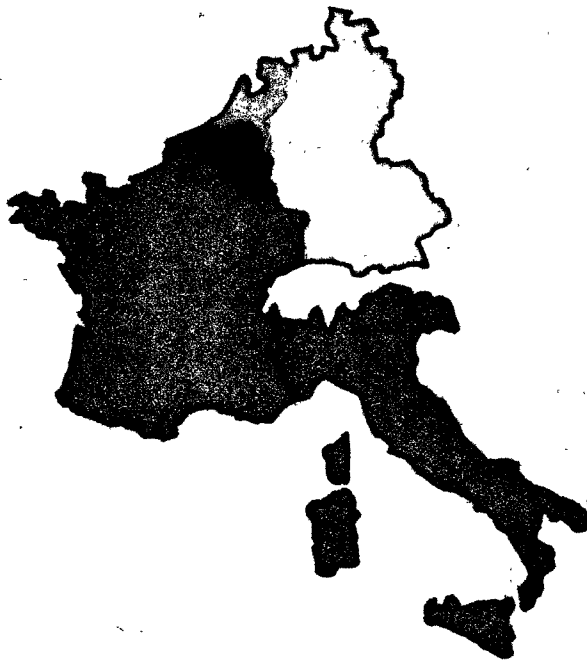


**EUROPEAN
ECONOMIC
COMMUNITY**

COMMISSION



**DIRECTORATE-
GENERAL
FOR ECONOMIC
AND FINANCIAL
AFFAIRS**

**THE ECONOMIC SITUATION
IN THE COMMUNITY**

2

JUNE

QUARTERLY SURVEY

1963

**Commission of the European Economic Community
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends
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EUROPEAN ECONOMIC COMMUNITY

COMMISSION

The Economic Situation in the Community

JUNE 1963

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I. THE ECONOMIC SITUATION IN THE COMMUNITY

In the first three months of 1963 the Community's economic growth temporarily lost a good deal of its momentum. This was due, however, to special factors—the exceptionally hard winter in all the member countries and the strikes in some branches of industry in France and Italy. The underlying economic trend seems to have continued upwards.

Besides their adverse effect on supply the above-mentioned special factors, especially the freeze-up in the first two months of the year, also caused a marked slow-down in effective demand. Sales to non-member countries were particularly hard hit and the value of goods exported was 2,5 % lower in the first quarter than a year earlier. Gross fixed asset formation also suffered a setback; there can be no doubt that it fell short of the 1962 level in the first quarter, mainly because activity in the construction sector was largely at a standstill in several member countries in January/February. At the same time, however, growth also fell off in equipment investment, which is less dependent on weather conditions. In this sector actual spending still tended to follow the state of order books in the capital goods industry. These have been getting shorter for some time.

Finally, private consumer expenditure expanded less. True, one particular reason for this was the loss of income following an appreciable temporary rise in unemployment, which was not wholly offset by the various increased transfer payments, such as bad-weather pay and unemployment benefits. In addition, however, the underlying tendency—albeit only a slight one—for the rise in wages and, particularly, effective earnings to slow down was confirmed.

Industrial production suffered from the special factors mentioned, in part directly, and in part indirectly through their effect on income and demand. The year-to-year growth rate was only 2 % in the first quarter after having been about 6 % in October/December 1962. At the same time the rise in employment slackened appreciably.

Imports continued their vigorous rise and the value of goods imported was up 7.5 % on the first quarter of 1962. There was a deficit of some \$820 million on the balance of trade in goods, compared with \$276 million in the first three months of 1962.

The expansion of intra-Community trade was severely handicapped, primarily by transport difficulties in the bad weather. According to customs import statistics, trade in goods in the first quarter was only 9 % up on the same period of 1962, compared with a year-to-year growth rate of 16.5 % in the fourth quarter of 1962.

Prices in the Community continued to rise until February at a considerably increased rate owing to the cold spell. In particular consumer prices went up in all member countries, although to a greater or lesser degree. The increase was specially large in Italy and France and smallest in Belgium and Luxembourg.

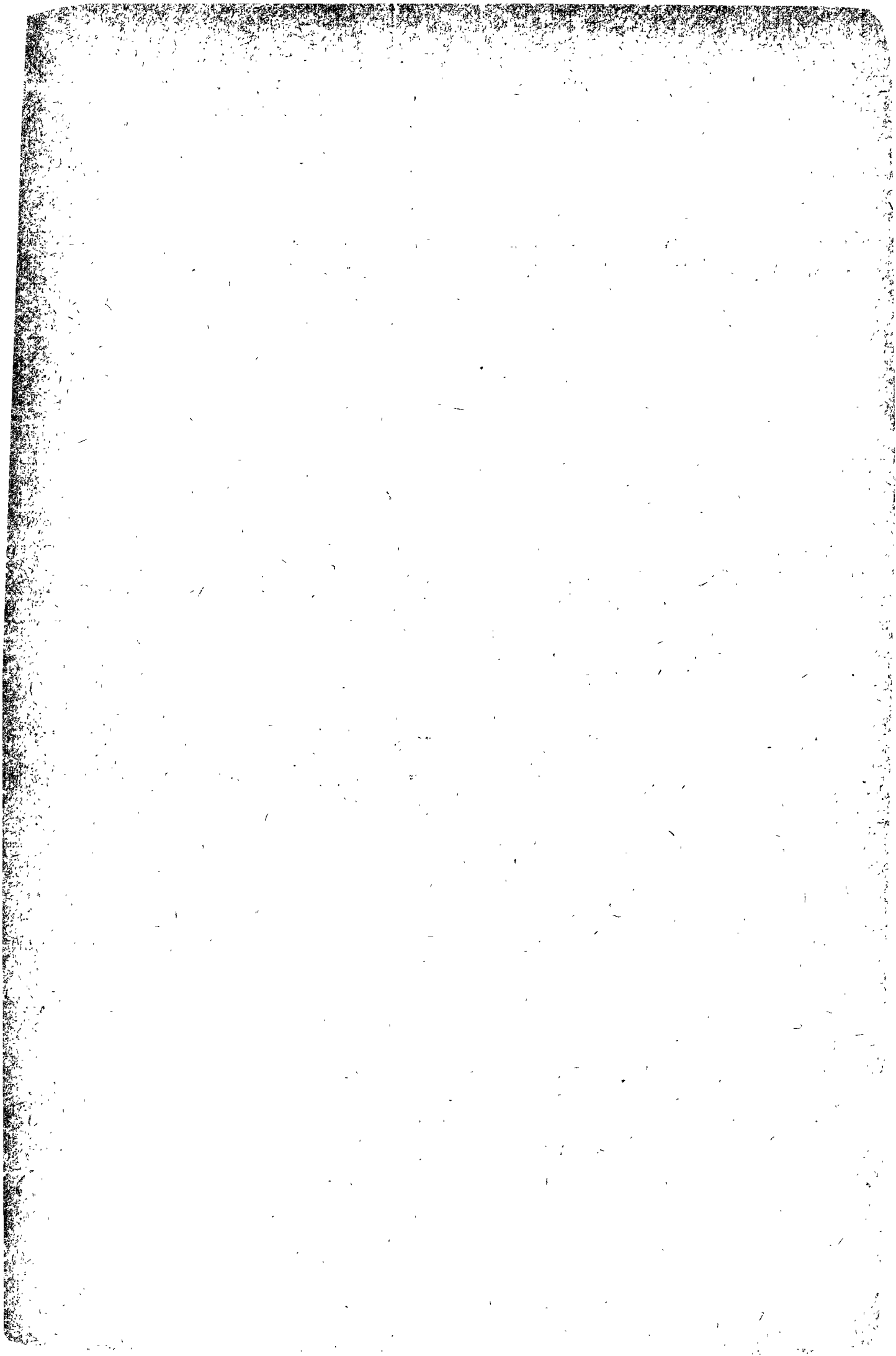
Since the return to more normal weather in March the trends underlying the expansion of economic activity have again become clearly distinguishable; they are thrown into greater relief in some sectors by efforts to make good the production and income lost during the winter. There was a substantial recovery in exports to non-member countries; investment in construction went up again quite steeply; equipment investment on the other hand continued hesitant; expenditure on consumption was again expanding, although at a somewhat slower rate on the whole than in the second half of 1962; where strikes did not cause further production losses—this time in Federal Germany—industrial output picked up vigorously; consumer prices tended to settle down, thanks mainly to the fact that food prices declined after their steep rise.

Prospects for further development in the second half of the year are quite auspicious. A definite increase in exports to non-member countries is to be expected, one notable reason being that business activity is picking up or shows signs of doing so in important industrial countries outside the Community. Gross fixed asset formation will continue to grow, although certainly rather slowly. Firstly, continuing manpower shortages in the building sector are acting as a brake on real expansion and, secondly, the trend in equipment investment is still influenced by the more hesitant attitude of enterprises. Expenditure on consumption will probably also increase; it will especially continue to be the main factor behind the expansion of overall demand, although it must be noted that private consumption will advance more slowly than in the corresponding 1962 period.

Industrial production will possibly rise at roughly the same rate as in 1962. Imports may also very well continue to increase although some loss of momentum is not out of the question. Internal trade, on the other hand, might again return higher growth rates.

Generally speaking, consumer prices will probably be more stable than in the first half of the year, not only because certain food prices will continue their return to normal but because, in some member countries at any rate, wage costs per unit of output may well increase rather more slowly than hitherto. However, increases in the cost of imported raw materials and in charges for public and private services might counteract the tendencies towards price stabilization.

All in all, the latest economic trends are well within the bounds on which the forecasts for 1963 were based at the end of 1962. However, in view of the only partly recoverable loss of output in the building sector caused by the unforeseeably severe winter, it would be advisable to put the growth rate of total real gross fixed asset formation at about 4 % instead of 4.5 %. Similarly, production will suffer from certain direct adverse influences, so that growth will probably be a little less than the 5 % forecast. Finally, some loss of agricultural production must also be expected. Taken as a whole therefore the year-to-year growth rate of the Community's gross product in 1963 seems now more likely to be about 4 % rather than 4.4 %, as predicted at the end of 1962.



A. Recent developments

1. Demand

In the first quarter of 1963 the Community's economy clearly suffered as a result of the unusually cold winter. This affected supply more seriously than demand, but the effects on demand were none the less appreciable. In addition, the tendency for demand to expand more slowly continued even up to the spring months, when there was a vigorous upsurge, but part of this can be put down to efforts to recoup output, sales and income losses during the winter.

External demand, in terms of the Community's actual exports of goods and services to non-member countries, may even have been less in the first quarter of 1963 than a year earlier. This is certainly true of commodity exports, which foreign trade statistics show as about 2.5 % down in value on the first quarter of 1962, after a year-to-year growth rate of 1 % in the fourth quarter of 1962.

The freeze-up in January and February was not the sole cause of the poor export figures in the first quarter. Other contributory factors were strikes in several Community countries and a dockers' strike on the East Coast of the United States. Furthermore, the underlying trend in external demand was at this time still under the influence of earlier developments.

Economic growth in most industrial countries outside the Community was, in fact, only moderate. True, expansion reasserted itself in certain countries, notably the United States, but it was too early in the first quarter for this to have any influence worth mentioning on the Community's exports. Moreover the balance-of-payments difficulties of some developing countries continued to impede progress in their purchases from the Community.

Business in the United States was still quite slack early in the first quarter, after which a substantial recovery set in. Industrial production marked time until February and it was not until March that it rose again for the first time since June 1962. The real gross national product continued to increase. Discounting seasonal variations, it was up by 1.2 % in the first three months of 1963 on the previous quarter and returned a year-to-year growth rate of 3.3 %. This continued to be mainly due to greater expenditure by private consumers and public authorities. There was also a general recovery in investment in stocks, particularly of iron and steel products, prompted by the threat of a steelworkers' strike. By contrast, fixed investment by industry even fell slightly for a time, mainly as a result of a drop in housing. Imports and exports were chiefly held back by

strikes, exports being affected most. The recent recovery is, of course, not yet reflected in the Community's deliveries to the United States; on the contrary these are still labouring under the effects of the 1962 slump and were 6 % lower in value in the first quarter than a year earlier.

As in the Community itself, the fairly general further slackening in the underlying trend of demand in the non-member industrial countries of Western Europe outside the Community was aggravated by the effects of the severe winter, although to a lesser extent. In the United Kingdom, where there had even been a definite recession in the second half of 1962, industrial production and the seasonally adjusted gross national product was 2 % lower in the first quarter of 1963 than in the preceding quarter. Unemployment went up considerably and, as in the fourth quarter of 1962 a feature of the business trend was the great weakness of investment activity. Nevertheless exports of goods tended to rise; despite the handicaps of the hard winter, they were up 3 % in value in the first quarter on the first three months of 1962. The monthly figures on the business trend suggest that the first signs of a recovery have been emerging since January. Community exports to the United Kingdom could not yet benefit from this latest development and were slightly lower in the first quarter than a year earlier.

Community exports to other EFTA countries developed more weakly than in the final months of 1962. The year-to-year growth rate in the first three months of 1963 was down to 1 % after being still 8 % in the last quarter of 1962. This was mainly due to the distinctly slacker growth of exports to Switzerland.

Trade with the developing countries continued to reflect the decline noted during 1962, although this probably did not become worse. Community deliveries in the first quarter were 6 % lower than a year earlier, after a corresponding drop of 7.7 % had been recorded in the previous quarter compared with October/December 1961. In the first place, there was still no strong recovery in trade with Algeria and, secondly, exports to Latin America continued to fall off, since Argentina in particular cut back imports quite substantially for balance-of-payments reasons.

By contrast to external demand, the Community's domestic demand continued to expand. The rate of growth, however, was less—even very distinctly less for a time—than in the preceding months.

Gross fixed asset formation fell, and in the first quarter as a whole it seems to have been well below the figure for the corresponding period of 1962, despite a recovery in March. The principal reason for this decline was the exceptionally severe winter, which made a deeper breach in building activity in all member countries (particularly, of course, in those to the North) than is usual for the time of year. The number of dwellings completed in the Community in the first quarter was about 20 % less than a year earlier. But

industrial building and, to a lesser extent, public works were also hard hit by the cold spell.

The slowdown in industrial and commercial building also acted as a brake on equipment investment. Still more important than this factor, however, was the fact that, generally speaking, the underlying trend for equipment investment by firms to slow down seems to have continued.

Investment activity in the Community picked up again from March onwards, but this applies mainly to construction investment where activity was greater because of efforts to make good lost output. In equipment investment, on the other hand, the underlying trends just described persisted.

Investment in stocks was characterized by opposing trends : stocks were being accumulated, sometimes involuntarily, because the weather hampered sales and transport of a number of products, while in other sectors they were being run down, again as the result of transport difficulties. The latter applies at all levels to fuel stocks. In the weeks after the thaw much was done to replenish these again. Despite the continued hardening of the world market prices for a number of raw materials in the first quarter—which does suggest that Community importers were also following a more active stocking policy—there was probably no very appreciable fall in the stocks of raw materials, as is borne out by the trend in import figures.

Contrary to what happened with investment the trend in consumer expenditure continued expansive in the first quarter. The growth rate, however, also fell off considerably at times in different sectors; more recent trends also suggest that there has been something of a slowdown in the underlying expansion of consumer expenditure. Admittedly this hardly applies to public consumption expenditure which continued its strong advance, but is more particularly true of the mass of private consumer expenditure. When adjustment is made for seasonal variations the first quarter saw hardly any further increase in this category of spending in several member countries. The growth of consumer income suffered from rising unemployment which was due to the weather and could not be wholly offset by higher transfer payments. Strikes also caused losses of earnings in several countries. On the other hand, the wave of increases in agreed wages and, especially, in actual seasonally adjusted earnings that has been occurring, above all in the Netherlands and—although to a lesser extent—in Federal Germany, is on the ebb. Finally, price increases, some of them very appreciable, have slowed down the expansion of the volume of consumption. However, in Italy, and subsequently in Belgium, this was more or less offset by additional wage increases based on the rise in the cost of living. In Italy the—in any case still very rapid—growth of nominal income may even have been speeded up by the application of the sliding wage scale. Consequently there could hardly be any talk here either of a slackening in the expansion of private consumer

spending. In France the pace of expansion also remained quite fast and was probably not much slower than in the fourth quarter of 1962.

The winter freeze-up meant that consumers readjusted their spending more than usual in favour of heating, clothing and food, especially since much higher prices had sometimes to be paid for these. The proportion of the disposable income of private households put to savings seems in fact to have suffered only little as a result, and then only temporarily. However, the effects on the trend in spending on other categories of goods were appreciable: even sales of many consumer durables which had hitherto been rising with unabated vigour were hit. The bad weather directly affected sales of private motor vehicles.

With the more normal weather in the spring the expansion of income continued on a larger scale and consumption picked up again. The corrected pace of growth, however, was still probably a little slower than in the second half of 1962.

2. Production

In the first two months of the year supply from within the Community was adversely affected by the extremely hard winter. With the disappearance of this special factor the underlying upward trend has again become clearly apparent. The usual spring upturn beginning in March was even clearly more pronounced than in 1962, thanks mainly to efforts to catch up on lost production.

Output of plant products—always limited at this time of year—was seriously affected by the freeze-up, which was still bringing production losses and delays in its wake in the spring. Production of milk, dairy produce and eggs also suffered. The output of other kinds of animal products, on the other hand, went up quite appreciably even in the early months of the year. Meat supplies in particular were much greater than in the corresponding period of 1962.

The Community's industrial production fell more heavily between the fourth quarter of 1962 and the first quarter of 1963 than is usual for the time of year. According to the seasonally adjusted index of the Statistical Office for the European Communities (excluding construction, foodstuffs, beverages and tobacco) there was a fall of about 3%. The gross index was only 2% higher than in the first quarter of 1962 after a corresponding year-to-year increase of 6% in the preceding quarter.

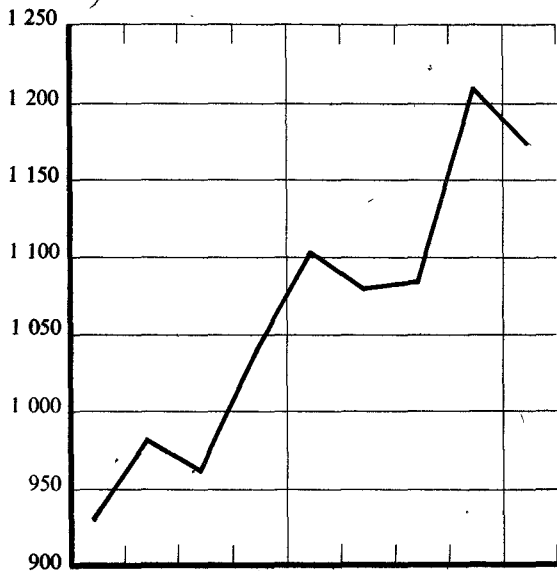
The fall was confined to January and February and was mainly due to the effects of the exceptionally hard winter. These could not be sufficiently eliminated from the

COMMUNITY TRADE

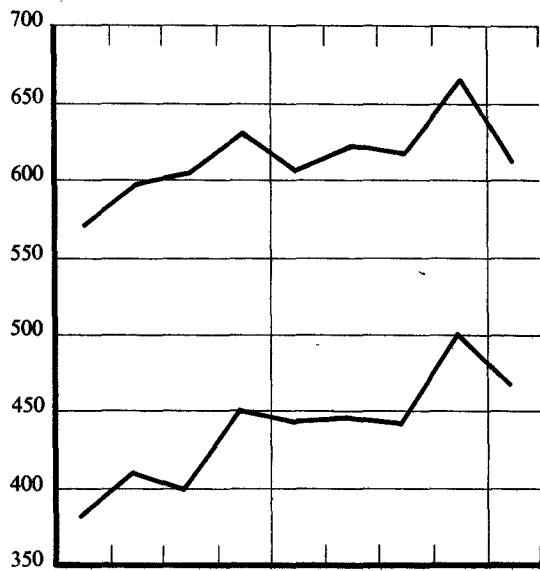
Monthly averages

In millions of dollars

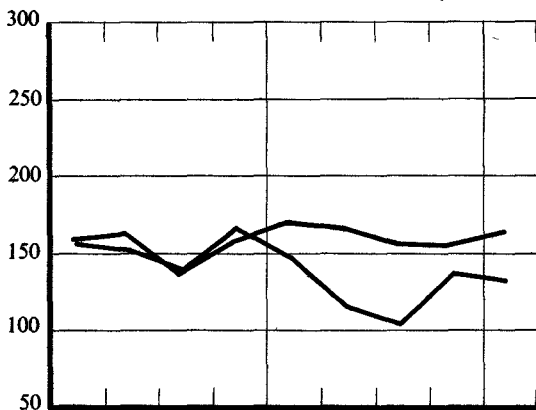
Intra-Community trade (1)



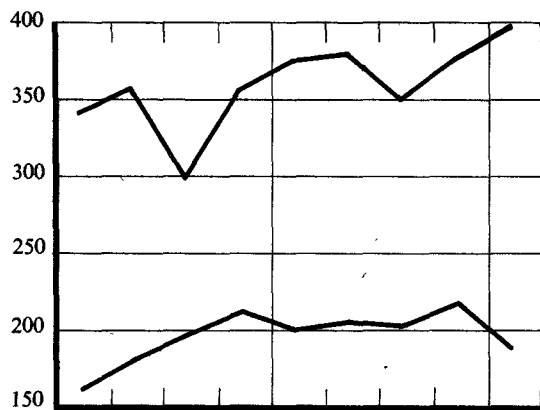
Trade with EFTA countries



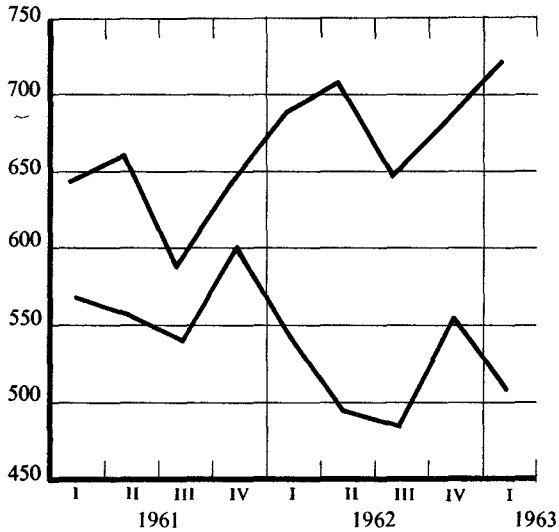
Trade with A.O.S. (2)



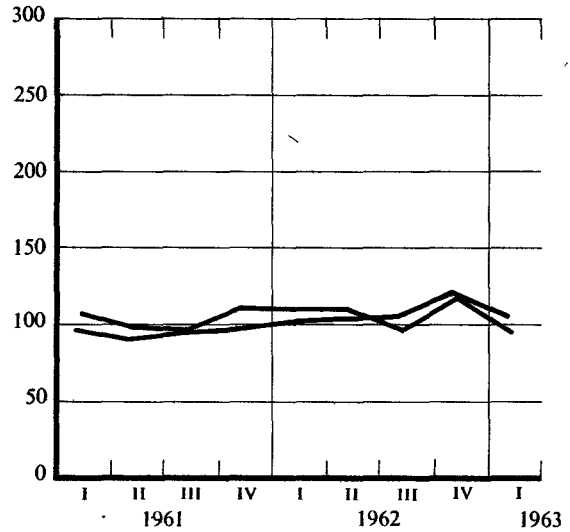
Trade with the USA



Trade with developing countries (3)



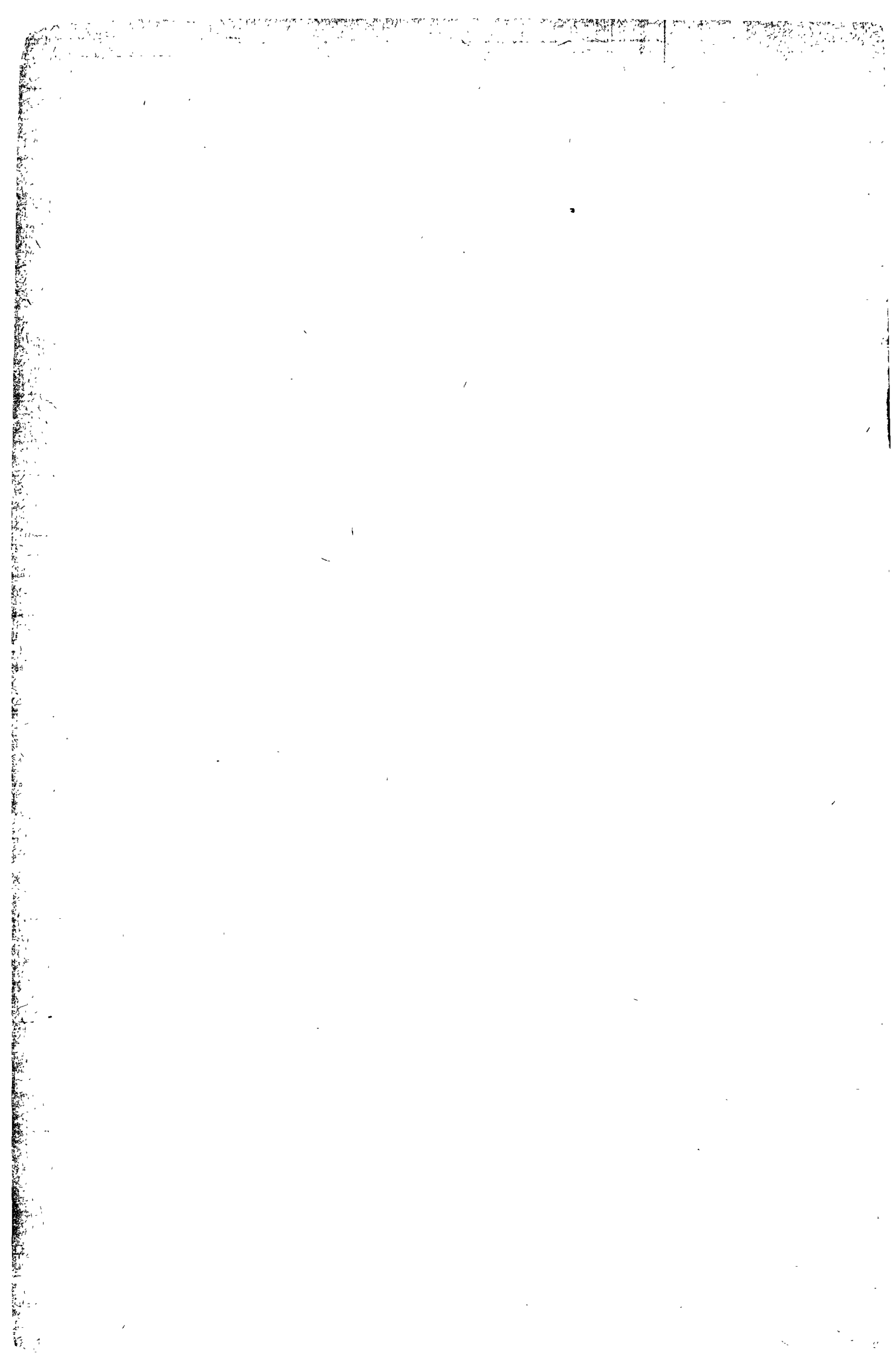
Trade with Eastern Europe, USSR and Continental China



— 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.



production index by the procedure for calculating seasonal influences since this is based on much more normal climatic fluctuations. Furthermore, the usual seasonal upturn in March was relatively moderate, since the overall index of industrial production in France was appreciably depressed by the coalminers' strike. In the following weeks, however, most Community countries again experienced a vigorous recovery of production.

