

**European  
Communities**

Commission

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

**The economic situation  
in the Community**

**1**

**1972**



Quarterly survey

**Commission of the European Communities  
Directorate-General for Economic and Financial Affairs  
Directorate for National Economies and Economic Trends  
Rue de la Loi 200, 1040 Brussels**

**EUROPEAN COMMUNITIES**

**COMMISSION**

**The Economic Situation  
in the Community**

**JANUARY 1972**

# Contents

|   | <i>Page</i> |
|---|-------------|
| <b>Foreword</b>   | 3           |
| <b>I. The overall situation</b>                             | 5           |
| A. <i>Short-term economic policy</i>                        | 7           |
| B. <i>Recent developments</i>                               | 9           |
| 1. The world economic situation                             | 9           |
| 2. The economic situation in the Community                  | 11          |
| a. Internal demand  | 11          |
| b. Production and employment                                | 12          |
| c. Balance of the markets                                   | 13          |
| C. Outlook  | 17          |
| 1. Outlook for world economic activity                      | 17          |
| 2. Outlook for the Community                                | 18          |
| <b>II. The situation in each of the Community countries</b> | 23          |
| A. <i>Germany</i>   | 25          |
| 1. Recent developments                                      | 25          |
| 2. Outlook  | 30          |
| 3. The economic situation in West-Berlin                    | 33          |
| B. <i>France</i>  | 37          |
| 1. Recent developments                                      | 37          |
| 2. Outlook  | 43          |
| C. <i>Italy</i>   | 51          |
| 1. Recent developments                                      | 51          |
| 2. Outlook  | 56          |
| D. <i>Netherlands</i>                                       | 65          |
| 1. Recent developments                                      | 65          |
| 2. Outlook  | 70          |
| E. <i>Belgo-Luxembourg Economic Union</i>                   | 77          |
| Belgium   | 77          |
| 1. Recent developments                                      | 77          |
| 2. Outlook  | 82          |
| Luxembourg  | 89          |
| 1. Recent Developments                                      | 89          |
| 2. Outlook  | 93          |

## FOREWORD

When on 17 and 18 December 1971 the Ministers and Central Bank Governors of the Group of Ten held their last meeting of the year in Washington, the Quarterly Survey that follows had already gone to the printers. The measures agreed upon at that meeting are likely to produce an appreciable change in certain aspects of the economic outlook as presented in this Survey.

The most important result of the meeting was a new pattern of exchange rate relationships among the currencies of the principal industrialized countries of the Western world. As stated in the communiqué issued at the end of the meeting, this new pattern will be achieved by a number of countries making parity changes or announcing central rates. It was also decided that, pending agreement on longer-term monetary reforms, 2.25% margins of exchange rate fluctuation would be allowed above and below the parities or central rates. Furthermore, the communiqué also stated that the United States Government intended to propose to Congress a devaluation of the dollar in terms of gold, that trade talks were to open between the United States and the Community, Japan and Canada to settle outstanding short-term problems as quickly as possible, that the United States would abolish the 10% import surcharge and the discriminatory provisions of the job development credit, and that discussion should be promptly undertaken, particularly by the International Monetary Fund, to consider the long-term reform of the international monetary system.

In compliance with these decisions, the Member States of the Community fixed central rates when reopening their foreign exchange markets. Measured against the gold parities in force before 9 May 1971, these central rates imply an appreciation of 4.61% for the German mark and 2.76% for the Belgian and Luxembourg francs and the Dutch guilder; the value of the French franc remains unchanged while that of the Italian lira falls by 1%. The increase in the

price of gold from 35 to 38 dollars per ounce of fine gold, to be proposed to the US Congress, implies for all Community currencies an appreciation against their dollar parities prior to 9 May 1971. (This appreciation is 13.57% for the German mark, 11.57% for the Belgian and Luxembourg francs and the Dutch guilder, 8.57% for the French franc and 7.48% for the Italian lira).

During the first few days immediately following the decision by the Group of Ten, the effective exchange rates against the dollar stayed close to the central rates. They reflect new exchange rate relationships which correspond to the revaluation percentages mentioned above.

With effect from 20 December 1971 the United States Administration abolished the 10% surcharge on part of America's imports and the discriminatory provisions of the job development credit.

The decisions of the Group of Ten are undoubtedly a very important contribution towards the restoration of orderly international monetary and trade relations. In particular, they enable the Community to replace the exchange rate relationships applying between the currencies of the Community countries from 9 May to 16 December 1971 by an exchange rate pattern under which movements of goods and capital within the Community can develop more harmoniously.

The provisional widening of exchange rate margins beyond those permitted under international agreements, however, places monetary cooperation within the Community before a somewhat tricky problem. Implementation of the rules on exchange rate margins agreed by the Group of Ten in fact implies that the value of any Community currency expressed in terms of another Community currency may fluctuate by up to 9%. It must therefore be hoped that the authorities in the Member States, guided by the spirit of the decisions

taken by the Heads of State or Government of the Community countries at their conference of 2 December 1969, and acting in accordance with the resolution of the Council and the Representatives of the Member States on the establishment by stages of economic and monetary union in the Community, adopted on 22 March 1971, will be careful to keep the margins of fluctuation between their currencies below that permitted under the decision of the Group of Ten.

For this aim to be achieved, the Member States must in particular pursue a concerted monetary reserve policy, take suitable measures to protect economic stability against the effects of disruptive short-term capital movements, and devise procedures for intervening on the Community's foreign exchange markets through instruments other than the dollar. The Commission intends to submit appropriate proposals; meanwhile it would welcome joint action by the Central Banks of the Community to enable the exchange rates of Member States' currencies to develop as harmoniously as possible.

Other important decisions still have to be made, in addition to these particularly urgent measures. These include in particular the trade negotiations referred to in the Group of Ten's communiqué; these negotiations are already under way and it is hoped that they will soon be concluded. The decisions to be made in this context will probably have consequences similar to those of the exchange rate measures. In addition, numerous problems relating to the functioning

of the international monetary system still have to be solved: the return to an effective convertibility of all currencies; control of international capital movements; definition of the role of gold, reserve currencies and Special Drawing Rights in the international monetary system; and the allocation of responsibilities for the maintenance of exchange rate stability. Examination will also have to be made in the implications of growing dollar balances and of suitable means to prevent an excessive rise in these balances.

As there is no predicting what repercussions the results of these negotiations will have and as a thorough study of the effects of the decisions already made requires time, it was impossible to bring this Survey up to date. It is, however, already safe to say that the disappearance of the uncertainty that had affected commercial and monetary relations between the major industrialized countries can but have a positive effect on short-term economic development. Even though the new exchange rate pattern requires the Community to make continuous adjustments resulting, through their strictly technical effects, in a deterioration in the Community's competitive position and the conditions governing growth, the return to more orderly exchange rate relationships and the removal of the discriminatory trade measures taken by the United States should have a favourable impact on exports and corporate investments. The outlook, particularly for the trend of production and employment, is therefore a little better than described in this Survey.

## I. THE OVERALL SITUATION

*Over the past few months, the business trend in the Community has been slackening distinctly. Added to the tendency towards a slowdown apparent for some time already, especially in investment, there have been the psychological and technical effects, operative since the middle of August, of the monetary and commercial measures taken by the United States.*

*There has been practically no increase in exports to non-member countries over recent months. The expansion of internal demand has fallen off considerably, mainly because of the trend of gross fixed asset formation. With profit margins squeezed by the persistently sharp rise in costs, excess capacities built up during the boom in many industries and less favourable assessments of sales possibilities, the propensity to invest of entrepreneurs distinctly weakened. Stockbuilding, too, provided very little expansionary stimuli. Investment by the public authorities, on the other hand, seems to have shown a fairly appreciable overall increase. Private consumers' expenditure maintained its vigorous growth although here too there have been signs of a slight loss of momentum in several member countries. Increase in incomes has slowed down a little owing to reductions in the number of hours actually worked and to a smaller rise in employment.*

*Internal production has advanced only little in recent months. The trend was weak especially in basic products and capital goods, but output in the consumer goods industry continued to expand. There was a growing tendency for pressure on the labour market to ease: all member countries registered an increase in the number of unemployed while the number of unfilled vacancies was falling.*

*There has been a drop in the Community's imports from non-member countries. Prices, by contrast, on the whole continued to climb vigorously, forced up by the persistent rise in production costs. Although the surge of the prices of basic products and capital goods seems to be easing somewhat, the rise in the cost of living continued unabated.*

*There is every reason to think that in most member countries economic growth will slacken further in the months ahead. The uncertainty surrounding the monetary situation and international trade relations weighs heavily on the business climate. Even if the monetary crisis is settled rapidly and satisfactorily, the export outlook will probably remain relatively unfavourable. Entrepreneurs, at any rate, express an increasing pessimism and the propensity to invest of trade and industry may decline still further in most member countries. Private consumption will probably grow less rapidly due to the slower rise in wages.*

*Given this outlook for the trend of demand, production in the Community as a whole will probably expand little in the coming months. The real gross product of the Community may nevertheless grow by 2.5 to 3% in 1972 provided economic activity recovers in the second half of the year.*



## A. Short-term economic policy

The analysis of the economic situation in the Community and of the outlook for the future contained in the following chapters shows that after several years of overheating the relaxation of the strains in the business situation has of late made considerable progress in most member countries. The seasonally adjusted figures for industrial production have hardly risen further in recent months and pressure on the labour markets has distinctly tended to ease. France is the only country in which the slowdown in economic growth has been less marked; industrial production in the autumn was still rising at an annual rate of some 6%. In Italy, where economic activity has been depressed since the end of 1969, the recessionary tendencies have strengthened further, mainly because corporate investment activity has weakened. However the lowest point in the economic cycle seems to have been reached at the end of the year.

No member country has as yet registered a noticeable brake on the upward thrust of prices. The effects of inflationary behaviour are still being felt, both in the trend of incomes and in firms' price policy. In particular, wage costs per unit of output are still climbing vigorously, especially since productivity has shown little improvement as a result of the slowdown of economic growth.

Created mainly—though not exclusively—by the US Administration's decisions of 15 August 1971, the current uncertainty as to the future of world trade and the international monetary system seriously overclouds the Community's economic outlook through its technical and psychological effects. Orders from abroad have been declining since August. In most member countries, the monthly EEC business surveys reflects entrepreneurs' growing pessimism. Since the end of July, there has been a considerable deterioration particularly in the reports on order books and production forecasts, especially in the basic materials and capital goods industries.

In addition, the monetary and commercial uncertainty appears to be putting a further brake on the already declining propensity of the

business sector to invest. This makes it much more difficult to assess the sales outlook, in any case more gloomy since 15 August, and increases the risk involved in new investments. In this context it must be remembered that the slackening of economic growth has already reduced the degree of capacity utilization in many industries, particularly since production capacities had been increased during the past boom which even when demand expands at a normal pace stand little chance of being always fully utilized immediately. Furthermore, the sharp rise of wage costs per unit of output exerts considerable pressure on firms' profit margins. The change in currency relationships, which has produced a significant appreciation of the exchange rates of Germany, the Netherlands and the Belgo-Luxembourg Economic Union, against the currencies of their trading partners taken together, has curtailed profit margins further. All in all, profits in several member countries have probably even shown a distinct drop in absolute terms.

Although after several years of economic overheating it is already, in itself, no easy task to secure balanced economic growth without production falling off temporarily, it is even more difficult to restore reasonable equilibrium in the conditions at present prevailing. For with uncertainty on the international foreign exchange and commodity markets persisting and inflationary behaviour in most Community countries showing little if any change yet, the risks for employment have risen.

In the circumstances, economic policy should pursue two objectives.

First, there is a need to remove the monetary and commercial uncertainty as rapidly as possible through a return to fixed parities, thereby giving back to Europe's firms, heavily dependent on foreign trade as they are, a sound calculating basis for their foreign trade. To make this aim easier to achieve, appropriate machinery should be set up and concerted action taken at Community level to eliminate the scope for capital movements touched off by interest rate differentials or speculation, and efforts should be made to ensure, as part of the desired reform of the

international monetary system, that all countries or organized groups of countries without exception fully comply with their obligations arising from balance of payments adjustment and pursue an appropriate economic policy at home. It is indeed incompatible with the principles of true international cooperation for an individual country, when faced with economic difficulties, to try to solve them at the expense of other countries. Partial settlement at least of the international monetary and commercial crisis seems imperative if those responsible for economic policy are to retain the ability to counteract the existing tendencies towards a slowdown in the Community, should this prove necessary.

Secondly, the room for manoeuvre which short-term economic policy will have in the future depends on the progress made in controlling the cost and price inflation that is still very sharp at the moment. As stressed in the annual report on the economic situation in the Community<sup>1</sup> which the Council of the European Communities adopted on 22 October 1971 on a proposal from the Commission, "persistence of the current pace of price and wage increases would jeopardize the economies of the Member States". The Council therefore considered that there is a special case for gradually reducing the price increases to an annual rate of 3 to 3½% by the final quarter of 1972 and for bringing down wage increases (including fringe benefits) to an annual rate of 6 to 7% by the same date, if not earlier.

In all Community countries the aim must be to ensure that actual trends come close to these guide figures. In the present situation special importance must therefore be attached to the behaviour and the wage claims of the various groups participating in economic life.

Should these groups fail to adjust to the economic situation, it may not be possible to maintain the current level of employment. In this connection it is of particular importance to see that

<sup>1</sup> The version adopted by the Council can be found in the *Journal officiel* of the European Communities No. L 253, 16 November 1971.

future wage settlements and price targets are no longer based on the assumption that a persistent rise in costs and prices can be absorbed without adversely affecting growth and employment.

The economic policy guidelines contained in the annual report on the economic situation in the Community aim at restoring equilibrium without jeopardizing growth. These guidelines allow for a rise in Central Government spending in 1972 of from 7.5% to 12%, depending on the country; the latter rate is for Italy, where the economic situation has for quite some time called for an expansionary spending policy by the public authorities. At any rate, with the slowdown of economic activity and the resulting shortfall of tax receipts, and expenditure going up as planned, the government borrowing requirement in several member countries is likely to be higher than envisaged in the annual report and will therefore have a favourable influence on the economic trend.

It may well be, however, that measures to sustain demand may prove necessary as early as the first half of 1972. As expressly stated in the annual report, all Member States should elaborate a set of measures to be resorted to promptly in the event of any change in the economic situation. In most member countries, the necessary moves have already been completed or are under way.

As economic pressures slacken and especially in view of the distinct deterioration of the investment climate in most member countries, the present restrictive credit policy could be eased progressively. This could include concerted action at Community level to bring interest rates down further.

Lastly, in the current phase of the business cycle special emphasis should be placed on giving priority to the implementation of certain structural measures. These include in particular moves to establish better occupational and geographical equilibrium on the labour markets and develop infrastructure in the economically weaker regions.

## B. Recent developments

### 1. The world economic situation

The expansion of overall demand in the Community has slowed down distinctly in recent months. Except for fortuitous influences, the volume of exports has stagnated, held back by the uncertainty affecting world trade.

The trend of economic activity in the principal industrialized countries outside the Community varied sharply with the country. While expansionary forces prevailed or gained in vigour in North America and to a lesser degree in the United Kingdom, the tendency towards a slow-down strengthened in the countries of continental Europe. All in all, world trade could still have developed along favourable lines in such an economic situation had not the protectionist measures taken by the United States and some other countries, coupled with the monetary uncertainty, caused the business community to exercise appreciable restraint in placing new orders, which by the end of the year may to some extent already have worked its way through to actual deliveries.

In the United States, economic activity expanded further in the third quarter. Private consumption was more buoyant, but the advance was mainly confined to consumer durables, especially as sales of motor cars were vigorously stimulated by the abolition of the 7% excise tax. The other types of consumer spending showed a comparatively weak trend, no doubt because personal incomes rose only moderately, in part as a result of the wage freeze, and because the propensity to save remained strong. Over the same period, fixed investment by enterprises rose slightly in volume. Stockbuilding provided very weak stimuli only as the stocks built up in anticipation of a steel strike were being run down. Investment in residential construction and expenditure by States and local authorities, on the other hand, continued to expand vigorously.

Real GNP rose by 0.9% in the third quarter, after increases of 1.9% and 1.2% in the first and second quarters. The average real growth of GNP for 1971 was probably a little more than 3%. The upward movement of prices

slowed down further in the third quarter, the rise in the GNP deflator being down to 0.7%, following rates of 1.3% and 1% in the first and second quarters. After reaching a record level last May, unemployment declined slightly in the subsequent months but in October 1971 still stood at 5.8%.

The overall balance of payments, in heavy deficit already, deteriorated further both on current account, particularly because of trade deficits of unprecedented proportions, and on capital account. In the third quarter alone, the deficit on the overall balance of payments, on an official reserve transactions basis, was \$12 100 million, which exceeds the deficit for the whole of the first half-year. The measures taken by the US Administration in mid-August, however, have since led to a reversal in the balance of payments trend, though this was interrupted by the effects of the dock strike.

In the United Kingdom, the decline in economic activity registered in the first half of the year, when the real gross national product was 0.7% lower than in the second half of 1970, prompted the Government to take additional reflationary measures during the summer to supplement the arrangements agreed upon in the autumn of 1970 and under the 1971/72 budget. The result was that private consumption picked up vigorously in the third quarter. In addition, public investment rose appreciably while fixed investment and stockbuilding by enterprises continued their downward trend. Building activity, too, showed a more favourable trend.

Despite the more expansionary trend of domestic demand and the continuation of a fairly buoyant export trend, industrial production and employment remained depressed. Industrial production was stationary in the third quarter and unemployment rose further as firms continued to reduce their workforce. At the end of the year, the seasonally-adjusted number of jobless accounted for some 4% of the labour force.

The rise in consumer prices slowed down after the summer, especially as a result of the cut in purchase tax made in July. At the same time

*Visible exports to non-member countries*

(Values and % changes on preceding year)

|  | 1970                         |              |                     |                     | 1971                |                     |                                  |
|--|------------------------------|--------------|---------------------|---------------------|---------------------|---------------------|----------------------------------|
|  | million<br>u.a. <sup>1</sup> | Full<br>year | 3rd<br>quar-<br>ter | 4th<br>quar-<br>ter | 1st<br>quar-<br>ter | 2nd<br>quar-<br>ter | 3rd<br>quar-<br>ter <sup>5</sup> |
| All non-member countries                           | 45 198                       | + 15         | + 15                | + 15                | + 10.5              | + 7.5               | + 12                             |
| of which :   |                              |              |                     |                     |                     |                     |                                  |
| Industrialized countries <sup>2</sup>              | 29 836                       | + 16.5       | + 16.5              | + 15.5              | + 15.5              | + 8                 | + 12.5                           |
| including :  |                              |              |                     |                     |                     |                     |                                  |
| United States                                      | 6 633                        | + 11.5       | + 10                | + 17                | + 22.5              | + 16.5              | + 27.5                           |
| EFTA   | 14 884                       | + 16.5       | + 14                | + 12                | + 13                | + 7.5               | + 12                             |
| United Kingdom                                     | 3 667                        | + 9          | + 6                 | + 14                | + 22                | + 16                | + 25                             |
| Developing countries <sup>3</sup>                  | 11 546                       | + 13         | + 12                | + 16                | + 14                | + 6                 | + 12.5                           |
| including :  |                              |              |                     |                     |                     |                     |                                  |
| Associated overseas countries and terri-<br>tories | 3 253                        | + 18.5       | + 28                | + 21                | + 10.5              | - 4                 | + 0                              |
| Other countries <sup>4</sup>                       | 3 817                        | + 12         | + 12                | + 6.5               | + 5                 | + 11.5              | + 10                             |

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

<sup>1</sup> 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

<sup>2</sup> Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

<sup>3</sup> Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

<sup>4</sup> Class 3 of the Standard Country Classification for Foreign Trade statistics of the EEC and other exports.

<sup>5</sup> Estimates.

the rate of wage increases ceased to accelerate although the cost of living climbed appreciably until the middle of 1971.

With exports showing a favourable trend and imports advancing only slightly, the trade surpluses rose further, bringing a fresh improvement in the current account.

In most other industrialized countries economic growth tended to slow down as domestic demand slackened and export demand became less buoyant, under the direct and indirect effects of the commercial and monetary measures announced by the US Administration in

mid-August. In Sweden the weak economic situation and especially the disquieting rise in unemployment prompted the Government in October to take measures to stimulate economic activity. In Denmark, too, growth remained slow, despite a revival in exports, the maintenance of a very restrictive fiscal and monetary policy having put a brake on the expansion of domestic demand. In both these countries imports have continued to stagnate in recent months. In Austria and Switzerland, expansion likewise slowed down a little. The pressure of domestic demand eased a little and the growth of exports has slackened since the middle of the year.

In Japan, the expansion of economic activity remained on the whole comparatively weak, even though domestic demand picked up somewhat, mainly as a result of the measures to boost consumption. In particular the uncertainty affecting international commercial and monetary relations and the perceptible appreciation of the yen on the foreign exchange markets appear to have had a strong inhibiting influence on the propensity of entrepreneurs to invest in the closing months of the year. For 1971 as a whole, the real growth of gross national product will, at a probable 5%, be less than half the 1970 rate (11%). Influenced by the recessionary tendencies, imports fell appreciably. In Canada, the upswing under way since the autumn of 1970 continued until the end of the summer; since then, however, it has been impeded by the American measures which affect a very large part of Canada's exports. Imports, on the other hand, continued to climb rapidly.

In these circumstances, the volume of Community exports to non-member countries has remained stationary in recent months. Deliveries to the United States, which were speeded up in the third quarter in anticipation of the dock strike, have since slackened appreciably. Exports to the EFTA countries, Spain and Japan tended to stagnate. Only deliveries to the developing countries and the state-trading countries maintained their pace of growth.

## **2. The economic situation in the Community**

### *(a) Internal demand*

The expansion of internal demand in the second half of 1971 slackened distinctly, mainly because of the weaker trend in gross fixed asset formation. The growth of expenditure on plant and equipment slowed down appreciably in most member countries, to judge by domestic sales figures, the trend of imports of capital goods and the result of the EEC business survey among managements. In Germany, Belgium and the Netherlands, investment in plant and machinery may even have fallen towards the end of the year. These trends have various causes, including the profit squeeze resulting from a sharp increase in costs, a squeeze which in several countries even led to an actual drop in profits; the existence of excess capacity built

up by many industries during the period of overheating, and a more cautious forecast of sales possibilities. Since 15 August, the decline in the propensity to invest of entrepreneurs has been further strengthened by the monetary uncertainty and the increasingly protectionist tendencies in world trade.

The trend of building investment varied considerably with the country and the sector. All in all, it probably still had an expansionary influence on economic activity in the Community. Construction of housing continued to rise appreciably in Germany and the Netherlands and picked up distinctly in France. In Italy and Belgium, by contrast, investment in housing tended to fall. Industrial and commercial construction in Germany and the Benelux countries also fell while France was the only Community country where it kept climbing. The expansion of public expenditure on building and construction slowed down distinctly in Germany and the Netherlands but continued at a rapid pace in France and Belgium. In Italy, expenditure on public building was stepped up at a faster pace as a result of the short-term policy measures to boost activity.

Throughout the Community stockbuilding provided little if any expansionary stimuli to speak of; with costs heavy and stocks comparatively easy to replenish, managements tried to keep stocks of raw materials and semi-manufactured goods low. Stocks of finished products, by contrast, rose in several countries at production and retail level, in large part probably involuntarily.

Private consumer spending maintained its rapid advance in most member countries except Italy and thus continued to be the mainstay of expansion. The increase was particularly vigorous in the Netherlands—it even gathered momentum in August after the wage pause—and in France. In the other member countries, by contrast, there are signs of a loss of vigour in consumer spending. Although the rise in wage rates slackened little, except in Italy, actual earnings advanced at an appreciably slower pace, particularly since in almost all member countries the number of hours actually worked was reduced and employment figures went up less rapidly. In addition, the propensity to save rose, especially in Germany and Italy.

On the whole still very lively, the expansion of private consumers' expenditure benefited mainly the traditional consumer goods industries and services, and to a lesser extent consumer durables such as domestic appliances.

*(b) Production and employment*

The slackening of the stimuli provided by overall demand was also reflected in the trend of internal supply.

Industrial production in the Community (as measured by the index of the Statistical Office of the European Communities) has been virtually stationary since the spring. The degree of capacity utilization fell further. Only in France, where capacity utilization rates are still very high in most industries, expansion gathered distinct momentum again in the third quarter, after a slight slowdown in the second.

Production has been particularly sluggish in recent months in the basic products and capital

*Industrial production<sup>1</sup>*

(% change on preceding quarter)<sup>2</sup>

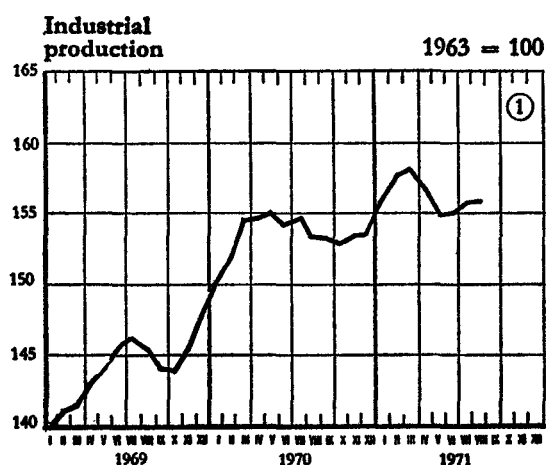
|             | 1970   |       |       |       | 1971  |       |                    |
|-------------|--------|-------|-------|-------|-------|-------|--------------------|
|             | I      | II    | III   | IV    | I     | II    | III                |
| Germany     | + 3.1  | - 0.5 | - 0.9 | + 0.6 | + 3.7 | - 1.3 | - 2.2              |
| France      | + 3.6  | - 0.7 | - 0.5 | + 1.3 | + 2.4 | - 1.7 | + 5.2              |
| Italy       | + 13.6 | - 2.5 | + 3.2 | + 1.5 | - 3.8 | - 4.5 | + 0.4              |
| Netherlands | + 4.7  | - 2.0 | + 1.8 | + 3.1 | + 5.3 | - 3.5 | + 0.3              |
| Belgium     | - 0.4  | + 1.3 | + 1.5 | + 2.6 | + 1.6 | - 4.2 | + 2.0 <sup>3</sup> |
| Luxembourg  | + 0.4  | 0     | - 4.3 | - 5.3 | + 1.5 | + 5.4 | - 0.3              |
| Community   | + 4.0  | - 0.3 | + 0.9 | - 0.2 | + 2.5 | - 1.8 | + 0.8 <sup>3</sup> |

Source : Statistical Office of the European Communities.

