 30 000 million, the level of actual credit requirements in 1968. The budget should therefore continue to have an expansionary influence—though a rather weaker one—on overall demand. It should also be noted that, in accordance with the arrangements for investment expenditure recommended by the Commission in the last Quarterly Survey,¹ a sum of Bfrs. 7 500 million has been earmarked in the budget for use if economic expansion is not rapid enough (“*tranche conjoncturelle*”).

To judge from information now available, the possibility of some deterioration in the structure of government expenditure cannot be ruled out. Ordinary expenditure will exceed that provided for in the budget by 10 %, i.e. by considerably more than the growth of the gross national product. On the other hand, apart from the *tranche conjoncturelle*, those extraordinary disbursements which are important for the streamlining of the economy—mainly investment spending—are likely to increase somewhat less rapidly. Moreover, finding the necessary funds to cover credit requirements will not be a simple matter, all the more since the Treasury financed some of the deficit by borrowing on the money market in 1968 and since the money and capital markets will probably be tighter in 1969 than in 1968. It is

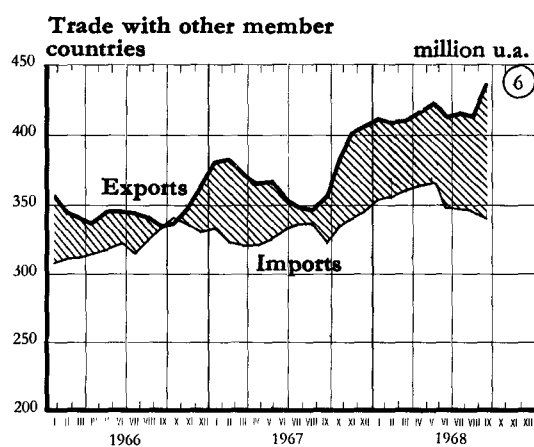
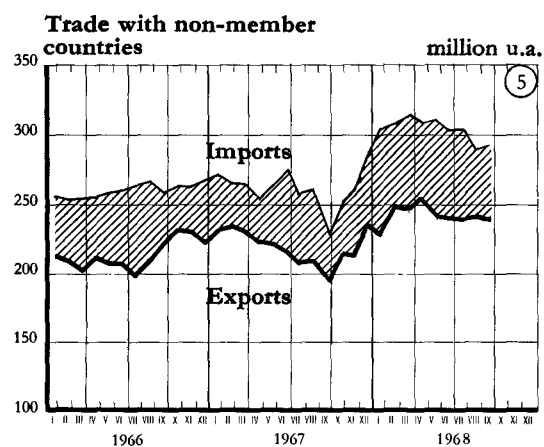
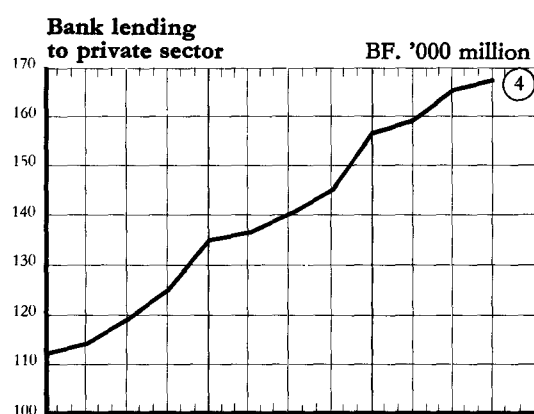
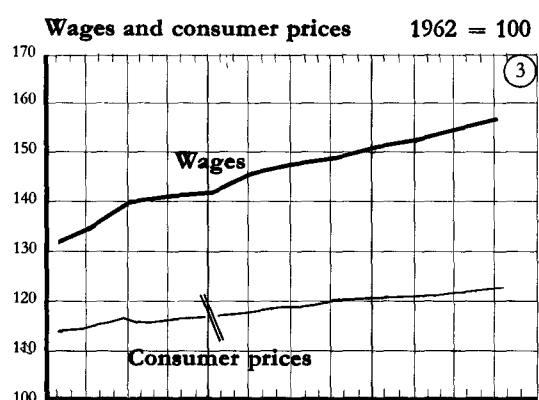
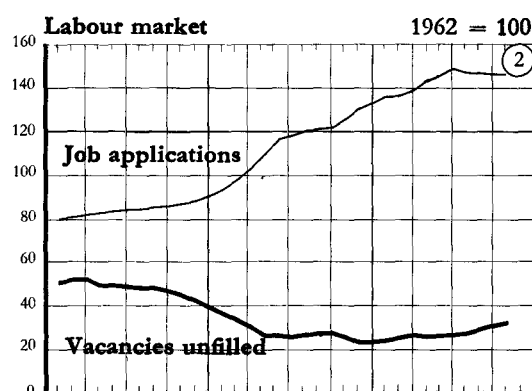
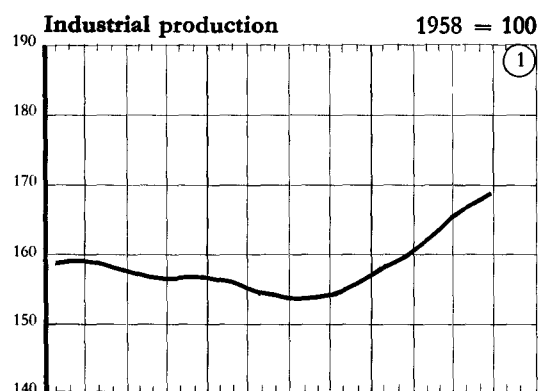
¹ 2/1968, p. 25.