The cold weather affected the individual sectors of industry in quite different ways. The investment goods industries were hardly touched, but their output expanded to only very limited extent owing to the weakness of demand that has been apparent for some time. By contrast, production in some consumer goods sectors, including branches of the textile and clothing industry, showed a more pronounced recovery. In other consumer branches, particularly durables, production was no more than hesitant. Thus the output of passenger cars and commercial vehicles was only about 16 % up on the first quarter of 1962 compared with a year-to-year growth rate of 27 % in the fourth quarter of 1962. In coalmining, where pithead stocks were run down more quickly, production tended to rise again for the first time since 1958, although in March output in France suffered a setback through a miners' strike. As against this, the output in iron and steel fell slightly as internal and external demand continued weak.

As already mentioned, the freeze-up naturally had a particularly sharp impact on the building sector. Production was greatly held up in Federal Germany and the Netherlands and was even down to half of that recorded at the beginning of 1962.

Activity in the services sector, especially communications and transport, had to be severely curtailed in January and February. Since March the general expansionary trend has reasserted itself.

As a result of the temporarily depressed trend in output the increase in total employment was only very small. In January and February unemployment rose considerably more steeply than usual for the time of year. It started to fall again in March, and this in turn was reflected in a more rapid increase in the number of persons in paid employment than is usual at this period. A large proportion of the increased employment was in the services sector and numbers employed in industry rose only very slightly. Thus, the number of persons employed in industry in the Netherlands, was barely as high as in the same period of 1962, and the corresponding figures in Federal Germany were even well below the 1962 level.

Although the total number of hours worked rose still less than the number of persons in paid employment—in some member countries further cuts were being made in the working week and hours actually worked were declining—labour market figures suggest that there has been some easing of the manpower situation. In France—where, however, special factors have pushed up the supply of labour—and in Federal Germany,

unemployment figures were still higher at the end of April than at the time of the spring upturn in 1962. The number of vacancies has also progressed somewhat more hesitantly. Nevertheless Federal Germany and the Netherlands particularly continued to have labour shortages. This is especially the case for building—as, moreover, in most of the other member countries. In this sector surplus demand has even been further swollen by the backlog of work from the winter months.

3. The balance of the markets

Once again increased imports into the Community accounted in part for more plentiful supply. True, imports also were hit by the cold weather in the first two months of the year, but rapid progress in March wiped out most of the arrears. All in all, customs returns showed that imports of goods from non-member countries were 8 % up in value in the first quarter of 1963 on the same 1962 figure. This growth rate was approximately the same as in the preceding quarter. It is true that the figures for the first quarter were inflated by increased purchases of fuels and by exceptionally high imports by public authorities (Federal Republic of Germany). However the basic expansionary trend of imports seems to have abated but little.

Imports of manufactures tended to grow in 1962 and this trend has become more marked, with the emphasis on consumer goods rather than equipment. On the other hand, purchases of foodstuffs in the first quarter hardly seem to have exceeded the figure—admittedly a high one—for the same period of 1962. The trend in imports of raw materials was once again very hesitant.

The steady increase in imports probably benefited the industrial countries in the main. Community imports from the EFTA countries in the first quarter showed a year-to-year growth in value of 8.5 %. Purchases from the United Kingdom were 15 %, and from the United States, 9 % up on the corresponding 1962 figure. Some of this increase, however, was accounted for by particularly heavy imports of goods by public authorities. Imports from the developing countries picked up (year-to-year increase : 9 %), mainly because the Community bought more petroleum products in the Middle East. Purchases from the associated overseas countries and territories also looked up slightly.

The growth of intra-Community trade lost considerable momentum in the first months of the year. The year-to-year growth rate, calculated from customs import returns on goods, declined from 16.5 % for the fourth quarter of 1962 to 9 % for the first quarter of 1963. This was probably due in the main to the freeze-up, which handicapped transport, particularly on inland waterways. But by March the import figures for most of the six countries pointed to a marked recovery.

There was much heavier trade in fuels and the need to replenish depleted stocks buoyed up this trend until recent weeks. It was a very different story for farm produce and raw materials : both lost considerable ground and the latter fell well short of the corresponding 1962 figures. Export returns show that the growth of trade in equipment and semi-finished goods definitely slowed down, while trade in consumer goods registered a further substantial improvement.

The winter hit trade too hard to allow of any reliable analysis of the essential trends in intra-Community exchanges by country in the first quarter. For example the bad slump in West German, Dutch and Belgo-Luxembourg imports and exports in January and February—and in March as well for West Germany and the Netherlands—can only be put down to the weather. In Italy, imports of farm products rose considerably and here as in France year-to-year growth rates of more than 20 % were still being recorded for imports from other Community countries.

A study of the trade balances of each member country with the rest of the Community shows that the Federal Republic's surplus again shrank in January/March 1963, while France had a deficit on trade with the other member countries for the first time since 1958 and Italy's trade balance probably weakened a little further. Against this, the balances of the Benelux countries showed an improvement.

The upward price trend in the Community continued, and even became more marked, until February. The chief reason for the increased pace was the weather, which forced up costs of vegetables, potatoes, fruit and certain other crop products. In February, the national consumer price and/or cost-of-living indexes were up 8.2 % in Italy, 6.5 % in the Netherlands, 5.6 % in France, 4.7 % in the Federal Republic of Germany, 2.8 % in Belgium and 1.6 % in Luxembourg, compared with February 1962.

From March onwards there were numerous and distinct signs that prices were settling down; and for some items the indexes even dropped. In April Luxembourg was the only country in which the cost of living went up : the clear rise was due to higher prices for milk and bread. The signs of renewed stability in the other countries were solely due to a tendency for those food prices which had previously risen sharply to slip back to normal; this movement is moreover not yet complete. The basic upward trend persisted. The prices of manufactures, which had been easing very gently and even levelled off towards the end of 1962, seem to have again taken a slight upward turn, partly doubtless because certain industrial raw materials are costing more on world commodity markets. Moreover, the rapid rise of building prices continued in all member countries. The upward movement of prices for services—very closely geared to the wage increases—quickenened a little on the average, mainly because certain public transport and communications tariffs were raised.

With export trends hesitant and imports still increasing, there was another distinct deterioration in the Community's trade balance. The surplus of imports over exports was about \$820 million in the first quarter, comparing with \$276 million (1) for the same 1962 period. The pronounced dip compared with the fourth quarter of 1962 was mainly due to heavier deficits in the French and Italian trade balances. The tendency for the Federal Republic's balance to worsen seems, on the other hand, to have become less marked.

In general, heavier surpluses were almost certainly obtained on the other headings in the balance of payments. In any case official gold and foreign exchange reserves again increased rather more rapidly between the end of December and the end of March. During this period, they went up by \$388 million, whereas the corresponding period of 1962 saw a drop of \$270 million. In April, reserves again swelled, this time by \$143 million.

Transactions with abroad naturally served to pump liquidity into the Community economy as a whole, particularly in France. Bank liquidity was, however, simultaneously influenced by the continuous increase in bank loans which, in view of the obligation on the banks to maintain minimum reserves, had a braking effect on their liquidity. The increase in notes and coin in circulation also inhibited bank liquidity. This was particularly the case in Italy, where balance-of-payments developments tended in the same direction. In the other countries the expansion of short-term credits was at times very slow, but the rapid increase in medium or long-term credit continued. In the Federal Republic of Germany there have again been net Government cash surpluses on internal transactions arising partly from delays in adopting the 1963 budget and the consequent retarded execution of expenditure. In the other member countries official cash transactions have tended, if anything, to increase liquidity.

In general, strains—of a temporary nature—have emerged on the money markets of some member countries. On the other hand the features of the capital markets were increased formation of monetary capital and greater supply of foreign capital. It is true that by and large firms seem to have been needing less fixed-interest bearing capital, whereas the formation of monetary capital has, if anything, increased. But public authorities made fairly full use of the capital market in the first five months of the year, especially in the Netherlands, the Federal Republic of Germany and also France, where, for the first time since 1958, a Government loan—for FF 1 000 million—was issued. However, Belgium encountered some difficulties in financing the budget deficit on the internal capital market at the rates of interest offered. Certain aspects of the tax reform were very probably at the origin of these difficulties; the Belgian State found itself obliged, from December 1962 onwards, to resume its policy of borrowing abroad. Interest rates

(1) After elimination of purely statistical correction made to French and German import figures in the first quarter of 1962.

rose a little in this country. In the other member countries the tendency continued to be slightly downwards, except in Italy, where the level of quotations remained depressed under the influence of internal political factors.

In the early months of the year share markets in the Community were still developing very weakly. The improvement in the world economic climate—particularly business in the United States, which was accompanied by rising markets—and the expectations of continued economic expansion at home, with a relatively better outlook for profits, then brought a distinct recovery in share market prices. The upward movement was concentrated in the Federal Republic of Germany and the Netherlands while in the other member countries special inhibiting factors—connected in Italy with internal politics and the climate of public opinion, and of a fiscal nature in Belgium—even continued to hold prices down a little.

B. Outlook

The outlook for the Community's economic development in the second half of 1963 seems quite good. The growth of external demand is likely to be stronger than in the first half-year and although the expansion of demand within the Community may again slow down somewhat it will none the less remain quite considerable.

The prospects for Community exports to non-member countries are now a little better than early in the year, partly because the higher level of economic activity should at least be maintained in the United States. The developing countries might also step up their purchases slightly.

It would seem that in the United States fixed investment by enterprises might again make a more substantial contribution to general expansion in the coming months. At any rate, business surveys in March showed that the propensity to invest is stronger than it was at the end of 1962; according to these surveys managements are planning a 5 % expansion of investment outlay in 1963. However, these intentions have not yet been reflected in orders for equipment goods. The increase in the number of housing starts suggests that new housing will also be contributing to growth. The impact of these positive factors plus the hopes concerning tax reliefs planned should serve to offset certain retarding tendencies which might affect the growth of private consumer demand. This demand has so far been encouraged by extensive borrowing by households. The expansion of fixed investment and of consumption might finally sustain stockbuilding which, in the second half-year, will cease to be stimulated by one important factor—the uncertainty about the outcome of wages discussions in the steel industry scheduled for the summer.

Business will probably show a certain improvement in the second six months in the United Kingdom, where the underlying expansion of private consumption might flag slightly, but industrial investment is likely to be on the upgrade once again particularly because of tax reliefs. In addition, the Government budget plans to step up public investment should lead to a steady increase in actual outlay in the coming months.

The Community's exports to the United States and United Kingdom are likely, then, to revive progressively towards the end of the second half-year. Sales to other industrial countries, in which the rate of expansion is more likely to slow down a little, will probably continue to rise, though only rather slowly.

Lastly, the outlook for exports to developing countries has improved a little on recent trends. Rising raw material prices have doubtless increased these countries' purchasing power, and this will mean—after a certain time-lag—more imports from the

Community. In addition, the slowdown of investments in the Community itself might induce capital goods manufacturers with idle capacity to make greater efforts to sell in the developing countries; here they would be aided by banks and Governments in the member countries through expanded export credits and guarantees. In Latin America, the shortage of foreign currency caused mainly by the flight of capital seems to have been overcome in the early months of the year, so that Community exports to these countries might well resume a more normal trend.

The Community's internal demand is likely to expand again, though at a rather lower rate than in the second half of 1962.

A detailed analysis of available information—investment schemes in hand, equipment industries' order books, information on investment schemes obtained through business surveys among heads of enterprises—suggests that the slowdown in the expansion of the fixed investment of enterprises will continue. Even a revival of the propensity to invest—which, in view of the recent improvements in the general business climate in some Member States, is not to be ruled out—would almost certainly come too late to affect the actual trend for 1963. For the present the crucial factors continue to be the pressure on profits and the margin of idle productive capacity in certain sectors. To this should perhaps be added in the case of Italy the first inhibiting effects of a more cautious credit policy.

In building, demand is bound to stimulate activity very vigorously again, all the more so as the exceptionally hard winter has swollen the often already heavy backlog of unfinished building. However, the very serious shortage of labour in this sector continues to limit potential production, although it is not out of the question that some workers may transfer from sectors where labour shortage is less acute. However, if the volume of building is to be increased to any substantial extent, average working hours will have to be supplemented—at least temporarily—by overtime. Failing this, building investment for the Community as a whole will show hardly any increase in 1963 over 1962.

Contrary to fixed investments by enterprises, public investments will continue to expand strongly. Public building is highly mechanized and irrecoverable winter arrears are therefore not as large as in the private sector.

Consumer expenditure will again increase substantially in the second half of 1963. This applies particularly to public consumption expenditure, all the more so as wages and salaries have been or are shortly to be increased in the civil service in some countries. Private consumer expenditure will also progress fairly rapidly in the second half-year. For the Community as a whole, however, it seems highly probable that the rate of expansion of consumer spending will tend to slow down, mainly in particular because the total

wage bill will grow, or in certain instances is already growing, more slowly. The Netherlands and the Federal Republic of Germany are the countries most likely to be affected by this factor; but some small loss in the momentum of expansion cannot quite be ruled out in France or even Italy.

In view of this continuing expansion of overall demand, the Community's output will continue to expand, though the rate of growth will be somewhat slower than in 1962. Even if the pace were to quicken once again towards the end of the year, the 1963 figures would still reflect the present slowdown of the economy and the particularly hard winter of 1962/63.

The damage caused by the freeze-up is almost certain to preclude farm output exceeding the admittedly high 1962 figures, even if the summer is normal.

Industrial production should again increase. Growth will come chiefly from the consumer goods industries, increasingly from the export industries, and lastly from certain basic industries, and will be due in the main to enhanced productivity. On the basis of the seasonally adjusted index of the Statistical Office of the European Communities, the growth rate from one quarter to another might be of the order of 1 % to 1.5 %.

The expansion of imports from non-member countries will doubtless lose force about mid-year, when certain exceptional factors such as heavy fuel imports will have worked themselves out.

Barring unusual weather, prices in most member countries will be distinctly more settled for the rest of this year than in late 1962 and early 1963, but this will by no means put an end to the basic upward trend. It is true that inflated food prices will continue to ease down, but given the structure of distribution and the continuing upward wage thrust, it would be a mistake to over-estimate their "downward elasticity". This is particularly true in those countries in which an upswing in food prices—purely ephemeral in itself, has caused permanent wage increases—usually through the working of the sliding scale—which in their turn tend to push up prices, either directly by their effect on demand, or indirectly by inflating costs. Even without this, costs per unit of output continue to climb, though at a slower rate. This factor and dearer raw materials are again exerting an upward push on the prices of manufactures. However, competition is becoming keener, especially as production capacity has strongly increased and goods imported from certain non-member countries have become more competitive. Especially at points where demand is showing signs of flagging—notably in certain raw materials and semi-finished goods and in many equipment industries—substantial price increases will be virtually out of the question. The prices of services will continue to tend upwards.

The underlying tendency for the Community's trade balance to deteriorate might well become appreciably less marked. Whatever happens, however, the deficit at the end of the year will be heavier than in 1962. Nevertheless, the balance of current payments and the overall balance will probably still show a surplus, one cause being a continuing inflow of capital.

The most recent underlying economic trends tally exactly with the assumptions on which the forecasts for the full year 1963 were established at the end of 1962. However, the forecasts assumed normal weather. For this reason the impact, as far as it can be estimated, of the bad winter on the volume of building, on agricultural output and to some extent on industrial production should be taken into account : the Community's real gross product is more likely to register a growth rate of about 4 % by volume than the approximate 4.5 % forecast; industrial production, as a separate item, seems to be growing at a rate a little below 5 % (SOEC index).

*Estimates and forecasts of trends
in the supply and use of resources : goods and services (1)*

	1961 (2)	1961 (3)	1962 (3)	1963 (3)
	In \$ '000 million	% change by volume in relation to the preceding year		
Gross Community product	201.0	5.3	4.9	4.1
Private consumption	122.0	6.1	6.0	5.0
Public consumption	27.8	5.2	6.6	4.3
Gross fixed asset formation.....	45.2	9.6	5.9	3.5
Exports (4) minus Import (4) in \$ '000 million...	+ 3.0	+ 2.4	+ 1.2	+ 0.5

- (1) Commission estimates and forecasts :
 — exclusive of the Grand Duchy of Luxembourg because the statistical material needed for a forecast on this country is still lacking. Since Luxembourg's share in the total Community product is less than 0.5 % the consequent error is not of great importance;
 — combined figures for the Community based on the official exchange parities.
- (2) 1961 prices, 1961 exchange rates.
- (3) Prices and exchange rates of the preceding year.
- (4) Goods, services and factor income.

Since the essential trend and the outlook for the rest of 1963 have not changed in any substantial measure it is hardly necessary to make any fresh comment on short-term economic policy. The explanations and recommendations in the last two Quarterly Surveys (4/1962 and 1/1963) include all that is essential on conjunctural problems and the policy called for in 1963.

On rising prices—the most important problem of the moment—the Governments of the member countries have followed or are following some of the Commission's recommendations at the turn of the year. These recommendations were contained in an expert opinion from the Economic Policy Committee on "Rising price trends and the means of combating them", which was endorsed by the Commission. Because of its great importance this opinion is republished as an annex to this issue of the Quarterly Survey. The results of the comparison of economic budgets for 1963, and the relevant discussions, are summarized in another opinion of the Economic Policy Committee, also given in an annex.

After a long delay, the reasons for which were mentioned in the last Survey, the Economic Policy Committee examined at meetings in March, conjuncture policy for 1963 and means of co-ordinating it. This examination was carried out on the basis of economic budgets presented by the members of the Committee for all the countries except Luxembourg, which has not yet been able to establish a budget of this kind. The conclusions on policy measures for 1963 reached at the time are still valid from the angle of the short-term economic policy required for the rest of 1963. This holds good for Italy as well, where it has been thought wise to apply certain measures of credit policy to curb the expansion of home demand; here, however, it is important to deploy such measures in such a way that, as far as possible, productive investments are not affected and only the other elements of demand are damped down.

In general all that needs adding is that due attention must be paid to the effects of the 1962/63 winter on building. Manpower shortages limit the elasticity of production in this sector and the greatest restraint is therefore called for in placing new contracts if an excessive price increase is to be avoided. In some member countries, the public authorities have already made arrangements to phase the execution of certain public works schemes over a longer period so as to lighten the heavy load on available capacity. Moreover, further measures are needed at once to increase possible production. For example, administrative and tax regulations hindering an extension of working hours by overtime could be suspended at least temporarily. Such measures would enable production losses incurred in the winter to be worked off more rapidly and would afford building workers an opportunity to recoup the earnings lost last winter, at least in part.

It has already been mentioned that the efforts of the member Governments in the field of economic policy are on the whole in line with the Commission's recommendations. However, the means used have not always been adequate to yield decisive results. Several

member countries, notably France and Italy, have made advance cuts in duties on certain goods imported from the other Community countries, and in some cases opportunities now existing to facilitate imports from non-member countries have been turned to account. But broadly speaking in all the member countries the measures taken along these lines merit the stricture that they are too cautious; thus the authorities concerned have still not been able to make up their minds to cut the special taxes on certain imports from the developing countries (coffee, cocoa, tea, tobacco, bananas, palm-oil, coconut oil), although such measures could probably have a healthy influence on consumer prices. But in other respects as well—such as the continuing and rapid expansion of public expenditure particularly in building measures encouraging demand for new housing, and measures on farm prices—the policy followed has not always been fully consistent with the objective of combating the upward price trend. Last but not least, income and wage policy, except in the Netherlands, has not yet succeeded in making any serious advance in stabilizing costs per unit of output; for this reason the rising cost and price trend remains fairly pronounced, particularly in Italy and, to a rather lesser extent, in France.

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Broadly speaking, however, short-term economic policy still has only limited possibilities of decisively affecting economic development or price movements in 1963. It is rather the economic and financial policy decisions which will determine developments in 1964 that are largely being taken now. Such decisions should take account of requirements of economic policy as these emerge in the first forecasts of 1964 trends. In this connection, the Economic Policy Committee has made an important decision : not only are the time-limits for the drafting of the 1964 economic budgets to be brought forward a little, but “ preliminary economic budgets ” for 1964 are to be submitted and exchanged by the middle of June 1963. These are initial forecasts—essentially “ neutral ” by their very nature—which sketch the main lines of economic trends in the form of a few tables with comments of the underlying hypotheses. These preliminary budgets, prepared in such a way as to be comparable, are to provide the basis for a confrontation in the Economic Policy Committee before the summer vacation and for discussions on possible lines of economic policy for 1964. The results will therefore be available for consideration when Government budgets for that year are prepared. In this way a better framework will be established for the co-ordination both of general economic policy and of financial policy in the narrower sense.