<sup>1</sup> Excluding construction, food, beverages and tobacco.

<sup>2</sup> Calculated on the basis of the seasonally adjusted indices.

<sup>3</sup> Estimates.



goods industries, owing to the cautious stock-building policy of enterprises. Production in the consumer goods industries, by contrast, continued to rise briskly.

In the services sector, the slackening of activity was much less marked than in industry.

Agricultural production continued to expand fairly rapidly. Output of crop products, for instance, largely outstripped the 1970 figures. For cereals alone, the rise in the Community as a whole was some 12%.

The labour markets clearly reflected the calmer trend of activity. The manpower requirements of industry fell in most member countries and the number of unemployed rose while the number of unfilled vacancies dropped. Fewer foreign workers were recruited. The labour market situation is particularly unfavourable in Italy, where the recessionary tendencies combine with a rate of structural unemployment that by itself is already higher than elsewhere in the Community.

*(c) Balance of the markets*

In all Community countries the price trend remained distinctly upward in the autumn.

Generally speaking, the rise in prices is closely connected with the persistent rise in production costs. The upsurge of prices appears to have been curbed, however, by the slowdown in the expansion of overall demand, at least where some producer prices are concerned, especially those for basic materials and capital goods. The increase in consumer prices, by contrast, continued unabated. For foodstuffs and services the rise indeed gathered speed in most member countries, and in the autumn prices for finished goods climbed at much the same pace as in the preceding months.

Under the impact of the general slowdown in economic activity in the Community, imports from non-member countries have dropped

*Consumer price index<sup>1</sup>*

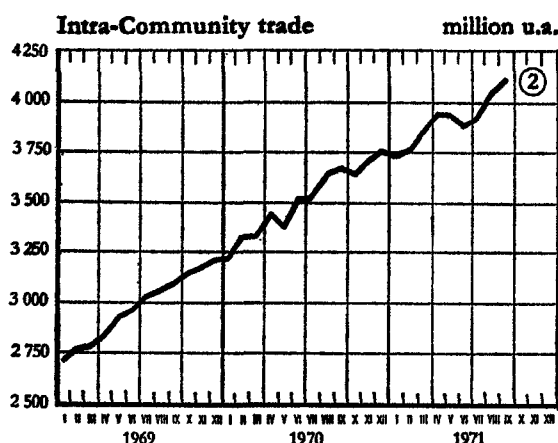
(% changes)

|             | November 1970<br>March 1971 | March 1971<br>July 1971 | July 1971<br>November 1971 | November 1970<br>November 1971 |
|-------------|-----------------------------|-------------------------|----------------------------|--------------------------------|
| Germany     | + 2.9                       | + 1.5                   | + 1.3                      | + 5.8                          |
| France      | + 1.8                       | + 2.1                   | + 1.8 <sup>1</sup>         | + 5.8 <sup>1</sup>             |
| Italy       | + 1.5                       | + 1.3                   | + 1.6 <sup>1</sup>         | + 4.5 <sup>1</sup>             |
| Netherlands | + 3.3                       | + 2.2                   | + 2.6                      | + 8.2                          |
| Belgium     | + 1.9                       | + 1.6                   | + 1.7                      | + 5.3                          |
| Luxembourg  | + 2.4                       | + 1.2                   | + 1.6                      | + 5.3                          |

<sup>1</sup> Estimates.

slightly in recent months. The weak trend of industrial production and the deterioration in the investment climate curbed purchases of raw materials and plant and machinery. Furthermore, agricultural imports ceased to rise, mainly because of very good harvests in the Community.

For the same reasons the expansion of intra-Community trade has slackened increasingly since the spring. German purchases from the other Community countries have risen little in recent months, and Netherlands imports from the Community even fell appreciably. In Italy, the level of imports from the other member



### Visible imports from non-member countries

(Values and % change on preceding year)

|   | 1970                      |           |             |             | 1971        |             |                          |
|---|---------------------------|-----------|-------------|-------------|-------------|-------------|--------------------------|
|   | Million u.a. <sup>1</sup> | Full year | 3rd quarter | 4th quarter | 1st quarter | 2nd quarter | 3rd quarter <sup>5</sup> |
| All non-member countries                      | 45 621                    | + 16      | + 16        | + 14.5      | + 12.5      | + 5.5       | + 5                      |
| of which :                                    |                           |           |             |             |             |             |                          |
| Industrialized countries <sup>2</sup>         | 26 411                    | + 18.5    | + 17        | + 15.5      | + 13        | + 2.5       | + 6.5                    |
| including :                                   |                           |           |             |             |             |             |                          |
| United States                                 | 9 038                     | + 23      | + 17        | + 20        | + 18        | + 2.5       | - 2.5                    |
| EFTA  | 10 715                    | + 13      | + 15        | + 10.5      | + 11.5      | + 5.5       | + 6                      |
| United Kingdom                                | 4 009                     | + 11.5    | + 9         | + 9.5       | + 9         | + 5.5       | + 13                     |
| Developing countries <sup>3</sup>             | 16 105                    | + 13      | + 15        | + 14        | + 12        | + 10        | + 6                      |
| including :                                   |                           |           |             |             |             |             |                          |
| Associated overseas countries and territories | 3 517                     | + 10      | + 13        | + 1.5       | - 12.5      | - 14        | - 14                     |
| Central and South America                     | 3 591                     | + 13.5    | + 17        | + 6.5       | - 12.5      | - 10        | - 13                     |
| Other countries <sup>4</sup>                  | 3 105                     | + 11.5    | + 9         | + 9.5       | + 8.5       | + 9.5       | + 15                     |

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

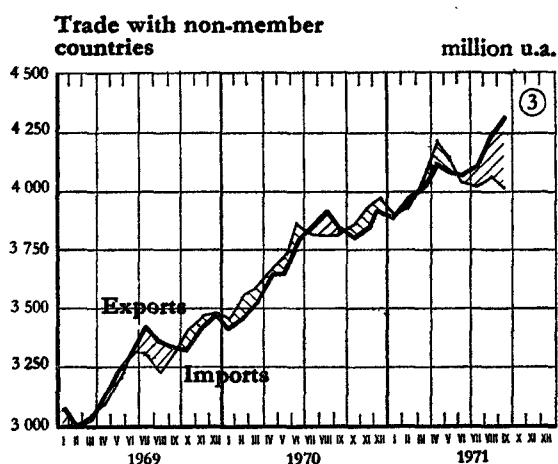
<sup>1</sup> 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

<sup>2</sup> Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

<sup>3</sup> Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

<sup>4</sup> Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other imports.

<sup>5</sup> Estimates.



countries remained very low. Purchases by the Belgo-Luxembourg Economic Union, by contrast, have gathered speed again since the beginning of the summer but it may well be that this is merely a result of irregular recording of foreign trade statistics. In France, the continued buoyancy of overall demand caused purchases from the other Community countries to gather speed.

Seasonally adjusted, the Community's balance of visible trade with non-member countries (cif-fob) improved in the third quarter. The Community's balance of payments on current ac-



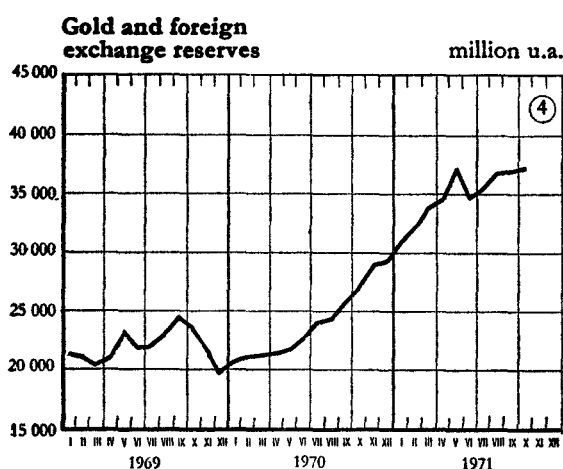
count showed a distinct change for the better. The surpluses on the Community's capital account, by contrast, were down, mainly as a result of the exchange rate and foreign exchange policy pursued in the member countries.

Four different exchange rate systems are in operation in the Community at the moment. Germany allows the exchange rate of the German mark to float, with the Central Bank occasionally intervening on the market. The Benelux countries allow their respective exchange rates to fluctuate against each other within narrow margins while letting them float freely against other currencies. For the Belgo-Luxembourg Economic Union, however, this is only true in respect of the official foreign exchange market which handles payments for current transactions; so far, however, there has been little if any difference between the exchange rate movements on the official and free markets. France operates a two-tier foreign exchange market, keeping the exchange rate of the "commercial" franc within a fluctuation margin of 1.50%. Italy has widened the margins within which the lira may fluctuate around official parity without making the new intervention points known. France and Italy at the beginning of December also restricted convertibility for non-residents. Since the introduction of these new systems, the various currencies involved have appreciated, some of them substantially, against their dollar parities. On 9 December, the premium, in terms of dollars, over official parity was 12% for the German mark, 9.9% for the Dutch guilder, some 9.3% on both parts of Belgium's two-tier foreign exchange market, 3.5% for the French franc on the free part of the French foreign exchange market, 3.2% for the Italian lira, and 0.5% for the French "commercial" franc. As the currencies of most other industrialized countries had also appreciated, the effect of revaluation against the rest of the world was less than against the dollar. As the level of appreciation also varied sharply with the country, the currencies which appreciated comparatively little against the dollar in fact depreciated against the currencies of the rest of the world. In terms of international trade and after making allowance for the various countries' shares in world trade, the effective revaluation against all other currencies on 9 December was 7.4% for the German mark and 3.2% for the Dutch

guilder and the Belgian franc. On the same basis, the lira and the French franc had depreciated by 1.6% and 5.0%, respectively.

Although day-to-day fluctuations have remained within comparatively narrow limits (seldom exceeding half a percentage point in terms of the dollar) this is liable to impede current transactions considerably, above all psychologically. Furthermore, the new foreign exchange regulations, varying as they do from country to country, necessarily submit enterprises and the authorities to additional strain.

All in all, the Community's balance of payments was still having an expansionary effect on internal liquidity at the beginning of the third quarter, but this effect weakened distinctly in



September and October. During these two months, the gross foreign exchange reserves of the monetary authorities rose by 200 million units of account only, compared with some 2 300 million u.a. in July and August.

The expansion of bank lending to the private sector has slackened in recent months. Only in France did the volume of credit continue to rise vigorously, and in Italy the slight revival apparent in the third quarter may have continued. In the other member countries, demand for bank credit increased at a fairly sluggish rate, partly for seasonal reasons, but also as a result of the decline in the propensity to invest of entrepreneurs. This is all the more significant as obtaining finance from abroad has become much more difficult. Some member countries have eased credit terms considerably. In Belgium, where the volume of credit remained

*Demand for and supply of goods and services*

|  | 1969 <sup>1</sup>  | 1970 <sup>2 4</sup>        |        | 1971 <sup>2 4</sup> |       | 1972 <sup>3 4</sup> |
|--|--|----------------------------|--------|---------------------|-------|---------------------|
|  | At<br>current<br>prices<br>in '000<br>million<br>u.a. <sup>5</sup> | % change on preceding year |        |                     |       |                     |
|  |  | Volume                     | Value  | Volume              | Value | Volume              |
| Gross fixed asset formation  | 101.9  | + 8.5                      | + 18.6 | + 3                 | + 10  | + ½                 |
| Public current expenditure on goods and services                             | 60.0   | + 4.1                      | + 11.7 | + 4½                | + 15  | + 3                 |
| Private consumers' expenditure   | 253.0  | + 6.5                      | + 10.8 | + 5                 | + 10½ | + 3½                |
| Gross Community product  | 430.0  | + 5.6                      | + 12.2 | + 3½                | + 10  | + 2½                |
| Balance exports less imports (in '000 million units of account) <sup>6</sup> | 5.3  | + 4.6                      |        | + 3.6               |       | + 6.0               |

<sup>1</sup> Statistical Office of the European Communities (SOEC); General Statistics No. 9-1971.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> Based on Community totals of the aggregates of the individual member countries at official exchange rates 1970.

<sup>5</sup> 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

*Note :*

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks and differences in treatment of the balance of exports less imports.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

below the authorized ceiling, quantitative credit restrictions were lifted altogether on 30 September. In addition, the Belgian Government at the beginning of October decided to ease hire purchase terms. The German Bundesbank with effect from 1 November reduced the minimum reserve ratios, put up sharply as recently as June, thereby releasing bank liquidity in the amount of some DM3 000 million. In addition, discount rates were cut in all member countries.

With demand for credit declining and less restrictive monetary and credit policy, the money markets in most Community countries were under comparatively little strain. Interest

rates therefore tended downwards. On the bond markets, however, this decline was only moderate, the downward tendency being counteracted, even though the public was eagerly looking for investment possibilities, by a fall in the volume of foreign capital on offer, the easing of restrictions on capital exports in France and the high borrowing requirement of public authorities in most member countries. The share markets reflected the squeeze on corporate profits and the less favourable trend of production and new orders and, above all, reflected the uncertainty affecting international commercial and monetary relations. Share prices have fallen appreciably since August.

## C. Outlook

### 1. Outlook for world economic activity

At the moment, the outlook for world economic activity is less favourable and considerably more uncertain than it was in mid-1971 without, however, giving cause for undue pessimism. World economic relations will largely depend on the conditions under which the current monetary crisis is settled. If no definite steps are taken in the near future, there is reason to fear that under the impact of monetary uncertainty and the protectionist tendencies prevailing in some countries, economic activity may slacken even further than it is doing at the moment almost everywhere in continental Europe. In particular, further cuts may be made in corporate investment programmes. However, if a rapid solution is found to the monetary problems, there is good reason to hope that a major economic downturn can be avoided. For one thing, the acceleration of economic growth expected in North America and the United Kingdom may give a fillip to economic activity in the other industrialized countries. For another, the stage would be set, psychologically, for the various groups active in economic life to respond sufficiently to economic policy measures aimed at deliberately underpinning economic activity should this prove necessary.

In the United States 1972 in any case is expected to bring a phase of comparatively rapid economic growth. The main factor in this expansion will probably be an appreciable rise in private consumers' expenditure. The measures taken in the recent past (abolition of the 7% excise tax on motor cars and the bringing forward to 1 January 1972 of the increase in personal income tax allowances) have already prepared some of the ground. The rise in employment and a certain return to normal in the propensity to invest should provide additional stimuli. With Government expenditure going up, public current expenditure on goods and services will equally expand more vigorously. Investment, too, is likely to show a more favourable trend. The latest investment surveys, for instance, show that the investment plans of enterprises should become more expansionary again. The proposed tax relief for

purchases of plant and machinery may also stimulate the propensity of enterprises to invest.

Housing construction will keep expanding. The general recovery of activity can be expected to be accompanied by an increase in stockbuilding. All in all, real gross national product in the first half of 1972 may rise at an annual rate of some 6%. Despite this acceleration in growth, the unemployment rate will probably decline only slowly at first. The upward thrust of prices is likely to slacken further in the months ahead. And lastly the measures to dampen imports and the boost to exports deriving from the depreciation of the dollar in terms of the currencies of the United States' major trading partners can be expected to bring an improvement in the balance of trade.

In the United Kingdom, the fairly hesitant recovery registered so far is likely to gather momentum in the first half of 1972, helped by the trend in domestic demand. Private consumption is likely to be stimulated especially by the tax reliefs and the relaxation of hire purchase terms. The easing in the pressure of costs and the more favourable prospects opened up to the United Kingdom by Common Market entry and the resultant increase of sales outlets may, at least later in the year, prompt enterprises to step up capital spending. Residential construction will no doubt continue on a buoyant trend, and public investment is likely to go up appreciably, particularly since the public programmes designed to reduce unemployment have been reinforced of late. Although the American measures and the slowdown in demand from the Community may well bring a certain slackening of exports, export demand on the whole should still show an advance. Given this trend, the real gross national product may rise at an annual rate of some 3.5% in the first half of the year. As growth accelerates, recourse to foreign supply is likely to be stepped up, and the surpluses on the trade account and the current account may therefore decline.

In the other industrialized countries, expansion may be less buoyant than expected as recently as the middle of the year. In Austria and Switzerland, economic growth may slow down

further, with exports losing in vigour and a less favourable investment climate. Imports, however, will continue to climb vigorously in both countries. In Sweden, the measures taken in October to stimulate fixed investment are likely to bring a comparatively slow revival of economic activity. In Denmark, where a restrictive policy is being maintained, economic activity is likely to remain fairly depressed. In Norway, expansion will slacken. In the aggregate, import demand from the Scandinavian countries will be weak, at least in the first half of the year. In Japan, the revival in domestic demand which the expansionary measures taken at the end of 1971 are expected to produce will probably bring about a more vigorous rise in imports, even if the revival is slower than anticipated. In Canada, economic growth in 1972, boosted by the measures taken by the Government in October, is likely to continue at a rapid pace and be accompanied by an appreciable increase in imports.

Given this outlook for imports in the principal industrialized countries, the Community's exports to them will probably expand only slowly, at least in the first half of 1972, particularly since keener competition on foreign markets and the appreciation of most currencies in the Community are additional impediments to a more vigorous advance of exports. Furthermore, demand from the developing countries must be expected to slacken somewhat.

## **2. Outlook for the Community**

There are many indications that economic growth in most Community countries will slacken further in the months ahead. Only in Italy can the pace be expected to quicken somewhat, and in France economic activity will probably still expand fairly appreciably.

The key to the slowdown in expansion lies not only in the comparatively unfavourable outlook for the trend of exports but also increasingly in the field of internal demand.

In particular, the investment climate in trade and industry does not appear as favourable as in the past two years. The main pointers in this direction are the profit squeeze, the decline

in capacity utilization, and the growing uncertainty about future sales possibilities, considerably reinforced by the effects of the measures taken by the United States in mid-August. These factors will probably largely outweigh the investment incentives provided by the need to rationalize the production process, by the relaxation of monetary and credit policy and the prospects offered by the enlargement of the Community. If no satisfactory solution is found soon to the international monetary problems, it is to be feared that the pessimism of entrepreneurs may mount further, and additional cuts may be made in their investment plans.

The slackening of corporate investment, apparent over the past few months, may become more pronounced, especially in Germany and the Benelux countries. In France, too, the expansion of private sector investment may slow down, though considerably less sharply than elsewhere; the public sector enterprises, however, intend to step up considerably their investment projects for 1972. In Italy, the readiness to invest of entrepreneurs, at the moment at a low ebb, may improve under the influence of the expansionary measures taken by the public authorities.

Stockbuilding is unlikely to provide any major stimuli in the first half of 1972. Only in Italy, where their level is very low, can stocks be expected to rise a little.

In all member countries except the Netherlands, however, the comparatively weak propensity to invest of enterprises will contrast with a probably very vigorous expansion of public expenditure on investment. Residential construction, too, should grow further, especially since some member countries have taken measures to boost it and finance is generally easier to obtain now.

Private consumers' expenditure will probably still expand vigorously in the coming months, though no longer quite as rapidly as during most of 1971. This will be due mainly to the slower rise in the wage and salary bill and also to a probable fall in the amounts which the self-employed withdraw from their businesses owing to the profit squeeze. In several countries, especially Germany, agreed wages can probably be expected to advance at a slower pace.

Moreover, in most countries the upward movement of actual earnings will probably be curbed by the weaker rise in employment. There are also many indications that the propensity to save of households will equally grow. In France, on the other hand, the still favourable outlook for expansion and the expected wage increases suggest that the growth of household spending will not slow down significantly for the time being. In Italy, private consumers' expenditure may recover from its present sluggish trend in the next few months, helped by the general improvement in the economic situation.

This outlook for the trend of demand suggests that in the next few months the advance of industrial production in the Community as a whole will slow down further and that the degree of technical capacity utilization will keep falling. All in all, the gross Community product in 1972 may grow by some 2.5 to 3% in real terms, provided that in the second half of the year the economic climate improves again, if anything.

Employment will rise comparatively little in the next few months in all Community countries except France. In industry, it may on balance even decline a little. Unemployment will probably be on an upward trend if account is

taken of the growing number of school-leavers. Only in Italy can the rise in the unemployment rate registered in 1971 be expected to come to a halt, unless the expected revival of activity takes some more time to materialize.

Imports will probably rise comparatively little in the first half of the year. This is particularly true of plant and machinery, semi-manufactures and raw materials. However, the significant appreciation of the currencies of most Community countries in terms of the dollar is having an expansionary effect on the volume of imports. The balance of trade will continue to show surpluses, which may at times even rise owing to the effects on the terms of trade of the shift in the exchange rate pattern.

The substantial upsurge of wage costs which was registered throughout the Community last year and which in most member countries will persist in the next few months as wages still climb comparatively sharply while productivity advances only little, is in the aggregate likely to have an unfavourable influence on the price trend. It may well be, however, that the tendency for the upward movement to calm down asserts itself increasingly, especially at producer level, and that the rise in prices to the private consumer begins to slacken somewhat in most countries.

## Community

**TABLE 1: Basic data 1970**

|   | Communi-<br>nity | Ger-<br>many      | France | Italy  | Nether-<br>lands | Bel-<br>gium | Luxem-<br>bourg   |
|---|------------------|-------------------|--------|--------|------------------|--------------|-------------------|
| Total area ('000 sq. km.)                                 | 1 167.5          | 248.5             | 551.2  | 301.2  | 33.5             | 30.5         | 2.6               |
| Total population ('000)                                   | 188 147          | 61 547            | 50 705 | 53 486 | 13 032           | 9 676        | 339.2             |
| Density of population per sq. km.                         | 161              | 248               | 92     | 178    | 389              | 317          | 130.5             |
| Numbers in employment ('000)                              | 74 196           | 27 204            | 20 473 | 18 956 | 4 678            | 3 842        | (143.6)           |
| Numbers in employment, break-<br>down by main sector (%): |                  |                   |        |        |                  |              |                   |
| Agriculture   | 13               | 8.8               | 14.2   | 19.4   | 7.3              | (4.6)        | (10.9)            |
| Industry  | 44               | 48.7              | 40.6   | 43.3   | 41.2             | (42.8)       | (46.3)            |
| Services  | 44               | 42.5              | 45.2   | 37.3   | 51.5             | (52.6)       | (42.8)            |
| Share of gross domestic product<br>(%):                   |                  |                   |        |        |                  |              |                   |
| Agriculture   | .                | 4.1 <sup>1</sup>  | 6.0    | 10.3   | 6.2              | 4.5          | (4.1)             |
| Industry  | .                | 51.7 <sup>1</sup> | 48.2   | 40.5   | 42.0             | 42.6         | (56.9)            |
| Services  | .                | 44.2 <sup>1</sup> | 45.8   | 49.2   | 51.8             | 52.9         | (39.0)            |
| In % of gross domestic product:                           |                  |                   |        |        |                  |              |                   |
| Private consumers' expenditure                            | .                | 55.7              | 58.8   | 63.9   | 56.8             | 60.4         | (55.7)            |
| Public current expenditure<br>on goods and services       | .                | 15.7              | 12.1   | 12.7   | 16.1             | 14.0         | (10.8)            |
| Gross fixed asset formation                               | .                | 26.5              | 25.8   | 21.2   | 26.3             | 22.1         | (25.6)            |
| Total exports   | .                | 23.2              | 16.0   | 20.2   | 48.3             | 44.4         | 83.2 <sup>1</sup> |
| Total imports   | .                | 21.6              | 15.8   | 19.6   | 49.6             | 42.1         | 72.6 <sup>1</sup> |

<sup>1</sup> 1969

**TABLE 2: Key indicators**

|                                | % change by volume<br>on preceding year |       |        |        |        | Volume<br>indices<br>(1963<br>= 100) |
|--------------------------------|---|-------|--------|--------|--------|--------------------------------------|
|                                | 1966                                    | 1967  | 1968   | 1969   | 1970   | 1969                                 |
| Gross Community product        | + 4.3                                   | + 3.2 | + 6.0  | + 7.3  | + 5.4  | 144                                  |
| Industrial production          | + 5.0                                   | + 1.3 | + 8.9  | + 11.9 | + 6.3  | 154                                  |
| Visible imports                | + 7.1                                   | + 0.8 | + 11.6 | + 12.6 | + 21.1 | 184                                  |
| Private customers' expenditure | + 4.7                                   | + 3.7 | + 4.9  | + 7.0  | + 6.4  | 143                                  |
| Gross fixed asset formation    | + 4.5                                   | + 1.0 | + 7.4  | + 9.6  | + 8.2  | 152                                  |
| Visible exports                | + 8.3                                   | + 7.6 | + 13.5 | + 7.5  | + 9.3  | 188                                  |
| Intra-Community visible trade  | + 11.0                                  | + 5.7 | + 19.5 | + 22.5 | + 12.4 | 245                                  |
| Gross product per capita       | + 3.4                                   | + 2.6 | + 5.4  | + 6.4  | + 4.5  | 135                                  |

TABLE 3 : Basic monthly indicators

|  | Year | Jan.  | Feb.  | Mar.  | Apr.  | May   | June  | July  | Aug.  | Sept. | Oct.  | Nov.  | Dec.  |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Industrial production<br>(1963 = 100)                    | 1969 | 137   | 142   | 146   | 150   | 151   | 152   | 135   | 115   | 146   | 150   | 158   | 154   |
|  | 1970 | 149   | 156   | 160   | 160   | 163   | 157   | 142   | 118   | 155   | 160   | 165   | 160   |
|  | 1971 | 156   | 161   | 162   | 163   | 161   | 161   | 145   | (117) | (159) |       |       |       |
| Imports from non-member<br>countries (cif, million u.a.) | 1969 | 3 175 | 2 793 | 3 105 | 3 233 | 3 321 | 3 376 | 3 259 | 2 853 | 3 365 | 3 637 | 3 407 | 3 636 |
|  | 1970 | 3 664 | 3 397 | 3 608 | 3 959 | 3 735 | 4 000 | 3 780 | 3 376 | 3 812 | 3 892 | 4 099 | 4 230 |
|  | 1971 | 3 676 | 3 913 | 4 405 | 4 090 | 3 948 | 4 310 | 3 906 | 3 685 | 3 940 |       |       |       |
| Exports to non-member<br>countries (fob, million u.a.)   | 1969 | 2 886 | 2 745 | 3 261 | 3 306 | 3 295 | 3 296 | 3 584 | 2 801 | 3 225 | 3 729 | 3 425 | 3 658 |
|  | 1970 | 3 285 | 3 349 | 3 749 | 3 828 | 3 539 | 3 949 | 3 984 | 3 322 | 3 703 | 4 099 | 3 853 | 4 432 |
|  | 1971 | 3 550 | 3 831 | 4 471 | 4 025 | 4 076 | 4 180 | 4 334 | 3 864 | 4 134 |       |       |       |
| Balance of trade<br>(million u.a.)                       | 1969 | - 239 | - 43  | + 156 | + 23  | - 26  | - 80  | + 325 | - 57  | - 140 | + 92  | + 18  | + 22  |
|  | 1970 | - 379 | - 43  | + 141 | - 131 | - 146 | - 51  | + 204 | - 54  | - 109 | + 207 | - 246 | + 152 |
|  | 1971 | - 126 | - 82  | + 66  | - 65  | + 123 | - 130 | + 423 | + 179 | + 194 |       |       |       |
| Intra-Community trade<br>(million u.a.)                  | 1969 | 2 696 | 2 727 | 3 057 | 3 043 | 3 013 | 3 101 | 3 157 | 2 415 | 3 089 | 3 554 | 3 144 | 3 242 |
|  | 1970 | 3 140 | 3 284 | 3 604 | 3 782 | 3 247 | 3 861 | 3 655 | 2 949 | 3 719 | 3 900 | 3 847 | 3 830 |
|  | 1971 | 3 369 | 3 786 | 4 459 | 3 967 | 3 920 | 4 103 | 3 995 | 3 448 | 4 073 |       |       |       |

## NOTES TO GRAPHS AND TABLES

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

Germany : SOEC; Statistisches Bundesamt.