probable that the regional and local authorities will increase their calls on the capital market and it looks as if foreign companies, too, will use the Belgian capital market more to finance direct investment. The limited ability of the capital market to produce the necessary funds therefore calls for a certain amount of caution in handling budgetary expenditure, especially since the price situation is likely to deteriorate.

In these circumstances there is a case for action to curb central government current expenditure as far as possible, in favour of public investment. Priority should be maintained for investment designed to cut down regional unemployment, which remains an extremely acute problem, particularly in the case of school-leavers; a solution to this problem would also help to increase the elasticity of production and improve conditions for growth. Efforts to speed up industrial conversion should also be maintained. Early approval of the draft of an outline law on the introduction of economic planning and on decentralization should facilitate these efforts. It is also worth noting that the investment aid laws of 1959 and 1966 run out at the same time in 1968. The renewal of these laws seems desirable, but with some improvements so as to render central government intervention more effective.

The Government intends to make a more determined effort to get to grips with problems of price formation. This is a matter of major importance because although there is considerable spare capacity available and the upswing in economic activity began only recently, consumer prices will probably rise more rapidly. Moreover, the introduction of a tax on value added on 1 January 1970 will raise further price problems which must be solved as soon as possible to ensure that the economy expands in the longer term, too, without internal stability being endangered.

ECONOMIC INDICATORS



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. 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.

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)	3 651
Numbers in employment, breakdown by main sector (%):	
— Agriculture	5.8
— Industry	44.3
of which : Construction	8.4
— Services	49.9
Percentage share of gross domestic product:	
— Agriculture	5.6
— Industry	40.9
of which : Construction	7.2
— Services	53.5
Gross product per capita (Bfrs)	102 000