The Commission's staff also have already given thought to certain initial hypotheses—which obviously are bound to involve many still uncertain factors—concerning the foreseeable trends of world economic activity, of Community exports and of the business situation in general in the Community. It should be made quite clear that these are

not estimates or forecasts, but preliminary notions based on the Commission's own studies. They will be later made more specific and worked up into forecasts. But this may well involve substantial changes.

These notions suggest that development in 1964 might well be marked by continued growth of overall demand. In any case the danger of certain cumulative processes combining to damp down activity can be ruled out.

The growth of demand from non-member countries, might quicken slightly. This may particularly be the case with sales to the United States and the United Kingdom. In the United States conditions will be favourable for continued economic expansion, especially if industrial investment recovers more strongly as spare capacity is progressively taken up and existing or expected tax measures take their effect. Although an expansion of the American economy gathering speed in 1963 and maintained in 1964, will probably affect Community exports only with a certain time-lag, the present outlook suggests that sales in the United States will make more rapid progress in 1964.

In the same way the pick-up which is expected in the United Kingdom might improve the level of economic activity in 1964 in that country too. Evidence for this is the substantial planned increase in public investment, tax relief and other measures particularly calculated to stimulate consumption. For the Community, this could lead to a certain recovery in demand from the United Kingdom, which has so far been marking time. In the other non-Community industrial countries of the West, the business scene has presented much the same picture as in the Six and expansion may well remain very slow in 1964, although it too is likely to benefit from the higher level of business activity in America and Britain. For the full year, the increase in Community exports to these countries is likely, however, to be quite modest, as in 1963.

Sales to the developing countries may very well pick up a little in comparison with 1963 : contributory factors may be that the prices of several raw materials have hardened, that Community manufacturers of capital goods are building up an export drive thanks to a big increase in export credits, and that aid to the associated countries and territories is likely to be increased.

Whilst the outlook for the development of external demand thus appears more favourable than in 1963, the growth of internal demand in the Community over the full year would seem more likely to slow down once again. In this connection decisions yet to be taken on the way public expenditure and tax policy are to be deployed will be of great importance.

The impact on the development of private consumption of a slower rate of expansion in household incomes, particularly of the growth rate of total wages and salaries,

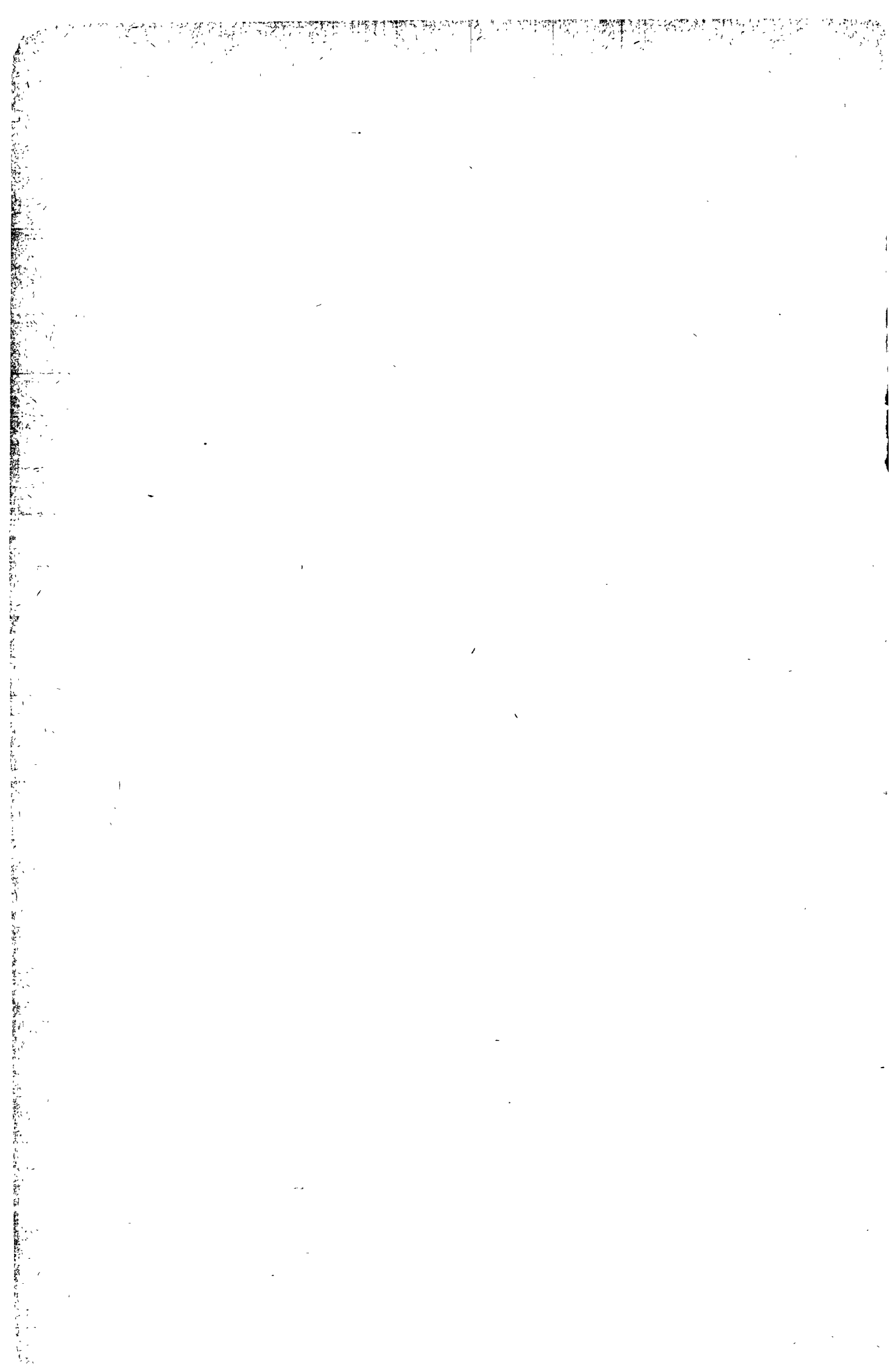
might lead to some loss of pace in the growth of internal demand. As there has been for some time a tendency for productivity to improve faster with output expanding rather more slowly, employment will increase less rapidly in 1964 than in the two previous years. There is much evidence to suggest that the upward progress of wages, too, might be less rapid than in 1963.

On the other hand, certain factors on the industrial investment front combine to present a rosier picture : equipment order books are at present shortening only slowly; the labour situation continues to be an incentive to rationalization investment; there is hope of a let-up in the pressure on profit margins; external demand is likely to expand more briskly. However, it is still a completely open question when these stimuli will become strong enough to increase to any appreciable extent the propensity of businessmen to invest. Moreover, as is well known, there is always a time-lag before output actually reflects this greater readiness to invest.

On the supply side normal weather conditions alone would suffice to ensure an increase in the gross Community national product at constant prices of 0.4 % to 0.5 % for the year as a whole. On the above assumptions as to the development of demand, it would be quite possible for the annual growth rate for the gross Community product at constant prices to be the of much same order of magnitude in 1964 as that at present being applied for 1963.

In any case, there seems no reason to expect another very vigorous boom in demand as early as 1964—much less an export and investment boom such as that from 1959 to 1961. The problems which have since arisen in the international monetary situation hardly favour such a development nor does the relative weakening of the competitive position of Community industries which has been going on up to now. Lastly, the conditions obtaining within the Community, particularly the wage and profit situation, have changed since 1958/59.

**II. THE SITUATION IN EACH
OF THE COMMUNITY COUNTRIES**



A. Federal Republic of Germany

Owing to the unusually hard winter, economic activity flagged in the early months of 1963 appreciably more than is usual for the time of year. Although in March the end of the freeze-up saw a vigorous recovery in production and employment, which continued in the following weeks, the figures for the first quarter were seriously affected by the weather.

Exports were barely higher than a year earlier and investment even fell below the figure for the first quarter of 1962, mainly as a result of the very steep drop in expenditure on construction. Whereas public consumption clearly advanced again, private consumer spending expanded only very slightly. This was partly because unemployment figures shot up temporarily, but the trend for wage rises—although still considerable—to slacken has been confirmed.

Seasonally adjusted figures show that at best industrial production marked time at the level reached by the end of 1962. According to the gross index of the Federal Statistical Office it was only 1.3 % higher than in the first quarter of last year. The growth of imports also weakened considerably.

The upward trends of prices continued to lose momentum. Consumer prices nevertheless advanced appreciably, in the main because the bad weather pushed up food prices.

The balance of current transactions with other countries further deteriorated, but the overall balance of payments showed a surplus of about DM 1 400 million for the first quarter, thanks to heavy net capital imports.

The outlook till the end of the year is quite auspicious. Incomplete figures for March/April already indicate that on the whole the favourable basic economic trend has continued. The latest information on orders from abroad suggests that exports will again be a stronger stimulus to economic growth. Admittedly actual investment by industry will remain rather weak for a while, but there are signs that some recovery in the propensity to invest is not impossible as the year wears on. In any case, investment in housing and public spending on construction will grow vigorously, while public consumption expenditure is also soaring. Last but not least, private expenditure on consumption will again expand appreciably, albeit no longer as rapidly as in the second half of 1962.

On the demand side, therefore, conditions are probably ripe for a fresh expansion of production and employment. Imports will also rise more steeply again. The price level will probably tend to settle down except in some sectors like building.

Broadly speaking, this outlook corresponds to the forecasts for 1963 made at the end of 1962. However, the forecast of investment in building will have to be noticeably revised, since production losses in this sector at the beginning of the year were particularly heavy.

1. Recent developments

The relatively brisk upward trend in exports of goods and services in the fourth quarter of 1962 was followed by a perceptible drop in early 1963. Exports of goods in the first quarter were only 1 % higher in value and by volume than a year earlier, after a year-to-year growth rate of 6 % in the fourth quarter of 1962.

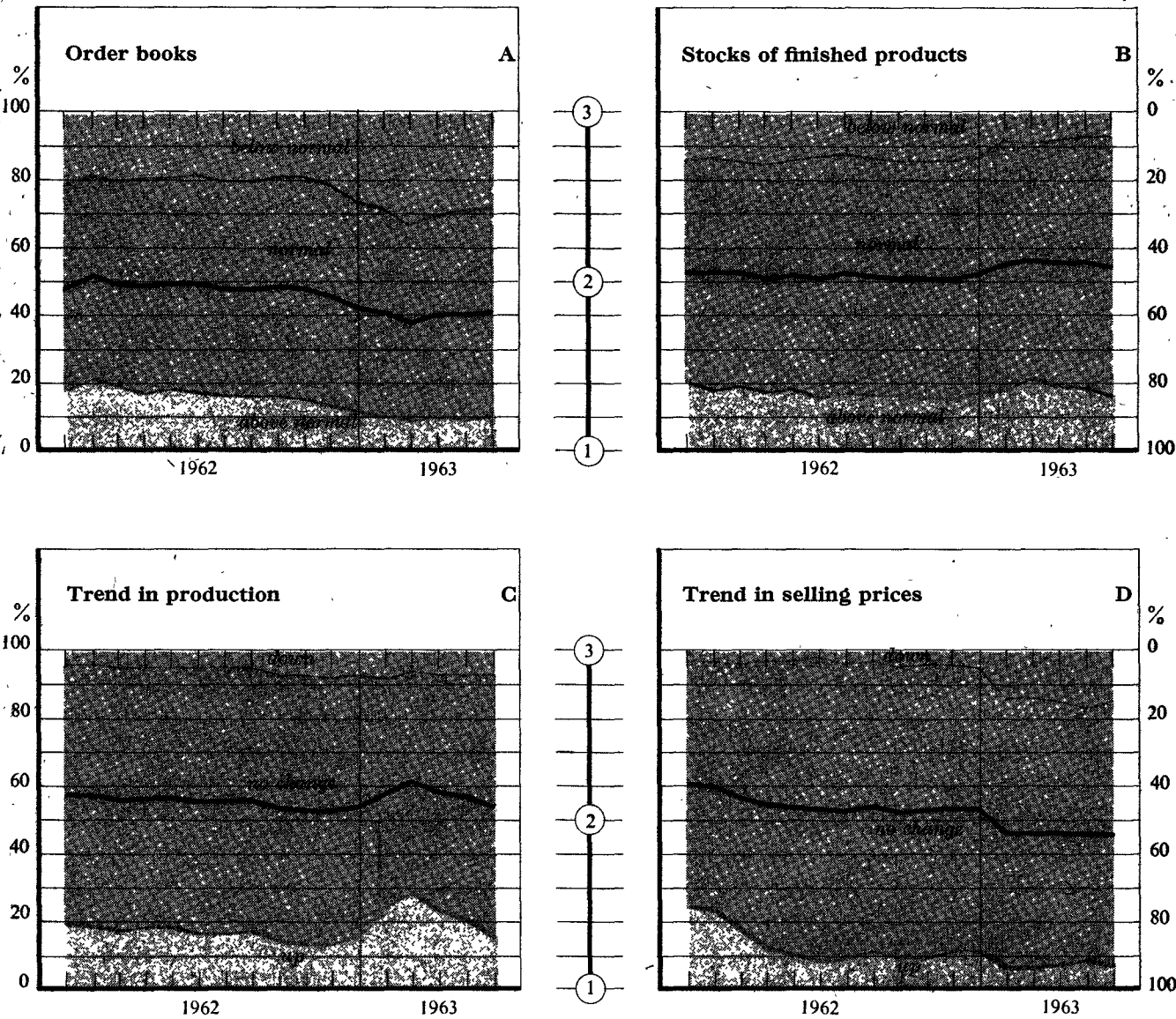
The drop was probably due in the main to special factors—transport difficulties during the hard winter and repercussions of the dockers' strike in the United States. These made themselves most severely felt in January and February; in March/April the value of exports again achieved a year-to-year growth rate of almost 9 %.

An appreciable loss of momentum in the growth of internal demand was also apparent for a time. This was most marked in the case of gross fixed asset formation, which even fell unmistakably. One cause of this was the sharp frost which severely curtailed construction investment. This in turn caused deliveries of equipment goods to suffer. On top of this, the general trend in equipment investment also continued to be relatively weak because of the caution which businessmen have been displaying for two years now in their investment planning and orders for capital goods.

The generally slower expansion of final demand caused relatively heavy stocks of finished goods in industry and commerce to pile up in the first quarter. On the other hand, high demand for energy products meant a marked fall in pithead coal stocks and by the end of May these stood at 5.4 million tons, the lowest figure since the spring of 1958.

Whereas public consumption expenditure once again went up appreciably, thanks mainly to the salary increases—mentioned in the previous quarterly survey—which were granted to Federal civil servants at the beginning of the year, and to heavier defence

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

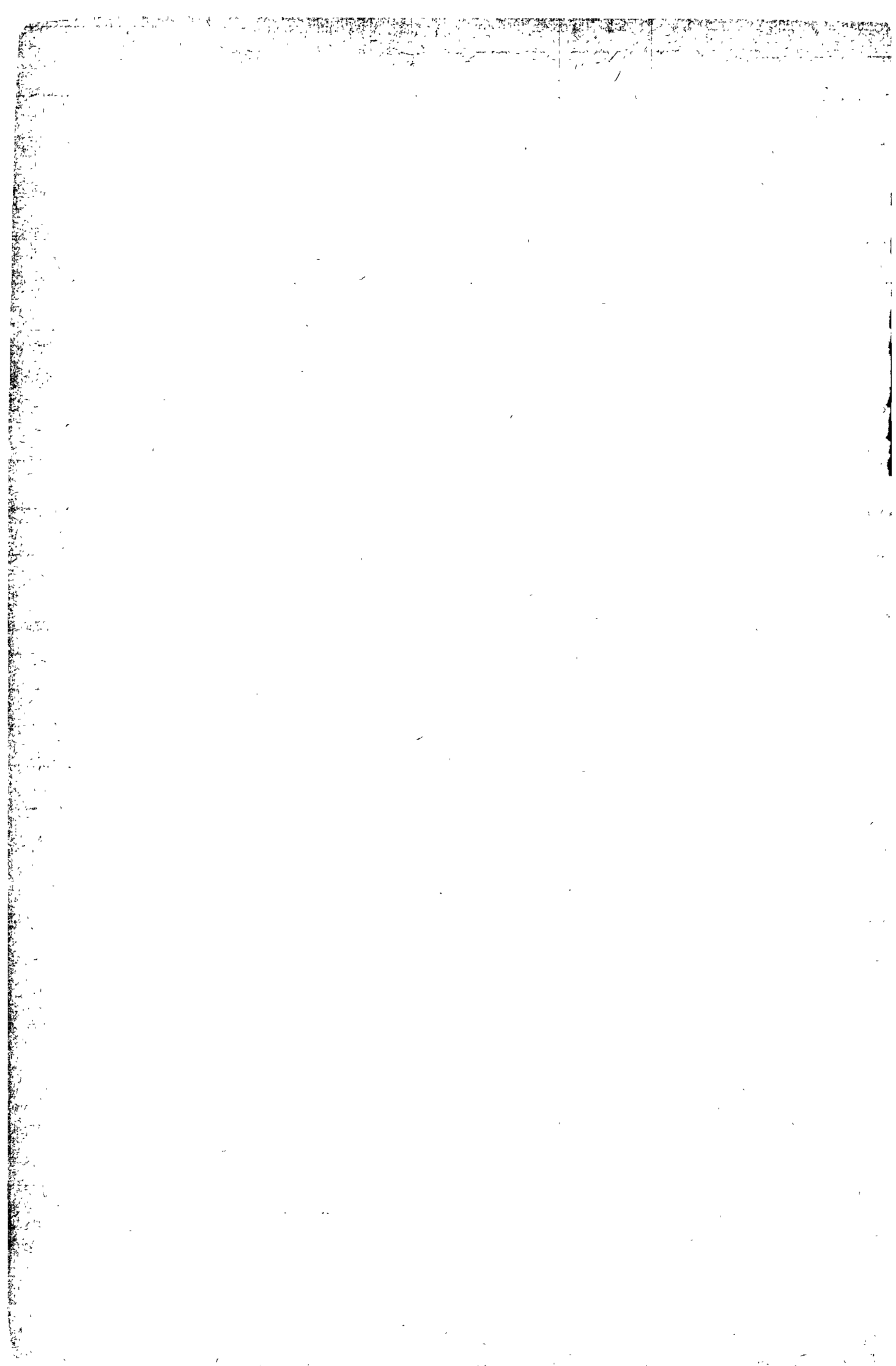


Answers to questions of the EEC business survey, carried out in the German Federal Republic by the IFO-Institut.

Note : The chemical petroleum and metallurgical sectors have only taken part in the survey since January 1963. The results for 1963 are therefore not exactly comparable with those for 1962.

GRAPHS A, B, C and D : The three colours (green, grey and violet) 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".



spending, the expansion of private consumption was comparatively weak. Retail sales in the first quarter were up by only 3.7 % in value and as little as 0.7 % by volume on the corresponding period in 1962, compared with increases of 6 % and 3.5 % respectively in the fourth quarter of 1962. In April/May, however, there was probably a recovery in the trend of sales.

The no more than moderate expansion of private consumption in the first quarter was partly due to the hard winter, which caused substantial losses of earnings in sectors of production and transport where weather conditions are a determining factor—losses which could not be wholly offset by bad weather pay and unemployment benefits. Most important, however, the longer-term trend for the growth of wages to slow down was confirmed : agreed hourly rates in the economy as a whole were only 5.9 % higher in the first quarter than a year earlier, compared with a year-to-year growth rate of 7.6 % in the fourth quarter of 1962. Judging from the incomplete information available, the growth of actual take-home pay was probably perceptibly slower. Finally, the proportion of the disposable income of private households that went into savings seems to have gone up.

Because of the weather, unemployment figures rose fairly vigorously and reached their peak (400 800) in February, when there were 143 600 more unemployed than a year earlier. The better weather brought an appreciable fall and at the end of May the figure, at 113 800, was only just a little higher than at the end of May 1962. True, the number of vacancies (551 200) registered at the Labour Exchanges at the end of May was about 33 700 less than a year earlier, but it was still so much greater than the number of unemployed that the labour market situation cannot be said to have eased substantially. At the end of March total numbers in paid employment were 1.6 % higher than in March 1962, there was no increase, however, in the number of persons employed in industry.

The hard winter also caused temporary setbacks on the supply side, particularly, of course, in building and construction : output in building and civil engineering in January/February was down 56 % on the corresponding period in 1962, but in March/April it was again as much as 7.7 % above the equivalent 1962 figure. Total industrial output also clearly fell for a time and the index of the Federal Statistical Office shows that the monthly average growth rate in the first quarter was probably only 1.3 % over January/March 1962, compared with a year-to-year increase of 5.7 % in the fourth quarter of 1962. However, the monthly average year-to-year growth rate rose again to 3.8 % in March/April. Although endeavours to catch up on lost output probably had something to do with this recovery, the basic rising economic trend seems in the main to have continued unchanged. There were, however, quite marked differences from sector to sector : the relatively favourable trend in consumer goods output continued, whilst production of investment goods was even rather lower than a year earlier.

Imports of goods and services also fell off appreciably in the first quarter. If the effects of certain changes in statistical methods are discounted, the foreign trade figures show that the value and volume of goods imported was only about 5 % higher than in the first quarter of 1962. In the last three months of 1962 year-to-year growth rates of 9 % and 10 % respectively were still being recorded. Imports, too, again showed a distinct recovery in March/April and the year-to-year growth rate in terms of value rose to 16 %. However, this was partly due to a heavy increase in government imports.

Prices settled down a little in recent months, if allowance is made for a steep rise in those for farm products caused by the weather. Industrial producer prices for example showed hardly any change in the first quarter. On the other hand there was again a quite appreciable temporary rise in consumer prices, mainly as a result of higher food prices, but also partly because rents for dwellings built before the Currency Reform were raised. In March the cost-of-living index was 4.4 % higher than a year earlier, but in May it was only 2.9 % above May 1962, thanks to the fall in some food prices.

In the first quarter the balance of transactions in goods and services with other countries again deteriorated slightly. The surplus was DM 570 million, compared with DM 600 million in the fourth quarter and DM 770 million in the first quarter of 1962. However, the deficit on current account, which also includes unrequited deliveries and donations, shrank from DM 490 million in the fourth quarter of 1962 to DM 350 million.

The overall balance of payments even closed with a surplus of DM 1 400 million, compared with a deficit of DM 1 100 million in the fourth quarter of 1962. Quite substantial net imports were recorded in both long-term and short term capital movements (including the residual items not covered by statistics). Despite this surplus official gold and foreign exchange reserves fell somewhat (by about DM 100 million) since the commercial banks improved their net foreign exchange position by some DM 1 500 million in the first quarter.

Cash transactions by the public authorities in the first quarter closed with substantial surpluses despite large payments—mainly seasonal—abroad; the surplus was around DM 1 700 million for the central public authorities alone. The pressure this exerted on bank liquidity was even substantially greater than in the corresponding period of the previous year.

Bank advances showed a further considerable increase, but the sag in economic activity in the first quarter seems to have been reflected in a slower rate of expansion of the demand for credit by the economy.

2. Outlook

The economic outlook for the rest of the year is quite favourable.

External demand is likely again to act as a stronger stimulus to economic growth. True, only a comparatively small percentage of German businessmen polled in the EEC March Business Survey considered the backlog in export orders to be relatively large, but the recovery in the flow of orders to industry from abroad already noted in the fourth quarter of 1962 has become more pronounced. After a year-to-year growth rate of 4 % had already been recorded again in the fourth quarter—although the volume of deliveries was only more or less equal to that in October/December 1961—these orders were more than 6 % higher in the first quarter than a year earlier and 8 % greater than deliveries abroad for the quarter. In April the figures were 16 % and 4 % respectively.

On the other hand no recovery can be expected for the time being in expenditure on equipment investment. Home orders to the investment goods industries, including motor vehicles—where the order position is substantially better than in the traditional investments goods industries—were 5 % lower in the first quarter than a year earlier and also slightly below sales in the same period. In mechanical engineering alone the corresponding figures show a drop of 7 % and 5 % respectively. Nevertheless there was also some improvement in the investment goods field in April.

Licences for industrial building, in terms of cubic content, were as much as 25 % down on the first quarter of 1962. Even though there are perhaps a few signs that the propensity of industry to invest may have reached or passed its lowest ebb, a recovery on a scale large enough still to have material influence on the figures for 1963 as a whole can hardly be expected.