France : SOEC.

Italy : Relazione generale sulla situazione economica del Paese (1969).

Netherlands : SOEC; Ministerie van Sociale Zaken en Volksgezondheid; Centraal Bureau voor de statistiek.

Belgium : SOEC; Ministère de l'Emploi et du Travail

Luxembourg : SOEC.

Conversion into units of account (1 u.a. = 0.888671 g fine gold).

*Graph 1*

Three-month moving averages of the seasonally adjusted indices (excluding construction, food, beverages and tobacco).

*Graph 2*

Monetary authorities' reserves of gold and convertible currency, holdings in special drawing rights and reserve position in the IMF. Gross figures, i.e. including foreign liabilities. Position at end of month.

*Graph 3*

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

*Graph 4*

Three-month moving averages of the seasonally adjusted value of trade between member countries, as shown by foreign statistics on imports.

## **Community**

### *Table 1*

Total population at mid-year; for Germany, estimated average for year; for Italy, average for year.  
Resident population in employment at mid-year; for Germany, estimated average for year; for Italy, average for year less persons temporarily working abroad.  
Percentage shares of the main economic sectors at factor cost.  
Percentage shares of demand aggregates and of total imports at market prices.

### *Table 2*

Industrial production, excluding construction, food, beverages and tobacco: index of the Statistical Office of the European Communities.  
Imports (cif) from non-member countries, exports (fob) to non-member countries: as shown by foreign trade statistics.  
Trade between member countries, on imports basis: as shown by foreign trade statistics.

### *Table 3*

See note to Table 2.



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



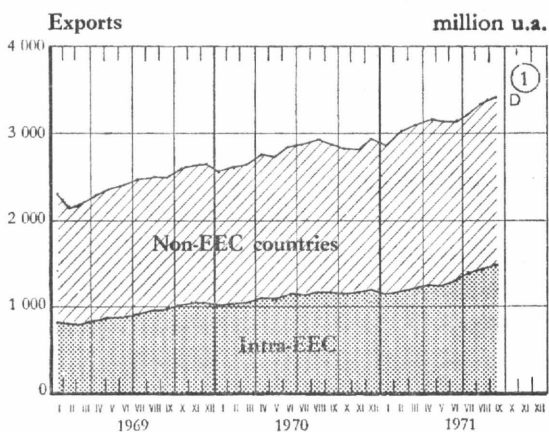
## A. Germany

*At the end of 1971 the German economy was marked by a slackening in economic activity. During recent months new orders from abroad have been tending distinctly downwards, mainly as a result of the high de facto revaluation of the German mark; the propensity to invest of entrepreneurs has been declining and the expansion in private consumers' expenditure, fairly brisk though it still is, appears to have reached its peak. On the supply side there has already been a distinct adjustment. Industry has cut back on production and reduced its labour force. The upward tendency of prices, however, has remained very strong.*

*The tendency for the economic climate to cool off is likely to continue in the next few months. Nevertheless, there is plenty of scope, especially where the public finances are concerned, for giving economic policy an expansionary bias. The upward movement of prices and costs is still strong, and the sooner it is checked, the better the opportunities at a later date of initiating a new and more balanced business upswing by means of a controlled policy of expansion.*

### 1. Recent developments

The German economy was marked by a much calmer business situation at the end of 1971. The backlog of orders in industry had fallen appreciably and businessmen were less willing to invest. Employment and production were tending slightly downwards, whilst the upsurge in prices was still very strong.



Export demand slackened distinctly towards the end of the year mainly owing to the effect of the de facto revaluation of the German mark.

Since spring 1971 there has been a marked fall-off in new export orders received by industry. While actual exports still expanded relatively vigorously until the autumn, this was largely due to a drive to speed up deliveries as a dock strike had been announced in the United States.

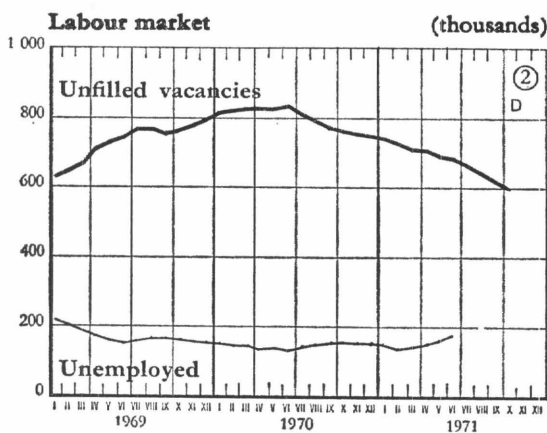
The expansion of domestic demand has slackened appreciably over recent months, especially where investment in plant and machinery is concerned. Since the summer the deterioration in the investment climate, under way for some time already, has increasingly worked its way through to actual investment outlays by enterprises. This development was only to be expected, following the sustained and very marked investment boom of recent years, which had sent the share of corporate investment in the gross national product to a new record level. The uncertainty prevailing in the world monetary situation and the pronounced deterioration in sales prospects abroad brought by the de facto revaluation of the German mark, certainly seem to have hastened this process.

Expansion in building for public account was also relatively sluggish, held back by restrictive

budgetary measures. Only residential construction continued to reflect a still lively increase in demand.

Private consumer's expenditure continued to provide major stimuli to the economy, although since the middle of the year retail sales have no longer tended upwards as sharply as they did in the first half of the year. Notwithstanding, retail sales in the third quarter were still 10.4% up on the same period a year earlier. Registrations of new passenger cars have levelled off after the preceding year's sharp increase. Expenditure on services, however, still expanded vigorously. In addition to being due to the persistently high rate of saving, the loss of vigour in the expansion of consumption may already reflect changes in the incomes trend. For one thing, the advance of agreed wages has slackened a little during recent months and, for another, the growth of actual earnings has been weaker, mainly as a result of a cut in the number of hours worked.

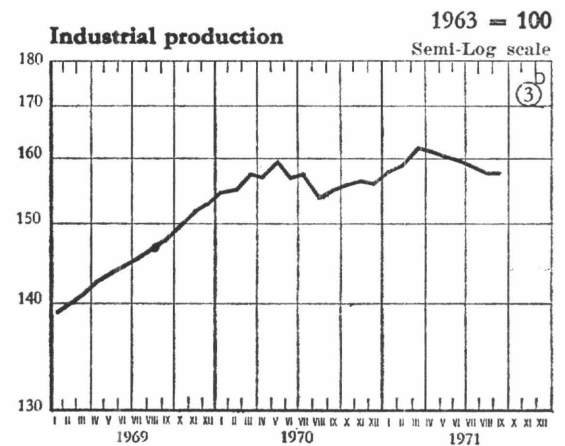
The first repercussions of the changed situation on the labour market have thus become apparent. Progress in cutting over-employment has been fairly rapid during recent months and the number of wage and salary earners employed in industry was in September 1.4%



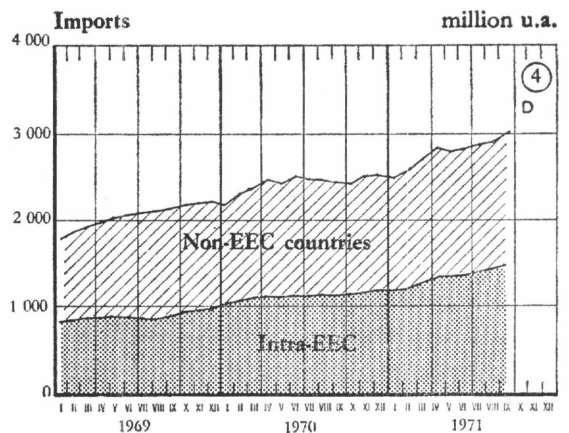
lower than a year earlier. The services sector, however, which previously had difficulty in meeting its manpower requirements, has recruited more labour, if anything. Even the numbers of foreign workers have shown a further increase. At the end of September, 15% more foreign workers were employed in Germany than a year previously. The unemploy-

ment rate (number of unemployed as a percentage of the number of wage and salary earners) at the end November was 1%, compared with 0.6% a year earlier. At the same time, on a seasonally-adjusted basis, there were only 2.3 vacancies for each unemployed person, as against 5.2 vacancies at the end of November 1970. The numbers working short time increased appreciably towards the end of the year.

As a result of the sluggish trend of demand, production in the autumn declined slightly, with firms still receiving no real relief from the cost

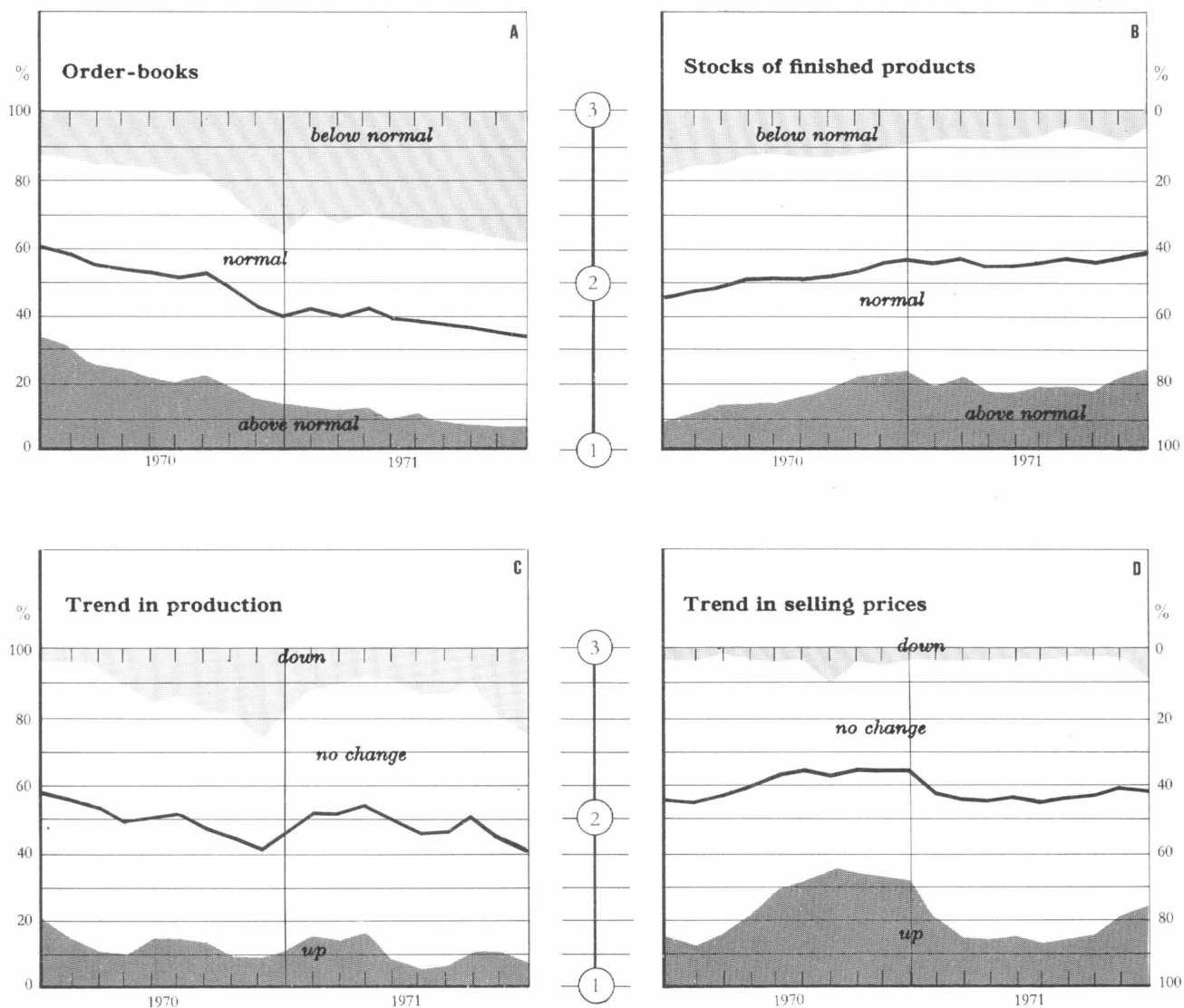


trend and seeking therefore to avoid overtime working. The cut-back in production was especially pronounced in the capital goods industries, particularly mechanical engineering. In contrast,



output of consumer goods showed a further slight increase. All in all, the monthly average of industrial production during September-October was 3.4% higher than a year before.

## BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

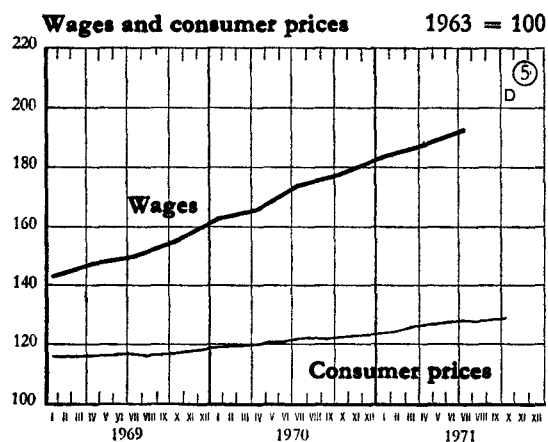
GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

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".



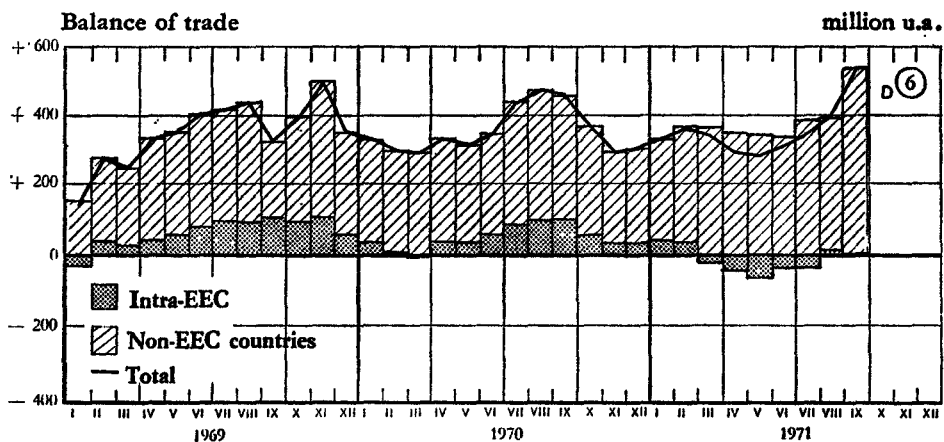
Imports, especially of finished goods, continued to rise vigorously in volume, but the trend of value was little affected owing to the effect on prices of the appreciation of the German mark. The price of foreign goods in terms of German marks has indeed been 5% lower since May.



The distinct easing in the supply/demand situation has as yet hardly been reflected by a slacken-

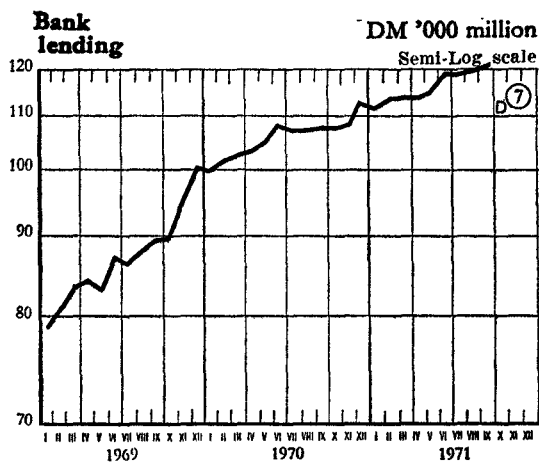
ing of the upward trend in prices. Only producer prices were seen to be levelling off. Consumer prices on the other hand again rose sharply and in mid-November were 5.8% higher than a year earlier.

Foreign trade surpluses have recently tended to grow again a little, if anything. This is probably mainly a result of the change in price relationships caused by the de facto revaluation of the German mark. Since spring, however, the heavy deficit on services and the increasing volume of transfer payments (mostly remittances sent home by foreign workers) have put the current account increasingly in the red. While there had been unusually heavy inflows of foreign capital before the exchange rate of the German mark was allowed to float, the situation has since changed to the extent that although the inflow of long-term capital has continued unabated, part of the short-term funds has flowed out again. A look at capital movements as a whole, including those listed under the balancing item



of the balance of payments but excluding changes in the foreign exchange position of the commercial banks, shows that the overall balance of payments closed with surpluses of DM13 000 million in the first quarter, DM7 500 million in the second quarter and only DM200 million in the third quarter.

Monetary developments were to a large extent influenced by these changes in payments transactions with foreign countries. The money supply, for instance, has only risen at an annual rate of about 9% since May and bank liquidity has been substantially reduced. The banks' liquidity ratio climbed to 10.2 in May, the



*Demand for and supply of goods and services*

|  | 1969 <sup>1</sup>                      | 1970 <sup>1</sup>          |        | 1971 <sup>2</sup> |       | 1972 <sup>3</sup> |  |
|--|--|----------------------------|--------|-------------------|-------|-------------------|--|
|  | At current prices (in DM '000 million) | % change on preceding year |        |                   |       |                   |  |
|  |  | Volume                     | Value  | Volume            | Value | Volume            |  |
| Exports <sup>4</sup>                             | 141.9                                  | + 8.4                      | + 11.3 | + 7½              | + 10½ | + 3½              |  |
| Gross fixed asset formation                      | 146.2                                  | + 11.9                     | + 23.9 | + 3½              | + 11½ | - 2½              |  |
| Public current expenditure on goods and services | 95.1                                   | + 4.3                      | + 13.8 | + 5½              | + 16  | + 3½              |  |
| Private consumers' expenditure                   | 334.0                                  | + 6.8                      | + 11.0 | + 5½              | + 11  | + 2               |  |
| Gross national product                           | 603.4                                  | + 5.4                      | + 13.0 | + 3               | + 10½ | + 1               |  |
| Imports <sup>4</sup>                             | 127.1                                  | + 15.7                     | + 15.6 | + 10              | + 11  | + 3½              |  |

<sup>1</sup> Federal Statistical Office, „Wirtschaft und Statistik“, No. 9/1971.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> Goods, services and factor income.

*Note :*

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

month of strongest liquidity expansion, whereas in September, when strain was most in evidence, it was down to 5.8. Subsequently, the Bundesbank's easier policy reduced the pressure on liquidity and caused interest rates to tend downwards. The net foreign claims of the banks and the Bundesbank, which mirror foreign payments transactions by domestic non-banks, dropped by DM4 700 million between June and October, whereas between January and May there had been additions totalling DM21 400 million.

**2. Outlook**

Prospects for the coming months will be largely affected by the monetary uncertainty and the consequences of the appreciation in the value of

the German mark.<sup>1</sup> While after the overheated boom of the past few years a temporary halt in growth had already been a distinct possibility, the trend may now well be more unfavourable, especially in view of the current constraints on foreign trade and payments and their repercussions on the domestic economy.

Exports at best will only moderately stimulate the economy. Demand in a number of important European countries is only rising relatively slowly, and in view of the protectionist measures taken by the Administration it is doubtful

<sup>1</sup> On 9 December the dollar value of the German mark had risen by 12% above the parity declared to the IMF. The Commission's departments calculated that the actual revaluation against all other currencies was 7.4%.



whether the upswing in the US economy will have any noticeable compensatory effects. Moreover, the deterioration in the competitive position of German exports, brought about by the sharp rise in costs in previous years and the appreciation in the value of the German mark, may well result in their having a smaller share of the world market than previously. Exports will therefore have much less of a stabilizing effect than they had during the downward phases of earlier economic cycles.

Investment activity should on the whole continue to slacken during the coming months. Investment in stocks will rise comparatively little, since businessmen will probably be endeavouring to keep their stocks of finished goods as low as possible and also because the favourable delivery situation and falling world market prices give no incentive to speculative stockbuilding of raw materials and semi-manufacturers.

Fixed investment will be affected by the profit squeeze and unfavourable sales prospects during at least the first half of the year. The IFO survey of economic trends suggests that industries' investment plans for 1972 will bring an appreciable cut in expenditure on building and plant and machinery both in money and in real terms. Residential construction and public authority investment, on the other hand, should be major factors supporting economic activity. In the third quarter of 1971, for instance, the number of housing permits was up 13% on the preceding year's figure while promises for mortgage loans even showed an increase of almost a third. Building investment by the public authorities is also likely to keep rising. DM750 million worth of blocked appropriations for new building projects have been released since September. The 1972 budgets of the Federal Government and the various Länder also provide for a fresh increase in building expenditure.

Whilst public current expenditure on goods and services will still register a high growth rate, expansion in private consumers' expenditure, still quite vigorous at the moment, might tail off later in the year. With tensions on the labour market easing and employers more determined to resist wage claims, the rise in agreed wages is likely to slow down further. Cutbacks in overtime working and fringe benefits and a fall in the numbers employed will probably also

contribute towards dampening the trend of incomes. An additional factor is that owing to the comparatively weak growth of wages in 1967 and 1968 it will not be until 1973 that the rates by which social security pensions are put up will have a stronger expansionary effect. Furthermore, the greater uncertainty about the general economic trend suggests that the propensity to save of households will rise.

With these trends in demand, production may well show a slight downward tendency. The trend of output will probably be slackest in the capital goods and a few basic materials industries. The slight growth in gross national product currently forecast for 1972 will therefore mainly be achieved by continued expansion of services and by increased agricultural output.

Under these circumstances, imports will slow down further. Private consumers' expenditure might initially support the upward trend in imports of finished goods for a while longer, but as the year progresses the pressure of domestic supply might become noticeable alongside a levelling off of demand. With stockbuilding depressed and business in the steel industry sluggish, imports of raw materials and semi-manufacturers must, if anything, be expected to move in line with production so that total imports in 1972 are likely at best to mark time. Even if export growth were only relatively slight, this would produce an increase in the external balance, at least in terms of value.

The tendency, at present still very weak, for prices to stabilize might be strengthened over the coming months. Competition between foreign and domestic suppliers will influence price movements and pave the way for a buyers' market. Furthermore, an easing in the pressure of wage costs could contribute towards steadying the price trend.

For this to happen, however, the two sides of industry will have to exercise much greater restraint when agreeing new wage increases. This is all the more important since the distinct deterioration in the competitive position of German exporters and the pressure of wage costs in the previous two years have in any case already resulted in a slackening propensity to invest of enterprises, which in turn naturally involves risks as far as job security is concerned.

To improve the score for short-term economic policy, the aim of stabilizing prices should not be abandoned. The switchover to an expansionary policy should not therefore be too precipitate and should allow for great flexibility, particularly since in the event of a short-fall in tax revenue caused by business conditions, the increase in the deficits would in any case enable the public finances to exercise a counter-cyclical compensating effect.

It may well be, however, that demand will have to be given an additional boost in the first half of the year already, but this should be done with caution.

As the strains in the economic situation ease, attention should be given above all to progressively relaxing the restrictive course of monetary and credit policy. If there is no quick return to fixed parities, in the interests of removing monetary uncertainty, this relaxation might also have the effect of reducing the actual rate of revaluation of the German mark. This would tend to lessen the difficulties encountered in sales abroad, which might help, at least psychologically, to prevent a drop in the propensity to invest of enterprises.

Considerable score for stimulating expansion is provided in the public finance field by the

### *The Federal Budget*

|  | 1971            |                   | 1972   | 1971                                     | 1972   |
|--|-----------------|-------------------|--------|--|--------|
|  | Budget          | Estimated results | Budget |  |        |
|  | DM '000 million |                   |        | % changes on the preceding year's budget |        |
| Expenditure <sup>1</sup>               | 98.4            | 97.4              | 106.6  | + 12.1                                   | + 8.4  |
| of which:                              |                 |                   |        |  |        |
| current expenditure                    | 78.7            | 77.9              | 85.7   | + 10.4                                   | + 8.8  |
| capital expenditure <sup>2</sup>       | 19.6            | 19.5              | 20.9   | + 21.4                                   | + 6.5  |
| Revenue                                | 94.5            | 96.7              | 101.5  | + 6.4                                    | + 7.5  |
| of which :                             |                 |                   |        |  |        |
| direct taxes                           | 32.1            | 32.1              | 35.4   | + 4.9                                    | + 10.2 |
| indirect taxes                         | 58.3            | 60.2              | 62.2   | + 6.3                                    | + 6.7  |
| Net borrowing requirement <sup>1</sup> | - 3.9           | - 0.7             | - 5.1  | —  | —      |

<sup>1</sup> Disregarding debt extinction.

<sup>2</sup> Including participations and loans.

*Note :*

The figures in this table are based on national budgets and are recalculated on the basis of Community definitions.

counter-cyclical surcharge on income and corporation tax (in all, DM5 800 million) and by the Federal contingency budget in conjunction with the counter-cyclical equalization reserve (DM3 600 million for Federal Government and Länder). If growth in private consumer's expenditure were to slacken appreciably, thought might be given to gradual repayment of the counter-cyclical surcharge, which in any case must be refunded by 31 March 1973. At the same time, it must be borne in mind that a part of this sum will probably be put into savings. In addition, consideration might also be given to releasing the expenditure programme provided for in the contingency budget, for which funds are already available in the form of the counter-cyclical equalization reserve immobilized in the Bundesbank.