TABLE 2 : Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967		
Gross national product	+ 4.9	+ 5.6	+ 4.7	+ 6.9	+ 3.9	+ 2.8	+ 3.5	148	—
Industrial production	+ 4.9	+ 7.2	+ 6.3	+10.4	+ 3.0	+ 4.2	+ 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	+ 3.0	+ 2.1	+ 2.9	139	—
Gross national product per person gainfully employed	+ 3.8	+ 3.9	+ 3.8	+ 5.7	+ 3.0	+ 2.2	+ 4.0	140	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.s.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	+ 3.9	+10.2	+11.9	+15.5	+14.2	+ 5.2	+ 3.0	230	7 031	100
Intra-EEC	+ 9.7	+17.7	+19.6	+19.0	+12.8	+ 6.1	+ 3.2	322	4 429	63
To non-EEC countries	- 1.7	+ 1.9	+ 1.6	+10.3	+16.5	+ 3.9	+ 2.5	155	2 602	37
Exports of food, beverages and tobacco										
Total	+15.6	+29.6	+29.6	+ 3.2	+31.5	+ 8.4	+18.4	361	553	7.9
Intra-EEC	+18.7	+31.2	+30.7	+ 5.2	+31.6	+ 5.4	+25.6	479	420	6.0
To non-EEC countries	+ 8.7	+25.7	+26.8	- 2.1	+31.3	+17.1	+ 1.1	204	133	1.9
Exports of raw materials and manufactures										
Total	+ 3.4	+ 9.2	+10.9	+16.4	+13.1	+ 5.0	+ 1.8	223	6 478	92.1
Intra-EEC	+ 8.9	+16.7	+18.8	+20.1	+11.4	+ 6.2	+ 1.4	311	4 009	57.0
To non-EEC countries	- 2.0	+ 0.9	+ 0.7	+10.8	+15.8	+ 3.2	+ 2.5	153	2 469	35.1
Visible imports										
Total	+ 6.6	+ 8.0	+12.2	+15.9	+ 7.6	+12.6	- 0.1	229	7 167	100
Intra-EEC	+12.7	+ 8.9	+15.5	+17.5	+10.1	+15.4	- 0.6	272	3 983	55.6
From non-EEC countries	+ 1.0	+ 7.1	+ 8.8	+14.0	+ 4.8	+ 9.1	+ 0.6	190	3 184	44.4
Imports of food, beverages and tobacco										
Total	+ 0.1	+11.0	+ 9.0	+16.8	+15.2	+ 8.1	+ 9.9	210	981	13.7
Intra-EEC	+ 7.4	+ 3.2	+17.2	+16.3	+22.5	+10.6	+11.8	270	419	5.9
From non-EEC countries	- 4.0	+15.9	+ 4.3	+17.2	+10.6	+ 6.4	+ 8.5	180	562	7.8
Imports of raw materials and manufactures										
Total	+ 7.6	+ 7.6	+12.7	+15.7	+ 6.6	+13.2	- 1.5	232	6 186	86.3
Intra-EEC	+13.3	+ 9.4	+15.4	+17.6	+ 8.9	+16.0	- 1.9	273	3 564	49.7
From non-EEC countries	+ 1.9	+ 5.6	+ 9.6	+13.4	+ 3.7	+ 9.7	- 0.9	193	2 622	36.6

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	143	144	162	151	146	158	120	146	162	160	155	156
	1967	150	147	160	151	149	159	119	148	162	167	162	156
	1968	157	156	166	163	164	160	132	154	172			
Construction (1962 = 100)	1966	68.1	97.3	117.6	108.8	106.9	118.9	71.1	117.8	122.6	112.7	109.8	100.7
	1967	84.6	94.1	117.0	110.3	113.7	121.1	71.4	115.7	118.0	121.5	116.4	78.5
	1968	76.2	85.4	100.9	99.3	93.4	103.7	78.2	107.4				
Unemployed ('000)	1966	69.7	68.2	63.3	61.1	57.5	53.3	55.7	54.9	56.0	58.4	65.0	74.9
	1967	82.5	85.7	84.4	83.8	81.9	77.9	79.1	73.1	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		
Investment (1961 = 100)	1966	106.7	141.0	154.7	155.1	165.8	170.0	117.8	153.9	160.2	155.9	165.1	156.1
	1967	134.6	151.1	167.0	167.7	170.4	178.8	122.1	159.1	160.2	175.9	176.9	141.8
	1968	127.3	146.2	165.2	166.3	160.2							
Private consumers' expenditure (1961 = 100)	1966	136.8	138.4	141.8	147.5	144.1	148.1	145.2	146.7	150.1	142.5	147.2	152.6
	1967	147.0	148.3	151.3	153.3	155.0	158.9	156.7	153.3	154.3	152.1	154.9	161.4
	1968	158.0	162.4	158.5	167.8	166.5	166.4						
Total visible imports (million u.s.)	1966	519	554	618	556	587	611	520	592	594	609	619	641
	1967	590	545	623	574	607	655	465	598	514	640	689	649
	1968	624	704	708	644	706	618	625	638	669			
Total visible exports (million u.s.)	1966	493	523	620	560	534	604	511	471	603	574	590	621
	1967	608	570	607	599	586	597	525	460	530	697	618	649
	1968	621	675	705	705	666	629	637	547	676	796		
Balance of trade (million u.s.)	1966	- 26	- 27	+ 7	+ 3	- 53	- 6	- 9	- 121	+ 9	- 34	- 29	- 15
	1967	+ 18	+ 25	- 20	+ 25	- 20	- 58	+ 80	- 138	+ 16	+ 57	- 71	0
	1968	- 2	- 29	- 3	+ 60	- 40	+ 11	+ 62	- 91	+ 7			
Official gold and foreign exchange reserves (million u.s.)	1966	1 968	1 946	1 956	1 954	1 950	1 950	1 964	1 956	1 926	1 960	1 956	1 952
	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	(1 900)		
Money supply	1966	310.2	307.0	314.6	319.8	323.2	329.3	329.6	324.3	322.4	324.0	327.4	339.7
	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	337.9	350.0	355.6	362.3	372.7	361.4	361.8	361.8			