Apart from industrial building, there seem to have been signs recently that new orders for housing and public construction are slackening off somewhat; in the first quarter they were respectively 13 % and 6 % lower than a year earlier. Nevertheless, it is precisely in these sectors that actual expenditure on construction investment will once more surge ahead in the coming months, since the building backlog—already unusually large—has grown further because of the loss of output in the early months of the year. There is no likelihood, therefore, that the surplus demand in the building market can be worked off in the near future.

Public consumption will probably again expand vigorously, particularly now that the 1963 Federal Budget has been finally adopted. A further factor is that wages and

salaries in the public sector have been raised by almost 5 %, with retroactive effect to 1 April.

The expansion of private consumption will also continue and the growth rate will undoubtedly be somewhat more rapid than in the first quarter, although it is hardly likely to be as pronounced as in the second half of 1962. Negotiations for wage agreements have in any case become more difficult, since employers have adopted a tougher attitude to wage claims. In the metal-working industry of the south-west of the Federal Republic there was even a strike and lock-out before both sides agreed to a 5 % wage increase on 1 April 1963, to be followed by a further 2 % rise in April 1964.

The labour market will most likely continue to be under strain because it is proving increasingly difficult to obtain additional manpower, either from local sources or from neighbouring countries, and the trend to cut average number of hours actually worked each week and to introduce longer holidays continues. There may however be some easing of the situation, since businessmen, *inter alia* under the pressure of rising costs, seem to be less inclined to hoard labour.

Given normal weather, agricultural production may well increase a little again. Industrial production is also likely to keep moving upwards, and there may even be a slight speed-up in expansion towards the end of the year, particularly if the export situation continues to improve.

Commercial imports will expand further, although a fall in food imports can in the first instance be expected if agricultural production runs true to form. Moreover, travel abroad by German tourists in the summer will probably again boost expenditure on foreign services. The result may be a further slight deterioration in the balance of current transactions.

The price level on both producer and consumer markets will probably tend to become stable. Admittedly prices of services can be expected to rise further and rents will probably go up as housing controls are lifted in some areas; this, however, will be at least partly offset by further falls in prices for certain foodstuffs, especially since prices to the consumer of industrial products show only a slight tendency to climb. In the building sector, on the other hand, the upward push of prices will probably continue.

This probable development means that the forecasts for the whole of 1963 made at the end of 1962 can in the main be retained. The predicted investment in construction, however, needs some revision downwards to allow for the repercussions of the unusually long and severe cold spell.

Supply and use of resources, goods and services

	1961 (2)	1961 (2)	1962 (2)	1963 (3)
	At current prices in DM '000 million	% change by volume in relation to the preceding year		
Gross national product	310.4	5.5	4.1	3.5
Imports (1)	67.1	8.4	10.9	6.0
Private consumption	176.3	7.0	5.7	4.0
Public consumption	43.7	7.8	11.2	6.5
Gross fixed asset formation	77.6	9.7	4.5	2.0
Exports (1)	73.9	3.6	4.9	3.5

- (1) Goods, services and factor income.
 (2) *Wirtschaft und Statistik*, January 1963.
 (3) Commission forecasts.

Note: The forecasts are approximations based on particular hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries and are established and published under the Commission's responsibility.

Initial reflections on the possible further development of the economy after the end of 1963 which are of course beset with many uncertain factors at this juncture, suggest that expansion accompanied by full employment will continue; there is even a chance that it will gather a little momentum, not only in view of greater margin for productivity increases but more particularly because of the predictable trends in world business and exports on the one hand and an eventual recovery in investment activity at home on the other. Although such factors might already affect general economic activity late in 1963, it will be too late for them to have any material influence on the results for the year as a whole.

It has been pointed out that there are already signs of a possible imminent change in the economic climate. One contributing factor here may have been that pressure on profits, rather than increasing, is more likely to have tended to relax somewhat, thanks to the slowdown in the upward movement of wages, the speedier increases in productivity easing of the tax fiscal burden. This as been accompanied by psychological factors such as may well have contributed to the recent temporary rise in share prices also.

It is of course not impossible that this is only a "flash in the pan". Nevertheless, there seems at present even less reason than previously to resort to direct economic policy measures to stimulate industrial investment. If, contrary to expectations, the growth of these investments should, however, be inadequate there will still be time later, given the expansive tendencies of other elements of demand (public and private consumption, exports), to take the necessary measures, provided they have been sufficiently well prepared.

If, on the other hand, investment demand really picks up, the Federal Republic might again be faced with the problem of ensuring balance between total supply and total demand, the more so if public expenditure continues to show distinct tendencies to expand simultaneously with the upsurge of investment. In these circumstances, the importance of well-timed precautions to ensure price stability would be even greater. Such precautions could include moderation in planning public spending for 1964—particularly on construction and equipment at home—immediate import incentives in the form of advance tariff cuts for which there is still plenty of room vis-à-vis other EEC countries, and greater efforts to stabilize labour costs per unit of production by developing an appropriate wage and income policy.

3. The economic situation in West Berlin

The unusually long and cold winter very definitely set back economic expansion in West Berlin, although not quite as much as in the Federal Republic, but as demand continued to provide quite lively stimulus, production went up again vigorously with the return of normal weather.

Consequently, there has been rather greater strain on the labour market and at the end of May the number of unemployed (about 10 300) was almost 1 200 lower than a year earlier.

Despite the bad weather industrial production continued to expand. Output of manufacturing industries was up by 2 % in the first quarter on the corresponding period of the previous year (+ 3.5 % in the fourth quarter of 1962). However, output in building and construction shrank severely for a time.

Since West Berlin's purchases from the Federal Republic, with a year-to-year growth rate of about 3 %, increased more rapidly in the first quarter than sales, which were only 0.5 % higher than a year earlier, the trade balance with the Federal Republic showed a distinct deterioration and closed with a deficit of about DM 23 million, compared

with a surplus of roughly DM 24 million in the first, and DM 15 million in the fourth quarter of 1962.

Dearer food as a result of the bad weather pushed up consumer prices appreciably, although not quite as much as in the Federal Republic. In April the cost-of-living index was 2.9 % higher than a year earlier.

All in all the outlook for the coming months is one of continuing expansion. On the demand side at least conditions augur well for the further expansion of West Berlin's economy. Thanks largely to wage increases, incomes may well keep moving upwards, thus favouring the growth of private consumption. The special investment incentives offered by Berlin also seem to be having good effect on the propensity of businessmen to put their capital to work. As a whole, order books in industry are quite satisfactory. True, the inflow of industrial orders was 1.7% less in the first quarter than a year earlier, but the already relatively large backlog, particularly for capital goods, has again lengthened slightly.

Besides being influenced by the progress made in stepping up productivity—mainly by streamlining operations—the size of the expected growth of output will therefore mainly depend on how much additional labour can be mobilized or attracted.

B. France

In the early months of the year the French economy was greatly influenced by accidental factors. Severe weather conditions and strikes not only hampered the expansion of demand but were also particularly detrimental to supply. These basic economic trend, which is still upward, could not reassert itself throughout the economy before April.

Exports of goods and services were quite slack in the first quarter. Hardly any growth was recorded in fixed asset formation; for this the sharp contraction in all branches of building and civil engineering was mainly to blame. Private consumption, on the other hand, practically maintained its rapid rate of expansion, thanks to further substantial increase in income stemming mainly from higher wages and social benefits accompanied by growing employment.

Production was lost in some agricultural sectors and in industry. In the first quarter the index of industrial production showed a year-to-year growth rate of only 0.5 %. The volume of imports went up somewhat less than usual for the time of year.

With this relationship between demand and supply and in the face of rising costs, prices went up again substantially, especially in the private consumption sector.

A slight deterioration in the terms of trade brought a further increase in the deficit on the balance of trade; nevertheless, large surpluses were again recorded on the balance of payments. The official gold and foreign exchange reserves mounted by \$440 million in the first four months.

There are good prospects that production and employment will expand further in the coming months. The incomplete information available for April and May already suggests that there will be a steady expansion, with the trend in demand possibly by the need to make up leeway. Exports could on the whole tend slightly upwards again. In the investment sector a vigorous increase in building and construction can be expected and equipment investment will also go up, although somewhat more slowly than towards the end of 1962. Finally, in view of the anticipated trend in incomes, private consumptions is likely to continue to grow vigorously.

Although supply from domestic production and imports will probably be stepped up considerably and the labour market situation may be somewhat easier, costs and prices will nevertheless continue to climb. The price rise may, however, lose some of its momentum.

All this largely tallies with the forecasts made for 1963 in Quarterly Survey No. 4/62. However, the fortuitous loss of production at the beginning of the year could mean a year-to-year growth rate of about 4.5 % for the 1963 gross national product in real terms instead of the 5 % predicted.

1. Recent developments

Exports of goods and services made only hesitant progress at the beginning of the year. According to seasonally adjusted customs returns, no progress was made in exports of goods in the first quarter; in value they were no higher than a year earlier and were even down 0.8 % by volume. Delivery and transport difficulties due to the weather and strikes were partly to blame, but there were other reasons as well. Not only was there no further recovery in exports to the franc area, particularly Algeria, but the trend in exports to other countries was also not very satisfactory. Exports of services, too, were probably less expansive.

Domestic demand, on the other hand, continued to provide quite strong stimulus, although here, too, special factors—very bad weather and strikes—retarded progress for a time. In the sphere of gross fixed asset formation the sharp frost in the winter months brought much outdoor building and civil engineering to a standstill, which also meant that purchase of equipment goods were retarded. However, cyclical forces also seem to have played a role, since, generally speaking, private industry was extremely cautious in carrying out its 1963 investment programmes. It should be remembered, however, that several large investment projects, mainly concerned with petroleum and iron and steel, were completed more or less simultaneously.

Investment in stocks was probably relatively low in the early months of this year. The cold spell and the five-week coal strike meant that fuel stocks were heavily run down. The bad weather also caused an extensive clear-out of stocks of certain consumer goods, whilst stocking by trade and industry against the next spring season was probably scarcely more than is usual at the time of year.

The expansion of expenditure on consumption hardly weakened at all. Public spending in this sector continued to increase vigorously, mainly as a result of fresh wage and salary rises (civil servants' salaries went up on 1 January and 1 April each time by 4 %-5 %).

There was probably also a fresh expansion of private consumer expenditure in recent months. At any rate the retail trade recorded substantially higher sales a year earlier, although in many branches the bad weather delayed the start of the spring season.

The principal factor behind the expansion of consumption continued to be higher earned and transfer incomes. On the whole, benefit payments on the one hand and higher hourly wage rates and a further increase in employment on the other more than offset the certainly very appreciable losses of earnings in several sectors caused by bad weather and strikes. Social benefits, too, went up. The self-employed also probably enjoyed a substantial increase in income which played its part in rising consumer expenditure.

Supply, like demand, suffered from the freeze-up and strikes in the early months of the year.

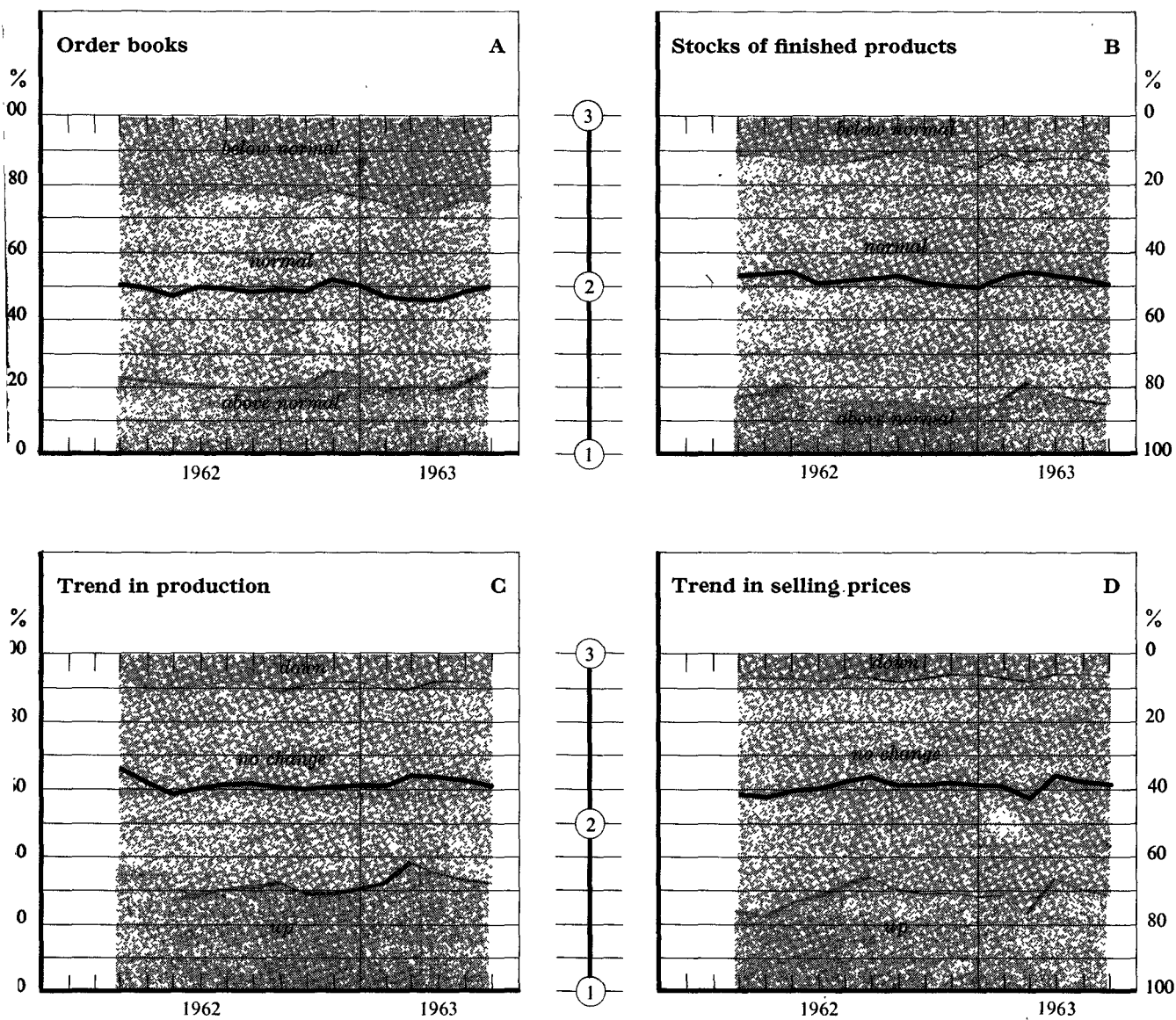
Agricultural production was rather poor on the whole. Early fruit and vegetable crops were very late and the output of animal products was adversely affected by a certain shortage of feed.

According to the new seasonally adjusted INSEE index, in which 1959 = 100, industrial production fell by 2.6 % between the fourth quarter of 1962 and the first quarter of 1963 and returned a year-to-year growth rate of only 0.5 %. The hard winter meant that output had to be curtailed in all branches of industry dependent on outdoor work, particularly building materials. In addition there were widespread transport difficulties and some bottlenecks in energy supplies. Finally, the collieries strike meant that no coal was produced for five weeks. However, there does not seem to have been any change in the underlying trends of industrial production, which are still directed steeply upwards in consumer goods industries, less expansive in those capital goods branches mainly concerned with exports, and very hesitant in several basic materials sectors such as iron and steel. Output in the building trade in the first quarter was still a good 12 % lower than a year earlier.

The adverse effects of the production trend on the labour market were very limited in both time and place, and only certain trades were hit. Discounting seasonal variations, the total number of persons seeking employment even continued to drop appreciably during the early months of the year. Particular progress was made in absorbing workers repatriated from Algeria. The seasonally-adjusted figures of employment in industry went up 0.8 % between 1 January and 1 April and were 2.8 % higher than on 1 April 1962.

Owing mainly to the delivery and transport difficulties caused by the weather, imports of goods and services were not on a large enough scale to supplement satisfactorily the very inadequate supply from some branches of home production. According to

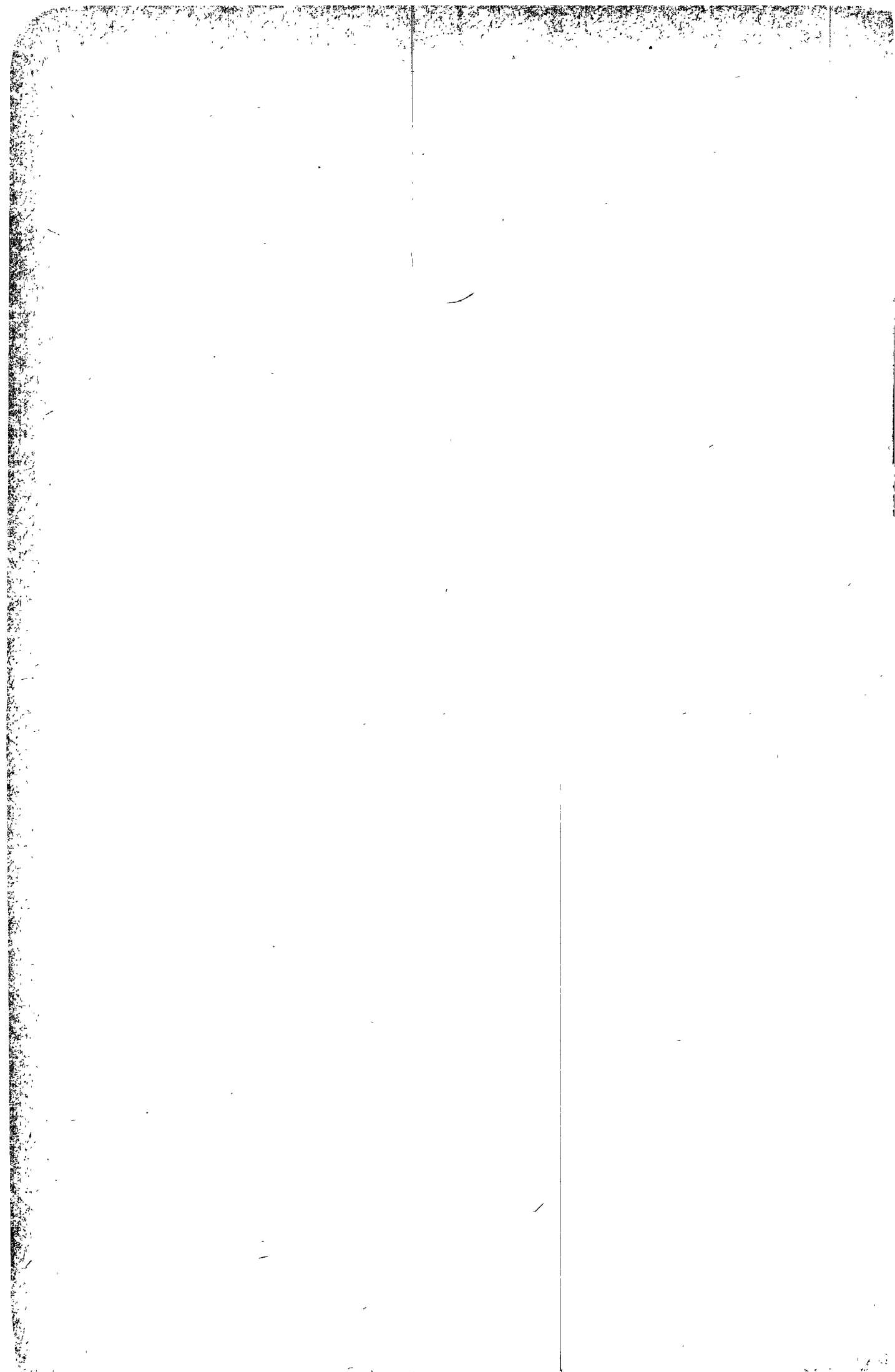
BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D: The three colours (green, grey and violet) 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";
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- by 0.01 for the answer "below normal", or "down".



customs returns and after adjustment for seasonal variations, rather fewer goods were imported in the first quarter than in October/December 1962. Nevertheless, these imports were still 10 %-11 % higher than in the first three months of 1962 (1). On the other hand, imports of services were noticeably lower than a year earlier as a result of the change in the Algerian situation.

Production losses—and more particularly the inadequate supply of some agricultural products in relation to demand—together with the relatively weak trend in imports (precisely those foodstuffs that were in short supply could only be imported at higher prices) and continually rising costs, were doubtless to blame for the further substantial price rise. This applies particularly to consumer prices in view of the certainly unduly rapid expansion of private demand. On top of this there was the official twice-yearly rent increase in old buildings. Consequently the index of consumer prices rose 1.9 % between December 1962 and April 1963, when it was 5.4 % above the level for April 1962.

With a slight deterioration in the terms of trade the deficit on the balance of trade further increased in the first quarter if seasonal factors are left out of account. On the other hand there were again substantial surpluses on the balance of payments, on both current account and private capital transactions. The main feature of public capital transactions was an advance repayment of foreign debts (\$60 million). All in all, official gold and foreign exchange reserves mounted by \$440 million in the first four months of the year and passed the \$4 000 million level for the first time. Against this, however, there may well be some deterioration in the net foreign exchange position of the commercial banks.

The balance of payments trend swelled internal liquidities. In addition there was a large deficit on the cash transactions of public authorities in the early months of the year. The high liquidity of the banks made it easier to step up advances to industry and private customers, whereas recourse to the capital market was scarcely greater than a year earlier.

2. Outlook

Whereas accidental influences were a prominent feature of the picture for the early months of the year, the expansive basic economic trend has clearly asserted itself

(1) After elimination of the statistical figures from 1961 brought forward to January 1962.

again since April, intensified in some sectors by endeavours to catch up on arrears. This trend will probably also govern economic activity till the end of 1963, with home demand continuing to supply the main stimulus to economic growth.

In any case export prospects have also improved slightly in recent weeks after an exceptionally high growth rate had again been recorded in April (but this partly reflected the particularly poor showing of exports in April 1962).

Businessmen at least are expecting a moderate recovery in exports in the coming months. One pointer in this direction is that economic activity is beginning to pick up in several countries which are important customers for the Community, not least the United States. In addition the developing countries could improve their foreign exchange availabilities as world market prices go up, and the greater readiness to grant these countries long-term export credits can be expected to bear fruit. Finally the cut in the Community's internal tariffs on industrial products on 1 July will probably provide some further market openings. How far these export opportunities can be grasped in the face of extremely keen foreign competition also depends, however, on cost and price trends and the expansion of demand in France itself.

Home demand is in fact likely to keep on rising quite steeply. Gross fixed asset formation as a whole can therefore be expected to continue expanding although probably at a slower rate than in 1962 and with clearer distinctions from sector to sector. Although, according to the INSEE survey in March private industry does not seem to have planned any increase in its investment outlay for 1963, investment by other private concerns and by public undertakings can in any case be expected to rise sharply. Effective demand in the housing sector will probably also expand vigorously, especially in view of the building backlog outstanding after the winter months. Since public investment, which is mainly in building, is also rising appreciably and, in view of the scheduled supplementary appropriations, seems likely to gather even greater momentum, perceptible strain on the building market is not out of the question in the months to come.

Public consumption will continue to advance. Private consumption will also show a further vigorous increase and, together with Government spending, will probably remain the most important factor in expansion. The income of private households will keep on growing—there will probably be a fresh rise in employment and workers may well still be in a position to obtain substantial wage increases. Progressive pay rises are already scheduled for officials, employees and workers in the public services up to the beginning of next year. A further rise in the legally guaranteed minimum wage has also been decided on. Finally, certain family benefits will be put up at mid-year.

In view of this probable trend in demand, fresh growth of industrial production will certainly be possible in the coming months, even though the trend may undoubtedly vary according to specific groups : it will still be relatively cautious in investment goods but expansive for consumer goods. From the capacity angle the margin for expansion should, generally speaking, not be too narrow. Probably the only serious bottleneck will be in construction, where it hardly seems possible to make good all the production lost at the beginning of the year and the growth rate originally predicted for 1963 will probably not be fully achieved.

It is of course still very difficult at present to say what lies in store for agricultural production. In any case cereals seem to have suffered considerably as a result of the weather. All in all agricultural output is hardly likely to equal the extremely good figures achieved in 1962.