### 3. The economic situation in West Berlin

In West Berlin, too, business conditions have been notably calmer over the last few months. Given the relatively large share of capital goods industries in Berlin's production potential, the tendency for demand from the Federal area to slow down has had a fairly appreciable impact on economic developments. West Berlin's deliveries to the Federal area in the third quarter were nonetheless 6% up on a year earlier.

The slowdown was particularly pronounced in investment in plant and machinery. Building investment too was marked by an unmistakable fall-off in demand, particularly in residential building.

Although public current expenditure on goods and services and private consumers' expenditure also increased at a slower pace, they were on the whole a distinct expansionary factor.

The trend of production varied considerably from industry to industry: in mechanical engineering, output still expanded very vigorously while in electrical engineering it increased only moderately and in building and construction

actually declined. All in all, industrial production in the third quarter was 5.3% higher than a year earlier.

On the labour market, the effects were felt of a decline in the manpower requirements of industry building and construction while the services sector significantly increased its labour force. The number of foreign workers was a third higher than a year earlier, with their share in the number of wage and salary earners in autumn standing at 8½%, as against 10% in the Federal area.

Further economic development is at present overshadowed by the sluggish trend of new orders booked by industry. It looks as if, at least in a first stage, the economic slowdown could be somewhat more pronounced in Berlin than in the Federal area. It is therefore precisely at the present stage of the cycle that rationalization efforts should be stepped up so as to improve the competitive position of West Berlin's industry.

### Major economic policy decisions

#### October

(1) *The Bundesbank lowered the discount rate from 5% to 4.5% and the Lombard rate from 6.5% to 5.5%, with effect from 14 October 1971. In addition, a 10% linear cut was made in the minimum reserve ratios for banks' domestic liabilities whereas the ratios for banks' foreign liabilities remained unchanged. These moves released about DM3 000 million of bank liquidity.*

(2) *Following on the release in September of DM350 million worth of appropriations, previously blocked under the 1971 Federal budget, the Federal Government released a further DM200 million at the end of October and another DM200 million in the second half of November.*

**Germany**

**TABLE 1 : Key indicators**

|   | 1966                                    | 1967  | 1968   | 1969   | 1970   | 1970     |
|---|---|-------|--------|--------|--------|----------|
|   | % change by volume<br>on preceding year |       |        |        |        | 1963=100 |
| Gross national product                              | + 2.9                                   | - 0.3 | + 7.2  | + 8.1  | + 4.9  | 141      |
| Industrial production                               | + 2.5                                   | - 2.4 | + 9.5  | + 10.4 | + 5.7  | 149      |
| Total imports                                       | + 2.6                                   | - 1.3 | + 14.6 | + 16.7 | + 16.1 | 200      |
| Private consumers' expenditure                      | + 3.7                                   | + 0.6 | + 4.0  | + 8.0  | + 7.3  | 141      |
| Public current expenditure on goods<br>and services | + 2.1                                   | + 3.3 | - 0.1  | + 4.2  | + 2.9  | 118      |
| Gross fixed asset formation                         | + 0.9                                   | - 8.4 | + 8.0  | + 12.1 | + 10.7 | 145      |
| Total exports                                       | + 10.7                                  | + 8.5 | + 13.0 | + 12.6 | + 9.0  | 198      |
| Gross national product per head of<br>population    | + 1.8                                   | - 0.7 | + 6.6  | + 6.9  | + 3.7  | 134      |
| Gross national product per person in<br>employment  | + 3.2                                   | + 2.7 | + 7.0  | + 6.2  | + 3.5  | 139      |
|   | % change by value<br>on preceding year  |       |        |        |        |          |
| Gross income per employee                           | + 7.5                                   | + 3.4 | + 6.7  | + 9.6  | + 15.0 | 178      |

**TABLE 2 : Indicators for internal and external equilibrium**

|   | 1966    | 1967    | 1968    | 1969    | 1970    |
|---|---------|---------|---------|---------|---------|
| Balance exports less imports                                |         |         |         |         |         |
| in million units of account                                 | + 1 613 | + 4 063 | + 4 488 | + 3 906 | + 3 156 |
| as percentage of GNP  | + 1.3   | + 3.3   | + 3.3   | + 2.5   | + 1.7   |
| Unemployment rate   | 0.6     | 1.7     | 1.2     | 0.7     | 0.5     |
| Prices to private consumers<br>(% change on preceding year) | + 3.5   | + 1.7   | + 1.8   | + 2.5   | + 3.8   |

TABLE 3: Foreign trade (at current prices)

|  | % change on preceding year |        |        |        |        | 1968=100 | Million u.a. | % of totals |
|--|----------------------------|--------|--------|--------|--------|----------|--------------|-------------|
|  | 1966                       | 1967   | 1968   | 1969   | 1970   | 1970     | 1970         | 1970        |
| Visible exports  |                            |        |        |        |        |          |              |             |
| Total  | + 12.5                     | + 8.0  | + 14.3 | + 16.9 | + 17.7 | 234      | 34 195       | 100.0       |
| Intra-EEC  | + 16.0                     | + 9.4  | + 16.7 | + 23.9 | + 18.7 | 252      | 13 788       | 40.2        |
| To non-EEC countries                                   | + 10.6                     | + 7.2  | + 12.9 | + 12.8 | + 17.0 | 228      | 20 456       | 59.8        |
| Exports of food, beverages and tobacco                 |                            |        |        |        |        |          |              |             |
| Total  | - 2.0                      | + 26.9 | + 21.8 | + 27.0 | + 27.6 | 370      | 1 066        | 3.1         |
| Intra-EEC  | + 6.6                      | + 61.2 | + 32.8 | + 31.0 | + 16.6 | 522      | 579          | 1.7         |
| To non-EEC countries                                   | - 7.3                      | + 2.6  | + 9.4  | + 21.6 | + 43.7 | 275      | 487          | 1.4         |
| Exports of raw materials, fuel and power               |                            |        |        |        |        |          |              |             |
| Total  | + 7.1                      | + 1.3  | + 10.7 | + 4.2  | + 19.0 | 156      | 1 946        | 5.7         |
| Intra-EEC  | + 8.5                      | + 1.5  | + 10.6 | + 5.4  | + 20.3 | 159      | 1 213        | 3.5         |
| To non-EEC countries                                   | + 5.0                      | + 0.4  | + 11.5 | + 2.4  | + 16.9 | 150      | 732          | 2.2         |
| Exports of semi-finished and finished industrial goods |                            |        |        |        |        |          |              |             |
| Total  | + 19.8                     | + 6.6  | + 15.9 | + 17.5 | + 17.7 | 239      | 31 188       | 91.2        |
| Intra-EEC  | + 18.9                     | + 4.7  | + 21.6 | + 25.8 | + 18.7 | 261      | 11 946       | 34.9        |
| To non-EEC countries                                   | + 11.3                     | + 7.6  | + 13.0 | + 13.0 | + 16.5 | 226      | 19 237       | 56.3        |
| Visible imports  |                            |        |        |        |        |          |              |             |
| Total  | + 3.2                      | - 3.7  | + 16.1 | + 23.7 | + 19.6 | 229      | 29 816       | 100.0       |
| Intra-EEC  | + 4.2                      | - 1.0  | + 21.7 | + 30.0 | + 21.8 | 305      | 13 233       | 44.4        |
| From non-EEC countries                                 | + 2.5                      | - 5.4  | + 12.5 | + 19.3 | + 17.9 | 191      | 16 583       | 55.6        |
| Imports of food, beverages and tobacco                 |                            |        |        |        |        |          |              |             |
| Total  | + 2.4                      | - 4.2  | + 3.7  | + 16.7 | + 14.3 | 179      | 4 954        | 16.6        |
| Intra-EEC  | + 6.3                      | + 0.1  | + 11.9 | + 26.8 | + 12.6 | 239      | 2 303        | 7.7         |
| From non-EEC countries                                 | - 0.1                      | - 6.9  | - 1.9  | + 9.0  | + 15.9 | 147      | 2 651        | 8.9         |
| Imports of raw materials, fuel and power               |                            |        |        |        |        |          |              |             |
| Total  | + 2.8                      | - 0.6  | + 15.8 | + 12.2 | + 13.6 | 184      | 6 617        | 22.2        |
| Intra-EEC  | + 8.1                      | + 9.4  | + 18.1 | + 23.3 | + 18.5 | 258      | 1 417        | 4.8         |
| From non-EEC countries                                 | + 1.8                      | - 2.5  | + 15.3 | + 9.7  | + 12.3 | 171      | 5 200        | 17.4        |
| Imports of semi-finished and finished industrial goods |                            |        |        |        |        |          |              |             |
| Total  | + 3.6                      | - 5.0  | + 21.1 | + 31.4 | + 23.5 | 274      | 18 246       | 61.2        |
| Intra-EEC  | + 2.8                      | - 3.0  | + 25.4 | + 32.0 | + 24.8 | 236      | 9 514        | 31.9        |
| From non-EEC countries                                 | + 4.3                      | - 6.9  | + 16.8 | + 30.7 | + 22.1 | 229      | 8 732        | 29.3        |

TABLE 4: Selected monthly indicators

|  | Year | Jan.   | Feb.   | Mar.   | Apr.   | May    | June   | July   | Aug.   | Sept.  | Oct.   | Nov.   | Dec.   |
|--|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Industrial production (1963 = 100)                                     | 1969 | 138.9  | 141.8  | 144.1  | 142.7  | 145.9  | 146.4  | 144.6  | 150.6  | 146.1  | 148.7  | 157.6  | 153.6  |
|  | 1970 | 155.4  | 145.8  | 159.9  | 153.1  | 164.7  | 151.7  | 156.8  | 158.0  | 151.9  | 155.1  | 155.5  | 153.3  |
|  | 1971 | 163.6  | 162.3  | 159.2  | 161.7  | 159.6  | 157.7  | 158.2  | 151.7  | 157.8  | 162.5  |        |        |
| New orders received (1963 = 100)                                       | 1969 | 163.0  | 161.6  | 166.2  | 169.3  | 168.0  | 166.1  | 176.6  | 174.3  | 177.6  | 179.6  | 171.9  | 170.9  |
|  | 1970 | 176.6  | 185.3  | 179.5  | 184.3  | 169.0  | 182.4  | 178.5  | 176.1  | 180.3  | 173.6  | 177.6  | 185.2  |
|  | 1971 | 178.5  | 181.2  | 196.9  | 187.6  | 183.0  | 185.3  | 179.7  | 181.9  | 184.3  | 177.4  |        |        |
| Unemployed (1 000)   | 1969 | 197.0  | 203.3  | 186.8  | 156.0  | 161.6  | 170.7  | 177.6  | 176.2  | 166.4  | 160.7  | 148.0  | 149.4  |
|  | 1970 | 156.1  | 132.5  | 152.5  | 121.2  | 134.6  | 142.3  | 156.2  | 161.0  | 163.1  | 165.0  | 159.9  | 131.1  |
|  | 1971 | 166.8  | 141.4  | 164.6  | 169.7  | 173.9  | 172.9  | 195.4  | 203.9  | 203.5  | 220.2  | 250.0  |        |
| Construction: permits for residential construction (1 000)             | 1969 | 43.4   | 47.2   | 44.8   | 45.6   | 47.2   | 48.1   | 48.4   | 45.6   | 47.0   | 49.5   | 48.7   | 44.1   |
|  | 1970 | 48.8   | 50.7   | 46.0   | 52.4   | 47.3   | 51.5   | 55.4   | 54.4   | 54.5   | 49.4   | 50.6   | 46.7   |
|  | 1971 | 53.7   | 57.5   | 57.7   | 55.4   | 60.6   | 61.5   | 57.7   | 62.7   | 60.4   |        |        |        |
| Private consumers' expenditure: department store turnover (1963 = 100) | 1969 | 164.1  | 155.7  | 162.3  | 159.4  | 170.5  | 167.0  | 170.1  | 173.2  | 176.7  | 180.5  | 177.9  | 176.9  |
|  | 1970 | 184.7  | 174.9  | 185.3  | 180.6  | 185.5  | 198.3  | 202.8  | 190.6  | 200.4  | 208.2  | 197.7  | 201.0  |
|  | 1971 | 210.5  | 200.9  | 205.5  | 217.3  | 207.6  | 220.1  | 226.0  | 215.5  | 223.2  |        |        |        |
| Consumer prices (1963 = 100)   | 1969 | 115.1  | 115.4  | 115.5  | 115.7  | 115.9  | 116.2  | 116.1  | 115.8  | 116.1  | 116.5  | 117.0  | 117.6  |
|  | 1970 | 119.1  | 119.3  | 119.8  | 120.1  | 120.3  | 120.7  | 120.7  | 120.6  | 120.6  | 121.2  | 121.8  | 122.3  |
|  | 1971 | 123.5  | 124.3  | 125.3  | 125.9  | 126.3  | 126.7  | 127.2  | 127.1  | 127.7  | 129.0  |        |        |
| Visible imports (million u.a.)   | 1969 | 1 933  | 1 880  | 1 974  | 2 071  | 2 021  | 2 038  | 2 144  | 2 045  | 2 122  | 2 391  | 2 125  | 2 127  |
|  | 1970 | 2 338  | 2 463  | 2 375  | 2 631  | 2 349  | 2 606  | 2 536  | 2 345  | 2 507  | 2 530  | 2 574  | 2 579  |
|  | 1971 | 2 355  | 2 866  | 2 914  | 2 784  | 2 694  | 2 866  | 2 971  | 2 831  | 2 961  |        |        |        |
| Visible exports (million u.a.)   | 1969 | 2 073  | 2 155  | 2 219  | 2 403  | 2 380  | 2 445  | 2 558  | 2 478  | 2 456  | 2 736  | 2 616  | 2 480  |
|  | 1970 | 2 498  | 2 767  | 2 639  | 2 935  | 2 650  | 3 016  | 3 083  | 2 787  | 2 883  | 2 965  | 2 844  | 3 104  |
|  | 1971 | 2 842  | 3 231  | 3 260  | 3 099  | 3 067  | 3 274  | 3 396  | 3 507  | 3 488  |        |        |        |
| Balance of trade (million u.a.)  | 1969 | + 140  | + 276  | + 245  | + 332  | + 360  | + 407  | + 414  | + 434  | + 335  | + 395  | + 492  | + 354  |
|  | 1970 | + 159  | + 304  | + 264  | + 304  | + 301  | + 410  | + 547  | + 442  | + 376  | + 435  | + 270  | + 525  |
|  | 1971 | + 487  | + 365  | + 346  | + 315  | + 373  | + 408  | + 425  | + 676  | + 527  |        |        |        |
| Official gold and foreign exchange reserves (million u.a.)             | 1969 | 7 722  | 7 560  | 7 280  | 7 807  | 10 591 | 9 108  | 9 129  | 9 697  | 11 128 | 9 640  | 7 741  | 5 981  |
|  | 1970 | 6 455  | 6 616  | 6 765  | 6 893  | 7 219  | 8 215  | 9 878  | 9 643  | 10 700 | 11 283 | 12 961 | 13 009 |
|  | 1971 | 13 411 | 14 259 | 15 202 | 16 137 | 18 401 | 16 096 | 16 405 | 16 116 | 16 355 | 16 634 | 16 826 |        |
| Money supply (DM '000 million)   | 1969 | 89.2   | 89.2   | 90.7   | 90.3   | 91.5   | 92.2   | 93.2   | 94.3   | 94.3   | 93.7   | 95.0   | 93.2   |
|  | 1970 | 96.1   | 96.9   | 97.5   | 96.6   | 97.1   | 97.8   | 99.7   | 99.5   | 99.2   | 98.4   | 100.6  | 101.9  |
|  | 1971 | 103.7  | 104.1  | 105.2  | 107.1  | 109.7  | 110.2  | 112.9  | 113.0  | 113.3  |        |        |        |

## Germany

### NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).  
Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

#### *Graph 1*

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

#### *Graph 2*

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

#### *Graph 3*

Wages and consumer prices: index of average hourly gross earnings in industry (including construction); cost-of-living index (all households) at middle of month, not adjusted for seasonal variations.

#### *Graph 4*

Bank lending: short-term loans to business and private customers within the country; position at end of month, not adjusted for seasonal variations.

#### *Graph 5*

Exports fob: series adjusted for seasonal variations; three-month moving averages.

#### *Graph 6*

Imports cif: series adjusted for seasonal variations; three-month moving averages.

#### *Graph 7*

Balance of trade: difference in terms of value between exports and imports, seasonally adjusted.

---

#### *Table 1*

Gross national product at market prices.

Industrial production: value added by industry (including small workshops).

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

#### *Table 2*

Balance exports less imports, as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of total labour force (annual averages); source: Statistisches Bundesamt and Bundesanstalt für Arbeit.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

#### *Table 3*

Exports fob, imports cif. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

#### *Table 4*

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

New orders received: manufacturing industry (excluding food, beverages and tobacco); seasonally adjusted value index.

Unemployed: position at end of month, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

Consumer prices: cost-of-living index (all households), not adjusted for seasonal variations.

Imports cif, exports fob; value, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: monetary authorities' reserves of gold and convertible currency, holdings in special drawing rights and reserve position in IMF. Figures are given gross, liabilities to abroad not having been deducted. Position at end of month.

Money supply: notes and coin in circulation (excluding cash holdings of credit institutions) and sight deposits of domestic non-banks (excluding public authorities' deposits with the Bundesbank); position at end of month, adjusted for seasonal variations.

## B. France

Despite the uncertainties in the international monetary situation, the trend in the French economy during the autumn months was still towards expansion. A powerful impetus was provided in particular by a continuing rapid expansion of private consumers' expenditure and a sharp increase in public expenditure. Production and employment continued to rise and the labour market remained tight in certain sectors. There was no let-up in the upward movement of prices. As recourse to imports was stepped up appreciably, the trade balance (cif/job) moved into larger deficit, even though exports still increased quite considerably.

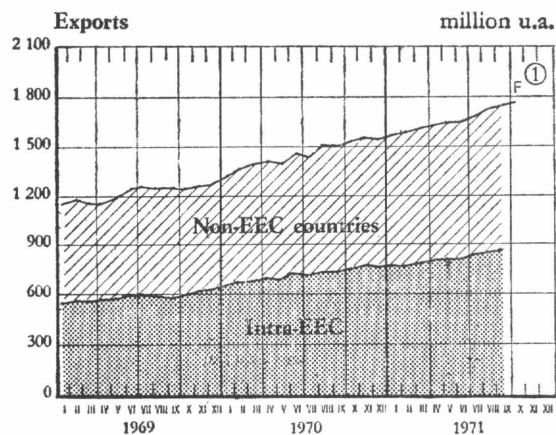
No fundamental change is likely to occur in the economic situation in the coming months. The trend of demand will clearly be dominated by the expansionary influence of private and public consumption and investment by the state and the public enterprises. Costs and prices will probably continue to rise quite rapidly and the trade balance should remain in deficit. In the somewhat longer term, however, a falling away of export demand, keener international competition and, as a result, a certain decline in the propensity to invest of private-sector enterprises might affect the rate of growth. Short-term measures which might prove necessary to maintain economic growth should not increase the strains on costs and prices.

### 1. Recent developments

Although the international monetary crisis and the consequent further slowdown of growth in major industrialized countries of the West have considerably dampened the psychological climate and tempered prospects in France too, the actual trend of the French economy has as yet not been visibly affected. The principal factors determining this trend continue to be the powerful upward pressures at home exerted notably by the rapid expansion of private consumption and of public expenditure.

For some time exports had anyhow been making a somewhat less vigorous contribution to growth. Although visible exports still advanced quite considerably after the summer slack, the rise resulted to a large extent from deliveries of agricultural produce, while limited production capacities in particular meant that exports of industrial products could only expand relatively slowly. Moreover the sales opportunities which

arose were in many cases used merely to increase prices. The average value of exports for September-October was 7 to 8% higher than



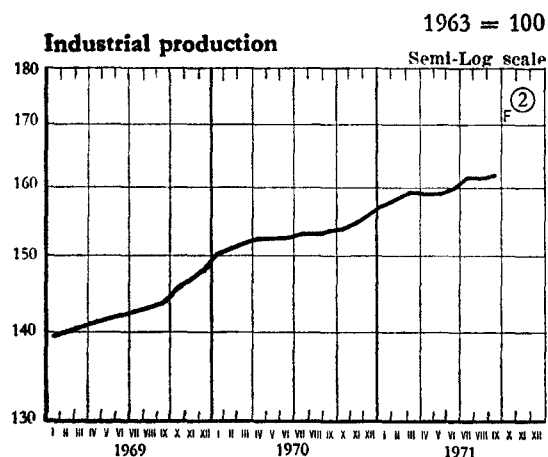
in the same period of the previous year, while the corresponding increase in volume was not more than 7%.

Domestic demand remained extremely buoyant. Gross fixed asset formation continued upwards during the autumn months. Enterprises do seem to have maintained a fairly lively rate of investment activity, but in industry, in spite of the very appreciable shortage of unused capacity which was especially felt in branches orientated towards exports and consumption, the main projects concern not so much the extension of production plant but rather rationalization investment in view of the continued rise in labour costs. Residential construction is recovering more and more. The measures taken at the beginning of the year to promote publicly assisted housing and the easing of the terms on which finance is available for private housing have led to a notable increase in building starts. There was a distinct increase too in investment expenditure by public authorities.

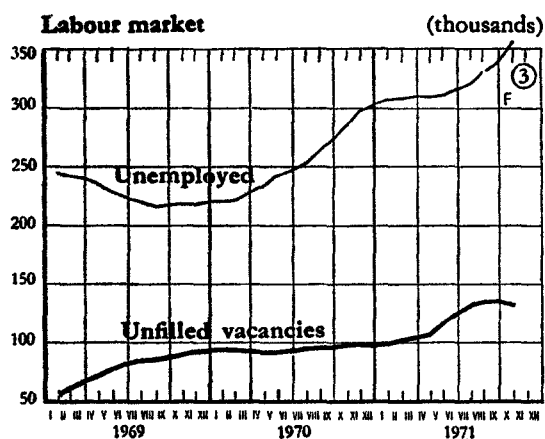
However, the most powerful impetus was clearly supplied by expenditure on consumption. The growth of public current expenditure on goods and services may even have gathered additional momentum in the autumn, in particular as a result of additional or advanced increases in salaries and pensions. Private consumers' expenditure continued to grow rapidly. Personal incomes are climbing sharply. Apart from a further rise in agreed wages and the continued increase in employment, the figures for the fourth quarter will probably have been particularly affected by additional pay increases that had to be granted as a result of the sharp rise in the cost of living and the purchasing power guarantee which is now part and parcel of more or less all wage agreements. For some time now the amounts withdrawn by self-employed persons from their business have probably been rising even faster than the income of persons in paid employment. In addition, taxes on gross income in the closing months of the year were relatively light, mainly as a result of the tax concessions contained in the 1971 budget.

Domestic production has so far been hard put to keep up with the growth in demand. In particular the industries working for export and consumption suffered from shortages of plant capacity and suitably skilled workers. All in all, industrial production in the autumn rose at an annual rate of some 6 to 7%; the monthly INSEE Index (excluding construction, food,

beverages and tobacco) in September was 6.8% higher than a year earlier.



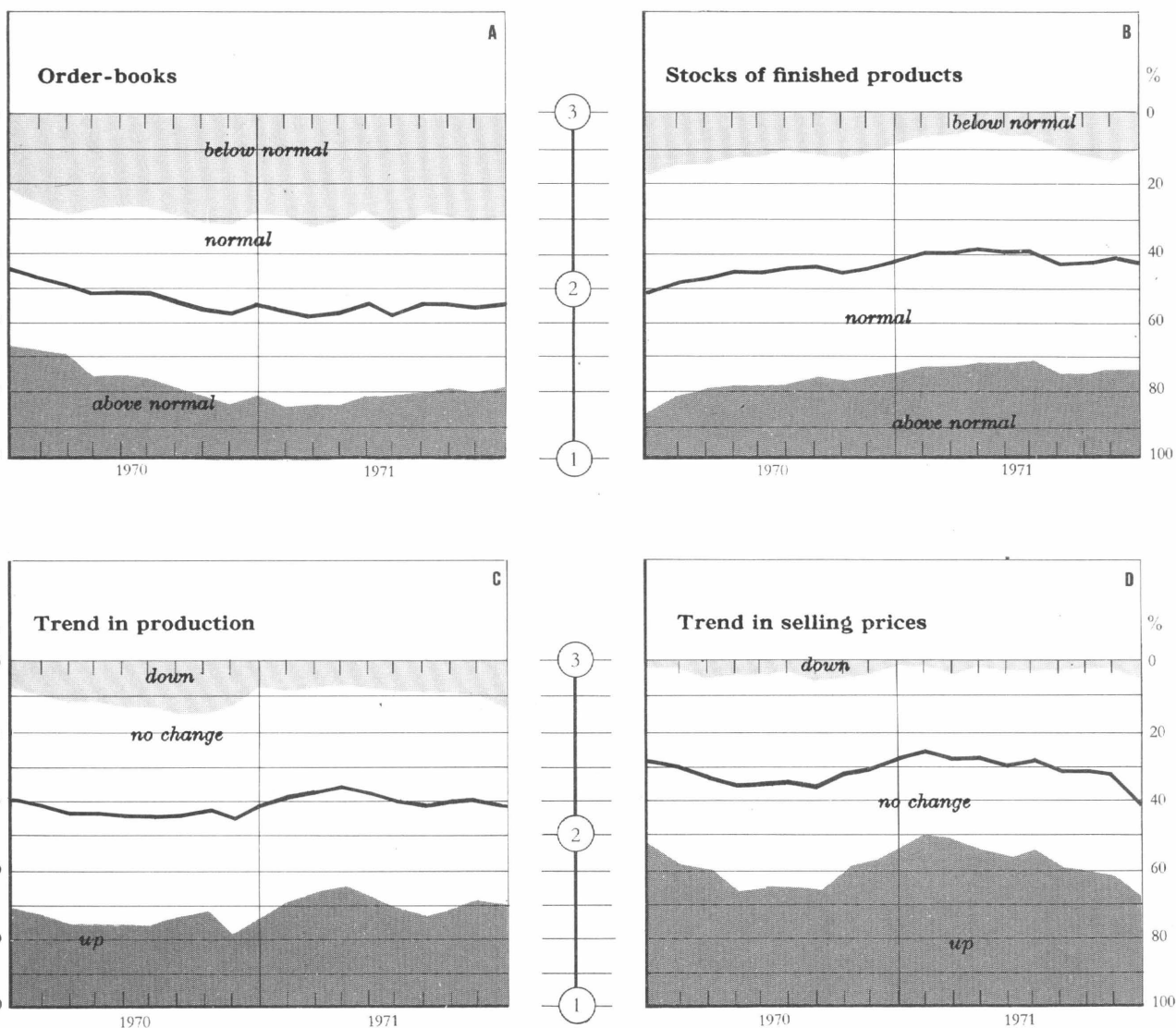
With the continuing trend towards shorter working hours—in trade and industry the average working week has shortened by 0.9% in the last year and by as much as 2.8% since spring 1968—and with the fairly limited elbow room for advances in productivity, this rate of growth engendered an increase in the number of persons in employment. As the supply of labour was still not sufficiently adapted to the requirements of trade and industry, the labour



market remained under considerable strain for certain occupations and in certain regions. At the same time, however, the large number of school-leavers and the improved recording of available labour reserves by the Agence nationale de l'emploi brought about an increase in the number of job-seekers shown in the statistics.