() Provisional figures.

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. Index based on number of man-hours worked.
- Unemployed. Source: Ministère de l'Emploi et du Travail. Wholly unemployed in receipt of unemployment 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

There was a further perceptible acceleration in the growth of the Luxembourg economy in 1968. In contrast to the previous year, both domestic demand and export demand contributed to a vigorous expansion of production. Exports of goods and services improved mainly because of the stronger trend of intra-Community trade. Private consumers' expenditure and fixed asset formation also made gains. As a result of the development of overall demand, the upward trend of production increased in strength. Deliveries of iron and steel products and sales by newly-established firms both increased rapidly. The situation on the labour market improved. The upward pressure on prices remained moderate.

Since the expansion of export demand will probably lose some momentum, economic growth in 1969 could prove to be somewhat more modest than in 1968. Domestic demand should, however, make as vigorous a contribution to economic activity as it did in 1968. The main factor here will be the probable upward trend of expenditure on gross fixed asset formation, which is expected to be brisk. This means that an increase of almost 4 % in the real gross national product can be forecast at the present time.

1. Balance sheet for 1968

Economic growth in Luxembourg was considerably more lively in 1968 than in the previous year since the expansion of all components of final demand tended to accelerate appreciably.

The much more dynamic trend of intra-Community trade, in general, and the growth of Belgian and German imports in particular, led to an accelerated expansion of exports of goods and services. The key factor here was the increased demand for iron and steel products. At the same time, industries established in recent years stepped up their sales sharply as new plant was commissioned. The increase in exports of goods and services as defined for the national accounts can be estimated at 7 % in terms of value compared with about 3 % a year earlier.

Domestic demand contributed at least as much as export demand to the more vigorous economic upturn. There was a distinct change in

the trend of expenditure on gross fixed asset formation, which staged a very strong recovery after a sharp decline in the previous year. Fixed industrial investment picked up for the first time since 1964. For one thing, despite the financial restrictions introduced by the United States, foreign investment, particularly investment in the chemical industry, expanded. Secondly, investment by public enterprises was probably appreciably higher than in the previous year. Central government investment, too, increased vigorously, mainly because of an appreciable extension of the school-building programme. Finally, residential construction, which had fallen off considerably in 1967, improved in 1968. All in all, the increase in fixed investment can be estimated at 8.5 % in terms of value following a drop of 16 % in the previous year.

The expansion of private consumers' expenditure, which was no more than moderate in 1967, gathered momentum. This development was favoured in particular by the growth of incomes from wages and salaries. Agreed wage

rates rose considerably, especially in the iron and steel industry, and the application of the sliding wage scale also helped to increase earnings. The total wage-bill was also affected by the 3.5 % increase in the statutory minimum wage at the end of 1967. Furthermore, following a fairly sharp drop in 1967, it looks as if numbers employed in industry rose slightly and the number of hours actually worked per person employed increased. Tax reductions under the income tax law of 4 December 1967, which relieved households of payments amounting to roughly 1 % of their incomes, also favoured the expansion of disposable incomes. The improved economic climate seems moreover to have increased the propensity to consume of households. The growth of private consumers'

expenditure (as defined for the national accounts) can be estimated at approximately 8 % in terms of value, compared with a little more than 2 % in the previous year.