Imports might again climb somewhat faster. True, this will mainly apply to consumer goods, where steeply rising home demand encounters a flow of competitive commodities from abroad which will be still cheaper after the cut in the Community's internal tariffs and the approximation to the common external tariff on 1 May or 1 July. Imports of raw materials could also be heavier, since attitudes towards stockbuilding might begin to change in view of the trend of world market prices.

Despite keener foreign competition and the Government's stabilization programme there is little likelihood of prices settling down firmly for the time being. True, under normal weather conditions the prices of a number of foodstuffs of vegetable origin will again tend to fall, but, experience shows that this elasticity of consumer prices in a downward direction is none too great, if only because of "institutional" factors. To this must be added the continuing tendency for framers of agricultural policy to use higher prices as one way of increasing farmers' incomes. To judge by the latest EEC Business Survey, entrepreneurs are fairly generally agreed that prices will move upwards in the coming months, particularly in the consumer goods sector. Appreciably higher prices can also be expected in the construction sector. Finally, several public utilities tariffs have just been raised (goods and passenger services on the railways; electricity). All in all, therefore, the upward price trend will at best slow down, but it will not come to a halt.

By and large the 1963 results may more or less correspond to the forecasts made in Quarterly Survey No. 4/1962. However, owing to the damage to agriculture by the freeze-up in the first quarter and the production losses in industry through bad weather and strikes, the growth rate of the gross national product in real terms may turn out to be slightly lower : 4.5 % instead of 5 %.

Supply and use of resources, goods and services

	1961 (2)	1961 (2)	1962 (2)	1963 (3)
	At current prices in NF '000 million	% change by volume in relation to the preceding year		
Gross national product	319.7	4.5	5.8	4.5
Imports (1)	44.8	7.5	10.6	6.5
Private consumption	206.6	5.8	6.9	6.0
Public consumption	43.1	3.4	2.3	1.5
Gross fixed asset formation	62.4	10.0	7.5	5.0
Exports (1)	49.5	6.1	2.5	4.5

(1) Goods, services and factor income.

(2) The national accounts for 1961 and 1962 were presented in new form by SEEF working on the 1959 figures. For this reason some figures in the relevant columns differ from those previously published.

(3) Commission forecasts.

Note : The estimates and particularly the forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries and are established and published under the Commission's sole responsibility.

Up till now there are no signs that trends will substantially change as economic activity develops during the rest of the year. Many prerequisites for continuing economic expansion are present. It is quite possible that exports will grow more rapidly, largely under the influence of the business revival in the United States, and a recovery in the growth of investment by private industry even seems on the cards. Other components of demand—public investment, investment by State undertakings, public consumption—will definitely show a substantial rise; finally, there is no apparent reason why private consumer expenditure should not expand further, although perhaps somewhat more slowly.

This prognosis for the rest of 1963 and for the foreseeable period after the end of the year can, however, only be vindicated if economic policy succeeds in restraining the inflationary tendencies present in the economy without appreciably impairing real growth. In the framework of a comprehensive stabilization programme the Government has already adopted a number of measures pertaining mainly to credit, finance and import policies.

Many of the measures enacted or proposed are undoubtedly on the right lines. This is particularly true of the decisions on credit policy (restriction of the expansion of credit, raising of the banks' minimum reserve obligations, certain measures connected with interest rates), which are designed to prevent the liquidity in the economy—already swollen as a result of the return of French citizens from Algeria and of the balance-of-payments surpluses—from being further inflated by an unduly large expansion of short-term credit. On the other hand these measures will simultaneously tend to maintain, if not actually to enlarge, possibilities of external financing of investment by medium and long-term credits. Similarly, the import incentives—specific advance tariff cuts—are calculated to combat the price rise; a repetition of such measures on a more intensive and wider scale would certainly be very useful.

As for the budgetary decisions, these mainly entail abandoning some tax cuts of little significance already budgeted for in favour of several new corporation taxes (estimated yield FF 550 million), certain economies on some items of expenditure (however against a background of higher total expenditure) and some reduction in the financing of the deficit by short-term paper (Treasury Bills) in favour of a long-term loan operation (initially FF 1 000 million). This policy will certainly help to limit the net stimulus to expansion exercised by the national budget on home demand. On the other hand, budget policy hardly seems to make any impact upon that expansion of mass incomes which is the main factor behind the strong increase in consumer demand, while new burdens are imposed on companies. It would perhaps have been more appropriate to limit by budgetary and fiscal measures the expansion of the income quota available for consumption.

Efforts in the field of income policy have, as in most other countries, unfortunately failed so far to produce anything very tangible in the way of greater harmony between the trend in incomes, particularly wages, and the requirements of cyclical and price policies. The stress has rather been on satisfying demands which are more of the province of social policy—to raise certain incomes which in recent years had lagged behind the general increase in prosperity (including guaranteed minimum wages, wages and salaries in Government undertakings and public authorities, pensions, family allowances).

Direct intervention in free price formation, such as has been made in recent weeks by the freezing of certain prices and the fixing of trading margins, may perhaps temporarily serve a useful purpose in steadying acute speculation on a rise; such action, is however, certainly not calculated to bring lasting price stability. This is more likely to be achieved if more attention is paid to structures, so that by shortening sales channels and modernizing the distribution system (including re-organization of agricultural markets) the price mechanism could be made more flexible and beneficial influences brought to bear on the price level.

C. Italy

In Italy, too, the unusually long and severe cold spell at the beginning of the year caused economic activity to slacken more than is usual for the season. With the return of normal weather the basic economic trend—still distinctly upwards—seems to have continued even more unmistakably in March and the weeks that followed.

In the first quarter growth fell off in all components of demand except private consumption, which continued to expand very rapidly despite the unusually heavy increase in unemployment due to the weather.

In January and February 1963 there was a distinct fall in the seasonally adjusted index of industrial production, but in March it made such a strong recovery that the average figures for the first quarter were even slightly above the high level recorded for October/December 1962. The year-to-year growth rate was 4.4% compared with 8.6% in the fourth quarter of 1962. At the same time the growth of imports also slackened somewhat.

Prices continued their steep and uninterrupted rise until February, but in March and April this upward push lost momentum mainly because of the seasonal improvement in food supplies. Nevertheless, consumer prices in March were still 7.6% higher than a year earlier.

The balance of current transactions again appreciably deteriorated and the balance of capital movements once more closed with a distinct deficit, so that a substantial deficit was recorded on the overall balance of payments. Although they continued very high, official gold and foreign exchange reserves were down \$115 million in the first quarter and \$27 million in April and May.

The outlook for growth until the end of 1963 is somewhat less expansive now that the monetary authorities have adopted a more restrictive credit policy to combat the steep price rise and the continuing deterioration of the balance of payments.

Whereas exports will probably tend to move slightly upwards—the steady decline over the past year in external orders to industry does not seem to have continued in the first quarter—the new credit policy can be expected to restrain the growth rate of expenditure on investment and consumption. The expansion of output and employment is therefore also likely to be somewhat curtailed. On the other hand, imports of goods will probably still show a distinct rise, owing among other things, to further quota and tariff measures taken on grounds of price policy.

In order to allow for the changed circumstances, the 1963 growth rates of real supply and utilization of goods and services forecast at the end of 1962 have generally speaking been revised slightly downwards.

1. Recent developments

Exports of goods and services probably continued to be quite sluggish on the whole in the first quarter of 1963. Furthermore, in Italy as elsewhere export business suffered from the unusually long and hard winter. Customs returns show that the year-to-year growth rate in the value of goods exported again fell slightly (from 6.9 % in the fourth quarter of 1962 to 5.2 % in the first quarter of 1963). This could mainly be put down to weaker exports of vehicles, clothing and—once again—food products. In terms of volume exports were probably only slightly heavier than a year earlier. It should be pointed out that surprisingly enough, it was the growth rate of exports to other Community countries, save France, which particularly slowed down. In general, exports of services also seem to have made only little progress.

As for domestic demand the vigorous speed-up in the expansion of gross fixed asset formation in the last quarter of 1962 seems to have given way to slower growth. It is difficult to estimate the scale of this decline because the relevant indicators are heavily influenced by special factors—fresh labour disputes in the metal-working industry and, particularly, the effects of the cold spell. This is of course specially true of construction investment. The year-to-year growth rate in the number of dwellings completed fell from 20.5 % in the fourth quarter to 10.5 % in January/February. The corresponding fall in domestic sales of building materials was still more marked—from 16.5 % to 1 %, although the number of industrial and commercial buildings completed in the same period apparently increased. The underlying upward trend in public works noted in the second half of 1962 probably continued, although this too was obscured at times by the consequences of the exceptional weather. After being quite hesitant in January/February, when domestic sales of machinery and apparatus were only 9 % higher than a year earlier—against a 20.5 % year-to-year growth rate in the fourth quarter of 1962—equipment investment seems to have again risen somewhat more briskly in March.

Private expenditure on consumption probably again expanded very vigorously. This is borne out by the rapid growth of imports of consumer goods and by the fact that mass incomes again probably rose sharply despite particularly high unemployment at

times. Per capita income, especially of office staff and of workers in industry, trade and agriculture, went up more rapidly thanks to the conclusion of various new collective bargaining agreements and further particularly large increases in cost-of-living allowances. In addition the flow of labour from agriculture to higher paid sectors of the economy apparently continued unabated.

Sample inquiries carried out by ISTAT show that because of the weather the seasonal fall in numbers employed between the end of October and the end of January was unusually pronounced (5.6 %). In January and February the number of unemployed went up more than usual for the time of year but the vigorous economic recovery in March showed that the previous long-term trend towards rapidly falling unemployment had again got the upper hand.

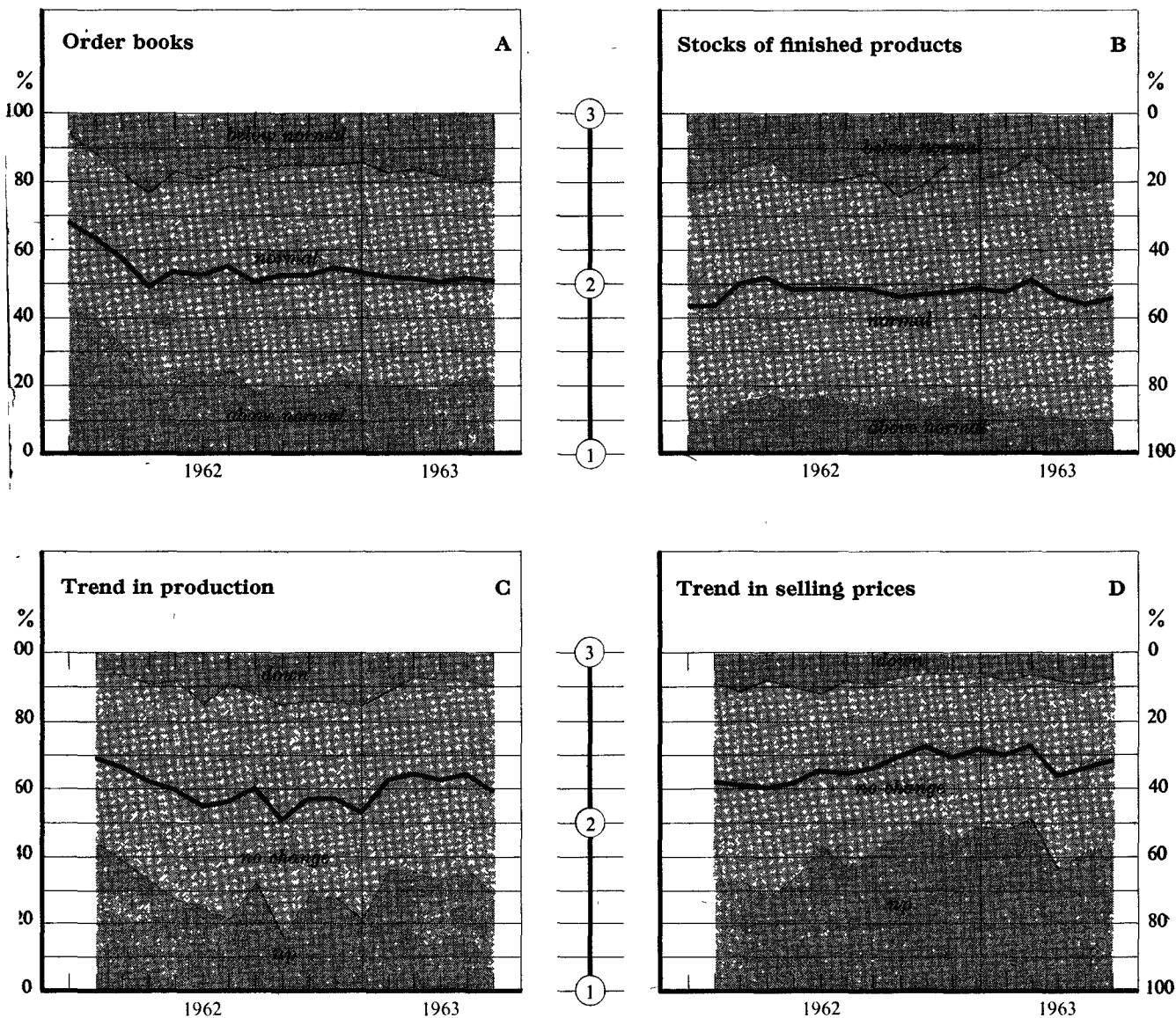
On the supply side output in both building and agriculture suffered more than usual from the weather in the early months of the year. Olive, and possibly also grain, crops as well as fruit and vegetables were badly affected by frost and snow.

After the vigorous pick-up in the final quarter of 1962, industrial production, in terms of the seasonally adjusted ISCO index, flagged somewhat in the first two months of 1963. The above mentioned labour disputes and, especially, the unusually bad weather were undoubtedly to blame for this. With the return of warmer weather in March industrial production made a very brisk recovery, so much so that there was an increase, albeit a very slight one, in the monthly average for the first quarter of 1963 compared with the last quarter of 1962. The first quarter figures were 4.4 % higher than a year earlier, as against a year-to-year growth rate of 8.6 % in the fourth quarter of 1962. The provisional figures suggest that production developed quite briskly in April too.

The recovery in March was mainly in consumer and investment goods.

Imports of goods and services maintained their rapid growth. The year-to-year growth rate of goods imported (in value based on customs returns) was, however, slightly lower (17.7 % compared with 23.1 % in the last quarter of 1962). This was partly the result of transport difficulties caused by the cold spell. The brisk expansion of private consumer demand, the inadequate domestic supply of some foodstuffs following bad harvests, and the widening of quotas for price policy reasons even led to a new speed-up in imports of consumer goods. Imports of food products were no less than 77 % higher than a year earlier. Imports of services probably continued to expand, although probably at a somewhat slower pace.

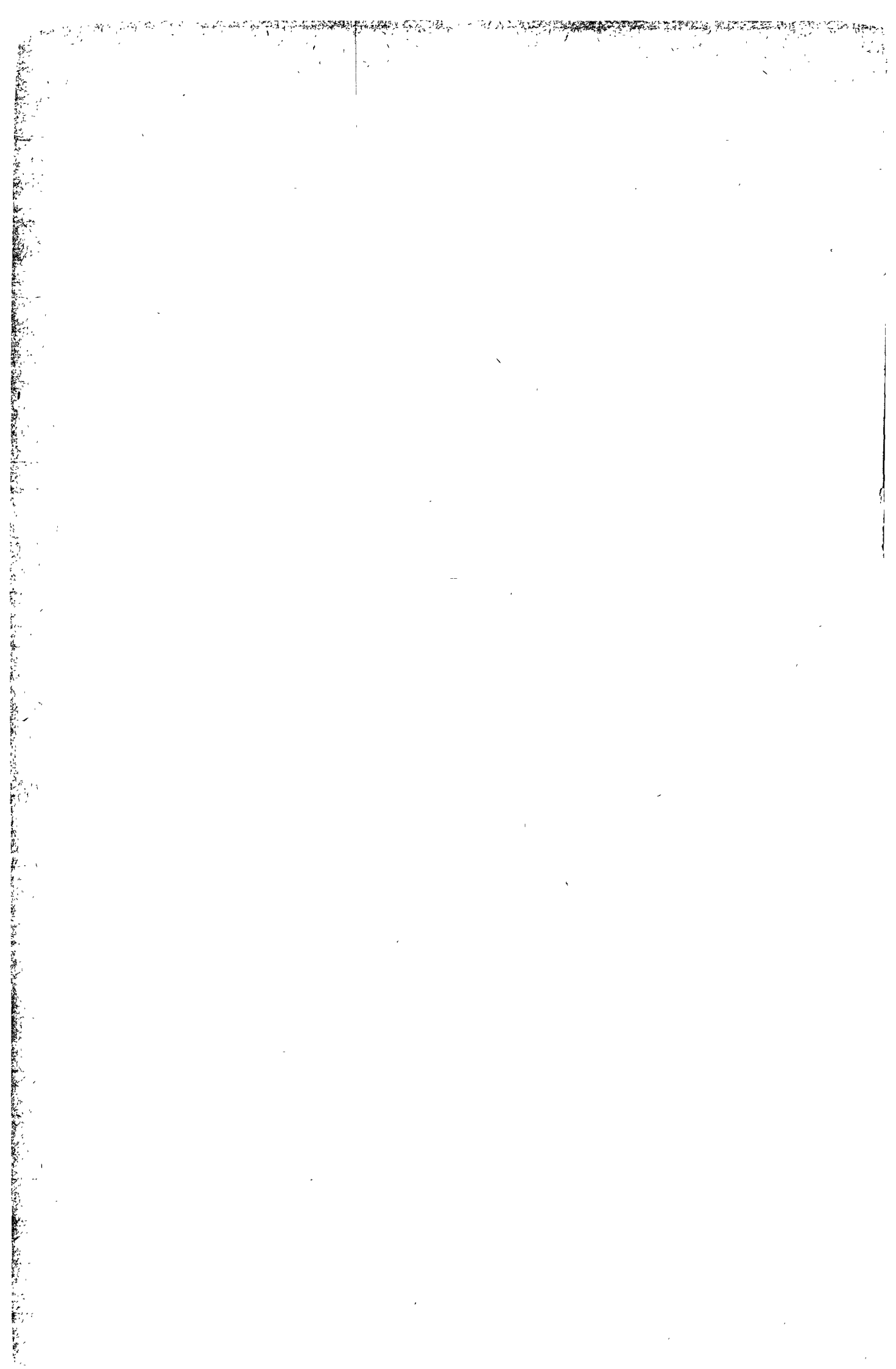
BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three colours (green, grey and violet) 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 :

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The particularly steep rise in prices since the beginning of autumn 1962 continued until February, by which time the index of consumer prices had risen by 2.5 % since December and was 8.1 % higher than a year earlier. It had thus risen much more rapidly in Italy in the preceding 12 months than in any other member country. This upward trend slowed down in March and April, not least owing to seasonal factors. Wholesale prices, which had still been climbing strongly between December and February, even yielded a little in March but rose again, if only slowly, in the following month.

The shortage of some foodstuffs on account of bad harvests and rapidly increasing demand was still the main factor in the price rise; for example the retail prices of edible oil and of fruit and vegetables went up by 14.5 % and 12.5 %, respectively between December and March; this represents increases of 30 % and 18.5 % on the corresponding period of the previous year. Prices of services also showed considerable tendencies to increase. The continuous but comparatively smaller increases in the case of other industrial consumer and equipment goods were probably due in the main to higher costs.

In the first quarter the deficit on the trade balance (according to customs returns) increased more than is usual for the time of year and was \$516 million, compared with \$320 million in the March quarter of 1962. Since net income from services again remained practically unchanged, the seasonal deficit on current account (as shown in foreign exchange statistics) was unusually high. At the same time capital movements again closed with quite a substantial deficit. The deficit on the overall balance of payments was therefore very high (\$268 million as against \$94 million in the first quarter of 1962). However, in the same period, there was an increase in foreign exchange credits taken up abroad by the commercial banks, which are by way of being capital imports. Consequently, the official gold and foreign exchange reserves fell by only \$115 million; in April/May they dropped by a further \$27 million but still corresponded to about seven months' imports.

This balance of payments trend was in the direction of a decline in banking liquidity. The easing of certain compulsory reserve rates in January and, more particularly, a fresh deficit in Treasury transactions—also in accordance with this trend—had the opposite effect. However, since the concurrent growth in the volume of banking credit was more rapid and the amount of coin and notes in circulation expanded fast, banking liquidity tightened a little between December and March—by contrast with the previous year; the monetary authorities deliberately refrained from taking any action to counter this trend. In February, March and April, the net interest return on government securities again went up a little after quite a long interval.

2. Outlook

The outlook for growth for the rest of the year is no longer so expansive since the monetary authorities decided to combat the price rise and the deterioration in the balance of payments by a tighter credit policy.

Foreign demand is still likely to advance slightly. Italy's favourable competitive position has undoubtedly suffered to a certain extent in the past year as a result, in particular, of the steep rise in costs and prices; earned incomes went up by 16.5 % in 1962, whereas the increase in the gross national product was only about 6 % by volume and 12 % in value. The after-effects of the long and severe cold spell will probably be that exports of farm products will increase less rapidly than expected. On the other hand, some economic recovery which would benefit Italian exports is likely in other important countries. The further 10 % mid-year cuts in EEC internal tariffs which France has brought forward by two months in respect of several important Italian exports and, to some extent, the Lit. 30 000 million capitalization which brought the Government Export Guarantee Fund up to Lit. 270 000 million at the end of April, will also provide some stimulus. It should also be mentioned that the contraction of the backlog of foreign industrial orders in 1962 did not continue in the first quarter of 1963.

The outlook for expenditure on gross fixed asset formation is somewhat more expansive than for exports. The rate of growth will without doubt be lower than in the last quarter of 1962, when it was affected by efforts to make up for lost time, but it will certainly be speedier than in the first quarter of 1963 which, inversely, was influenced by special restrictive factors. As for firm's expenditure on equipment investment, to judge by the EEC business survey short-term expectations of output in the investment goods industry in the first four months of 1963 have apparently risen again. Under the circumstances this is probably due in the main to the fact that at the time of the survey businessmen were counting on a rapid advance in domestic sales of these goods. The rise in costs mentioned which will probably continue—albeit somewhat more slowly—for quite a time, is in fact a strong inducement to rationalization investment. It can be assumed, however, that the growth of equipment investment will be more or less adversely affected during the year by the new credit policy.

With the end of the frost there was a more distinct upswing in outlay on construction investment. The growth of expenditure on housing will probably remain quite brisk for some time yet before the more restrictive credit policy takes effect. Dwellings planned in January/February were still up more than a quarter on January/February 1962, as

against 16 % in the preceding quarter; the year-to-year growth rate of industrial and commercial buildings planned fell, however, from 20.5 % in the fourth quarter of 1962 to 7.7 %. At first, public works will probably increase briskly, although the change in credit policy may well have a dampening effect in this sector too.

A further appreciable increase is likely in public consumption. Budget estimates for the year beginning 1 July provide for an almost one-third rise in expenditure on staff, which corresponds to well over half the total increase (of almost 20 %) in expenditure.

Growth prospects for private consumer expenditure probably still remain very expansive since mass incomes will undoubtedly again climb vigorously although perhaps somewhat more slowly than hitherto. Judging from the EEC business survey, the backlog of domestic orders to the consumer goods industry has been quite high until recently and has also grown larger. The number of persons in paid employment could, it is true, go up more slowly. However, despite a more settled wages climate, further increases in per capita income are expected as a result of higher agreed wages, particularly in the public sector, the building trade, agriculture and commerce. Cost-of-living allowances should also go up through the operation of the sliding wage-scale agreement, and more labour must be expected to leave agriculture for industry.

Owing to frost damage last winter agricultural production will probably expand less than anticipated even if weather is normal for the rest of the year. In addition, the more restrictive credit policy could tend to restrain the growth rate of industrial production, although, until April at least, order books were still lengthening rapidly.

The pace of the growth of imports will probably remain brisk and will be faster than that of exports, but it will certainly be distinctly slower for 1963 as a whole than for 1962 despite the cut in EEC tariffs—internal and external—on 1 July and possible additional liberalization measures for reasons of price policy.