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

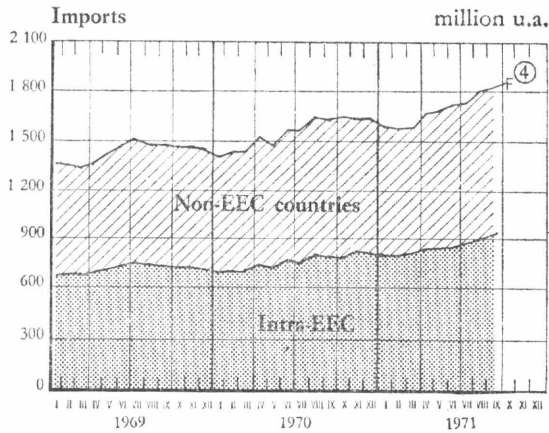
GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

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".



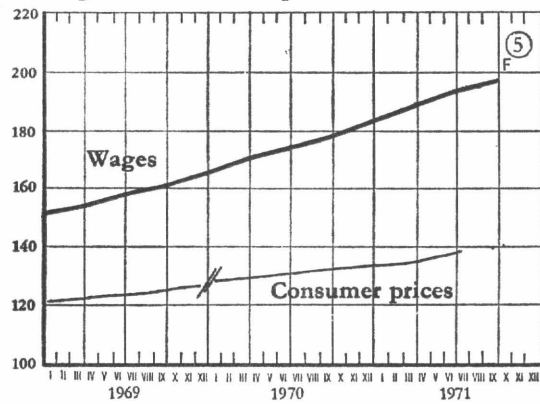
Large-scale buying abroad was necessary to satisfy demand. The volume of visible imports which, after a period of near stagnation at the beginning of 1971, rose in the second and third quarters at an annual rate of some 20%, con-



tinued to climb in the autumn. Purchases of consumer goods in particular maintained a strong upward tendency. All in all, imports in the September-October period were probably 7 to 8% up in volume over the previous year.

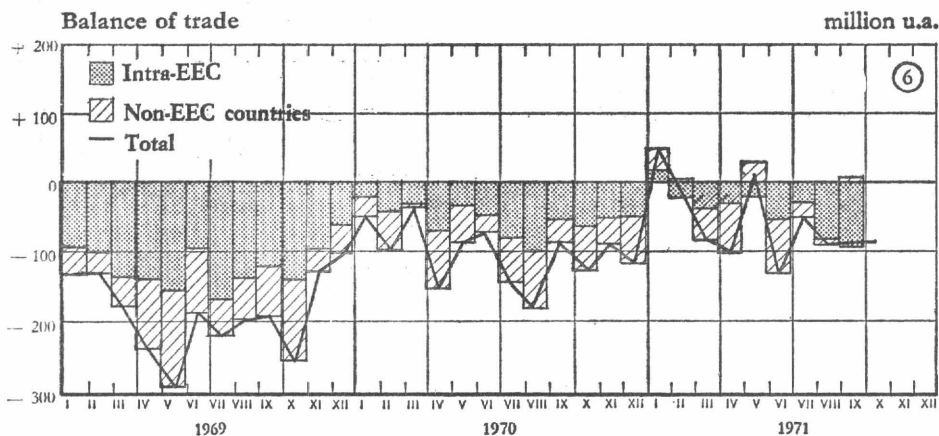
The upward pressures on prices have lost none of their intensity. Although at producer level it seems that for seasonal reasons prices of agricultural produce have no longer been rising quite as quickly as in summer and prices of industrial products are increasingly being subject to the pressure of direct administrative measures, at retail level there has been no let-up in the price increases which have been running at an annual rate of some 6%. The INSEE Index of 295 items showed that in October retail prices for an urban worker's household were 5.8% higher than in October 1970.

**Wages and consumer prices** 1963 = 100



The strong demand for imports brought about a worsening in the trade balance in the summer and together with an increased deficit on service transactions put the current balance of payments in the red. Since August the overall balance of payments has had to bear the additional pressures of a certain wait-and-see attitude in long-term capital movements and of outflows of speculative capital. The monetary authorities' gross gold and foreign exchange reserves, which had increased by \$1 580 million in July-August, fell again by some \$380 million by the end of October. Standing at \$6 800 million, they were nevertheless still a good \$2 000 million up on the end of October 1970.

When the inflows of foreign currency came to a halt in mid-August, one of the sources of the excessively rapid expansion of domestic liquidity dried up. Nevertheless the money supply which rose by 9.2% in the first eight months of the year—considerably faster than in the same period of 1970—and at the end of August was 19% up on the previous year, has since been



### Demand for and supply of goods and services

|  | 1969 <sup>1</sup>                      | 1970 <sup>1</sup>          |        | 1971 <sup>2</sup> |       | 1972 <sup>3</sup> |  |
|--|--|----------------------------|--------|-------------------|-------|-------------------|--|
|  | At current prices (in FF '000 million) | % change on preceding year |        |                   |       |                   |  |
|  |  | Volume                     | Value  | Volume            | Value | Volume            |  |
| Exports <sup>4</sup>                             | 110.4                                  | + 17.0                     | + 25.9 | + 9               | + 14  | + 8               |  |
| Gross fixed asset formation                      | 184.1                                  | + 7.4                      | + 14.7 | + 6               | + 11½ | + 5½              |  |
| Public current expenditure on goods and services | 89.4                                   | + 3.8                      | + 11.1 | + 3½              | + 12  | + 3               |  |
| Private consumers' expenditure                   | 439.6                                  | + 4.3                      | + 9.7  | + 6½              | + 12½ | + 5½              |  |
| Gross national product                           | 731.7                                  | + 6.0                      | + 12.0 | + 5½              | + 11½ | + 4½              |  |
| Imports <sup>4</sup>                             | 114.4                                  | + 8.5                      | + 18.8 | + 9               | + 13½ | + 9½              |  |

<sup>1</sup> Rapport sur les comptes de la Nation 1970. Ministère de l'Economie et des Finances.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> Goods, services and factor income.

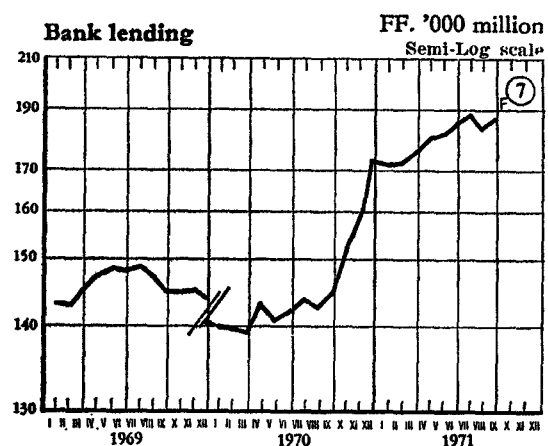
*Note:*

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

expanding only a little slower, bank lending and above all budget management still having powerful liquidity-raising effects. By the end of September a cash deficit of more than FF8 500 million had built up, almost 90% of which was met through short-term borrowing from the banks. The surplus which usually occurs in the fourth quarter when taxes fall due might be smaller this year than in 1970 when it came to more than FF5 200 million, with the result that for 1971 as a whole the cash deficit might well amount to at least FF4 000 million.

The money market has eased increasingly in recent months. No doubt in view particularly of inflationary trends, the Banque de France was however very cautious in adapting its inter-



vention to the drop in interest rates on foreign markets. At the end of October the discount

rate was lowered by only 0.25% to 6.5%. The capital market which had been much more active in the first eight months of the year with issues valued at FF20 650 million, than from January to August 1970 (FF15 680 million), has clearly been influenced since the end of August by the change of mood on major international stock exchanges and the fall in prices of French shares.

## 2. Outlook

The prospects for the French economy are more uncertain than at the same time in previous years. This uncertainty lies not so much in the internal situation, where there can be little doubt that the expansionary trends will continue initially and will still enable production to rise relatively vigorously. The dangers are much more to be found in the external situation, in the shape of an economic slowdown in some major importing countries and the increase in protectionist tendencies in world trade.

Curbed by the trend of demand, the growth of exports may in fact slacken distinctly. Enterprises are already reporting a sharp drop in new orders from abroad and a rapid diminishing of export orders in hand. In particular the cooling off of economic activity in Germany, which alone generally takes a fifth of French exports, should be felt. Furthermore, in view of rapidly increasing international competition, it may not be taken for granted that even if it continued to benefit from an exchange rate advantage over its foreign competitors, French industry would substantially increase its share of foreign markets.

Expansion in 1972 is therefore likely to depend on the development of home demand, even more so than in 1971. At present the indications are that this will maintain much of its momentum. Although the deterioration in the international climate has apparently caused private enterprises to re-examine their earlier plans for increasing capital expenditure by 12% as against 1971,<sup>1</sup> and to shelve new projects for the time being, there are still some im-

portant investment incentives, the main ones being readily available finance, almost full utilization of capacity and persistent increases in costs. Public enterprises, and to an even greater degree the state, will at all events step up their investment activity more rapidly in 1972. As residential construction too can be expected to expand more vigorously, if anything, the growth of gross fixed asset formation as a whole may continue at something like its present rate in the months ahead.

Expenditure on consumption is also likely to show no change of trend yet. There should be no let-up in the rapid growth of public current expenditure. Private consumers' expenditure will continue to be boosted by a fairly sharp rise in income, for there is no immediate prospect of any significant moderation in the wage rise while the increase in transfer incomes is unlikely to lose much speed and the amounts withdrawn by self-employed persons from their business will probably move up in line with turnover. It is unusually difficult, however, to make a forecast about the propensity to save of households. This propensity may well increase if the views taken of future employment opportunities become more pessimistic.

In the aggregate, the trend of demand will enable economic growth to continue at a fairly rapid pace in the months ahead. The feeling amongst a majority of managements—at least as far as their own enterprises are concerned—is that output will go on expanding at the present pace, the highest growth rates still being found in the consumer goods industry. In building and construction it is even probable that advances in output will be visibly faster. Even if activity were shortly to be curbed by a slackening in the trend of exports, it is still possible that the overall increase in the real gross national product for 1972 would be some 4.5%.

With this growth rate employment should remain at a high level, especially as the persisting reduction of working hours and perhaps too the initial effect of efforts to have the retirement age lowered will have to be taken into consideration. The probable development of the labour force and the structure of manpower available would however seem to indicate that the overall number of job-seekers in 1972

<sup>1</sup> INSEE investment survey of June 1971.

*The Central Government Budget*

|  | 1971            |                | 1972   | 1971  | 1972   |
|--|-----------------|----------------|--------|---|--------|
|  | Original Budget | Revised Budget | Budget | Original Budget                                   | Budget |
|  | FF '000 million |                |        | % changes on the preceding year's original budget |        |
| Expenditure <sup>1</sup>               | 175.5           | 178.7          | 192.6  | + 9.0   | + 9.7  |
| of which:                              |                 |                |        |   |        |
| current expenditure                    | 149.9           |                | 150.9  | + 9.4   | + 9.3  |
| capital expenditure <sup>2</sup>       | 25.6            |                | 26.8   | + 7.2   | + 12.1 |
| Revenue                                | 175.5           | 178.7          | 192.7  | + 9.1   | + 9.8  |
| of which :                             |                 |                |        |   |        |
| direct taxes                           | 54.7            | 55.2           | 61.4   | + 9.3   | + 12.2 |
| indirect taxes                         | 106.3           | 107.4          | 115.7  | + 9.0   | + 8.8  |
| Net borrowing requirement <sup>1</sup> | 0               | 0              | + 0.1  | .   | .      |

(<sup>1</sup>) Disregarding debt extinction.

(<sup>2</sup>) Including participations, advances and loans.

*Note :*

The figures in this table are based on national budgets and are recalculated on the basis of Community definitions.

will tend to rise further, while in certain sectors the labour market will continue to be strained.

As domestic economic activity promises to be relatively lively, visible imports can be expected to show a further, if slower, rise, especially as economic activity slackens more and more in some major industrialized countries, thus freeing supply capacities. Under these circumstances the trade balance (cif/fob) would seem set to remain in deficit.

On prices it is to be feared that not only will the internal upward pressures, especially the

persistent buoyancy of demand and escalating costs, remain very strong, but that also the change in the exchange relations between the franc and the currencies of a number of the world's major trading countries<sup>1</sup> might give an inflationary push.

<sup>1</sup> On 9 December the dollar value of the commercial franc had risen by 0.5% above the parity declared to the IMF. The Commission's departments calculated that the actual devaluation against all other currencies was nevertheless 5%.

Given this state of affairs, short-term economic policy in France should remain within the guidelines laid down in the annual report on the economic situation in the Community which was adopted by the Council on 26 October. It is all the more necessary to stabilize costs and prices quickly as otherwise the competitive advantages which the devaluation of the franc in August 1969 and subsequent shifts in the exchange rate pattern have brought might soon disappear.

Overall demand should be regulated in such a way that on the one hand the economy will continue to grow at a satisfactory rate, with special measures being taken to encourage businessmen to look to exports for improving turnover and profit figures, and on the other a brake will be applied to the upward movement of costs and prices. The public authorities in particular should take care to see that their handling of the budget which in 1971 was very expansionary should give no further boost to the economy. The Government has taken this into account when drafting the finance law for 1972. The increase in expenditure is not to exceed the expected growth of the gross national product in money terms, planned tax reliefs are to be shelved and the total budget is to be kept in balance. The seasonal cash deficit which can be expected in the early months of 1972 should not be financed as in 1971 by recourse to monetary means as the creation of extra liquidity by the State would run counter to the objectives which the authorities should be aiming at in monetary and credit policy, i.e. limiting the growth of liquidity.

The use of the classical short-term economic policy instruments should be coupled with selective structural measures to solve certain employment problems. It would seem particularly necessary to create greater mobility of labour between regions and between occupations.

Unless suitable measures are taken there would be a danger of the economy being burdened with an unnecessarily high number of persons seeking jobs while growth sectors continue to suffer from a shortage of manpower, production does not grow as fast as it might and costs remain high.

## Major economic policy measures

### October

(1) *Some 500 000 wage-earners and salaried employees in public enterprises had the pay increase, which under the "maintenance of purchasing power" clauses in collective agreements should have been awarded on 1 October, backdated to 1 September.*

(2) *At the beginning of the month the Government approved the draft of a law on the creation and organization of regions which gives the regions greater autonomy in particular on investment decisions and also allocates to them their own tax revenue.*

(3) *The minimum supplementary unemployment allowance was increased by 6% on 11 October.*

(4) *Halfway through the month the Government approved two draft laws concerned mainly with improving social security pensions, reforming family allowances and providing other benefits for working mothers.*

(5) *On 21 October dealings in foreign securities, which had been subject to considerable restrictions since exchange controls were introduced in 1968, were largely liberalized: the "devise-titre" or securities franc which previously had to be used for the purchase and sale of foreign securities with a considerable discount on the official parity, was abolished; in future, all transactions in securities can be effected in the financial franc, for which the freely floating rate varies only slightly from the official parity. Furthermore, it is no longer compulsory for residents to obtain authorization to buy foreign and French securities abroad. One of the effects of this will be that French stockbrokers will again be able to participate in international arbitrage dealings.*

(6) *In the middle of the month the Government announced the re-introduction of an exchange rate guarantee for long-term export contracts concluded in foreign currencies.*

(7) *The Banque de France, which in view of the persistently strong inflationary tendencies at home had in the preceding weeks been very cautious about bringing its intervention rates on the money market into line with the downward movement of interest rates on international*

markets, lowered the discount rate from 6.75 to 6.5% and the rate for advances on securities from 8.25 to 8% with effect from 28 October. The preferential discount rate for medium-term claims arising from foreign business with non-member countries remained unchanged at 4.5%. Even with this drop, which incidentally was only to be partially passed on by the commercial banks in their interest rates to borrowers, bank rate in France is still much higher than in all the other major European and non-European countries.

(8) As part of the efforts to discourage undesired currency inflows, the Ministry of Economic Affairs and Finance asked enterprises at the end of October not to contract until further notice any more loans or take up any other kind of credit abroad, even if they were intended to finance investments abroad. At the same time enterprises were promised that the foreign currencies necessary for this purpose would be made available.

(9) To check the rapid increase in food prices which in the preceding months had been a major factor in the rise in the cost of living, retail prices for bananas, eggs, ham and chocolate were frozen or maximum margins fixed at the end of October.

#### November

(1) The Government decided at the beginning of the month to take various measures to increase labour mobility and to improve vocational training. These include the granting of bonuses to young people who are willing to move to regions where there is a shortage of manpower, and the generalized introduction by firms of rapid apprentice training.

(2) The Government announced in the middle of the month that the quota restrictions on loans by regional development companies would be lifted on 1 January 1972, and that these companies would also be allowed to grant medium-term loans.

(3) In the middle of the month the Government and representatives of several trade unions signed a protocol fixing the terms of the improvements in pay and working conditions of civil servants for end 1971 and 1972. They include an increase in basic salaries in 1971 of 7.7% and in the first nine months of 1972

of at least 5.5% with a review clause should prices rise by more than 4%, the restructuring of groups on the pay scale and shorter working hours.

(4) Halfway through the month a collective agreement was concluded on behalf of wage-earners and salaried employees of the State electricity and gas corporations (Electricité de France and Gaz de France). The agreement, which is for a two-year period, guarantees an increase in real wages of at least 2.5% in 1972, and 2 to 3% for 1973 depending on the growth of gross domestic production and the turnover of the two corporations.

(5) In the middle of the month the Government adopted the supplementary budget for 1971. With additional expenditure of almost FF3 900 million (mainly on grants and aid to enterprises, defence and education) and additional revenue of about FF2 200 million (mainly from indirect taxes) the budget remains in balance in view of the cancellation of certain appropriations. The judge from trends in the first nine months, the Treasury's cash operations are nevertheless likely to show a noticeable deficit in 1971.

(6) At the end of the month the Government announced measures to revive the share market (a number of tax benefits for institutional investors and improvements in company law and in the organization of the stock exchanges) and to lower interest rates (Treasury bills, which can be used by enterprises to pay indirect taxes will from 1 December 1971 carry only 7% interest instead of 7.5% as before).

(7) At the end of November the National Assembly approved a bill for the reform of family allowances. Allowances to mothers not gainfully employed are increased and even doubled in some cases but they are only to be awarded to families with an income not exceeding a certain limit. In addition, working mothers who have to put their children in day-care centres or nurseries will henceforth receive special allowances and finally, mothers, whether gainfully employed or not, will have to belong to an old-age pension insurance system.

(8) At the same time, the National Assembly adopted a bill reducing maximum working hours from 60 to 57 per week and the average number of hours worked per week for any twelve week period from 54 to 50.



## December

(1) *The statutory minimum growth wage was increased on 1 October by 2.3% to take into account price rise.*

(2) *As the introduction of the two-tier exchange market on 23 August and the numerous control measures taken subsequently had apparently proved ineffective against the renewed influx of speculative funds at the beginning of December, the Government was forced to drastically tighten exchange control measures. From 10 December, francs lodged in non-resident accounts could only be used within the franc zone, payments for the purchase of goods being made in "commercial" francs and payments for other transactions in "financial" francs. These hold-*

*ings could no longer be transferred abroad or used to buy foreign currencies. The Government also reserved the right to place in blocked accounts any payments into non-resident accounts which as of 14 December bring these to a level higher than they stood at on 30 November, and to impose other sanctions. Exceptions to these provisions which in practice suspended the convertibility of the franc for foreigners were made for the balances of foreign governments and for franc holdings of natural persons which arise from wages and salaries, social benefits or the transfer of professional fees. On the other hand, to encourage the outflow of foreign currency, non-residents were granted facilities for borrowing francs from residents and residents were given wider possibilities for forward foreign exchange transactions.*

**France**

*TABLE 1 : Key indicators*

|   | 1966                                    | 1967  | 1968   | 1969   | 1970   | 1970     |
|---|---|-------|--------|--------|--------|----------|
|   | % change by volume<br>on preceding year |       |        |        |        | 1963=100 |
| Gross national product                              | + 5.6                                   | + 5.0 | + 4.6  | + 7.7  | + 6.0  | 148      |
| Industrial production                               | + 7.4                                   | + 4.6 | + 4.7  | + 9.8  | + 7.1  | 157      |
| Total imports                                       | + 13.9                                  | + 8.0 | + 12.8 | + 22.5 | + 8.5  | 215      |
| Private consumers' expenditure                      | + 4.8                                   | + 5.4 | + 5.5  | + 6.7  | + 4.3  | 143      |
| Public current expenditure on goods<br>and services | + 2.3                                   | + 4.1 | + 5.1  | + 4.4  | + 3.8  | 129      |
| Gross fixed asset formation                         | + 8.4                                   | + 6.1 | + 6.6  | + 10.1 | + 6.6  | 176      |
| Total exports                                       | + 8.4                                   | + 7.5 | + 10.0 | + 17.0 | + 17.0 | 213      |
| Gross national product per head of<br>population    | + 4.7                                   | + 4.2 | + 3.8  | + 6.8  | + 5.1  | 139      |
| Gross national product per person in<br>employment  | + 4.8                                   | + 4.6 | + 4.6  | + 5.8  | + 4.4  | 140      |
|   | % change by value<br>on preceding year  |       |        |        |        |          |
| Gross income per employee                           | + 6.1                                   | + 6.7 | + 11.6 | + 12.0 | + 9.4  | 181      |

*TABLE 2 : Indicators for internal and external equilibrium*

|   | 1966  | 1967  | 1968   | 1969  | 1970  |
|---|-------|-------|--------|-------|-------|
| Balance exports less imports  |       |       |        |       |       |
| in million u.a.   | + 344 | + 446 | + 101  | - 792 | + 558 |
| as percentage of GNP  | + 0.3 | + 0.4 | + 0.08 | - 0.6 | + 0.4 |
| Unemployment rate   | 1.4   | 1.8   | 2.1    | 1.7   | 1.7   |
| price index of private consumers' expenditure<br>(% change on preceding year) | + 3.0 | + 2.8 | + 4.9  | + 6.8 | + 5.2 |

TABLE 3: Foreign trade (at current prices)

|   | % change on preceding year |        |        |        |        | 1963=100 | Million u.a. | % of totals |
|---|----------------------------|--------|--------|--------|--------|----------|--------------|-------------|
|   | 1966                       | 1967   | 1968   | 1969   | 1970   | 1970     | 1970         | 1970        |
| <b>Visible exports</b>  |                            |        |        |        |        |          |              |             |
| Total   | + 8.3                      | + 4.5  | + 11.4 | + 17.4 | + 18.8 | 219      | 17 678       | 100.0       |
| Intra-EEC   | + 12.0                     | + 2.0  | + 16.0 | + 30.6 | + 20.9 | 278      | 8 606        | 48.7        |
| To non-EEC countries  | + 5.8                      | + 6.3  | + 8.2  | + 7.5  | + 16.8 | 182      | 9 070        | 51.3        |
| <b>Exports of food, beverages and tobacco</b>                 |                            |        |        |        |        |          |              |             |
| Total   | + 7.5                      | + 2.9  | + 19.8 | + 20.8 | + 6.0  | 216      | 2 711        | 15.3        |
| Intra-EEC   | + 19.4                     | + 6.0  | + 26.6 | + 41.9 | + 1.7  | 341      | 1 626        | 9.2         |
| To non-EEC countries  | - 2.0                      | - 0.1  | + 12.8 | - 3.8  | + 13.2 | 140      | 1 085        | 6.1         |
| <b>Exports of raw materials, fuel and power</b>               |                            |        |        |        |        |          |              |             |
| Total   | + 7.3                      | - 3.7  | + 1.6  | + 10.6 | + 11.7 | 149      | 1 390        | 7.9         |
| Intra-EEC   | + 7.4                      | - 3.7  | + 0.9  | + 19.9 | + 13.7 | 184      | 926          | 5.2         |
| To non-EEC countries  | + 7.2                      | - 3.6  | + 2.6  | - 3.5  | + 7.9  | 107      | 464          | 2.7         |
| <b>Exports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |          |              |             |
| Total   | + 8.7                      | + 6.1  | + 11.1 | + 17.5 | + 22.5 | 230      | 13 575       | 76.8        |
| Intra-EEC   | + 11.2                     | + 2.3  | + 16.2 | + 29.0 | + 28.7 | 287      | 6 054        | 34.3        |
| To non-EEC countries  | + 7.2                      | + 8.5  | + 8.1  | + 10.2 | + 18.0 | 199      | 7 521        | 42.5        |
| <b>Visible imports</b>  |                            |        |        |        |        |          |              |             |
| Total   | + 14.6                     | + 4.5  | + 12.5 | + 27.7 | + 9.8  | 217      | 18 918       | 100.0       |
| Intra-EEC   | + 20.8                     | + 10.7 | + 23.1 | + 31.3 | + 6.5  | 295      | 9 252        | 48.9        |
| From non-EEC countries  | + 10.5                     | + 0.2  | + 4.4  | + 16.7 | + 13.2 | 178      | 9 661        | 51.1        |
| <b>Imports of food, beverages and tobacco</b>                 |                            |        |        |        |        |          |              |             |
| Total   | + 8.4                      | - 2.6  | + 2.7  | + 19.6 | + 6.8  | 158      | 2 453        | 13.0        |
| Intra-EEC   | + 1.3                      | + 16.6 | + 31.8 | + 33.4 | + 3.9  | 296      | 814          | 4.3         |
| From non-EEC countries  | + 10.3                     | - 7.4  | - 6.4  | + 13.5 | + 8.4  | 128      | 1 639        | 8.7         |
| <b>Imports of raw materials, fuel and power</b>               |                            |        |        |        |        |          |              |             |
| Total   | + 5.9                      | + 0.3  | + 3.6  | + 10.6 | + 4.5  | 136      | 4 202        | 22.2        |
| Intra-EEC   | + 9.5                      | - 2.3  | + 14.2 | + 11.4 | + 8.7  | 146      | 730          | 3.9         |
| From non-EEC countries  | + 5.3                      | + 0.8  | + 1.7  | + 10.5 | + 3.7  | 134      | 3 472        | 18.3        |
| <b>Imports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |          |              |             |
| Total   | + 22.0                     | + 9.0  | + 19.6 | + 30.3 | + 12.4 | 300      | 12 258       | 64.8        |
| Intra-EEC   | + 25.0                     | + 12.0 | + 23.3 | + 33.3 | + 6.5  | 328      | 7 708        | 40.7        |
| From non-EEC countries  | + 17.7                     | + 4.4  | + 13.3 | + 24.6 | + 23.9 | 261      | 4 550        | 24.1        |