Public current expenditure on goods and services may also have increased more rapidly than in 1967. One of the reasons for this was the more vigorous increase in wages and salaries.

The more dynamic trend of overall demand engendered a faster increase in supply.

Industrial production, in particular, advanced at a relatively rapid pace until the final months of 1968. Although the national index

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ²		1969 ³	
	At current prices (in Lfrs million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	
Exports ⁴	27 721	+ 2.5	+ 3.0	+ 8	+ 7	+ 6	
Gross fixed asset formation	9 754	- 17.9	- 15.8	+ 5.5	+ 8.5	+ 8	
Public current expenditure on goods and services	4 013	+ 1.5	+ 6.2	+ 2	+ 7	+ 2	
Private consumers' expenditure	21 450	0	+ 2.2	+ 5.5	+ 8	+ 4	
Gross national product	34 707	+ 2.0	+ 4.0	+ 4.5	+ 6	+ 4	
Imports ⁴	28 019	- 4.2 ²	- 3.1	+ 8.5	+ 9	+ 7	

¹ Service central de la statistique et des études économiques (STATEC), Luxembourg.

² Commission estimates.

³ Commission forecasts.

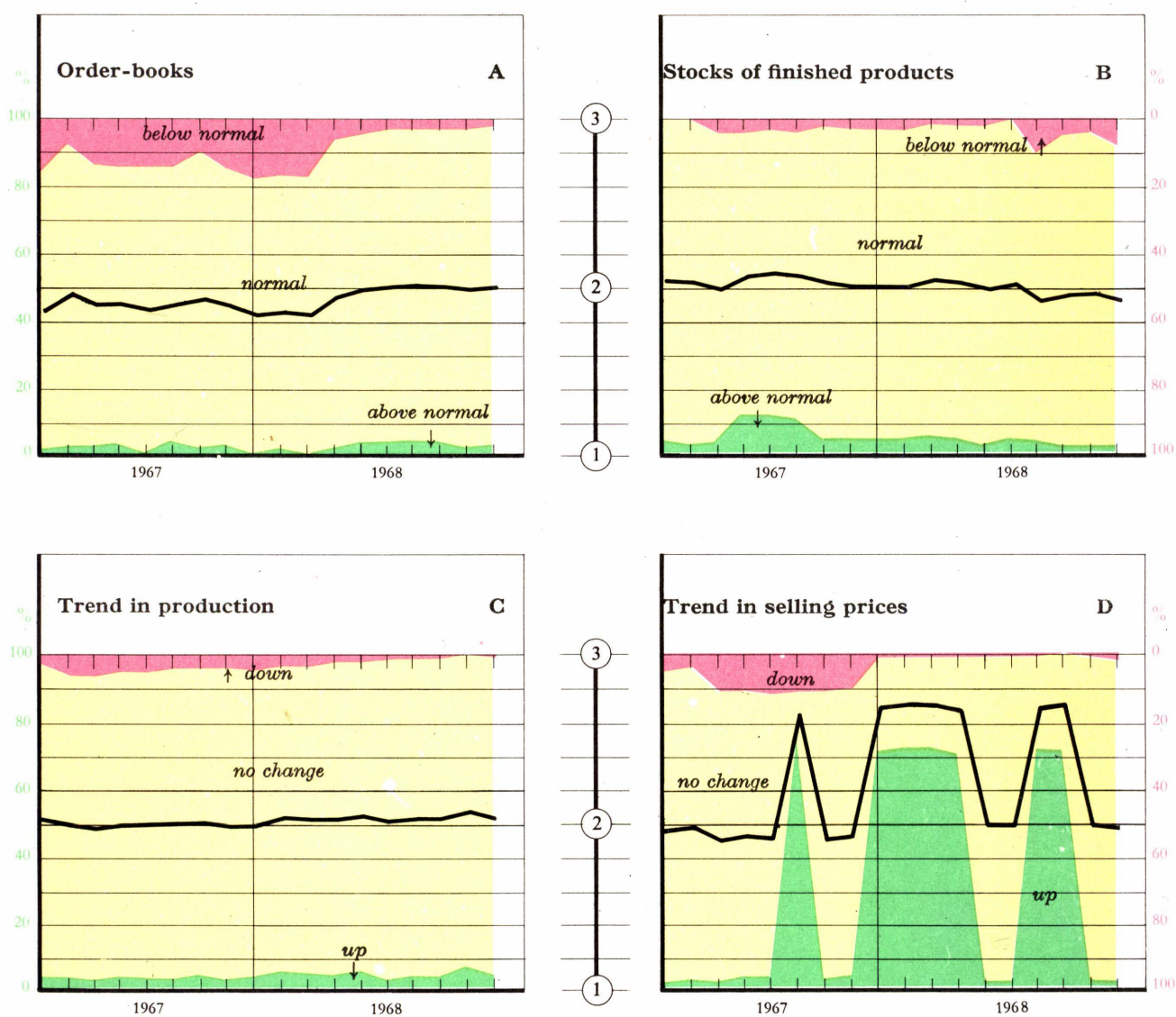
⁴ Goods, services and factor income.