Thanks to more ample food supplies and to the expected levelling out of the rise in costs during the remainder of the year, there should be some slackening in the upward movement of prices. However, the price level will most likely rise in the annual average, if only because of the wave of increases in the last quarter of 1962 and the first quarter of 1963. This rise is unlikely to be less than in 1962.

This outlook for the rest of the year which, as already mentioned, allows for the probable effects of tighter credit and for developments in early 1963, when economic

activity was partly hampered by weather, shows that most of the forecasts for 1963 as a whole made at the end of 1962 will need to be put somewhat lower.

Supply and use of resources, goods and services

	1961 (2)	1961 (2)	1962 (3)	1963 (5)
	At current prices in Lit. '000 million	% change by volume in relation to the preceding year		
Gross national product	21 912	18.0	6.1 (4)	5.0
Imports (1)	3 751	15.2	15.2	13.0
Private consumption	13 194	7.0	6.6	6.0
Public consumption	3 188	5.5	5.3 (4)	5.5
Gross fixed asset formation.....	5 058	11.5	8.9	7.0
Exports (1)	3 923	16.9	11.6 (4)	6.0

- (1) Goods, services and factor income.
- (2) Bulletin général de Statistique 1962; No. 12, Statistical Office of the European Communities.
- (3) Relazione Generale sulla Situazione Economica del Paese (1962).
- (4) Provisionally corrected for deviations from the OECD definitions.
- (5) Commission forecasts.

Note : The estimates and particularly the forecasts are approximations based on particular hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries and are established and published under the Commission's sole responsibility.

A preliminary assessment for the period after the end of 1963 indicates that economic growth is likely to be maintained. However, despite the further recovery expected in world business, the rate of growth will probably at first still be held in check by the more restrictive credit policy, although the still relatively high elasticity of production would in itself make possible even quite brisk expansion. When this credit policy can be relaxed depends on how soon success can be achieved in checking the price rise—of late increasingly conditioned by costs—by intensifying income and wage policy measures to stabilize wage costs per unit of output and by further stepping up imports. In this respect greater efforts to streamline trade channels would obviously be particularly welcome.

For as long as they pursue this more cautious course, framers of credit policy should as far as possible refrain from any measures likely to jeopardize the flow of funds to productive investment and they must take care that the propensity of businessmen to

invest, which weakened quite distinctly last year, is not further discouraged. However, a selective credit policy of this kind will certainly be particularly difficult in Italy, if only for institutional reasons. Study of its possibilities may, however, reveal certain openings for action. It would also perhaps be advisable to work against the tendency that has existed for some time for the growth rates of expenditure on investment and on consumption to move closer together. In Italy's case this is particularly serious from the point of view of growth policy. One approach would be through financial incentives to invest, such as considerably higher tax allowances for amortization of productive investment. Government policy on spending could also perhaps pay a little more regard to the need for investment to expand as fast as possible and distinctly faster than expenditure on consumption.

D. The Netherlands

In the Netherlands as in all the other Community countries economic activity suffered from the cold weather in the early months of the year. Exports hardly increased and in the first quarter were only a little up on January/March 1962. Building and construction were hit hard and this was the main reason for a considerable dip in gross fixed investment. Equipment investment also seems to have weakened slightly, but this might well be due in the main to the general business trend. Private consumption expenditure again rose, though at a slower rate.

For these reasons the growth of supply was also appreciably less marked. Industrial output per working day fell slightly and by the first quarter of 1963 its year-to-year growth rate was only 1.5 %, compared with 4 % in the fourth quarter of 1962. On the other hand, imports, which had lost momentum in 1962, expanded appreciably in the first quarter of 1963; the rise affected fuel and raw materials in particular, while capital goods lost ground.

The upward movement of prices was quite strong, mainly because the bad weather forced up the cost of certain foodstuffs. The year-to-year comparison for the first quarter of 1963 showed a rise of about 5 % in the cost-of-living index. The trade balance deteriorated, though the overall balance of payments closed with a slight surplus.

In April and May business picked up: this was not attributable only to endeavours to make good the winter losses but reflects a continuing expansionary trend. However, the rate of growth can hardly be very high in the remaining months of the year. It is true that external demand will be a stronger spur to the economy, but domestic demand will probably grow only very moderately if excess demand for building is disregarded. Equipment investment by enterprises might well weaken even further and the growth in private consumption is likely to be slower than in the previous year.

Industrial production, which has been more elastic because strains on the labour market have eased somewhat and, in particular, because there have been greater chances to improve productivity, could continue to expand fairly steadily. But it will not be possible to make up winter production losses completely, especially in building and construction and in some sectors of farming, and this means that the actual increase in the gross national product at constant prices might be a little less in 1963 than the 4 % forecast at the end of 1962. On the utilization side it is mainly the forecast of gross fixed asset formation which needs adjusting downwards.

Although they should tend towards stability, prices are none the less likely to increase slightly. The balance of current payments should improve, especially in view of the more favourable export prospects.

1. Recent developments

In the early months of 1963 there was hardly any increase in exports of goods and services. Customs returns showed that exports of goods were up only about 2 % in value and 0.5 % by volume on the corresponding figures for the first quarter of 1962, compared with year-to-year figures of 9.5 % and 9 % respectively in October/December 1962. If seasonal variations are eliminated, sales to abroad in terms of national accounting increased by about 1 % in value between the fourth quarter of 1962 and the first quarter of 1963. Higher export prices for farm products seem to have played a part here. By volume there was a slight decline (1 %). It may be supposed that this slowdown was mainly due to disturbances consequent on the exceptionally long and severe winter : in fact exports moved up again very strongly in the spring and customs returns revealed a 16.5 % increase in value in April/May over the corresponding months of 1962.

Domestic demand, in terms of actual expenditure, made only moderate progress, with gross fixed investment even suffering a distinct setback : provisional estimates suggest a year-to-year decline in the first quarter of at least 15 % in value, and 12 % by volume.

In the first place, the freeze-up brought much building to a stop: production losses in the first quarter are put at about 40 %. Hardly more than 6 700 dwelling units were completed in the first three months of 1963, whereas the corresponding figure for 1962 was nearly 15 000 units. In public investment—particularly in building and construction—there was also a decline, though probably not so severe.

Secondly, the underlying tendency for equipment investment to lose a little momentum continued. Figures for imports of investment goods suggest that the average level for the second half of 1962 was not even equalled : the adverse factors, described in several previous Quarterly Surveys, which began to slow down these investments in 1962 are still operative. In the first quarter delays in the completion of industrial buildings acted as a further brake on equipment investment.

It is as yet hardly possible to speak with any certainty about stockbuilding investment. However, there seems to have been some tendency to reconstitute reserves of raw materials, not least because production gathered a little momentum in the second half of 1962. Moreover, it is no secret that heavy inroads were made for a time into fuel reserves, and now that transport is no longer in the grip of cold weather there is distinct tendency to replenish stocks.

In the first quarter consumer expenditure was the only important element of demand that remained expansionary. Compared with the same period of the previous year the growth of private consumption was up 9 % in value and 6 % by volume, i.e. roughly the same year-to-year growth rates as in the December quarter of 1962. However, these quite high growth rates are partly attributable to the greatly accelerated increase in private consumer expenditure between mid-1962 and the end of the year. If purely seasonal movements are left out of account, the development from the end of 1962 onwards seems to be marked by a certain tendency for expansion to slacken.

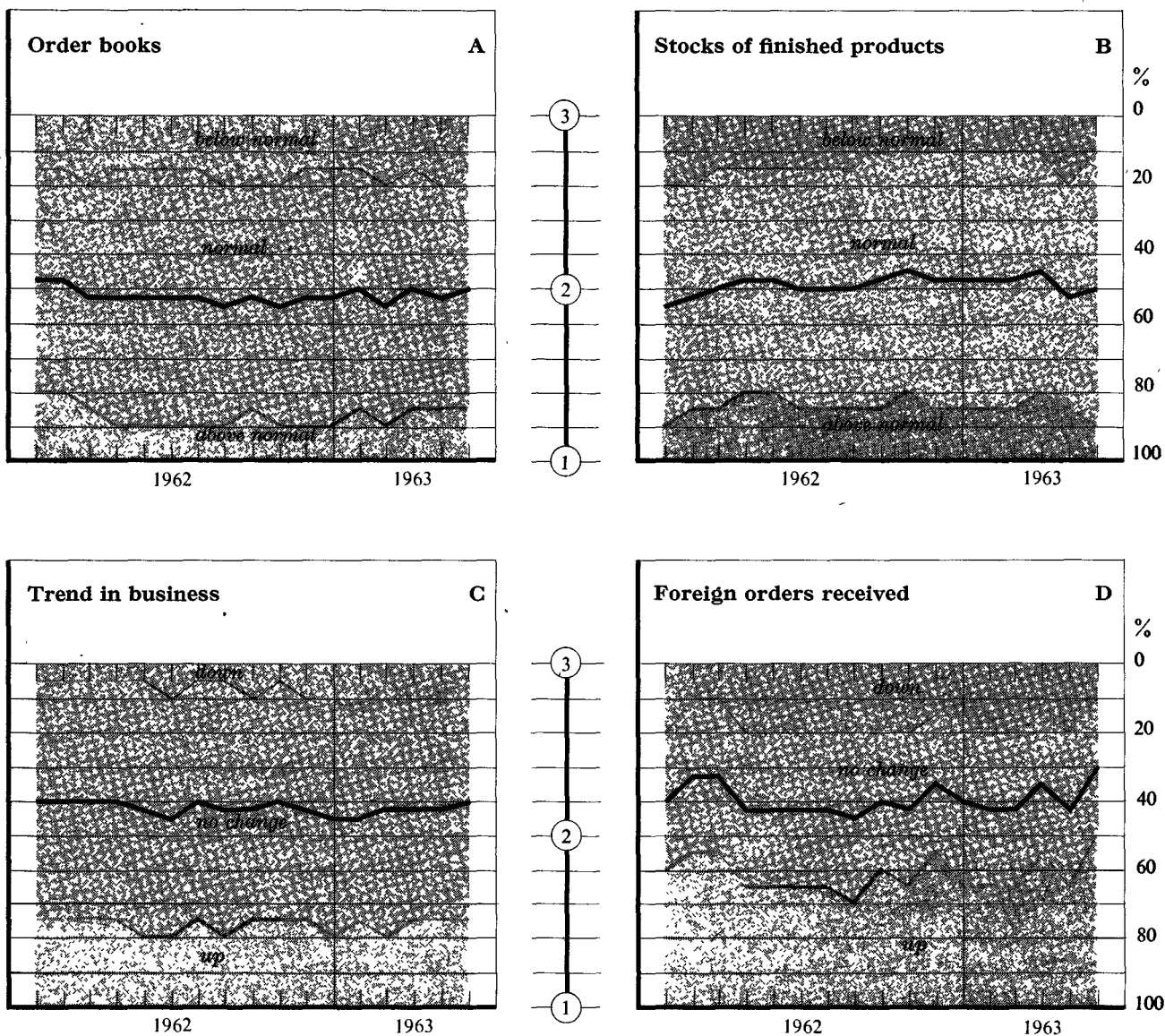
It is true that this phenomenon is also explained in part by the severe winter, which brought a temporary upswing in unemployment figures resulting in income losses despite the compensatory increase in certain transfer incomes. Above all, however, wage policy also helped to slow down the growth of the disposable incomes of households. As was expected, the wage increases granted in industry in the first quarter did not exceed the recommended limit of 2.7 %. The agreed average hourly wage in industry therefore increased more slowly between the fourth quarter of 1962 and the first quarter of 1963 than from the third to the fourth quarter of 1962, when the rate was 4 %. In the private sector as a whole, the wage increase probably only slightly exceeded the ceiling fixed. Wages and salaries in public services were again raised by 5 % at the beginning of the year.

Price trends also helped to slow down the growth of consumption in terms of value. Expenditure on certain kinds of goods—notably fuel, winter clothing and food-stuffs—was above average but in all probability this was largely at the expense of other items.

Public consumption seems to have maintained its constant upward trend.

As already mentioned the salient feature of the labour market in the first quarter was a temporary but sharp rise in seasonal unemployment, which quickly melted away as soon as normal weather returned. In May, the number of unemployed—24 100—was the same as in May 1962. True enough, this swing back to a very low figure may be

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

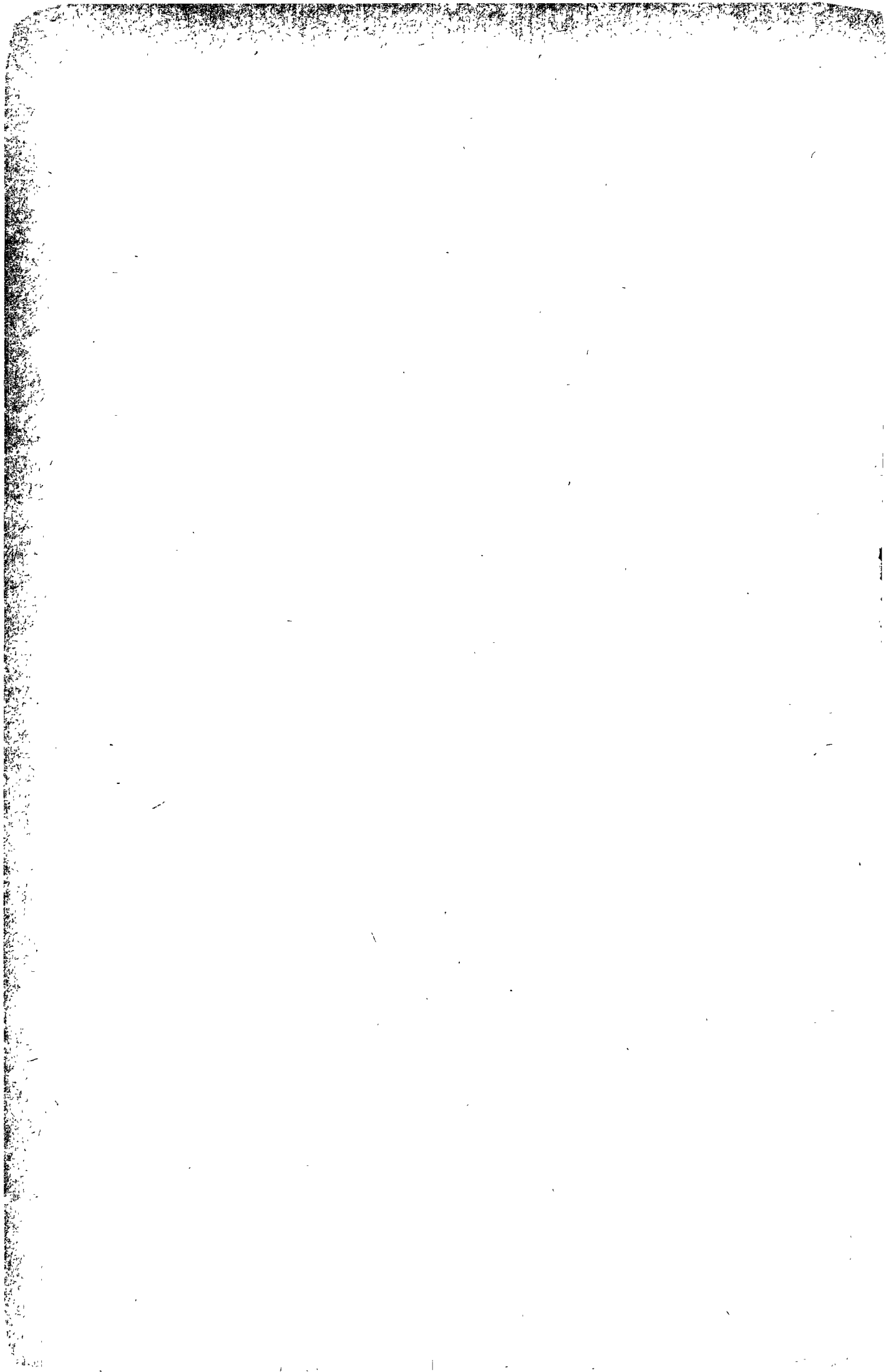


Source : Business survey of the Centraal Bureau voor de Statistiek.

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

GRAPHS A, B, C and D : The three colours (green, grey and violet) 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";
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partly due to efforts to catch up on production lost in previous months, and it is therefore by no means certain that it will be maintained. But the easing of strains on the labour market might also prove less marked in the long run than expected a few months ago : a further pointer in this direction is that the number of vacancies, which had been tending to fall since the middle of 1962, has again shown a slight upturn since February.

Domestic supply was also affected by the very difficult winter. Industrial production fell back somewhat, and in the first quarter, according to the non-adjusted CBS index (per working day), was up a mere 1.5 % on the same period of 1962, compared with a year-to-year growth rate of 4 % for the fourth quarter of 1962. There is however no question of a weakening of the basic trend, save in certain sectors where this had already become apparent in 1962 (shipyards, bicycles and some branches of textiles).

Imports of goods and services, which had been steadily losing ground since the spring of 1962, gathered some momentum in the first quarter. It is true that customs returns for purchases of goods showed a year-to-year increase of only 1.5 % in value, but imports as a whole, in terms of national accounting and disregarding seasonal variations, were up about 5.5 % in value and 4.5 % by volume on the fourth quarter of 1962. Exceptional factors, in particular the very marked growth of fuel purchases, were undeniably a contributing factor here. Nevertheless, imports of other kinds of goods also increased and there was a particularly brisk expansion in purchases of some raw materials. On the other hand, imports of investment goods again slowed down. In April/May the lively growth of imports seems to have been maintained, and it is worth noting in this connection that purchases of investment goods livened up a little.

There was a temporary but distinct aggravation of the upward price trend. The new CBS cost-of-living index (not including wages tax or compulsory social security contributions; 1959/60 = 100) shows that consumer prices increased by nearly 3 % from December to March. This was mainly due to the weather, which forced up the prices of certain foodstuffs (in particular potatoes and vegetables), but prices of some services also tended to harden. Wholesale prices also rose slightly.

Following an improvement in the fourth quarter of 1962, the trade balance deteriorated appreciably in the first quarter of 1963, because of diverging import and export trends. Customs returns show that the deficit, at Fl. 940 million, was virtually the same as in the first quarter of 1962, which had the heaviest deficit since 1958.

Despite this worsening the overall balance of payments showed a slight surplus : the banks' net gold and foreign exchange reserves, including those of the Central Bank, increased in the March quarter by almost Fl. 23 million.

In the first quarter conditions were fairly easy on the capital market, the more so as the banks stepped up their loans to business and industry, and thus probably helped to ease the situation. However, since this has meant a decline in bank liquidity, temporary strains—which the Central Bank has countered through open market operations and reduction in the minimum reserves rate—have occurred on the money market. The Treasury has drawn more heavily on the capital market, to some extent with the intention of mopping up surplus liquidities; a first loan of Fl. 300 million in March was followed by a further issue of the same amount in May.

2. Outlook

Though business should continue to expand, the fast growth rate recorded in the spring, when obstacles occasioned by the severe winter had disappeared and the winter arrears had to be worked off, is unlikely to be maintained.

Exports will probably constitute the most dynamic element in demand, although growth rates as high as in April and May are not to be expected.

The CBS inquiry among business leaders shows that except for equipment goods the inflow of orders from abroad was increasing until very recently; the outlook for world business is better now than it was a few months ago. Furthermore, duty cuts within the Community will encourage Dutch exports—a factor, which will almost certainly outweigh any unfavourable effects flowing from the second alignment on the common external tariff of French and Italian duties on goods from non-member countries (i.e. from lower duties in trade with non-member countries). This blow to Dutch exports would in any case be mitigated by corresponding increases in the duties charged by B.L.E.U. and, particularly, by the Federal Republic of Germany on goods from outside the EEC. Since strain has eased somewhat on the labour market, and domestic demand is growing more slowly while chances of improving productivity have increased, domestic supply will be more elastic than in 1962. Despite the increase in unit costs, it would seem that the Dutch economy is still competitive enough to turn export opportunities to good account.

The outlook for gross fixed capital formation is less encouraging. But outlay on building and construction will surge forward, partly because of efforts to recoup as far as possible time lost in the first quarter, although there seems no chance of making up all arrears. Strain will therefore almost certainly persist in this sector, even though the

number of workers employed in building has been increasing since the middle of 1962, and should continue to do so.

Fixed investment of enterprises will therefore once again be hampered by a bottleneck in building. Moreover, profit margins per unit of output are narrowing again, since wage increases (calculated on an annual basis) are running too far ahead of productivity improvements, with prices kept relatively stable, mainly by official policy. However, in absolute terms, the profits of enterprises might well rise moderately, contrasting with the trend between 1961 and 1962. Whatever happens, however, any incentives to invest resulting from this will probably not be strong enough to give promise of an early pick-up in equipment investment, especially since there will be the usual time-lag before the effects of rising profits are felt. All in all, therefore, demand in the shape of productive investment by enterprises might well even continue to flag in the coming months.

The trend in the growth of outlay on private consumption will probably slow down further in the last six months of the year. As most wage agreements have already been renewed, a growth in the numbers of employed and a slight improvement in old-age pensions are almost the only factors likely to lead to any sizeable increase in disposable incomes. However, the expansion of private consumption might well be somewhat faster in terms of volume than in value, because prices are likely to rise more slowly than towards the end of 1962 and early 1963.

Thanks to its greater elasticity, industrial production will almost certainly develop slightly faster than in 1962. In the first place, labour shortages should ease a little because of a new increase in the working population. Secondly, there will be considerable improvements in productivity because of investment in earlier years and of the relatively high level at which it will still run in 1963. In certain sectors, however, the hesitant development of demand will be the vital factor, so that the rate of capacity utilization is likely to decline a little further.

Imports should again increase, though perhaps at only a moderate rate. The slowdown in purchases of equipment goods due to the faltering tendency of investments by enterprises will be a factor here. As the outlook for exports is at the same time fairly favourable, the trade balance should show a distinct improvement. Largely for this reason it may be expected that the surplus on current account will increase—from Fl. 650 million in 1962 to about Fl. 900 million in 1963.

Even though the fortuitous factors which helped to spur the upward trend of consumer prices in the first quarter have disappeared, prices will still tend to rise. A

further increase in those for services, in particular the expected rise in public transport fares from June onwards, might be accompanied by higher prices for certain manufactures. Dearer raw materials, as well as rising wage costs, will account for this trend.

There is no reason to expect any substantial change in the situation of the money and capital markets in comparison with recent months. The possibility of interest rates increasing slightly may not, however, be ruled out in view of the heavy calls which will be made on the capital market by enterprises and public authorities in the second six months, especially to fund short term debts of local authorities.

If the trends were alone considered, it could be expected that the forecasts on economic development for the whole of 1963 made at the end of 1962 would in fact prove accurate. However, the losses occasioned by the winter will be reflected in the year's total results : this factor, which explains the poor figures in building and in certain other branches of industry, also affected farming and certain services, and in these conditions the growth rate of the gross national product may well be somewhat below the 4 % originally forecast.

Supply and use of resources, goods and services

	1961 (2)	1962 (2)	1962 (3)	1963 (4)
	At current prices in '000 million of florins	% change by volume in relation to the preceding year		
Gross national product	44.38	2.7	2.5	3.5
Imports (1)	22.66	6.9	6	6
Private consumption	25.60	4.5	4.5	4
Public consumption	6.16	2.9	4	2.5
Gross fixed asset formation.....	10.80	7.4	3.5	1
Exports (1)	23.18	3.7	5.5	6.5

(1) Goods, services and factor income.

(2) Bulletin général de Statistique, 1962 — No. 12, Statistical Office of the European Communities.

(3) Commission estimates.

(4) Commission forecasts.

Note : The estimates and particularly the forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries and are established and published under the Commission's sole responsibility.

Although they obviously involve many imponderables, the first tentative predictions of business trends after the end of 1963 suggest that there is every possibility that expansion will continue and might even gather pace. The export situation and the domestic impact of the increased surpluses on current account will probably be the main incentives : if the development of exports once again engenders larger profits, the propensity of businessmen to invest might well be strengthened. And if the wage trend remains as moderate as forecast for 1963, the overall rate of utilization of the factors of production might still leave a wider margin for investment.