TABLE 4: Selected monthly indicators

|   | Year | Jan.  | Feb.  | Mar.  | Apr.  | May   | June  | July   | Aug.  | Sept.   | Oct.    | Nov.    | Dec.  |
|---|------|-------|-------|-------|-------|-------|-------|--------|-------|---------|---------|---------|-------|
| <b>Industrial production (1963 = 100)</b>   | 1969 | 140.0 | 138.5 | 137.3 | 142.1 | 144.8 | 141.2 | 145.3  | 142.2 | 141.4   | 144.7   | 143.4   | 140.8 |
|   | 1970 | 150.3 | 150.7 | 150.7 | 151.4 | 149.2 | 148.2 | 150.6  | 144.3 | 152.0   | 151.2   | 149.9   | 151.8 |
|   | 1971 | 152.6 | 154.5 | 156.5 | 151.8 | 152.3 | 151.7 | 162.1  | 154.5 | 162.8   | (161.5) |         |       |
| <b>Number of persons seeking employment (1 000)</b>                               | 1969 | 242.4 | 237.5 | 231.8 | 224.1 | 221.7 | 215.2 | 217.2  | 217.9 | 216.4   | 218.2   | 214.9   | 219.7 |
|   | 1970 | 221.4 | 227.2 | 233.3 | 241.3 | 246.9 | 252.5 | 262.6  | 274.1 | 285.9   | 297.2   | 303.7   | 304.8 |
|   | 1971 | 311.6 | 309.8 | 311.4 | 311.6 | 315.3 | 318.9 | 328.0  | 339.2 | 357.8   | (366.4) |         |       |
| <b>Construction: building permits issued for housing (1 000)</b>                  | 1969 | 49.8  | 45.3  | 44.5  | 41.5  | 48.3  | 48.5  | 56.5   | 45.2  | 58.4    | 53.9    | 43.2    | 49.1  |
|   | 1970 | 45.0  | 53.5  | 48.7  | 46.7  | 46.8  | 53.3  | 45.1   | 42.6  | 51.6    | 39.2    | 43.4    | 73.1  |
|   | 1971 | 53.5  | 57.6  | 59.7  | 50.4  | 55.5  | 57.0  | (52.8) |       |         |         |         |       |
| <b>Private consumers' expenditure: turnover of department stores (1963 = 100)</b> | 1969 | 144.8 | 140.8 | 142.6 | 142.7 | 152.6 | 140.1 | 146.1  | 153.4 | 140.0   | 137.1   | 138.6   | 148.9 |
|   | 1970 | 151.8 | 142.9 | 139.6 | 142.7 | 144.1 | 142.9 | 147.0  | 148.9 | 143.8   | 149.4   | 135.9   | 154.3 |
|   | 1971 | 160.9 | 156.7 | 150.2 | 154.3 | 142.3 |       |        |       |         |         |         |       |
| <b>Consumer prices (1963 = 100)</b>   | 1969 | 121.2 | 121.5 | 122.1 | 122.7 | 123.2 | 123.6 | 124.2  | 124.5 | 125.1   | 125.9   | 126.5   | 126.9 |
|   | 1970 | 123.0 | 128.6 | 129.0 | 129.6 | 130.1 | 130.7 | 130.9  | 131.4 | 132.0   | 132.5   | 133.0   | 133.4 |
|   | 1971 | 134.2 | 134.8 | 135.4 | 136.2 | 137.1 | 137.6 | 138.2  | 138.3 | 139.4   | 140.2   |         |       |
| <b>Visible imports (million u.a.)</b>   | 1969 | 1 364 | 1 319 | 1 300 | 1 461 | 1 595 | 1 441 | 1 480  | 1 426 | 1 445   | 1 541   | 1 377   | 1 413 |
|   | 1970 | 1 434 | 1 488 | 1 431 | 1 660 | 1 406 | 1 663 | 1 563  | 1 682 | 1 656   | 1 631   | 1 657   | 1 684 |
|   | 1971 | 1 488 | 1 613 | 1 731 | 1 714 | 1 638 | 1 801 | 1 746  | 1 878 | 1 852   | (1 833) | (1 840) |       |
| <b>Visible exports (million u.a.)</b>   | 1969 | 1 221 | 1 181 | 1 117 | 1 219 | 1 235 | 1 254 | 1 257  | 1 228 | 1 251   | 1 276   | 1 242   | 1 311 |
|   | 1970 | 1 385 | 1 389 | 1 397 | 1 503 | 1 323 | 1 595 | 1 415  | 1 507 | 1 572   | 1 501   | 1 574   | 1 565 |
|   | 1971 | 1 537 | 1 595 | 1 646 | 1 612 | 1 652 | 1 667 | 1 692  | 1 788 | 1 766   | (1 746) | (1 807) |       |
| <b>Balance of trade (million u.a.)</b>  | 1969 | - 143 | - 138 | - 183 | - 242 | - 290 | - 187 | - 223  | - 198 | - 194   | - 265   | - 135   | - 102 |
|   | 1970 | - 49  | - 99  | - 34  | - 157 | - 83  | - 68  | - 148  | - 175 | - 84    | - 130   | - 83    | - 119 |
|   | 1971 | + 49  | - 18  | - 85  | - 102 | + 14  | - 134 | - 54   | - 90  | - 86    | (- 37)  | (- 33)  |       |
| <b>Official gold and foreign exchange reserves (million u.a.)</b>                 | 1969 | 4 216 | 4 126 | 3 937 | 3 775 | 3 637 | 3 611 | 3 595  | 3 782 | 4 006   | 3 913   | 3 989   | 3 833 |
|   | 1970 | 4 050 | 4 122 | 4 128 | 4 197 | 4 307 | 4 447 | 4 657  | 4 713 | 4 743   | 4 784   | 4 957   | 4 960 |
|   | 1971 | 5 346 | 5 404 | 5 490 | 5 561 | 5 628 | 5 655 | 6 158  | 7 231 | 6 899   | 6 854   | 7 078   |       |
| <b>Money supply (FF '000 million)</b>   | 1969 | 207.9 | 210.6 | 212.6 | 214.5 | 211.4 | 212.4 | 212.4  | 213.3 | 213.6   | 211.8   | 213.2   | 209.2 |
|   | 1970 | 204.6 | 205.8 | 207.5 | 209.1 | 208.1 | 208.4 | 208.7  | 213.0 | 214.5   | 219.9   | 222.3   | 227.6 |
|   | 1971 | 228.7 | 231.9 | 234.3 | 232.1 | 236.2 | 240.6 | 243.9  | 243.4 | (246.9) |         |         |       |

## France

### NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated). Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

#### *Graph 1*

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

#### *Graph 2*

Labour market; series adjusted for seasonal variations; three-month moving averages; position at end of month; unemployed — number of persons seeking employment.

#### *Graph 3*

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices for 1969 and 1970: 259 items; from January 1971 new index of 295 items.

#### *Graph 4*

Bank lending; source: Conseil National du Crédit; short-term loans (up to 2 years) from monetary institutions to business and private customers; position at end of month.

#### *Graph 5*

Exports fob: series adjusted for seasonal variations; three-month moving averages.

#### *Graph 6*

Imports cif: series adjusted for seasonal variations; three-month moving averages.

#### *Graph 7*

Balance of trade: difference in terms of value between imports and exports, seasonally adjusted.

---

#### *Table 1*

Source: "Rapport sur les comptes de la Nation 1970". Ministère de l'Économie et des Finances.

GNP at market prices (new series on 1962 basis).

Industrial production: value added by industry.

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

#### *Table 2*

Source: "Rapport sur les comptes de la Nation 1970". Ministère de l'Économie et des Finances.

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed (persons available for and seeking employment, estimated on the basis of the number of job applicants, in the light of the latest population census) as percentage of the total domestic labour force.

Consumer prices: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

#### *Table 3*

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

#### *Table 4*

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Number of persons seeking employment: position at end of month, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: turnovers by value, constant samples; adjusted for seasonal variations.

Consumer prices: national index of 259 items in 1969 and 1970; new index of 295 items since January 1971.

Imports cif, exports fob, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and convertible currency held by the Banque de France and the Fonds de Stabilisation des changes, position at end of month.

Money supply: fiduciary circulation (total notes and coin in circulation, excluding notes and coin held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with the Post Office giro or with public accountants, plus sight deposits relating to the activities of certain financing institutions in metropolitan France. Position at end of month, adjusted for seasonal variations.

## C. Italy

*Economic activity was decidedly sluggish, in any case up to the beginning of autumn; this was mainly because of a slowdown in domestic demand and, more particularly, in investment. Exports, on the other hand, rose distinctly. Manpower and plant capacities were largely underutilized. Under the pressure of costs that has been building up since 1969, the upward thrust of prices has remained quite appreciable.*

*The economic outlook for the coming months is uncertain, particularly since the present monetary crisis might have an inhibiting influence on the behaviour patterns of transactors. Many factors, however, in particular the distinctively expansionary spending policy adopted by the public authorities for quite some time already, suggest that towards the end of the year economic activity had reached the bottom of the trough.*

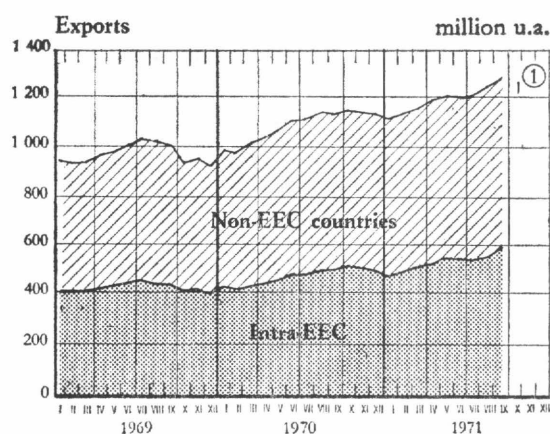
### 1. Recent developments

The slackening in economic activity, which in important sectors was clearly recessionary in nature, had still not been brought to a halt at the beginning of autumn. The main inhibiting influence came from the sluggish trend of demand, especially demand for capital goods. Although industrial relations improved somewhat, the economy was in addition still plagued by labour disputes. Utilization of both manpower and plant capacity dropped far below full employment level. Despite the weak trend in demand, prices continued to rise quite appreciably, forced up by costs; at the retail level the price increase even gathered speed at times. The squeeze on profits, especially on those of small and medium-sized firms, probably became still more severe.

As a reaction to the weakness of domestic demand, work on export orders was pushed ahead as a matter of priority and this seems to have led to a substantial drop in the backlog of export orders. The foreign trade statistics show that in September-October the value of Italian exports, in terms of lira, was 7.6% up on a year earlier. Exports of services also increased vigorously.

Despite the buoyant trend of investment by state-controlled enterprises, the tendency for

capital spending as a whole to slip back has probably continued. The fact that value added tax is due to be introduced in the near future may

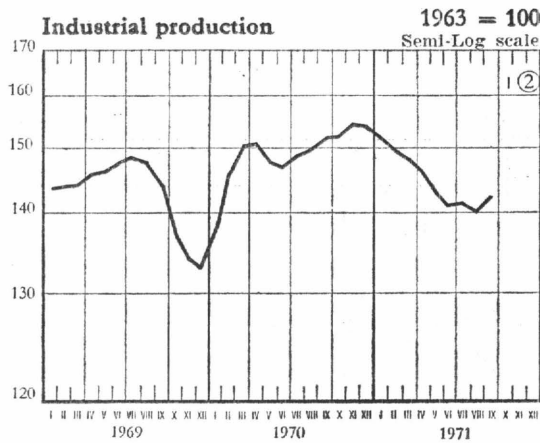


have placed an additional check on the propensity to invest. This is particularly true of investment in stocks, which continued to decline. Investment in plant and machinery probably also showed a distinct fall-off. This follows in particular from the trends of production and foreign trade and from the monthly results of the EEC business survey among managements in respect of domestic order books in the transport equipment and mechanical engineering industries.

Investment in residential construction likewise dropped distinctly, being between June and August more than a quarter down on the comparable period a year earlier, according to the ISTAT indices. Expenditure on public works, on the other hand, showed a decidedly expansionary trend.

Expansion in private consumers' expenditure was rather weak. Despite the drop in the level of employment, the gross wage bill is likely to have risen still further, amongst other things as a result of the particularly sharp rise in the cost-of-living bonus under existing sliding wage agreements. Income from entrepreneurship and property, however, probably diminished, notably because productivity gains were lagging far behind the increase in labour costs. In addition, the propensity to save may have increased.

On the supply side, output in building and construction tended to drop further. In the other industries, production also showed a downward trend, especially in the capital goods sector; according to the ISCO, it fell in the third



quarter by 2.0%, after seasonal adjustment, and the production figure per working day was 5.2% down on the previous year. Except towards the end of 1970, when it recovered for a short time, industrial output has thus tended downwards for a year and a half. The EEC business surveys have shown that during the same period the degree of utilization of plant capacities has also dropped almost continuously (from 81.5% in the second quarter of 1970 to 76.4% in the third quarter of 1971). As autumn progressed, however, industrial production may have begun to pick up a little and in October

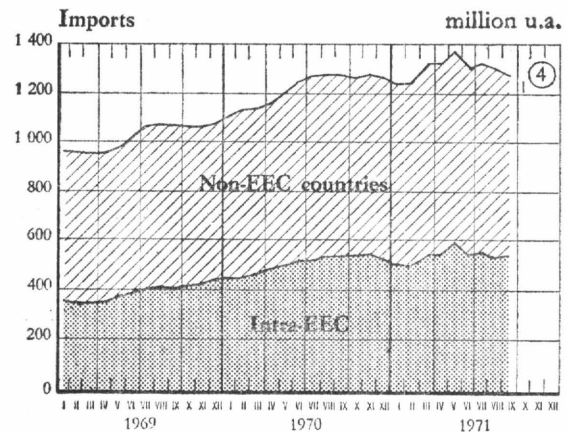
production per working day was only 1.8% down on October 1970.

The slight increase in the number of wage and salary earners was more than compensated for by a further decline in the average number of hours worked per person employed. The number of hours not worked for economic reasons and for which compensatory payments were made by industry's wage equalization funds (for the most part allocated to textile and construc-



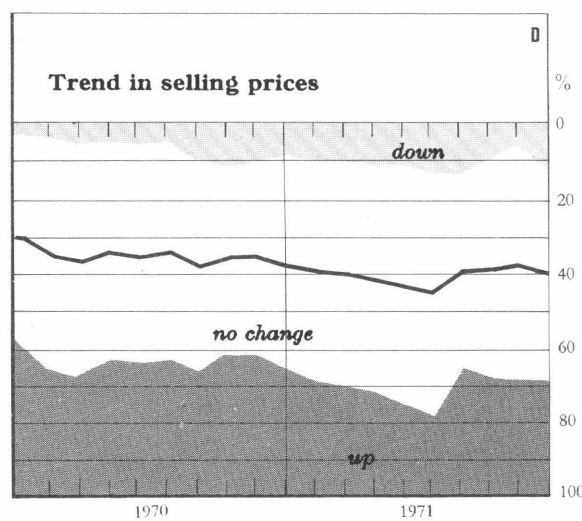
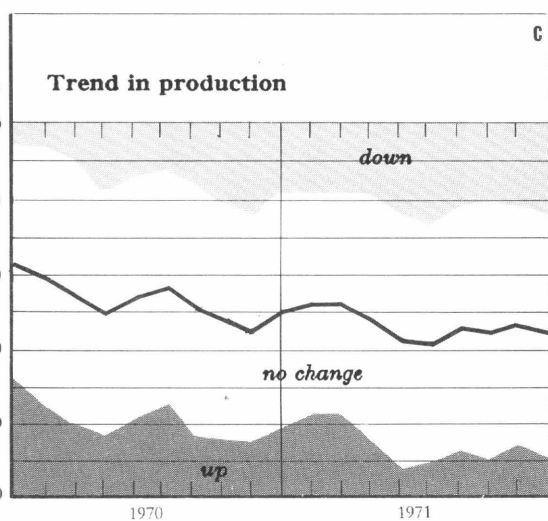
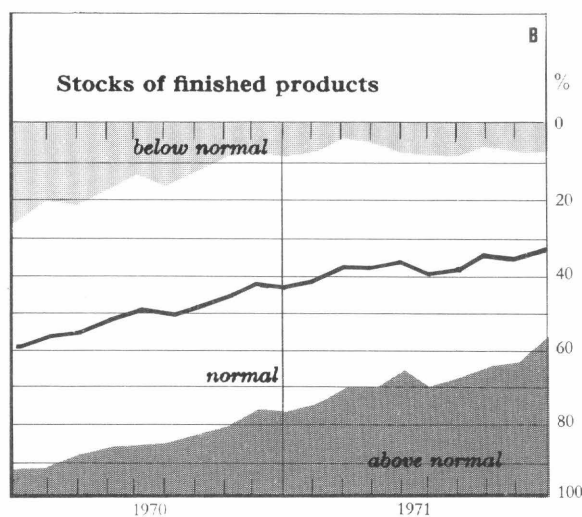
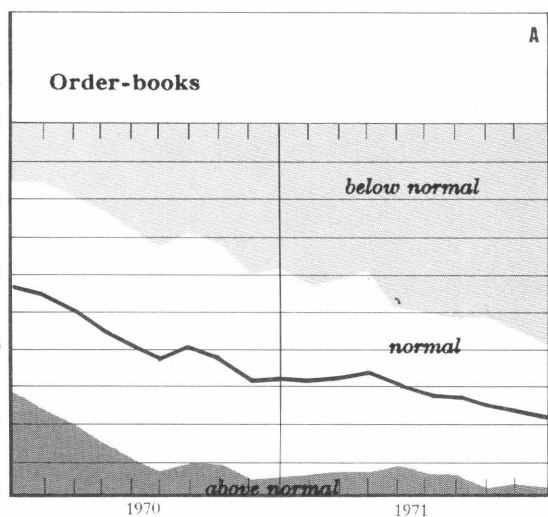
tion workers), was in September-October almost five times higher than during the same period a year earlier. The number of unemployed tended further upwards, if anything, and to judge by the ISTAT sample surveys the figure in October was 0.8% higher than in October 1970.

Foreign supply fell perceptibly. The seasonally-adjusted value of visible imports in the third



quarter was 1.3% down on the previous quarter, and in terms of volume the drop was even

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

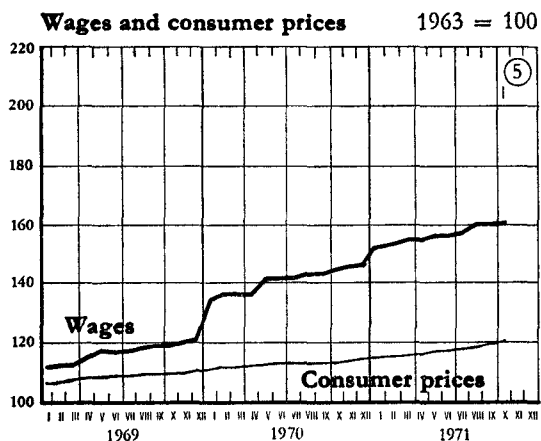
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- 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".





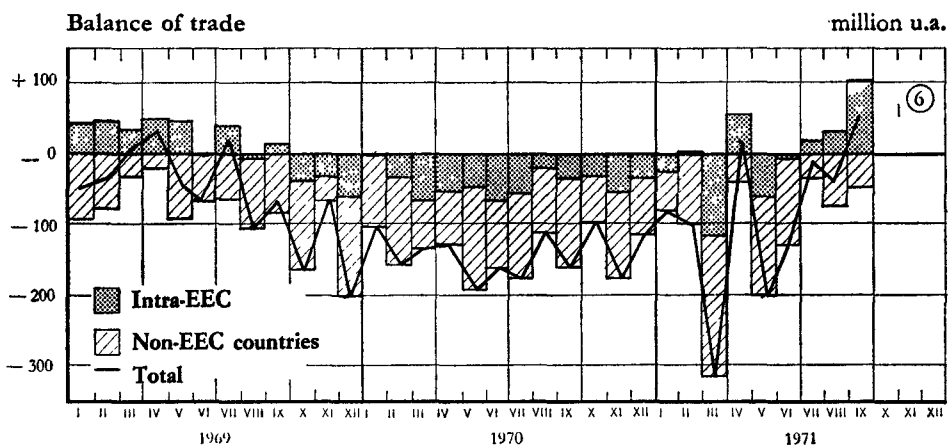
sharper. The fall-off was particularly pronounced in imports of plant and machinery and primary products.



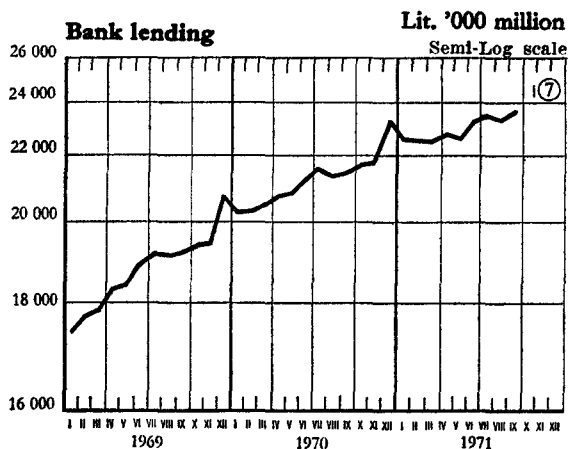
The upward movement of prices remained quite appreciable and at consumer level gathered speed for a time towards the beginning of autumn.

The contributing factors probably included the increase in the cost-of-living bonus mentioned earlier, a considerable rise in agreed minimum wages in the distributive trades and, already, the increase in the cost of imports brought about by exchange rate modifications. According to the ISTAT index, consumer prices were 4.9% and wholesale prices 3.2% higher in October than a year earlier.

The balance of payments in the third quarter showed an exceptionally large surplus. This was mainly due to a very sharp improvement in the balance of trade, but the net amount received in respect of services also rose sharply, mostly as a result of the expansion of tourism. Despite money exports by the commercial banks, net official gold and foreign exchange reserves rose by no less than \$607 million between the end of June and the end of September. In October they dropped slightly owing to repayment of debts ahead of schedule.



Adjusted for seasonal and fortuitous variations, the domestic liquidity of the commercial banks in the third quarter remained stationary at a very high level. The money supply increased at a slower pace, but in September was nonetheless 21.6% higher than a year earlier. However, this rate was inflated by a tax-motivated shift from savings to sight deposits. Demand for bank loans seems to have picked up somewhat after a fairly long period of slack. On the market for fixed-interest securities, prices were rising. This reflects the downward trend of interest rates on international markets, a further reduction in re-



*Demand for and supply of goods and services*

|  | 1969 <sup>1</sup>                                      | 1970 <sup>1</sup>          |        | 1971 <sup>2</sup> |       | 1972 <sup>3</sup> |  |
|--|--|----------------------------|--------|-------------------|-------|-------------------|--|
|  | At<br>current<br>prices<br>(in Lit<br>'000<br>million) | % change on preceding year |        |                   |       |                   |  |
|  |  | Volume                     | Value  | Volume            | Value | Volume            |  |
| Exports <sup>4</sup>                             | 10 565   | + 6.0                      | + 11.6 | + 6½              | + 11½ | + 5               |  |
| Gross fixed asset formation                      | 11 135   | + 3.8                      | + 15.3 | - 4½              | 0     | + ½               |  |
| Public current expenditure on goods and services | 6 910  | + 3.2                      | + 7.1  | + 3               | + 18  | + 3               |  |
| Private consumers' expenditure                   | 32 879   | + 8.0                      | + 13.2 | + 2½              | + 8   | + 3               |  |
| Gross national product                           | 52 149   | + 5.1                      | + 11.7 | + 1               | + 7   | + 3               |  |
| Imports <sup>4</sup>                             | 9 340  | + 17.2                     | + 22.0 | + ½               | + 7   | + 6               |  |

<sup>1</sup> "Relazione generale sulla situazione economica del Paese (1970)".

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> Goods, services and factor income.

*Note :*

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries, but are established and published on the sole responsibility of the Commission.

financing costs, particularly in the rate for loans against securities, and the increasing tendency for investors to turn away from the share market

## 2. Outlook

Economic activity in the first half of 1972 is expected to pick up again slowly, the assumption being that the strains in industrial relations will ease further, unimpeded by the wage negotiations due to be held towards the end of next year in important economic sectors, that the uncertainty caused by the present world mone-

tary crisis will soon be removed and that in particular the consequent improvement in the psychological climate will enable the private sector's propensity to invest to rise again quickly. The quantitative forecasts made in the previous Quarterly Survey, which were deliberately in the nature of targets, had to be revised sharply downwards, since the two main conditions upon which they were based—a thorough-going and lasting return to normal industrial relations and faster growth of demand—have not yet been met.

The value of exports is likely to rise further in the coming months, although doubtless at a substantially slower pace. In particular, the

indirect effects of the measures taken by the US Administration last August have created a severe handicap for Italian exports. The slowdown in economic activity of which there are signs in important Member States will also make it more difficult to sell Italian goods in the Community. On the other hand, Italy's international competitive position, which has been improving again for quite some time where delivery dates are concerned, may be expected to strengthen also in the price field.<sup>1</sup>

Several factors make it reasonable to believe that entrepreneurs' propensity to invest will pick up again, though probably at a slow pace. They include in particular the not unfavourable export outlook, the direct and indirect effects of the public authorities' expansionary spending policy, the increased pressure to rationalize, the relative improvement in the work climate, the decision to bring forward the tax relief for investment to be granted in connection with the changeover to the value added tax system, and the large amount of credit available at substantially reduced interest rates. The State-controlled enterprises, which in 1970 accounted for 15% of total gross fixed investment, intend to expand their investments vigorously by a fifth in 1972. But, all in all, the increase in investment in plant and machinery will probably stay within narrow limits initially, particularly since in a number of industries there are substantial margins of unused capacity. Building investment too is likely to increase only slightly. True, public works will probably expand rapidly, especially thanks to a drastic shortening of administrative procedure, and industrial building will maintain its slight upward trend, but investment in residential construction can hardly be expected to increase significantly even though the number of new building projects has of late been seen to rise again slightly.