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.

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".

consistently underestimates the actual trend, since it excludes many new firms, it shows, none the less, that industrial production, which had been virtually stagnant during 1967, increased by 3.8 % in the first nine months of the year. In the third quarter of 1968 it was 8.4 % above the corresponding level of the previous year, thus giving the highest annual rate for more than three years. Output in the building sector seems to have picked up again.

According to information available, activity in the services sector increased at an accelerated pace under the influence of the economic recovery.

Taking the relatively favourable trend in the agricultural sector into account, gross national product at constant prices probably increased by approximately 4.5 % between 1967 and 1968, compared with 2 % between 1966 and 1967.

Imports, which were declining in the previous year, showed a strong upward movement in 1968. Imports of goods and services (as defined for the national accounts) may have increased by some 8.5 % in terms of volume.

Thanks to the favourable export trend, the surplus on the goods and services declined only slightly although the terms of trade swung a little against Luxembourg, mainly because of poor export prices on the iron and steel market and a slight increase in import prices for manufacturers.

Although unemployment increased in 1967, a movement in the opposite direction—associated with the revival of economic activity—set in in 1968. The number of unfilled vacancies rose again.

The underlying trend of consumer prices moved up very little in 1968. The main reason for this was that there was only a slight increase in the cost of imports. In September the consumer price index was 1.7 % above the level recorded in the corresponding month of the previous year.

2. Outlook for 1969

It can be expected that economic growth will be maintained in 1969 although the trend of

business activity in general may prove to be somewhat less lively than in 1968 because export demand is likely to be less dynamic.

A distinct slackening of export demand from non-member countries is to be expected since there will be less demand for iron and steel products in 1969 than in 1968. The steady, vigorous expansion of both production and intra-Community trade should, however, curb the tendency for overall exports of goods and services to slow down. The average increase in 1969 can be estimated at some 6.5 % in terms of value.

Domestic demand will probably expand at much the same pace as in 1968. However, the growth of private consumers' expenditure could, if anything, prove somewhat weaker: incomes from wages and salaries will presumably lose some momentum because of the less favourable situation in the iron and steel industry. In addition, it may well be that the total number of hours worked will not increase more vigorously than in 1968. It can be expected, however, that the income effects of the tax reform will remain at least as strong as in 1968. Finally, the possibility of social welfare benefits being adjusted during the year cannot be ruled out. In view of the trend in the disposable incomes of households, and assuming that the propensity to save will be somewhat stronger than in 1968, the expansion of private consumers' expenditure can be forecast at approximately 6.5 %.

The budget estimates indicate that public current expenditure on goods and services will increase by roughly the same extent as in 1968. There could, however, be an accelerated expansion here if the principle of re-aligning wages and salaries in the public service on those paid in other sectors of the economy is implemented in 1969.