This is true, however, only for the economy as a whole. The special situation of the building industry represents a serious obstacle. It should not, however, prompt those in charge of economic policy to make arrangements at this stage to combat a fresh upswing in investment demand that may or may not be imminent.

On the face of it the authorities cannot wholly avoid a dilemma which, in fact, has been engaging their full attention for some time : either they stick to the present priorities in establishing quotas for the various factors of building demand—housing, administrative and cultural building, industrial building and so on; or, alternately, these priorities are temporarily readjusted in favour of productive investment. If the second alternative is adopted the longer-term prospects for employment, economic growth and the building-up of real income would undoubtedly be enhanced; this solution also seems more in line with the needs of harmonious economic development in the Community.

But it will be possible to avoid the dilemma to the extent that greater latitude can be provided for a more favourable development of productive industrial building by increasing supply elasticity in the building sector.

The need is therefore for rationalization of the building industry by greater concentration and investment, unification of administrative regulations on construction (even at local authority level) and better distribution of orders placed, considerably greater efforts to recruit workers abroad, facilities for increased imports of prefabricated houses and components, and the abolition—at least provisionally—of administrative obstacles to overtime work.

E. B.L.E.U.

Belgium

In the first months of 1963 economic expansion slowed down appreciably. This was mainly attributable to the exceptionally cold winter, but there was also some loss of momentum in the underlying expansionary trend.

Exports of goods in the first quarter only just equalled the same 1962 figure, while gross fixed asset formation was appreciably less than it had been a year before: building had been hard hit by the weather, and the upward trend in equipment investment seems to have eased off. Lastly, the increase in private consumer expenditure was only modest; however, this was mainly due to income losses in branches affected directly or indirectly by weather.

The weather, plus tendencies for demand to expand more slowly, virtually halted the growth of industrial output (if normal seasonal fluctuations are eliminated). It is true that the provisional IRESP index figure showed industrial production to be up about 2 % in the first quarter of 1963 on the same period in 1962; but the year-to-year figure for the preceding quarter had shown an increase of nearly 4 %. There was an even more marked slowdown in the growth rate for imports.

Consumer prices rose faster, mainly because certain foodstuffs were dearer and prices for services continued to rise. In April the retail index was up 2 % on the equivalent 1962 figure.

Though the trade balance improved after the fourth quarter of 1962, it none the less closed with a distinctly heavier deficit than in the first quarter of 1962. On the overall balance of payments, however, there seems to have been a slight surplus in the first quarter.

After the thaw economic activity was once again definitely on the upgrade. The outlook for the second half of 1963 also suggests that the expansion of overall demand will continue, though probably at a rather lower rate than in the second half of 1962. Exports and private consumption will be the main factors working for growth. On the other hand, if efforts to work off the building backlog from the winter are left out of account, private investment will probably tend to ease off. Public investment should, continue to gain ground.

All this means that a further growth of output is to be expected, though here again the growth rate will perhaps be slower than in 1961 and 1962. Imports, particularly of consumer goods, will again increase. Prices should remain above the level recorded in the same period of 1962.

All in all, there is no reason to make any major changes in the forecasts established at the end of 1962 for 1963 as a whole.

1. Recent developments

Exports of goods and services seem to have clearly slowed down in the early months of the year. In any case the value of goods exported in the first quarter, as reflected in foreign trade statistics, only just equalled the figure for January/March 1962—whereas the same comparison for the last quarter of 1962 showed that the increase had still been as much as 7.8 % (statistics by volume are not yet available). It is obvious that special factors like the exceptionally severe winter and the dock strike in the United States have contributed to this decline. This is proved by the figures for March and for the weeks following, which were distinctly more encouraging. In April exports were even 18.5 % up in value on the 1962 figure. Here the need to work off the backlog certainly played a role. But a continuation of the tendency, already seen in 1962, for exports to non-member countries to fall off cannot be ruled out.

In the first quarter internal demand also showed certain signs of weakness which were without doubt mainly due to the weather. Here too, however, the underlying economic trend would seem to have been only slightly upwards.

This may have been particularly true of expenditure on fixed asset formation. Admittedly, we must not forget that in this field the available information from which to deduce the essential trends is very unreliable. But for some time now there have been signs that the propensity to invest has weakened and that the upswing in actual investment by enterprises is losing vigour. The same is true of the development of demand for housing. Only direct public investment was still making strong progress.

Overall gross fixed asset formation was also affected by the very bad weather in the first quarter, mainly through production losses in building, estimated at about 6 %

of total expenditure planned in this sector for the whole year, leaving out of account any increased activity arising from efforts to catch up with work left undone during the bad weather.

A number of signs suggest that policy on stocks in certain sectors has worked or will work against the development of demand: in some cases efforts to cut stocks have continued, in others accumulation has slowed down or there has even been involuntary accumulation which will depress the trend of orders in the future. In the fuels sector, however, the contrary process has been going on.

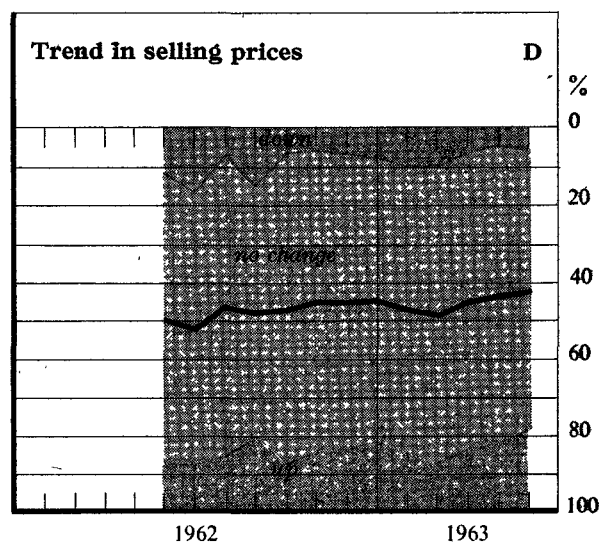
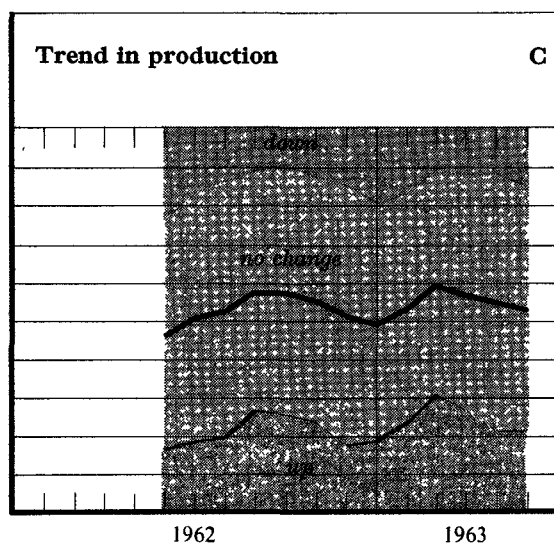
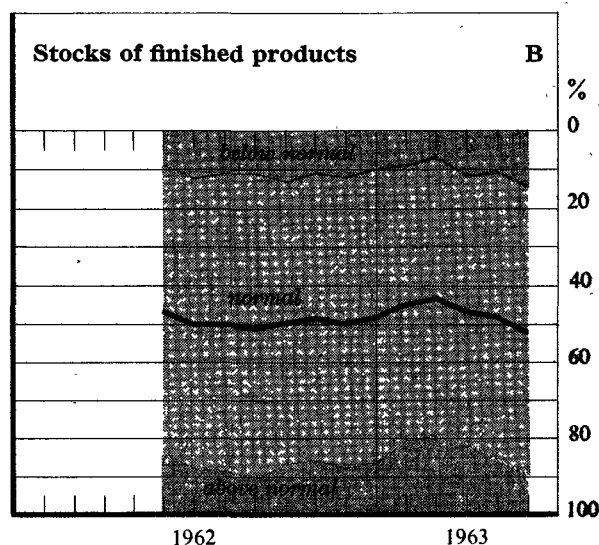
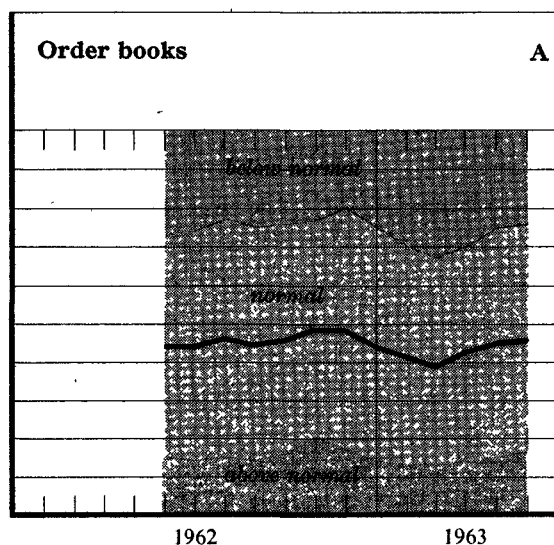
The very sharp rise in private consumption expenditure in the fourth quarter of 1962 gave way to an appreciably weaker trend in the early months of 1963. It is true that disposable incomes of households were further swollen by new wage increases in a number of sectors and by the expansion of transfer incomes. However, the exceptionally cold weather caused a temporary but substantial fall in employment, with consequent wage losses which were only partly offset by increased allowances. And this same factor seems to have engendered notable price increases which compressed the actual quantity of consumption goods purchases. Lastly, it is quite feasible that the sometimes very substantial shifts in the composition of household expenditure (so much more being spent on fuel, clothing and food) may have been another factor working—in a somewhat longer view—against the expansion of private consumption, since they cut the incomes of certain branches of retail trade, industry and services.

Partly because of the bad winter and its effects, partly because of the hesitant development of demand, domestic supply made no progress, if normal seasonal variations are left out of account. According to the unadjusted IRESP index, industrial production was up by only about 2 % (provisional figure) in the first quarter on the same period in 1962. In the third and fourth quarters of 1962 year-to-year growth rates had been 6 % and 4 % respectively. Only in the cases of energy and motor vehicles, and in some branches of textiles, was the development of production relatively encouraging.

Information on the labour market situation from March onwards, however, confirms that business in general still seems to be expanding. The winter production losses in building and ancillary branches, coupled with the slowdown in farming activity and in some services, forced the unemployment rate (1) up to almost 11 % in January and February. However, the thaw brought it back to 4 % in March and 2.3 % in April. There were 49 100 unemployed in April as against 71 100 in the same month of 1962.

(1) Total unemployed as a percentage of all employed and unemployed wage or salary earners insured against unemployment.

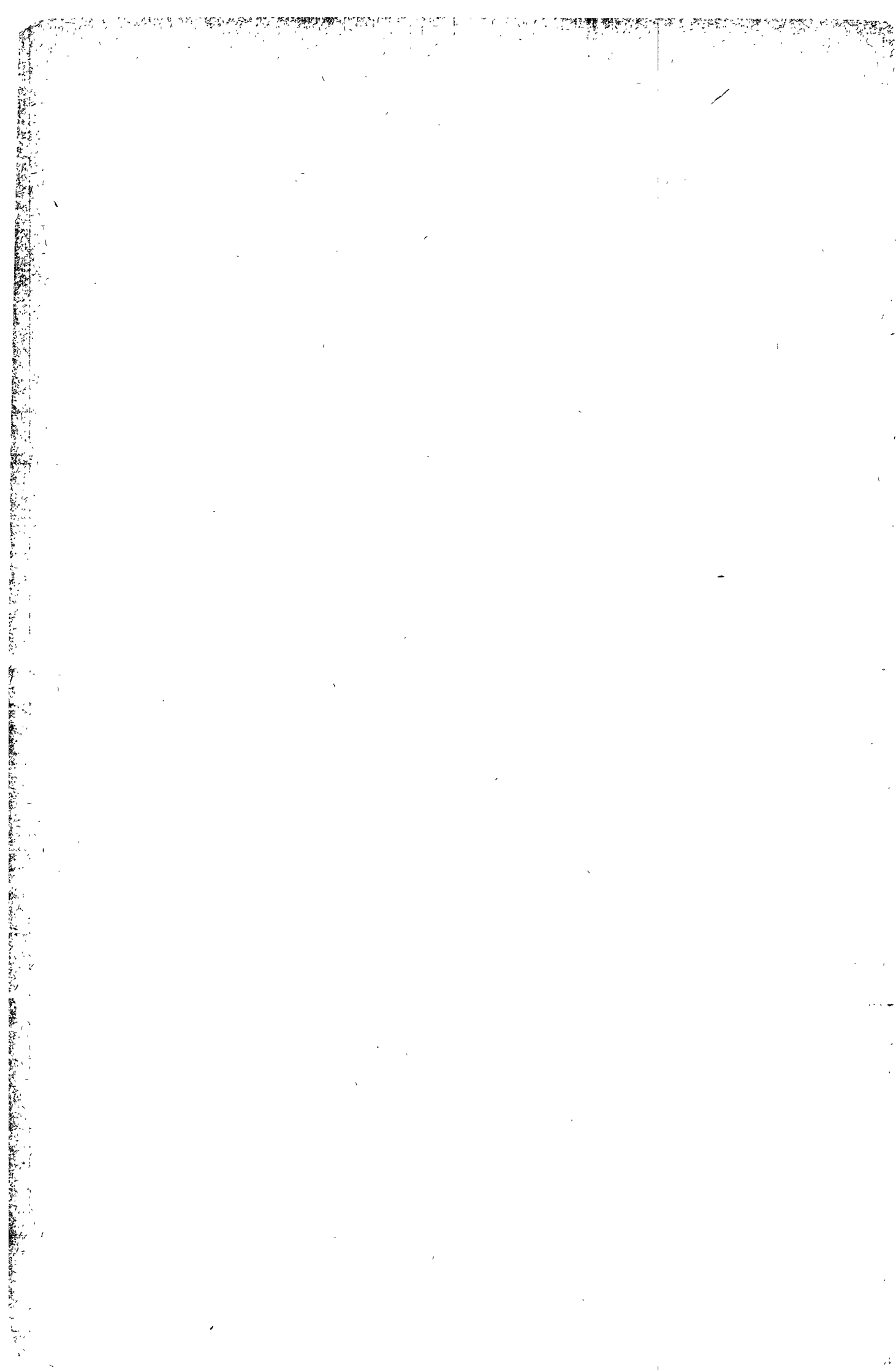
BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D: The three colours (green, grey and violet) 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".



Despite some signs that the upswing of business is slackening, it is clear from this that the level of employment has remained very high.

Imports of goods and services declined clearly in the first quarter, doubtless in the main because the weather hampered loading and transport operations. Foreign trade returns show that imports of goods were up only 4 % in value over the same 1962 figure, which compares with a year-to-year growth rate of 12.3 % in the fourth quarter of 1962 (statistics by volume are not yet available). Though purchases of consumer goods abroad have still been tending to expand, imports of equipment goods registered practically no progress over the figure for the first quarter of 1962.

The impact of the freeze-up on prices was far greater than that of the slight increase in production costs which has been going on in Belgium for some months : the supply of certain farm products fell short of needs and this was the decisive factor in the more rapid upward push of consumer prices: The prices of certain fuels also rose for a time. On the basis of monthly averages, the retail price index was up 2.3 % in the first quarter on the same 1962 figure (compared with a year-to-year increase of 1.2 % for the fourth quarter of 1962). There has been a fairly substantial rise in prices of services and wholesale prices have tended to harden.

Although exports expanded more slowly in the first quarter, the deterioration in the trade balance, apart from normal seasonal factors, did not continue. The deficit, however, at Bfrs. 3 200 million was much heavier than in the first quarter of 1962 (Bfrs. 700 million). Current transactions seem to have balanced out. Capital movements yielded a surplus, since net imports of public capital more than offset a net export of private capital.

This meant a slight increase in the gold and foreign exchange reserves of the banking system including the Central Bank. The increase in the latter's gross reserves of \$107 million between December and March reflects in the main an increase in short-term commitments to abroad : since December the Belgian Treasury has resumed its policy of incurring short-term foreign debts.

The reason for this was probably in part an increase in the outflow of private capital noted in March and April, which not only led to strains on the free foreign exchange market, but also encouraged tendencies for interest rates to rise. The two developments—capital outflows and higher gross yields on the capital markets—seem to link up with the application of those rules under the fiscal reform arrangements which concern the

advance taxation of interest paid to bondholders and owners of savings accounts. The difficulties in placing the 5 % March 1963 State loan are typical of the situation. Certain interest rates were increased, moreover, in the spring: a tendency to align them upwards is evident in new loans issued by public authorities.

Broadly speaking, these developments do not seem to have caused any appreciable contraction of liquidities at home since the cash position of the State budget and the utilization by the Treasury of the counterpart in francs of foreign exchange credits to finance public expenditure at home have tended to offset their effects.

2. Outlook

Prospects from now until the end of the year are that expansion will continue, though probably at a rather lower rate than in 1962.

The business outlook in the other EEC countries and in the main industrialized countries outside the Community is good and exports could continue to increase. The slight increase in costs per unit of output in Belgium is still well below their average rise in many other countries. However, the prospects for exports of steel and equipment are somewhat clouded by the fact that other countries are competing more vigorously on Belgium's steel export markets—particularly in EEC countries—and that in most industrial countries the development of investment in machinery is still rather hesitant. In addition, demand from the developing countries does not yet seem to be making any thoroughgoing progress.

If efforts to recoup building arrears accumulated in the early months of the year are disregarded, actual outlay on fixed investment is unlikely to prove a sharp spur to business. The growth of the investments of enterprises, in particular in industry, is likely to tend to slow down. The Central Bank's last survey of investments suggests that expenditure planned under this heading is likely to be only a little higher in the first half of 1963 than the 1962 average, which, in view of the level reached at the end of 1962, means that there will virtually be no growth. Forecasts for the second half-year are much the same, particularly in view of the trends in the rate of utilization of production capacity. The lower investment on extensions to plant in some branches will, however, be partly offset by industrial conversion schemes in certain areas of the country.

However, as already mentioned, outlay on private building in the coming months is likely to exceed the corresponding figures for 1962. But this will probably not suffice to offset the effects on the full 1963 results of winter losses in the first quarter.

For the present, the distinct upward trend in public investment will continue. Later in the year, government measures to prevent an excessive piling up of work and to forestall any steep rise in production costs might curb the expansion of construction investment. These measures consist mainly in calls to credit institutions to exercise moderation, the supervision of tender prices, and the establishment of priorities for certain public works.

All this may mean that the growth of fixed investments for 1963 as a whole will be fairly limited and rather below forecasts worked out at the end of 1962.

The entry into force at the beginning of the year of new wage agreements in different sectors of industry and the fact that almost all wages and salaries are now tied to a cost-of-living index will inevitably result in a further appreciable expansion of household incomes in coming months. Conditions approaching full employment will probably continue and this may serve to increase the impact of higher household income on the growth of private consumption, which should therefore continue at least on the present scale.

The trend of domestic supply will be very uneven, particularly for the leading industrial branches where output should continue to expand, though not particularly fast. Expansion will depend mainly on demand for consumer goods, orders for which seem in fact to have increased further since the beginning of the year.

Strains confined to specific areas will again be a feature of the labour market. Unemployment should once more decline a little, although the number of school-leavers entering the market will be relatively high from the middle of the year onwards.

The development of economic activity should stimulate a further growth of imports, although purchases abroad of equipment and raw materials are likely to advance only rather hesitantly. Despite these higher imports, the trade balance will probably show a slight improvement.

All things considered, there is no reason to alter materially the forecasts for 1963 worked out at the end of 1962.

Supply and use of resources, goods and services

	1961 (2)	1961 (2)	1962 (3)	1963 (4)
	At current prices in Bfrs '000 million	% change by volume in relation to the preceding year		
Gross national product	601.2	3.2	4.0	3.0
Imports (1)	214.8	6.6	8.5	4.5
Private consumption	413.1	3.1	3.5	3.5
Public consumption	71.4	1.1	6.0	2.5
Gross fixed asset formation.....	113.8	2.7	2.0	0.5
Exports (1)	214.3	7.6	9.0	5.0

- (1) Goods, services and factor income.
- (2) I.N.S.
- (3) Commission estimates.
- (4) Commission forecasts.

Note : The estimates and particularly the forecasts are approximations based on particular hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries and are established and published under the Commission's sole responsibility.

The possibility that the year-to-year growth rate of the gross national product may tend to remain below the rates fixed in official economic programming cannot be quite ruled out not only in 1963 but also as far as can be seen thereafter : there is no evidence at present to suggest any material change in economic trends. However, exports of certain products may possibly gather a little momentum, and this might serve to stimulate the investments of enterprises. But there is no guarantee that such a development would suffice to trigger off a new phase of expansion in productive investment in the foreseeable future.

This is an objective which could perhaps be achieved through economic policy measures in the field of taxation. These should be linked with greater efforts to improve structures in the Belgian economy.

It is true that present circumstances would probably set certain bounds to a policy designed to maintain economic growth. First, the shortage of manpower in building makes better equilibrium essential in this sector and, secondly, total government expend-

iture and the deficit must both be kept within limits if efforts for financial reorganization are to be successful. The disadvantages arising from the fact that the measures to bring better order into the State budget were not accompanied by any radical reform of the general structure of government spending, so as to limit administrative and transfer expenditure, and leave more room for manoeuvre in direct or indirect investment expenditure, are making themselves felt here.

It should none the less be possible in 1964 once again to deploy public investment in such a way that it will help to maintain business activity. Everything must be done by monetary and interest rate policy, and also, where appropriate, by fiscal policy, to promote saving and to reserve a larger proportion of savings for investment in Belgium, thus avoiding any further and more lasting rise in the cost of external financing.

Grand Duchy of Luxembourg

The absence of any expansion in the Luxembourg economy in 1962 persisted in the first quarter of 1963. Though unfavourable weather conditions had an effect on the country's economy, the basic weakness of demand was once more the main factor influencing production. The situation of the world iron and steel market—and consequently of Luxembourg's exports—showed no improvement worth mentioning in the first quarter. Internal demand probably only just held its ground at the level already reached.

In the first quarter industrial production was 2.3 % below the corresponding 1962 figure: the rate of decline in the fourth quarter of 1962 had been 0.6 %.

The subsequent months do not seem to have brought any real revival of economic expansion, although the world steel market situation has improved a little. Unless there is marked quickening of the economic pulse, Luxembourg's economic prospects for the second half of this year cannot be considered very encouraging. Only consumer demand might increase—perhaps even at a slightly faster pace.

1. Recent developments

In foreign demand the same trend that has been observed for some time seems to have continued in the first quarter of 1963. As in the previous quarter, orders received for iron and steel products fell short of the equivalent figures of a year earlier. The seasonal revival early in the spring also seems to have been comparatively feeble. However, the backlog of orders has probably not declined any further since it dipped near the end of 1962, as the steel industry has been planning output carefully. The weather almost certainly depressed iron ore exports further in the first quarter.

Demand at home is unlikely to offset completely the discouraging situation of foreign demand.

Fixed asset formation was still marked by continuing modernization and rationalization in the iron and steel industry. The investment schemes of some medium-sized industries recently established in the country are also making further progress. By and large, however, there has not been any change worthy of note in investment activity. The exceptionally bad winter considerably reduced the volume of building completed.

The year-to-year growth rate of private income was probably very low in the early months of the year. The temporary drop in employment in industry and building certainly played a part in this. On the other hand, an agreement concluded in March on wage increases in the iron and steel industries and iron ore mines is boosting business activity and may, despite all, have also led to a further increase in private consumption. Sales of certain traditional consumer items certainly slumped hard, but this was due in part to the bad weather. Furthermore, demand for several consumer durables was quite vigorous, and the heavy spending on fuel must not be overlooked.

The weakness of overall demand and the very bad winter are reflected in the figures for industrial production. The fall in the national index on a year-to-year basis increased from 0.6 % in the fourth quarter of 1962 to 2.3 % in the first quarter of 1963. After the insignificant increase in the fourth quarter of 1962 (1.2 % compared with the fourth quarter of 1961) iron and steel output weakened again slightly in the first quarter of 1963. Some limited recovery began to make itself in the spring.

The cost of living rose in the first quarter, mainly because farm products were dearer. In May the rise became distinctly more pronounced, as the prices of both bread and milk were increased. The index was then up by 3.5 % on the corresponding period of the previous year; compared with only 1.0 % in the fourth quarter of 1962.