Many factors suggest that the trend of expenditure on consumption may become somewhat more lively again. These include the expected upturn in the level of employment as business picks up; a distinct increase in hourly wages,

partly as a result of the definitive abolition of the differential between wage zones on 1 July; a 5 % rise in social security pensions at the beginning of the year; a trend in income other than wages which is expected to be firmer than in 1971; and, notably, a certain increase in the propensity to consume which, after having been remarkably static during the previous two years, may for a time gather additional momentum in the first half of 1972 in view of the impending introduction of the value-added tax system.

Given the relatively low starting level and even assuming that economic activity will strengthen further in the second half of the year, the growth in real gross national product between 1971 and 1972 will probably be in the order of 3%. Imports may rise again but the balance of payments on current account is nevertheless likely to show a large surplus as the level of economic activity will still be comparatively low.

The rise in the level of employment referred to above will most probably be due primarily to a resumption of the increase in the average number of hours worked per employee, and only in the second place to an increase in the numbers employed.

The upwards thrust of prices is likely to gain in vigour, at consumer level at least, since the expected brisker growth in demand will make it easier to pass on to prices the extraordinarily heavy pressure of costs which has built up over recent years and which may increase still further. The introduction of the value added tax system will be another factor tending to push prices up.

The unsatisfactory economic trend which has been registered in Italy during the last two years and which contrasts sharply with that in other member countries, calls for a short-term economic policy with a distinctly expansionary bias. Monetary, credit and budget policy have therefore rightly been following an expansionary course for some time. Budget policy should be used during the months ahead to stimulate the economy by means of stepping up investment-related expenditure, particularly since the latter's multiplier effect is relatively strong. This would also give a boost to business in the building sector, which has been particularly hard

<sup>1</sup> On 9 December the dollar value of the Italian lira had risen by 3.2% above the parity declared to the IMF. The Commission's departments calculated that the actual devaluation against all other currencies was nevertheless 1.6%.

hit by the decline in economic activity. In addition, consideration should be given to extending the tax privileges in respect of depreciation and developing the tax credit arrangement ("credito d'imposta") in favour of additional investments by enterprises.

With firms already able to draw on an abundant supply of funds from outside sources, monetary and credit policy can do relatively little to revive economic activity. A further reduction in the cost of borrowing may, however, boost private investment. But to ensure that no wait-and-see attitude is adopted, this cut should by preference be made in one single move, rather than in small steps. In addition, savers should be encouraged to invest their funds in shares. This would help companies to expand their equity base which has become too narrow in relation to borrowed capital.

### Major economic policy measures

#### September 1971

(1) A ministerial circular was sent to State-controlled enterprises instructing them to hold the prices for their products during the current year.

(2) Towards the end of the month administrative preparations were made for the issue of fixed-interest securities worth Lit. 184 000 million by the State-controlled "CREDIOP". The yield of this issue, which will be placed exclusively with the banks, extremely liquid for some time past, is to accrue to the Treasury to help finance local authority building projects, the Green Plan, capital expenditure on rationalization and plant extension, and export credits for companies.

(3) Towards the end of the month, Parliament passed the law on the promotion of economic development in southern Italy.<sup>1</sup> Apart from the prolongation of various tax benefits until 1980 and the extension to the hotel sector of the tax reliefs previously confined to industrial undertakings, the provisions of the law include: reorganization of the policy on southern Italy

enabling it to be centralized at national level and formulated by the CIPE (Ministerial Committee for Economic Programming), with increasing participation of the regional authorities concerned; implementation of the "special projects" agreed under this procedure through the Cassa per il Mezzogiorno; stimulation of economic activity by requiring the central government authorities and the State-controlled enterprises to make purchases and to invest in southern Italy (by 1980 these enterprises for instance must locate 80% of their new investment in southern Italy); increase in grants, especially for small- and medium-sized industrial firms (accompanied by a cut in the level of interest subsidies); setting up of an institute providing finance to these firms; the investment projects of all Italian companies with a capital of over Lit. 5 000 million and all plans for investment in plant and machinery involving an outlay of more than Lit. 7 000 million must be notified to the CIPE; as an indirect measure to promote the economy in southern Italy, introduction of a 25% levy on investments which the CIPE advised against either for reasons of employment policy or because they were made in congested areas. The new law empowers the Cassa per il Mezzogiorno to make payments and undertake financial commitments amounting to Lit. 7 125 000 million in the period 1971-1975. The Cassa per il Mezzogiorno's corresponding investment for 1972 was officially put at Lit. 1 405 000 million.

#### October

(1) At the beginning of the month, Parliament adopted the tax reform law defining the framework within which the Government may issue the required regulations (until mid-April, retroactive to 1 January 1972. But see also section (1) of December). Principles: consideration of the actual ability to pay taxes, progressive character of tax rates, modernization and rationalization of the tax system, extension of the imposition of withholding tax having the character of an advance payment, maintenance of the registered shares system, gradual increase in the share of social security contributions taken over by the Government, establishment of greater harmony between direct and indirect taxation. Changes in the overall tax burden resulting from the reform are to be compensated for by adjusting tax rates and taxfree allowances

<sup>1</sup> See Quarterly Survey No, 1/1971, p. 61.

etc. in the third and fourth year. The very numerous types of tax under the old system are to be replaced by a small number of new types, the most important of which are five direct taxes and one indirect tax: local income tax (on all unearned income, at a proportional rate ranging from some 10 to 15%, to be fixed independently by the various regional and local authorities to whom the tax accrues); personal income tax (on total income after deduction of local income tax and various tax-free allowances; limited availability of the splitting facility; tax relief to be provided more in the form of deduction from tax liability than in the form of deduction from taxable income); tax on corporate income (proportional rate of 25% on profits, with an additional 10% levied on profits distributed to Italian citizens and an additional 30% on profits distributed to foreign citizens); tax on the appreciation of land (progressive rate of taxation of 3% to 25%); "imposta sostitutiva" (withholding tax on investment income at a rate ranging from 10% to 30% depending on the type of income; Government stocks and like securities are exempt, as is interest on postal savings certificates); value added tax (standard rate 12% and rates of 6% for some mass-consumption goods and 18% for certain luxury and semi-luxury goods; transitional arrangements for investment in stocks and in plant and machinery). Recasting of some of the taxes retained from the old system (e.g. estate duty and duty on donations with progressive rates ranging from 3% to 60%).

(2) With effect from 14 October the rate for loans against securities and the discount rate were again lowered (from 5% to 4% and 4½%, respectively). The surcharge of a maximum of 1½ percentage points, introduced in 1969 but in practice hardly applied for some considerable time, is maintained.

(3) Towards the middle of the month, submission of several government bills providing for substantial increase, financed from budget funds, in the endowment capital of a number of State-controlled financial institutions (the sum involved is reported to exceed Lit. 600 000 million). It is intended to raise these funds over several years on the capital market.

(4) In the second half of the month, Parliament adopted a comprehensive and socially motivated

house-building law.<sup>1</sup> It is designed to adjust the currently inadequate supply of publicly assisted housing as quickly as possible to the very heavy demand. As a part of this process, the public authorities' share in total investment in residential construction is to be increased to 25% (the present figure is a little over 5%). Numerous measures and steps are to be taken to achieve the desired aim, in particular: reorganization of the bodies previously responsible for publicly assisted residential construction; survey into housing requirements every two years; revision and speeding up of the expropriation procedures for acquisition by local authorities of land required for construction of publicly assisted housing (the amount of compensation to be calculated on the basis of the average agricultural value of the land, where appropriate increased by up to 400%); in respect of the subsidized housing to be constructed on this land, predominantly transfer of the so-called surface area right ("diritto di superficie") from the local authorities to the party placing the building order and only a limited possibility of acquiring private ownership and exercising rights of ownership; for the period 1971-1973, establishment of special housing programmes, to be financed partly from additional budget funds (Lit. 54 000 million), for certain low-income groups (firms planning to build dwellings for their employees may be awarded grants up to a certain proportion of available funds); award of interest subsidies and grants for credits needed to acquire the "diritto di superficie"; setting up of a Lit. 300 000 million fund notably for financing the acquisition of land for publicly assisted housing (to be financed from budget funds in the period 1971-1973).

(5) At the end of the month, Parliament adopted a law providing for the grant of low-interest loans to textile enterprises; these loans are to be used to finance rationalization and reconversion schemes which have been examined and approved by the Government.

#### December

(1) At the beginning of the month, Parliament adopted a law postponing the introduction of

<sup>1</sup> See Quarterly Survey No. 2/1971, p. 47.

*value added tax to 1 July 1972 and laying down that most of the other provisions of the tax reform law are to enter into force on 1 January 1973. The turnover tax on investment in plant and machinery and in stocks carried out between 1 July or 1 September 1971 and 1 July 1972 will be deductible from VAT liability.*

*(2) At the beginning of the month, measures were taken to discourage speculative movements of capital: convertibility of non-residents' foreign exchange holdings was restricted to transactions connected with the supply of goods and services and imports of capital by non-residents were made subject to control by the foreign exchange office.*

TABLE 1: Key indicators

|   | 1966                                    | 1967   | 1968   | 1969   | 1970   | 1970                |
|---|---|--------|--------|--------|--------|---------------------|
|   | % change by volume<br>on preceding year |        |        |        |        | Indices<br>1963=100 |
| Gross national product                              | + 5.9                                   | + 6.8  | + 6.0  | + 5.9  | + 5.1  | 142                 |
| Industrial production                               | + 7.4                                   | + 8.7  | + 8.7  | + 7.0  | + 6.4  | 151                 |
| Total imports                                       | + 13.7                                  | + 12.6 | + 7.5  | + 20.6 | + 17.2 | 189                 |
| Private consumers' expenditure                      | + 6.8                                   | + 7.1  | + 4.7  | + 6.3  | + 8.0  | 145                 |
| Public current expenditure on goods<br>and services | + 3.2                                   | + 4.3  | + 4.1  | + 3.3  | + 3.2  | 129                 |
| Gross fixed asset formation                         | + 4.0                                   | + 11.8 | + 7.7  | + 8.0  | + 3.8  | 122                 |
| Total exports                                       | + 13.2                                  | + 6.7  | + 15.4 | + 13.8 | + 6.0  | 225                 |
| Gross national product per head of<br>population    | + 5.1                                   | + 6.0  | + 5.4  | + 5.1  | + 4.8  | 132                 |
| Gross national product per person in<br>employment  | + 7.4                                   | + 5.7  | + 6.0  | + 7.0  | + 4.6  | 144                 |
|   | % change by value<br>on preceding year  |        |        |        |        |                     |
| Gross income per employee                           | + 7.9                                   | + 8.5  | + 7.1  | + 8.8  | + 13.7 | 188                 |

TABLE 2: Indicators for internal and external equilibrium

|   | 1966    | 1967    | 1968    | 1969    | 1970  |
|---|---------|---------|---------|---------|-------|
| Balance exports less imports                    |         |         |         |         |       |
| in million u.a.                                 | + 1 723 | + 1 235 | + 2 274 | + 1 963 | + 637 |
| as percentage of GNP                            | + 2.7   | + 1.8   | + 3.0   | + 2.4   | + 0.7 |
| Unemployment rate                               | 3.9     | 3.5     | 3.5     | 3.4     | 3.1   |
| consumer prices<br>(% change on preceding year) | + 2.9   | + 3.0   | + 1.6   | + 2.9   | + 4.8 |

## Italy

TABLE 3 : Foreign trade (at current prices)

|   | % change on preceding year |        |        |        |        | Indices<br>1963=100 | Million<br>u.a. | % of<br>totals |
|---|----------------------------|--------|--------|--------|--------|---------------------|-----------------|----------------|
|   | 1966                       | 1967   | 1968   | 1969   | 1970   | 1970                | 1970            | 1970           |
| <b>Visible exports</b>  |                            |        |        |        |        |                     |                 |                |
| Total   | + 11.7                     | + 8.3  | + 17.0 | + 15.2 | + 12.6 | 262                 | 13 207          | 100.0          |
| Intra-EEC   | + 12.8                     | + 3.3  | + 20.9 | + 22.2 | + 13.6 | 316                 | 5 660           | 42.9           |
| To non-EEC countries  | + 11.0                     | + 11.6 | + 14.5 | + 10.5 | + 11.9 | 232                 | 7 547           | 57.1           |
| <b>Exports of food, beverages and tobacco</b>                 |                            |        |        |        |        |                     |                 |                |
| Total   | + 1.5                      | + 4.7  | - 3.7  | + 15.6 | + 9.2  | 160                 | 1 098           | 8.3            |
| Intra-EEC   | + 0.4                      | - 1.7  | - 1.3  | + 21.4 | + 5.7  | 179                 | 582             | 4.4            |
| To non-EEC countries  | + 2.8                      | + 12.4 | - 6.1  | + 9.3  | + 13.4 | 142                 | 516             | 3.9            |
| <b>Exports of raw materials, fuel and power</b>               |                            |        |        |        |        |                     |                 |                |
| Total   | + 10.6                     | + 9.1  | + 14.1 | + 1.4  | + 10.3 | 209                 | 990             | 7.5            |
| Intra-EEC   | + 21.5                     | + 15.9 | + 14.7 | - 2.0  | + 9.6  | 287                 | 366             | 2.8            |
| To non-EEC countries  | + 5.2                      | + 5.3  | + 13.7 | + 3.6  | + 10.6 | 181                 | 624             | 4.7            |
| <b>Exports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |                     |                 |                |
| Total   | + 13.4                     | + 8.8  | + 20.0 | + 16.7 | + 13.2 | 286                 | 11 119          | 84.2           |
| Intra-EEC   | + 14.6                     | + 8.2  | + 25.4 | + 24.9 | + 15.0 | 352                 | 4 712           | 35.7           |
| To non-EEC countries  | + 12.6                     | + 12.4 | + 16.7 | + 11.5 | + 11.9 | 252                 | 6 407           | 48.5           |
| <b>Visible imports</b>  |                            |        |        |        |        |                     |                 |                |
| Total   | + 16.7                     | + 12.9 | + 4.3  | + 21.4 | + 19.4 | 197                 | 14 865          | 100.0          |
| Intra-EEC   | + 21.6                     | + 21.5 | + 9.1  | + 29.9 | + 27.4 | 248                 | 6 140           | 41.3           |
| From non-EEC countries  | + 14.4                     | + 8.8  | + 1.8  | + 16.6 | + 14.3 | 172                 | 8 725           | 58.7           |
| <b>Imports of food, beverages and tobacco</b>                 |                            |        |        |        |        |                     |                 |                |
| Total   | + 9.7                      | + 0.7  | + 8.5  | + 14.9 | + 18.0 | 189                 | 2 499           | 16.8           |
| Intra-EEC   | + 13.5                     | + 26.6 | + 29.0 | + 26.8 | + 20.9 | 397                 | 954             | 6.4            |
| From non-EEC countries  | + 8.7                      | - 6.4  | + 0.9  | + 9.2  | + 8.1  | 143                 | 1 545           | 10.4           |
| <b>Imports of raw materials, fuel and power</b>               |                            |        |        |        |        |                     |                 |                |
| Total   | + 15.1                     | + 13.7 | + 1.0  | + 13.0 | + 11.8 | 180                 | 4 663           | 31.4           |
| Intra-EEC   | + 18.2                     | + 14.2 | - 3.0  | + 20.6 | + 16.6 | 219                 | 697             | 4.7            |
| From non-EEC countries  | + 14.6                     | + 13.6 | + 1.7  | + 11.8 | + 11.0 | 174                 | 3 966           | 26.7           |
| <b>Imports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |                     |                 |                |
| Total   | + 22.0                     | + 18.8 | + 8.6  | + 31.0 | + 27.1 | 213                 | 7 704           | 51.8           |
| Intra-EEC   | + 24.2                     | + 22.3 | + 8.1  | + 32.4 | + 30.8 | 284                 | 4 489           | 30.2           |
| From non-EEC countries  | + 19.4                     | + 14.5 | + 9.2  | + 29.0 | + 22.2 | 188                 | 3 215           | 21.6           |

TABLE 4 : Selected monthly indicators

|   | Year | Jan.    | Feb.    | Mar.    | Apr.    | May     | June    | July    | Aug.    | Sept.   | Oct.    | Nov.    | Dec.    |
|---|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Industrial production</b><br>(1963 = 100)                                      | 1969 | 141.7   | 143.7   | 145.0   | 147.8   | 144.9   | 149.4   | 150.0   | 142.5   | 137.4   | 131.7   | 132.1   | 133.5   |
|   | 1970 | 148.9   | 153.6   | 149.2   | 148.8   | 145.5   | 146.4   | 152.3   | 149.5   | 152.6   | 152.6   | 157.9   | 150.6   |
|   | 1971 | 147.3   | 151.4   | 145.1   | 141.0   | 141.3   | 141.5   | 142.1   | 136.4   | 147.2   |         |         |         |
| <b>Unemployed</b><br>(1 000)  | 1969 | 931.3   | 937.5   | 918.7   | 898.4   | 883.0   | 890.9   | 884.3   | 876.2   | 872.9   | 864.5   | 843.2   | 834.1   |
|   | 1970 | 843.1   | 840.2   | 848.2   | 849.0   | 853.0   | 860.9   | 881.0   | 895.8   | 926.7   | 936.7   | 959.2   | 951.8   |
|   | 1971 | 988.1   | 1 011.2 | 1 059.5 | 1 046.5 | 1 042.5 | 1 048.9 | 1 049.3 | 1 052.2 | 1 067.9 |         |         |         |
| <b>Construction : permits for residential construction</b><br>(1 000)             | 1969 | 31.5    | 21.3    | 19.0    | 21.4    | 21.8    | 22.8    | 21.8    | 22.6    | 25.8    | 25.3    | 24.5    | 24.4    |
|   | 1970 | 23.4    | 22.3    | 22.1    | 25.3    | 25.0    | 24.8    | 24.9    | 21.6    | 23.3    | 24.5    | 24.1    | 33.4    |
|   | 1971 | 22.8    | 21.0    | 21.5    | 27.7    | 25.1    | 29.2    | 30.0    |         |         |         |         |         |
| <b>Private consumers' expenditure : department store turnover</b><br>(1963 = 100) | 1969 | 154.9   | 153.3   | 161.5   | 162.6   | 181.5   | 162.8   | 172.6   | 180.4   | 183.3   | 177.0   | 169.2   | 180.2   |
|   | 1970 | 182.3   | 180.9   | 196.7   | 173.6   | 169.4   | 195.2   | 196.9   | 197.1   | 202.0   | 214.6   | 189.2   | 193.6   |
|   | 1971 | 195.5   | 197.3   | 193.4   | 210.3   | 196.3   | 191.6   | 201.2   | 192.5   |         |         |         |         |
| <b>Consumer prices</b><br>(1963 = 100)  | 1969 | 119.9   | 120.1   | 120.6   | 121.1   | 121.4   | 121.8   | 123.1   | 122.9   | 123.1   | 123.4   | 124.1   | 124.6   |
|   | 1970 | 125.1   | 126.1   | 126.6   | 127.2   | 127.7   | 128.0   | 128.2   | 128.4   | 129.2   | 129.8   | 130.8   | 131.3   |
|   | 1971 | 131.8   | 132.3   | 132.8   | 133.2   | 134.0   | 134.1   | 134.5   | 134.7   | 135.6   | 136.3   |         |         |
| <b>Visible imports</b><br>(million u.a.)  | 1969 | 974.8   | 981.3   | 929.1   | 991.1   | 1 041.9 | 1 073.9 | 1 089.2 | 1 063.3 | 1 060.6 | 1 061.0 | 1 073.4 | 1 109.1 |
|   | 1970 | 1 168.4 | 1 124.4 | 1 137.3 | 1 245.2 | 1 247.1 | 1 313.9 | 1 305.6 | 1 263.0 | 1 298.6 | 1 275.2 | 1 317.3 | 1 249.9 |
|   | 1971 | 1 174.9 | 1 319.2 | 1 491.7 | 1 175.3 | 1 453.0 | 1 282.2 | 1 228.0 | 1 396.8 | 1 228.4 |         |         |         |
| <b>Visible exports</b><br>(million u.a.)  | 1969 | 927.0   | 952.3   | 937.8   | 1 024.5 | 1 000.3 | 1 007.9 | 1 067.3 | 957.1   | 994.7   | 897.0   | 1 006.6 | 908.5   |
|   | 1970 | 1 066.0 | 967.2   | 1 004.0 | 1 118.5 | 1 057.0 | 1 155.4 | 1 129.5 | 1 148.2 | 1 134.5 | 1 180.5 | 1 134.0 | 1 130.6 |
|   | 1971 | 1 094.8 | 1 217.9 | 1 175.2 | 1 196.1 | 1 251.3 | 1 155.5 | 1 215.4 | 1 356.8 | 1 283.9 |         |         |         |
| <b>Balance of trade</b><br>(million u.a.)   | 1969 | - 47.8  | - 29.0  | + 8.7   | + 33.4  | - 41.6  | - 66.0  | - 21.9  | - 106.2 | - 65.9  | - 164.0 | - 66.8  | - 200.6 |
|   | 1970 | - 102.4 | - 157.2 | - 133.3 | - 128.7 | - 190.1 | - 158.5 | - 176.1 | - 114.8 | - 164.1 | - 94.7  | - 183.3 | - 119.3 |
|   | 1971 | - 80.1  | - 101.3 | - 316.5 | - 20.6  | - 201.7 | - 126.7 | - 12.6  | - 40.0  | + 55.5  |         |         |         |
| <b>Official gold and foreign exchange reserves</b><br>(net million u.a.)          | 1969 | 4 727   | 4 636   | 4 493   | 4 571   | 4 366   | 4 514   | 4 582   | 4 686   | 4 547   | 4 566   | 4 668   | 4 696   |
|   | 1970 | 4 457   | 3 943   | 3 947   | 3 923   | 4 368   | 4 233   | 4 130   | 4 226   | 4 411   | 4 776   | 4 903   | 5 271   |
|   | 1971 | 5 652   | 5 836   | 5 994   | 6 167   | 6 091   | 5 993   | 6 016   | 6 463   | 6 600   | 6 566   |         |         |
| <b>Money supply</b><br>(Lit. '000 million)  | 1969 | 20 140  | 20 379  | 20 836  | 20 845  | 21 282  | 21 558  | 21 590  | 21 681  | 22 138  | 22 351  | 22 831  | 24 388  |
|   | 1970 | 23 839  | 24 122  | 24 689  | 24 896  | 25 538  | 26 117  | 26 522  | 26 660  | 27 247  | 27 811  | 28 452  | 31 108  |
|   | 1971 | 30 416  | 30 120  | 30 534  | 31 007  | 31 455  | 32 084  | 32 545  | 32 531  | 33 145  |         |         |         |



## NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated). Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

*Graph 1*

Industrial production: excluding construction, food, beverages and tobacco; series adjusted for seasonal variations; three-month moving averages.

*Graph 2*

Labour market: number of registered unemployed; series prepared by the Ministero del Lavoro e della Previdenza Sociale and adjusted for seasonal variations by the Statistical Office of the European Communities; three-month moving averages.

*Graph 3*

Wages and consumer prices: source ISTAT. Agreed minimum wages in industry (excluding family allowances).

*Graph 4*

Bank lending: source Banca d'Italia. Short-term loans to business and private customers; position at end of month.

*Graph 5*

Exports fob: series adjusted for seasonal variations; three-month moving averages.

*Graph 6*

Imports cif: series adjusted for seasonal variations; three-month moving averages.

*Graph 7*

Balance of trade: difference in terms of value between exports and imports, seasonally adjusted.

*Table 1*

Source for 1969 and 1970: Relazione generale sulla situazione economica del Paese (1970).

GNP at market prices.

Industrial production : value added by industry at factor cost.

Total exports and imports : goods, services and factor income.

Gross income per employee : income from paid employment (not including social insurance contributions borne by the State).

*Table 2*

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of labour force (annual average); source ISTAT.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

*Table 3*

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST) : food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

*Table 4*

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unemployed: series provided by the Ministero del Lavoro e della Previdenza Sociale, adjusted for seasonal variations by the Statistical Office of the European Communities.

Construction: dwellings authorized in the provincial capitals and in other communes of 20 000 or more inhabitants; figures adjusted for seasonal variations.

Private consumers' expenditure: value index of department store turnovers, adjusted for seasonal variations.

Consumer prices: unadjusted index.

Imports cif, exports fob, adjusted for seasonal variations.

Balance of trade; difference between values of exports and imports, seasonally adjusted.

Official gold and foreign exchange reserves (net); source Ufficio Italiano dei Cambi; position at end of month.

Money supply: notes and coin in circulation excluding cash holdings of the credit institutions other than the post office giro, deposits of residents with the banks (at less than one months' call), special assets of the Treasury and non-residents' holdings in the post office giro; position at end of month.



## D. Netherlands

*The Dutch economy has continued to reflect pronounced inflationary pressures in recent months, the main cause being the trend in costs. Both export demand and investment activity have slackened. The growth in production has dropped substantially and unemployment has tended upwards. The current account showed a heavy deficit.*

*The strong inflationary pressures and the uncertainty in international trade and monetary relations create serious problems for economic policy in the coming months. The possibility of economic growth slackening further cannot be excluded while the upward surge of prices and costs may continue at a rapid pace.*

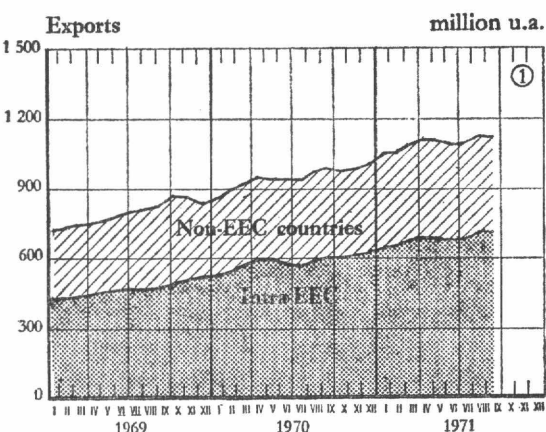
### 1. Recent developments

Although in autumn 1971 the Dutch economy was marked by weaker expansion of overall demand and an easing of strains on the labour market and in the field of plant capacity, the upward thrust of prices—for the most part brought about by sharp rise in costs—was still very strong and the deficit on current account remained heavy.

The stimulus provided by export demand has weakened in recent months. The key to this development lies in the calmer business con-

strengthened further by the consequences of the appreciation of the guilder,<sup>1</sup> which is comparatively high particularly in terms of the currencies of non-member countries. Customs returns show, however, that the value of visible exports during the period August-October (not including exports to the Belgo-Luxembourg Economic Union), were still 14.4% up on the same period of the previous year.