The tendency for expenditure on gross fixed asset formation to expand should gain strength in 1969. Firms will probably implement extensive medium-term investment programmes. The plan to rationalize production in the iron and steel industry, in particular, should attract considerably more capital than in 1968. Moreover, newly-established firms have plans for plant extension and an additional foreign production unit is to be installed. The fiscal measures adopted in 1967 to encourage investment

and the provisions of the outline law for improving the structure of commercial and trading firms and of small craft firms should also continue to have a beneficial effect. As against this, there should be a distinct decline in investment by public enterprises, following a more vigorous trend in 1968.

Investment in residential construction will probably revive to a more marked extent and, to judge from the budget estimates, public investment expenditure, too, should increase again, if at a reduced pace. In terms of value then, gross fixed asset formation could well increase by some 11 % between 1968 and 1969.

The effects of the slight slowdown in the expansion of demand are likely to be reflected in the growth rate of domestic supply and in the import trend.

The expansion of industrial production as a whole will probably be affected by the slowdown in iron and steel production, this being only partially offset by the increased dynamism of newly-established industries. As against this, output in the building industry should continue to move upwards. It is to be expected that expansion in the services sector will slacken slightly, particularly in the light of foreign trade forecasts.

Assuming normal agricultural production, the growth rate of the real gross national product is put at a little less than 4 % for 1969.

The growth assumptions for 1969 imply no noteworthy change in the level of employment, since the expected advances in productivity per person employed are of much the same order of magnitude as the increase in production. It is unlikely, then, that the labour market will show any noticeable change.

It can be assumed from the development of the various components of final demand that total imports in terms of value will expand somewhat more slowly than in 1968.

Because of the high elasticity of supply, the modest rise in production costs and the expected moderate increase in import prices, no fundamental change in the price situation is likely in 1969. Nevertheless consumer prices will probably increase at much the same rate as in

1968, mainly in association with the steady rise in the cost of services reinforced perhaps by another upsurge of agricultural prices.

In view of the outlook for 1969, no special priority need be given to any particular economic objective at the present time. The growth rate forecast for 1969 is higher than the average growth rate in the Medium-term Economic Policy Programme. Unemployment will be very low, but prices will continue to drift slowly upwards.

Because of the relatively satisfactory economic trend the authorities, in presenting the draft budget for 1969, confirmed their intention of implementing the principles of a careful budget policy set out in the Government's statement of January 1967. The increase in ordinary expenditure—4.2 % above the corrected 1968 budget outturn—is lower than the probable growth of gross national product at current prices. And it is intended that expenditure under the extraordinary budget should actually decline by 1.5 %. Efforts to improve the infrastructure with the help of increased payments from the Special Fund are however to be intensified. All in all, gross financing requirements are likely to rise from Lfrs. 1 100 million in 1968 to something over Lfrs. 1 200 million in 1969.