2. Outlook

Although external demand for steel has slightly improved recently, the low level of orders in hand holds out little hope of a vigorous recovery of exports before the end of the year. Sharper competition from certain outside countries on the Community steel market and increased iron and steel production capacity throughout the world could hamper expansion even if world demand for steel grew at a faster tempo. In this connection mention should be made of other problems arising from changes that certain countries which take Luxembourg steel have made or are planning in their tax and anti-trust treatment of steel imports. However, export prices for Luxembourg's iron and steel products showed signs of hardening early in the spring, and this trend might well continue.

Fixed asset formation in industry, particularly in iron and steel, will again be marked by endeavours to limit the effects on the profitability of enterprises of the upward trend in production costs and of the weakness of demand. Gross fixed asset formation as a whole may well fail to make any significant contribution to stimulating business

in coming months in view of the fact that labour shortages are making it difficult to work off winter arrears in building and stricter rules have been applied to the usual priorities in public works since the beginning of the year.

On the other hand, the upward trend in private consumer expenditure should continue and perhaps even become more pronounced. The growth of disposable income of households, which has already profited from better wages in iron and steel, will be buttressed from the spring onwards by a fairly general adaptation, under the sliding wage scale agreement, of wages and salaries to the higher cost of living and by the new collective agreement in the building industry. Civil service salaries were raised with retroactive effect in May, and the economy should also gain from the general application of the principle of a national minimum wage.

In view of the structure of Luxembourg industry, output is unlikely to make noteworthy progress with the outlook for demand as it is at present.

Strain will continue on the labour market, although the tendency, already noted in 1962, for the number of vacancies to decrease might well continue. In some sectors the labour shortage might hamper the development of domestic supply.

Broadly speaking then, the outlook for the Luxembourg economy has not changed to any extent worth mentioning since the last Quarterly Survey (1/1963). The observations on short-term economic policy made in that survey are therefore still valid. Mention should also be made of the need to continue and intensify—by employment policy measures—the campaign against labour shortages which stand in the way of the establishment of new industries and are consequently proving an obstacle to efforts to achieve a more balanced structure of industry and exports. Permanent work and residence permits must be granted liberally and appropriate measures taken to provide dwellings for foreign workers. Official policy might also encourage, or at least refrain from hampering, the rationalization of the distribution network and the transfer of workers from farms to industry. This would serve to step up the supply of labour to expanding sectors of the economy.

**Opinion by the Economic Policy Committee
on rising price trends and the means of combating them**

At its most recent meetings, the Economic Policy Committee has considered the rising price trends in the member countries, which are likely to persist in the near future, their causes and ways and means of combating them. Replies by the members to a questionnaire, and two papers drafted by the Commission's staff, formed the basis for the Committee's discussions, which led to the following conclusions :

1. In recent years prices have risen almost without interruption in all member countries, though not to the same extent in each. In certain member countries this trend has clearly gathered momentum since about the middle of last year, albeit not to the same extent in all sectors, and there is some danger of further price rises in the future.

2. Leaving aside purely temporary effects of the weather on agricultural prices, this trend is seen to stem from a whole series of factors whose importance has varied from country to country and from one time to another; it is also possible that all of these factors have not been present in all Member States. This price trend is due in the first place to the fact that in certain member countries nominal overall demand, spurred on mainly by external demand—has in recent years outstripped possibilities of supply. Even where the gap between supply and demand is tending to narrow, prices are still very sensitive to the repercussions of excess demand, which are specially felt in constant strain on the labour market, with consequent heavy increases in wage costs per unit of output.

3. Secondly, mention should be made, in enumerating the causes of the upward price trend, of some which have little or nothing to do with changes in demand. For example, in several member countries wage increases—sometimes in conjunction with shorter working hours—seem to be becoming a largely autonomous factor in the upward movement of prices. In this context, mention may also be made of :

- i) The general long-term trend for costs of services to go up;
- ii) The prevalence of imperfect competition in both production and distribution;

- iii) The policy pursued in certain member countries to support farm incomes;
- iv) Certain energy policy decisions and social policy measures;
- v) Various other factors which exercise an upward push on prices such as rent adjustments and increased fares due in part to official action.

4. The Committee considers that action must be taken to prevent the upward price trend from continuing. Although it considers that the highest possible long-term growth of the gross national product must be secured, it is no less convinced that care must be taken to ensure that this policy is not pursued at the expense of price stability, which in the long run is vital to growth and which is one of the objectives expressly mentioned in Article 104 of the Treaty establishing the European Economic Community.

5. It is true that in the long run higher prices and their effects on the market may unleash certain opposing forces. These arise mainly from a possible shift in international cost/price relationships and the effect of this in modifying respective competitive positions. In present circumstances it is particularly important, in this respect, that producer prices have not risen further in the United States in recent years but have rather tended to fall. But economic policy cannot make do with corrective movements of this kind; it must employ positive measures to stabilize prices. Such measures must, of course, be adapted to the business situation at the time and must also take account of circumstances prevailing, which are bound to vary from one country to another.

6. In view of the heavy impact that excess demand has had and is to some extent still having on price trends, a policy of curtailing overall demand would seem in principle one of the most valuable ways of keeping prices stable. Even in the present situation, in which demand is already weakening appreciably in certain sectors, but in which markets as a whole still suffer from surfeit of demand, the Dutch and German Committee members consider that their countries cannot do without appropriate measures to curtail it. It was noted, however, in this connection that narrow limits are set to the use that can be made of a "credit squeeze" at the present time, because of the repercussions such a policy would have on relationships between interest rates prevailing in the various countries. However a restrictive financial policy is indicated in both the Federal Republic and the Netherlands. In the first-named country in particular, the very large number of Government measures to promote building also call for review, since in the Federal Republic it is in building especially that demand exceeds supply and price increases are exceptionally steep. Other Committee members voiced their doubts as to the wisdom of maintaining global restrictive measures at present, because of the longer-term effects of such measures on the development of investment and on economic growth, especially as the possibility of a recession cannot be ruled out. The Committee members were, however, of one mind that current tendencies for business activity to slacken in certain member countries and in certain sectors do not yet warrant the adoption of measures to stimulate demand.

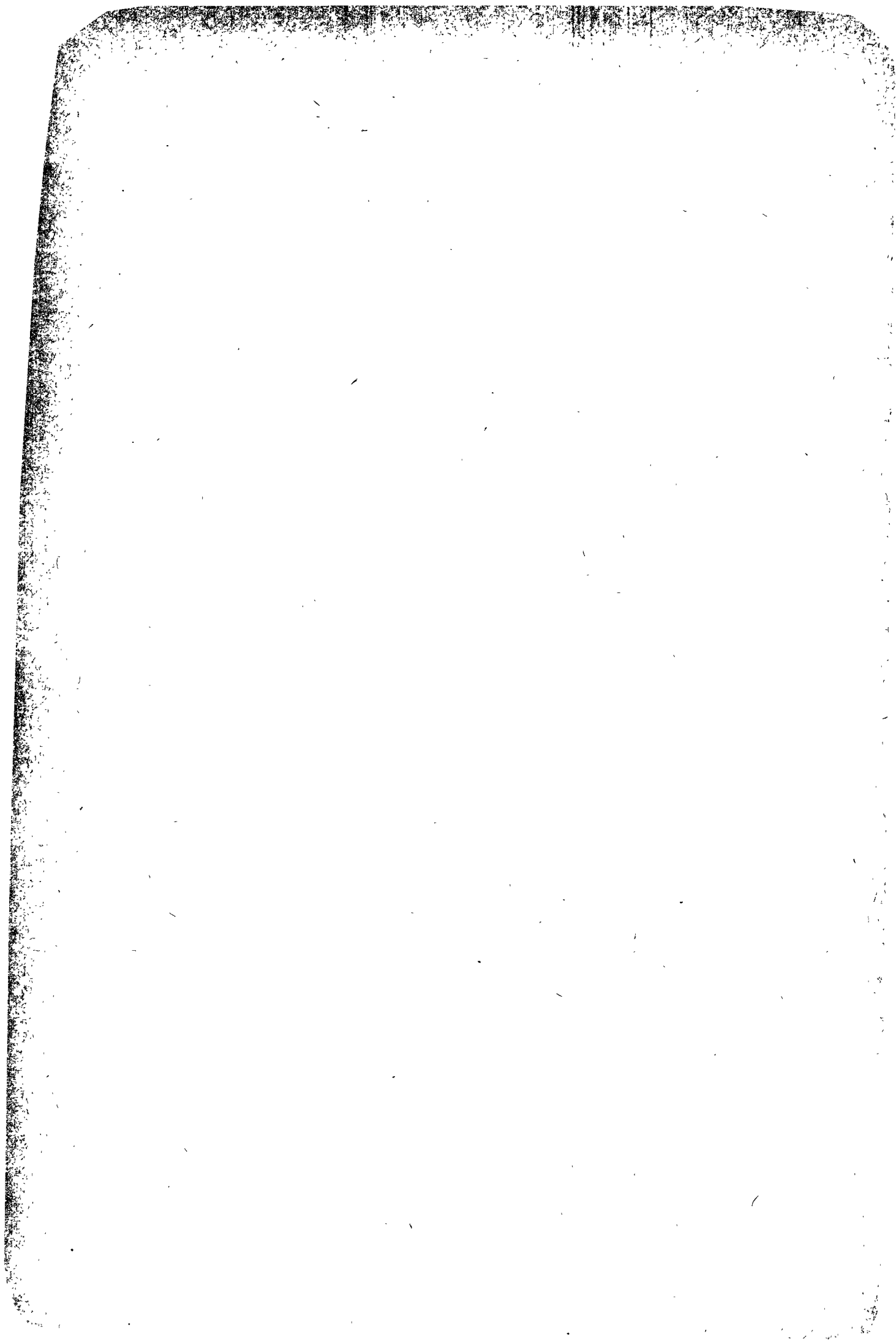
7. In so far as wages are becoming a virtually independent factor making for rising prices, the Committee considers that the Governments should use the institutional means they think appropriate to orientate the wage policies of labour and management so that, as far as possible, wage costs will evolve in such a way as not to affect prices. It would be much easier to apply such principles if at the same time a concept were worked out on long-term income distribution and asset formation. In connection with these suggestions on wage policy, the Committee also considers that the Governments should in the same way maintain regular contact with managements and use their authority to influence their decisions on prices in the direction of general stability.

8. The Committee believes that anti-trust policy, too, can make a contribution to stabilizing price levels in the Community countries. In this connection, it recommends that the way prices are formed and fixed and other practices in this field should be scrutinized and efforts to rationalize distribution channels stepped up.

9. The Committee points to the facility, under Article 15 (2) of the Treaty of Rome, of cutting internal Community customs duties in advance of compulsory reductions. It believes that if these duties were scaled down more quickly, this might further help to spur competition and curb upward price trends. Likewise it recommends the pursuit of a liberal commercial policy in trade with non-member countries and considers it would be useful, in the context of this policy, to consider possibilities of reducing consumption taxes whose effect is equivalent to that of customs duties.

10. The Committee stresses the importance which the decisions to be taken under the common agricultural policy could have for the price level : where these decisions entail higher prices for a large number of foodstuffs, the upshot could be a threat to general price stability.

11. Apart from these concrete recommendations and suggestions, the Committee specially emphasizes that every economic policy decision and every failure to make a necessary decision can have direct and indirect effects on the price trend. Only if more attention is given in the future to the need to ensure stable prices when any decision of economic policy (in the wider sense of the term—including social policy, energy policy, policy for the middle classes, etc.) is taken, will it be possible to combine a high growth rate, full employment and price stability in one harmonious whole.



**Opinion by the Economic Policy Committee
on economic budgets and economic policy for 1963**

1. At its meeting of 7 and 8 March 1963, the Economic Policy Committee examined the economic budgets established by the member countries for 1963. On the basis of these forecasts and the explanatory remarks attached to the budgets, it discussed in detail the economic policy to be pursued this year.

2. The Committee notes with satisfaction the first effective results yielded by this method of comparing and contrasting the forecasts of the different member countries and the economic policies they are planning : the method allows of highly detailed exchange of information on economic prospects, highlights the main economic problems arising in the different member countries and at Community level, and provides background information enabling the guiding lines of conjunctural policy to be laid down more exactly than in the past.

The Committee observes, however, that one of its objectives, the harmonization of economic budgets, is not yet fully realized. The technical and statistical problems arising in this connection should be solved with minimum delay. The Committee therefore recommends that national administrations should co-operate with the Commission and the Statistical Office of the European Communities in taking the measures needed to fill the gaps noted when the economic budgets for 1963 were examined, particularly in respect of information on intra-Community trade and on the accounts of households and firms. It invites the group of experts on economic budgets to pursue its studies so that the information to be given in the 1964 economic budget may conform as closely as possible with the presentation grid adopted by the Committee and with the definitions used. The Committee would also welcome more details on the assumptions, corresponding to the yearly estimates, on foreseeable trends in general development and its most important component elements in the course of the year.

3. The Committee approves the proposals made in the attached report from the group of experts on economic budgets for modifying the working time-table adopted at the Committee's meeting of 10 April 1962. It is convinced that the new time-table would make it possible to examine in good time—that is to say before economic and

financial decisions are taken in the member countries—the main lines of economic trends in the coming year. In this way joint information for use in establishing the budgets of Government departments will in particular become available early, and this will help to enhance co-ordination of member countries' financial policies.

4. Regarding the outlook for economic development in 1963, the Committee observes that in the Community as a whole and in most member countries economic expansion calculated on a year-to-year basis is continuing at a satisfactory pace : the forecasts in the 1963 economic budgets suggest that the Community's real national product will increase by roughly 4.5 %, as in 1962. In Italy and France, the gross national product should rise in real terms by about 5.5 %, in the Netherlands by 4.5 %, in the Federal Republic of Germany by 3.5 % and in Belgium by 3 %. Full employment will also continue in the Community, and general strains will persist on the labour markets in several countries, excluding Italy, where, however, unemployment will continue to contract. The development of the balance of payments of the various member countries should raise no major problems in 1963.

However, for the full year, certain aspects of the economic outlook are a matter for anxiety, or at least need to be watched with special care in the coming months :

- a) Upward cost and price trends are continuing, whereas in important industrial countries outside the Community prices will remain more or less stable;
- b) Directly productive investment will make only modest progress in most Community countries and will cease to expand at all in some of them;
- c) The progress of Community exports to the outside world will remain weak;
- d) In certain branches of industry, output will cease to expand or decline somewhat.

5. On problems of prices and production costs, the Economic Policy Committee recalls its opinion given on 14 September 1962 on upward price trends and ways and means of combating them. After analyzing the most recent trends, the Committee takes the view that in the main the recommendations in this opinion still apply to the problems of 1963.

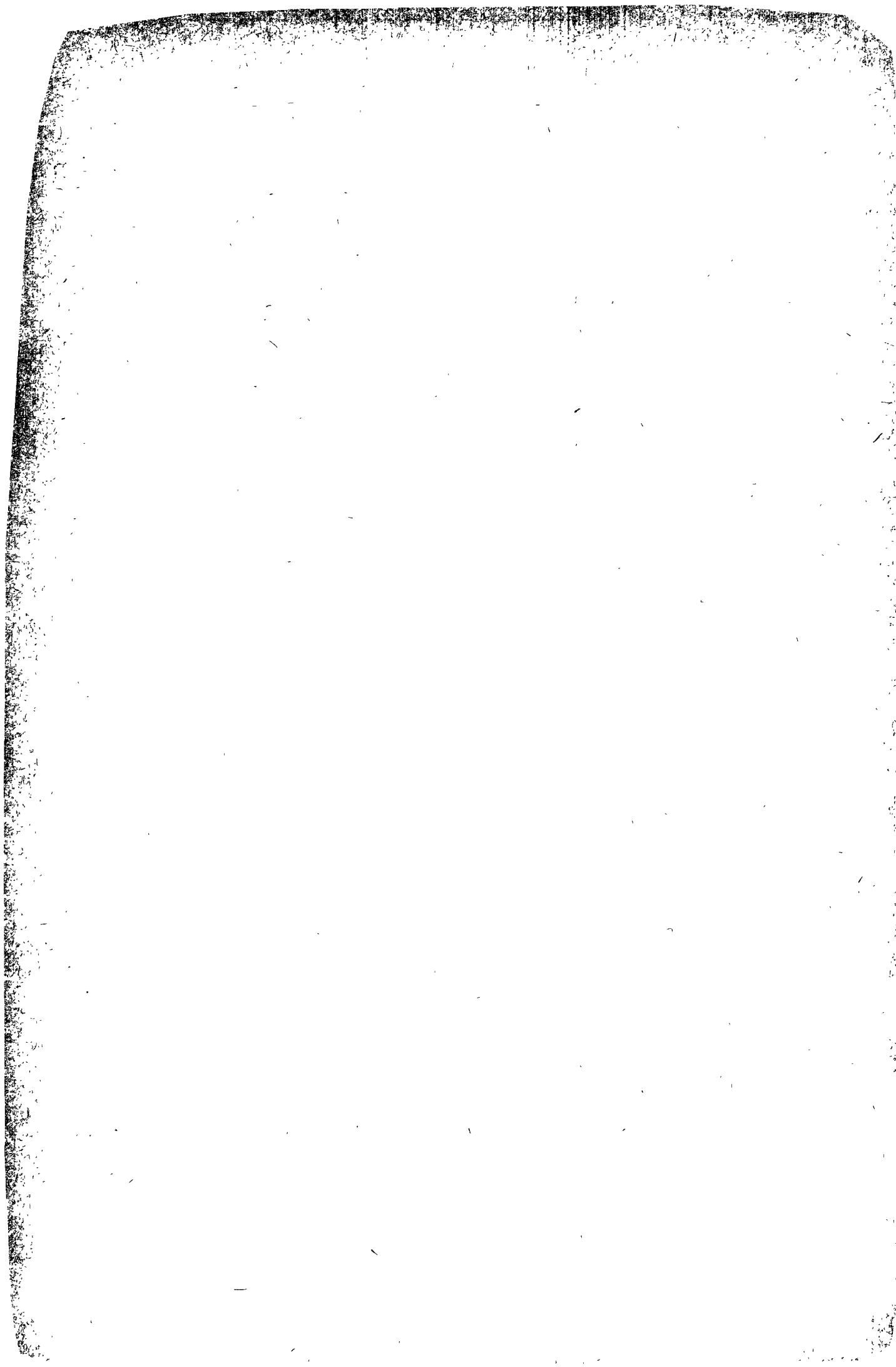
It finds timely the measures already taken in certain countries to curb growing demand and believes that like measures may also prove necessary in other countries, but advocates deploying them as selectively as possible so as not to impair the chances of adequate investments by enterprises. The Committee considers that slower expansion of demand for consumer goods in certain countries would be justified. Furthermore it once again draws the attention of the member countries' authorities to the opportuneness of measures to step up supply : additional import facilities, more vigorous anti-trust action, more and better vocational training, encouragement to immigration of foreign workers, guiding investments to areas where manpower is still available.

6. According to the forecasts in the economic budget for 1963, wage costs per unit of output will again increase substantially in all the member countries, although greater improvements in productivity and the expected slowdown in wage increases is taking some sting out of this upward movement in some of them. The Committee feels that greater efforts are needed to frame wage policy in such a way as to enable the maintenance of a high level of economic growth and full employment to be reconciled with the aim of stable prices. In present circumstances, such a policy seems all the more necessary as the faster, though partially fortuitous, upswing in the cost of living in most of the member countries in early 1963 might trigger off further wage claims which, if granted in full, would buttress the long-term rising price trend. The Committee therefore strongly recommends that the measures urged in its opinion of 18 December 1962 on wage policy in the member countries in connection with general economic policy be implemented without delay. It considers that the economic budget for 1963 and that for 1964, when work on it has advanced sufficiently, should be used to support this policy. Although wages are the most important element in total costs, the Committee must once again stress that no wage policy can be effective unless it is dovetailed with a comprehensive long-term income policy.

7. Success in stabilizing costs and in curbing, to that end, excess demand for various goods would enhance prospects of averting any sharp slowdown, or indeed actual fall, in the expansion of investment. The dangers threatening satisfactory long-term economic growth would be considerably lessened. At the same time it would be possible on the credit policy side to maintain or initiate conditions favourable for financing investment from outside sources. This would give room for manoeuvre, so that measures to revive the expansion of investment (if it did not pick-up of its own accord towards the end of 1963) could be taken without threatening the price level and the balance of payments.

8. The very modest expansion of Community exports to non-member countries seems to be partly due to the disparity between business trends in the Six on the one hand, and in certain important non-member countries on the other. So far, the satisfactory expansion inside the Community has been able to offset, at least in part, the effects on the economic activity of the free world as a whole of the slowdown in important non-member industrial countries. For the future it is important—and it is to be hoped—that these countries will achieve better success in their efforts to accelerate economic growth: this might well help to combat indirectly the persistent weakness of demand from developing countries.

Lastly, the need to avert a slowdown in exports in the present business situation is a further reason for curtailing the excessive upward cost trend in the Community. Failing this, the Community's ability to compete might weaken so much that in the longer run its economic growth policy would be seriously hampered by balance-of-payments difficulties.



Report to the Economic Policy Committee by the group of experts on economic budgets

Subject: Economic budgets for 1963.

At its meeting of 9 January 1962, the Economic Policy Committee instructed a group of experts to study the problems involved in establishing economic budgets of maximum comparability for all the Member States.

The Group met for the first time on 20 February 1962. It noted that no major problems were involved in establishing economic budgets for all member countries but that certain co-ordination measures were needed in some of the countries. The draft pro formas prepared by the Commission's staff were approved subject to a few changes and an initial report including a suggested time-table and practical details for preparing the budgets addressed to the Economic Policy Committee, which approved this report at its meeting of 10 April 1962.

In accordance with the time-table, the group of experts on economic budgets met in Brussels on 8 October 1962 to approximate hypotheses on world business trends and exports to non-member countries and to exchange ideas on the first overall estimates, which specially deal with gross national product, employment and external trade. The experts agreed to furnish complete economic budgets for their respective countries by the end of October, or at latest early in November; however, some reservations were expressed about Chapter VIII on economic policy and the experts stressed that they could only commit themselves on this point after a fairly lengthy period for consultation between the appropriate authorities. There was to be a general confrontation of the economic budgets, before their transmission to the Committee, at a meeting fixed for 30 November 1962.

Because of numerous technical difficulties and points of internal procedure, transmission of the budgets lasted from mid-November to mid-January; the meeting therefore had to be postponed until 14 to 15 February 1963.

It became clear that the time-limits fixed were, generally speaking too rigid. The preparation of economic budgets according to a minimum outline plan involves a heavy

load of work for the national experts : national forecasts are in many cases made in a different form and on the basis of various definitions which require much adjustment. The translation and running-off of the documents also took quite a long time. Even allowing that these are inevitable teething troubles which will not recur, it still seems preferable to bring forward to the beginning of September the meeting planned for the beginning of October to draw up the 1964 economic budget. This would enable a complete report on the economic budgets to be delivered to the Economic Policy Committee before the end of the year. Allowing for this change, the following time-table could be proposed for the 1964 economic budget :

End of April 1963 : main lines of the 1964 economic budget and harmonization of hypotheses on world business trends;

End of May 1963 : estimates in figures on the main totals on which skeleton economic budgets for examination by the Committee in June could be prepared;

Beginning of September 1963 : changes in first overall estimates. General confrontation of hypotheses;

Before 15 October 1963 : submission of economic budgets to the Commission's staff;

End of November 1963 : general study of the economic budgets, which would be submitted in December for scrutiny by the Committee.

Confrontation of the economic budgets has revealed that comparability of data has already been achieved to some extent and that member countries have been able to fill out the common grid. The only exception is Luxembourg, in respect of which only the chapter on the budget and the government economic accounts was supplied. Nevertheless, several countries were unable to furnish certain figures and many disparities still exist, both in methods of preparing the accounts and in the definitions used. In order to improve the coherence and significance of the budgets presented, it seems therefore desirable that the technical problems should be examined in common so that methods of improving harmonization can be studied. A forthcoming meeting of the group of experts could be devoted to this task.