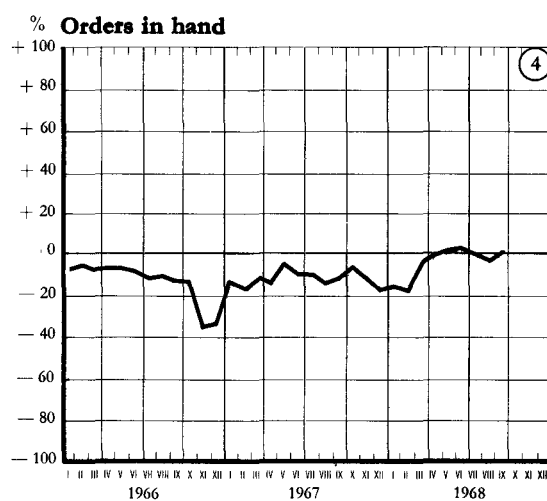
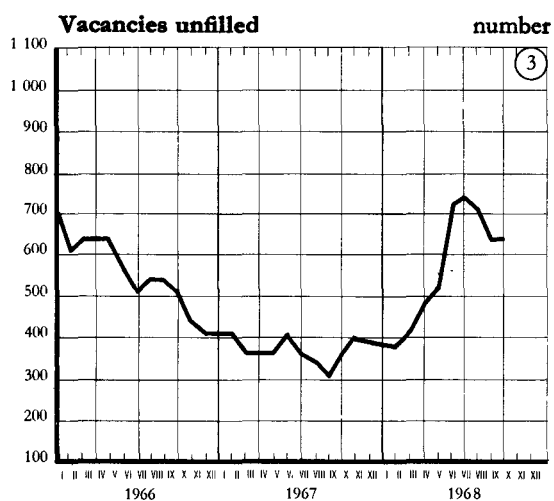
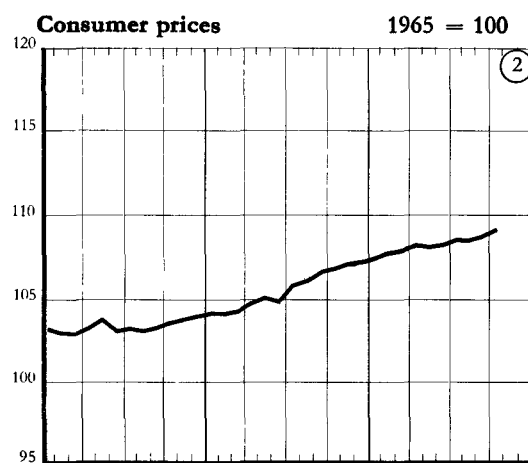
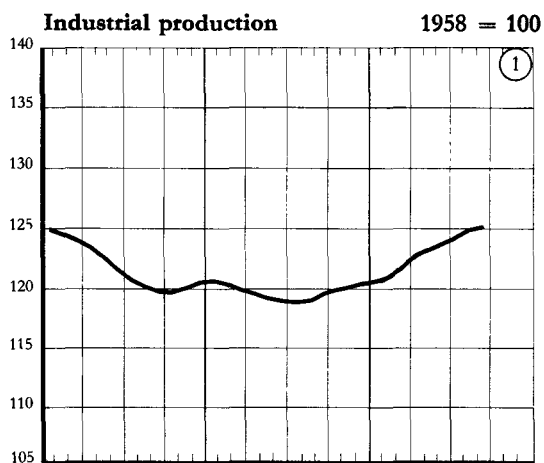
This approach to the budget goes a long way towards meeting the requirements of short-term economic policy. Moreover, the recent establishment of a general finance inspectorate (*inspection générale des finances*) should facilitate the medium-term planning of public investment and the employment of public investment expenditure to promote short-term economic policy.

Efforts to diversify the structure of the economy should be pursued. In May 1968, certain provisions for the improvement of the structure of firms in commerce and trade and of craft industries, and the promotion of small and medium-sized firms in general, were approved. Studies on the possible establishment of financial institutions such as a national "participations" company (*Société nationale de participations*), a national investment bank (*Institut national du crédit d'équipement*) and a national rediscounting and guarantee agency (*Comptoir national de réescompte et de garantie*) are to

be pressed forward and the relevant provisions are to come into force at an early date, thus creating fresh opportunities for improving the economic structure in general and stimulating

productive investment in particular, this being essential if, in the long term, Luxembourg is to achieve growth rates approaching those of other member countries.

ECONOMIC INDICATORS



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: STATEC. New index.

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

Graph 4. Source: EEC business survey.

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 (1958 = 100)	1966	120	121	119	122	125	124	119	111	119	121	121	117
	1967	120	121	121	123	124	122	121	111	120	119	123	119
	1968	116.9	120.2	122.2	127.1	131.2	130.1	123.4	122.6	132			
Crude steel production ('000 m.t.)	1966	369	354	380	387	353	369	368	346	377	333	365	360
	1967	371	360	389	379	372	377	376	356	382	375	376	368
	1968	375	377	398	393	408	380	410	407	412	445		
Construction (1958 = 100)	1966	45	53	91	99	101	101	96	95	94	87	73	54
	1967	39	46	69	72	81	78	78	69	70	70	65	55
	1968	40	49	66	75	75	66	76	70	69			
Workers employed in the iron and steel producing industry and in mining ('000)	1966	24.0	24.0	23.8	23.8	23.8	23.7	23.7	23.7	23.8	23.7	23.6	23.6
	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			
Retail prices (1965 = 100)	1966	103.12	102.96	102.87	103.39	103.84	102.96	103.21	103.03	103.33	103.59	103.73	103.95
	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		

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.
- Crude steel production. Source : Service central de la statistique et des études économiques (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.