Trends in domestic demand varied considerably. The increase in gross fixed asset formation slackened noticeably in terms of value; in money terms there may even have been a drop towards the end of the year, mainly because of a downturn in corporate investment. The squeeze on profit margins, which has been a constant feature of recent years, and the less favourable sales prospects have been increasingly reflected in a declining propensity to invest of enterprises. To this must be added the restrictive line followed in issuing building permits. The restrictive policy on expenditure may, moreover, have caused public capital spending to expand only moderately. Only investment in residential construction still seems to have increased considerably.

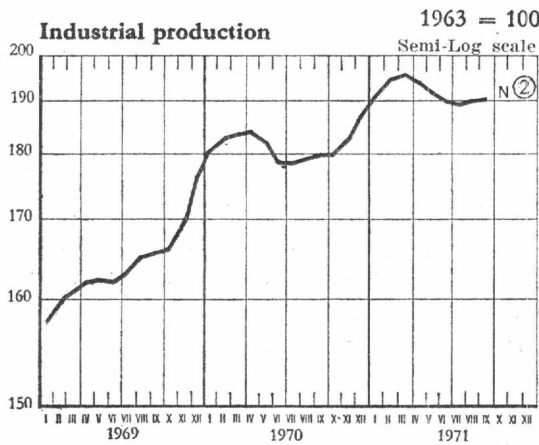


ditions in certain important Member States, particularly Germany, and the persistent upward thrust of costs, the effects of which were

<sup>1</sup> On 9 December the dollar value of the Dutch guilder had risen by 9.9% above the parity declared to the IMF. The Commission's departments calculated that the actual revaluation against all other currencies was 3.2%.

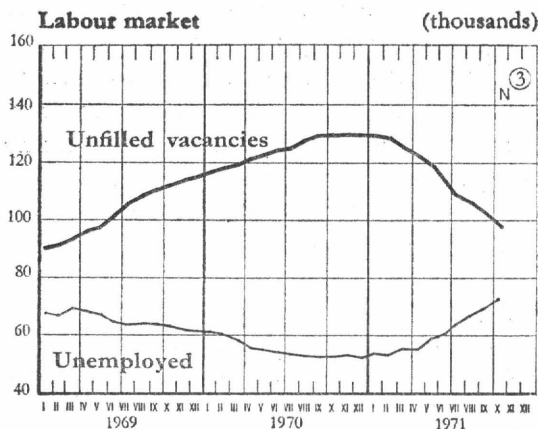
Private consumers' expenditure provided very strong stimuli and in terms of value its growth may even have accelerated. This is primarily due to the sharp increase in wages and salaries and in transfer incomes that occurred in the second half of the year following the lifting of price and wage controls. In October agreed hourly earnings were 12.7% up on October 1970. Only the trend of employment had a slight dampening effect on the growth of personal incomes.

The more differentiated pattern of demand entailed a tendency for the growth of domestic supply to weaken. Despite this, industrial production in the third quarter was still 5.8%



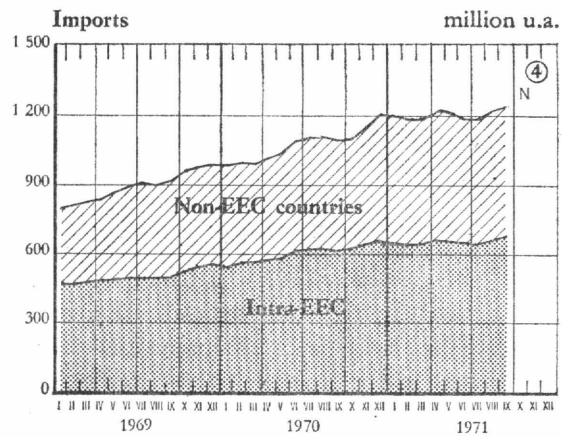
higher than during the same period a year earlier, with growth in most consumer goods industries and in the production of natural gas making a major contribution.

The tendency for pressures on the labour market to ease, apparent since the beginning of



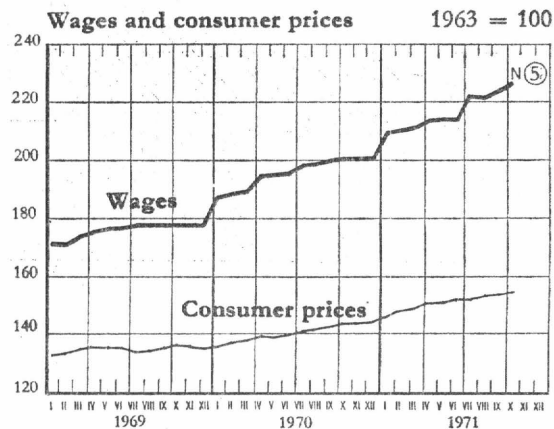
the year, has strengthened during recent months. Employment remained static, and towards the end of the year there may even have been a slight downturn. The number of unfilled vacancies continued to decline and was for the first time since the beginning of 1969 lower than the number of unemployed. In November, the seasonally adjusted unemployment rate stood at 1.9% of the civilian labour force, as against 1.2% a year earlier.

Imports have gathered speed again during recent months as a result of a more pronounced rise in sales of consumer goods. Excluding imports

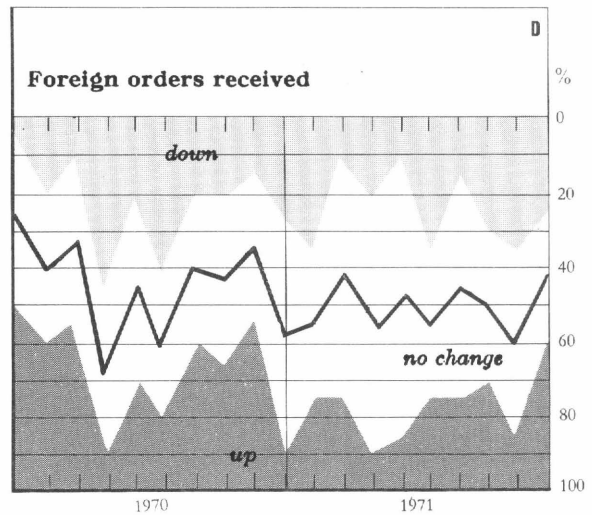
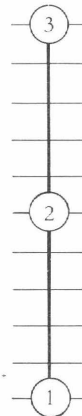
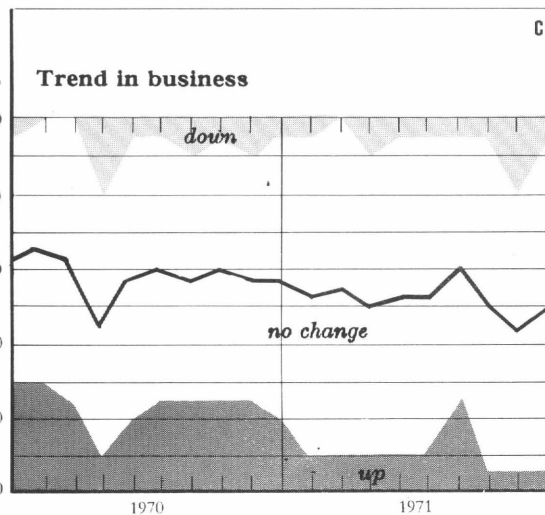
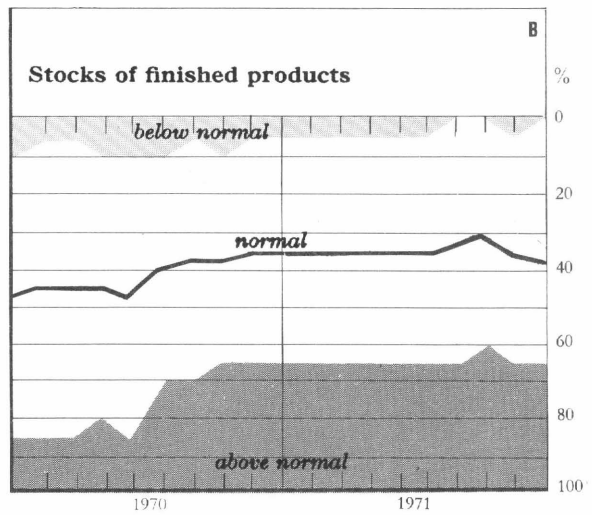
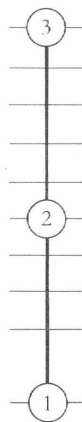
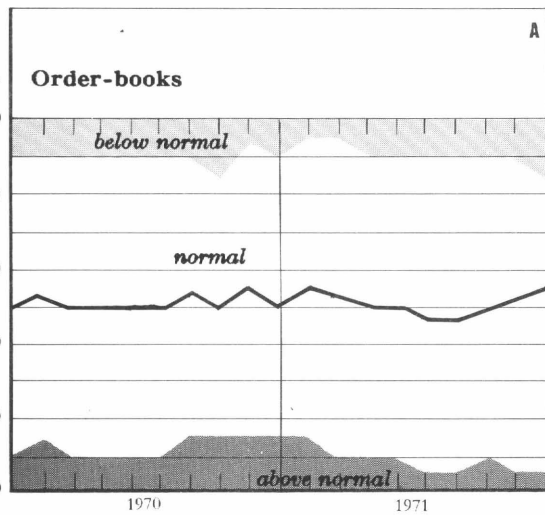


from the BLEU, in the August-October period they were 14.6% higher in terms of value than a year earlier. At the same time, the appreciation of the guilder had a dampening effect on the increase in import prices.

So far, however, this has had no noticeable effect on the trend of domestic prices. These have been influenced mainly by the sharp in-



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 zones (gray, white and black) show the percentages of the three different answers.

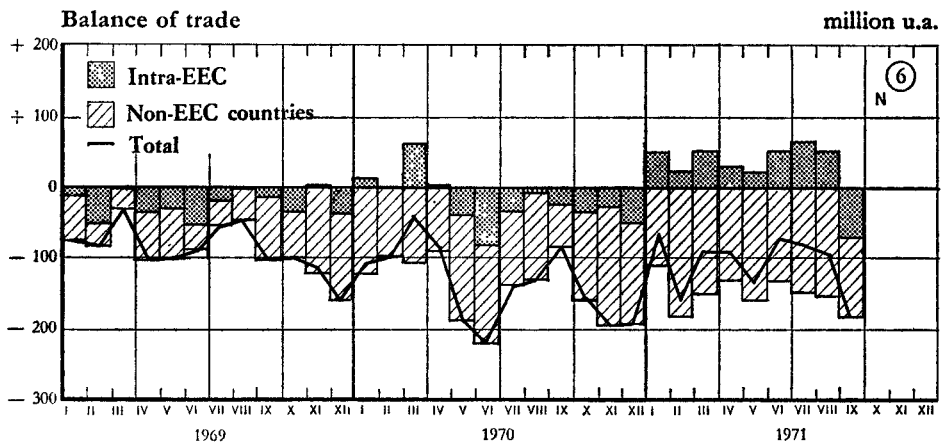
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- 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".



crease in wage costs which has outweighed the effects of the weaker expansion of demand in some sectors of the economy and the influence on farm prices of a good harvest. As a result,

the consumer price index of wage- and salary-earners' households continued to rise at a very rapid pace and in October was 8.3% up on the previous year.



*Demand for and supply of goods and services*

|  | 1969 <sup>1</sup>                       | 1970 <sup>1</sup>          |        | 1971 <sup>2</sup> |       | 1972 <sup>3</sup> |
|--|---|----------------------------|--------|-------------------|-------|-------------------|
|  | At current prices (in Fl. '000 million) | % change on preceding year |        |                   |       |                   |
|  |   | Volume                     | Value  | Volume            | Value | Volume            |
| Exports <sup>4</sup>                             | 49.67                                   | + 13.7                     | + 18.8 | + 10              | + 13  | + 6               |
| Gross fixed asset formation                      | 25.81                                   | + 7.2                      | + 15.3 | + 5               | + 15  | - 5               |
| Public current expenditure on goods and services | 16.07                                   | + 5.5                      | + 13.2 | + 3               | + 15½ | + 1               |
| Private consumers' expenditure                   | 57.54                                   | + 7.4                      | + 11.5 | + 3½              | + 10½ | + 3½              |
| Gross national product                           | 102,39                                  | + 5.6                      | + 10.5 | + 4               | + 11½ | + 2               |
| Imports <sup>4</sup>                             | 49.30                                   | + 15.0                     | + 22.5 | + 8               | + 13  | + 3½              |

<sup>1</sup> Centraal Bureau voor de Statistiek.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> Goods, services and factor income.

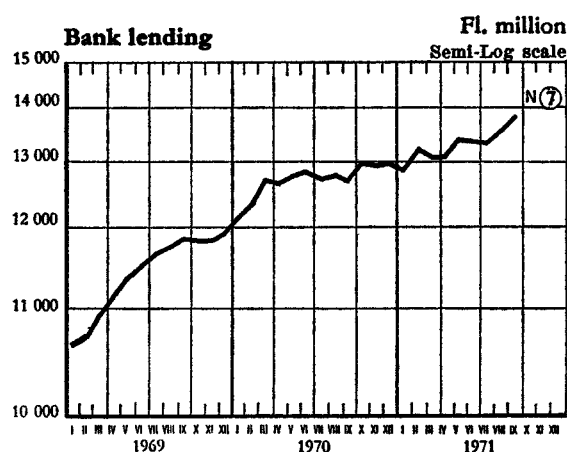
*Note :*

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

Since the balance of trade showed no noticeable improvement—at least to judge by customs returns—the trend of the current account (on a transactions basis) remained very unfavourable despite a slight improvement at the beginning of summer. The deficit on current account totalled Fl. 1 134 million for the period from January to September, as against Fl. 927 million for the same period in 1970. The inflow of foreign capital remained exceptionally heavy until September, but may have slackened since.

In the third quarter the balance of payments trend was therefore still having an expansionary effect on domestic liquidity. However, since the public sector on balance had no recourse to monetary means to finance the cash deficit, the increase in overall liquidity weakened despite



the growth in bank lending to the private sector. Total bank lending to business and private customers in September was 13% up on September 1970. The recent tendency for interest rates to come down reflects more than anything else the authorities' attempts to reduce for "external" reasons the difference between interest rate levels at home and abroad. Long-term interest rates, which reached their 1971 peak in September, showed a slight fall in October.

## 2. Outlook

The essential features of the Dutch economy in the months ahead are likely to be a slowdown in economic growth and a further easing of pressures on the labour market, accompanied

by a persistent upsurge in costs and prices and a deficit on current account.

The progressive cooling down of economic activity in a number of major importing countries, the direct and indirect consequences of the trade measures taken by the US Administration in mid-August and the appreciation of the guilder will probably continue to have an adverse effect on the trend in exports. Even on the assumption that production capacity will not be taken up to such a large degree as in previous years by domestic demand, exports—at least in terms of volume—will only rise relatively slowly.

Growth of domestic demand will probably slacken appreciably in the months ahead. This will be especially true of investment activity. Although the inhibiting effects exerted by stock-building in the second half of 1971 may gradually lose vigour, companies' fixed investment is likely if anything to register a downward trend. Profit margins, for instance, have shrunk appreciably during recent years.

An additional factor is that the uncertainty prevailing in international trade and monetary relations and the relatively unfavourable sales prospects do not act as an incentive to investment in plant extension. Moreover, the problems connected with town and country planning and the environment are becoming increasingly noticeable in the Netherlands and are acting as a brake on companies' investment activity. Finally, aircraft purchases, which in 1971 made a substantial contribution towards the rise in capital expenditure, will be less important in 1972. Under the current budget estimates, no further increase in terms of value is scheduled for public authorities' infrastructure expenditure. This means that in real terms this expenditure is even likely to drop. In contrast, activity in residential construction will probably remain at a high level.

Expenditure on consumption will initially still climb quite vigorously overall, although not quite as rapidly as in the second half of 1971. Despite the recruitment ban and as a result of the persistently strong upsurge in wages and prices, public current expenditure on goods and services will show a further sharp rise. Private consumers' expenditure too will remain fairly buoyant, but a number of factors point to a



certain slowdown in the trend. Unless employers and unions reach an agreement deliberately aimed at moderating wage claims, the increase in agreed wages and in transfer incomes might still turn out to be very vigorous. Wage drift, however, will probably weaken and there may be a slight fall in employment. For the rest it remains to be seen whether the growing risks threatening job security will not lead to an increase in the savings ratio.

In view of these trends in demand, industrial production is likely to show a comparatively varied pattern: there will be a fall-off in some sectors, especially in the capital goods industries, and—unless some measures are taken to stimulate it—also in building, whereas other industries will still register a comparatively vigorous growth. Even assuming that business activity will pick up somewhat during the second half of the year, and there are at present

### The Central Government Budget<sup>1</sup>

|  | 1971              |                     | 1972   | 1971                                     | 1972   |
|--|-------------------|---------------------|--------|--|--------|
|  | Budget            | Provisional results | Budget |  |        |
|  | Fl.'000 million   |                     |        | % changes on the preceding year's budget |        |
| Expenditure <sup>2</sup>               | 32.4 <sup>4</sup> | 34.5                | 37.6   | + 14.1 <sup>4</sup>                      | + 16.0 |
| of which:                              |                   |                     |        |  |        |
| current expenditure                    | 24.0              | 25.7                | 28.5   | + 15.9                                   | + 18.8 |
| capital expenditure <sup>3</sup>       | 8.4               | 8.8                 | 9.1    | + 15.1                                   | + 8.3  |
| Revenue                                | 31.0              | 31.8                | 36.0   | + 15.7                                   | + 16.1 |
| of which :                             |                   |                     |        |  |        |
| direct taxes                           | 15.5              | 15.6                | 17.5   | + 15.7                                   | + 12.9 |
| indirect taxes                         | 11.7              | 12.2                | 13.7   | + 14.7                                   | + 17.1 |
| Net borrowing requirement <sup>2</sup> | - 1.4             | - 2.7               | - 1.6  |  |        |

<sup>1</sup> Including "Wegenfonds".

<sup>2</sup> Disregarding debt extinction.

<sup>3</sup> Including participations and loans.

<sup>4</sup> No account taken of the stabilization measures proposed in September 1970 (limitation of expenditure and increase in taxation).

*Note :*

The figures in this table are based on national budgets and are recalculated on the basis of Community definitions.

hardly any signs pointing to such a trend, the growth in gross national product is likely to be only in the order of 2%.

In the circumstances, the tendency for pressures on the labour market to ease is likely to continue. As the supply of available manpower will be smaller, mainly as a result of the raising of the school-leaving age and probably also because of a fall in net additions to the labour force from immigration, the increase in unemployment should stay within relatively narrow limits.

There is no reason to assume that prices on the home market will quickly stabilize, particularly since wage costs per unit of output are climbing sharply.

As a result of the improved balance between overall expenditure and domestic supply, visible imports will rise comparatively little in terms of volume. In view of export prospects the deficit on current account (on a transactions basis) can be expected to tend to fall although initially it will still be relatively heavy.

Under these circumstances, economic policy is faced with particularly difficult problems. If no action is taken to stabilize costs and prices sufficiently it is hardly possible to safeguard a satisfactory rate of longer-term economic growth. Owing to the persistent upward thrust of costs and prices, the economy's competitive position on international markets—in the Netherlands a much more important factor than in most other countries because of the vital role played by foreign trade—is much more unfavourable than a few years ago.

In view of the danger that none of the major economic policy aims will be achieved, it is all the more important for the public authorities and for both sides of industry to increase their efforts to bring the inflationary tendencies under control as quickly as possible through an appropriate adjustment of their behaviour patterns. Accordingly, it is essential for the time being to maintain a restrictive budget and credit policy, the need for which was underlined in the annual report on the economic situation in the Community adopted by the Council of the European Communities on 26 October 1971.

As the inflationary process is due to a combination of cyclical and structural factors, there is a need for the various groups active in the economic life of the country to base their behaviour and their claims for higher incomes increasingly on longer term considerations. At the same time it must be borne in mind that a satisfactory rate of growth requires in any case a relatively high level of investment activity in both the private and the public sector.

## Major economic policy measures

### October

(1) *The Government tabled a bill which for reasons of short-term economic policy extends the counter-cyclical surcharge on wage and income tax and on corporation tax and provides for the surcharge to be increased to 5%. These arrangements also apply to the special excise duty on passenger cars and the excise duty on petrol.*

(2) *The measures limiting short-term lending by commercial banks and agricultural credit institutions as well as the post office were extended to cover November and December. The rate of admissible growth in the volume of credit was fixed at 2% of the average volume of credit permitted in the last quarter of 1970. The rate of admissible growth for 1971 is therefore 9% (1970: 9.5%).*

### November

(1) *Postal charges were increased, most of them from 1 November 1971 and charges for printed matter (newspapers etc.) from 10 January 1972.*

(2) *Notwithstanding the system normally applied to civil servants, the salaries of Ministers and State Secretaries were frozen for 1972.*

(3) *A bill was tabled providing for the abolition of bonus savings schemes from 1 January 1972.*

(4) *A decision was taken to raise the State's share in the capital of KLM and increase the volume of guarantees made available to this airline.*

(5) *The Minister of Finance decided to allocate Fl. 300 million to the four big municipalities to enable them to consolidate their short-term debt. This amount will be financed from funds which flow into the Treasury from the civil servants' pension fund.*

(6) *Old-age pensions, widows' and orphans' benefits and invalidity pensions were increased retroactively from November 1971.*

(7) *Family allowances were increased retroactively from 1 October. Payment of the new*

*allowances will not be made before the beginning of 1972.*

#### *December*

*The system of central financing of the regional and local authorities' capital expenditure was extended by another year. The figure for State-guaranteed loan issues by the local authorities was fixed at Fl. 365 million. The maximum amount for new public works projects undertaken by the provinces was fixed at Fl. 165 million.*

Netherlands

TABLE 1: Key indicators

|   | 1966                                    | 1967  | 1968   | 1969   | 1970   | 1970                |
|---|---|-------|--------|--------|--------|---------------------|
|   | % change by volume<br>on preceding year |       |        |        |        | Indices<br>1963=100 |
| Gross national product                              | + 2.6                                   | + 5.8 | + 6.6  | + 5.7  | + 5.6  | 148                 |
| Industrial production                               | + 5.9                                   | + 5.7 | + 10.6 | + 8.2  | + 7.4  | 170                 |
| Total imports                                       | + 7.3                                   | + 6.7 | + 13.5 | + 14.7 | + 15.0 | 210                 |
| Private consumers' expenditure                      | + 3.4                                   | + 5.2 | + 6.9  | + 4.3  | + 7.4  | 148                 |
| Public current expenditure on goods<br>and services | + 1.6                                   | + 2.8 | + 2.3  | + 2.2  | + 5.5  | 119                 |
| Gross fixed asset formation                         | + 8.5                                   | + 8.1 | + 11.0 | + 0.5  | + 7.2  | 174                 |
| Total exports                                       | + 5.2                                   | + 7.8 | + 12.5 | + 15.7 | + 13.7 | 201                 |
| Gross national product per head of<br>population    | + 1.2                                   | + 4.6 | + 5.5  | + 4.5  | + 4.3  | 136                 |
| Gross national product per person in<br>employment  | + 1.8                                   | + 6.1 | + 5.7  | + 4.3  | + 4.3  | 139                 |
|   | % change by value<br>on preceding year  |       |        |        |        |                     |
| Gross income per employee                           | + 11.1                                  | + 9.2 | + 8.7  | + 11.1 | + 11.4 | 212                 |

TABLE 2: Indicators for internal and external equilibrium

|   | 1966  | 1967  | 1968  | 1969  | 1970  |
|---|-------|-------|-------|-------|-------|
| Balance exports less imports                                |       |       |       |       |       |
| in million u.a.   | - 135 | + 23  | + 158 | + 102 | - 38  |
| as percentage of GNP  | - 0.6 | + 0.1 | + 0.6 | + 0.4 | - 1.2 |
| Unemployment rate   | 1.0   | 2.0   | 1.9   | 1.5   | 1.2   |
| prices to private consumers<br>(% change on preceding year) | + 5.4 | + 3.4 | + 2.3 | + 6.1 | + 3.8 |

TABLE 3: Foreign trade (at current prices)

|   | % change on preceding year |        |        |        |        | Indices<br>1963=100 | Million<br>u.a. | % of<br>totals |
|---|----------------------------|--------|--------|--------|--------|---------------------|-----------------|----------------|
|   | 1966                       | 1967   | 1968   | 1969   | 1970   | 1970                | 1970            | 1970           |
| <b>Visible exports</b>  |                            |        |        |        |        |                     |                 |                |
| Total   | + 5.6                      | + 7.9  | + 14.5 | + 19.6 | + 18.3 | 238                 | 11 789          | 100            |
| Intra-EEC   | + 5.3                      | + 6.7  | + 19.7 | + 25.1 | + 22.0 | 276                 | 7 312           | 62.0           |
| To non-EEC countries  | + 6.0                      | + 9.4  | + 8.2  | + 12.1 | + 12.7 | 193                 | 4 478           | 38.0           |
| <b>Exports of food, beverages and tobacco</b>                 |                            |        |        |        |        |                     |                 |                |
| Total   | + 0.3                      | + 9.9  | + 15.9 | + 15.4 | + 18.5 | 216                 | 2 738           | 23.2           |
| Intra-EEC   | - 0.2                      | + 9.6  | + 22.1 | + 19.6 | + 22.8 | 264                 | 1 902           | 16.1           |
| To non-EEC countries  | + 1.0                      | + 10.5 | + 6.1  | + 7.8  | + 9.8  | 153                 | 836             | 7.1            |
| <b>Exports of raw materials, fuel and power</b>               |                            |        |        |        |        |                     |                 |                |
| Total   | - 0.4                      | + 10.1 | + 12.8 | + 20.0 | + 31.8 | 232                 | 2 164           | 18.4           |
| Intra-EEC   | - 0.7                      | + 10.7 | + 22.5 | + 26.0 | + 34.8 | 265                 | 1 353           | 11.5           |
| To non-EEC countries  | - 0.1                      | + 9.5  | + 1.7  | + 11.7 | + 27.2 | 192                 | 811             | 6.9            |
| <b>Exports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |                     |                 |                |
| Total   | + 9.7                      | + 6.6  | + 14.4 | + 21.1 | + 14.5 | 254                 | 6 887           | 58.4           |
| Intra-EEC   | + 9.8                      | + 4.5  | + 17.8 | + 27.5 | + 17.9 | 291                 | 4 057           | 34.4           |
| To non-EEC countries  | + 9.6                      | + 9.0  | + 10.6 | + 13.4 | + 10.0 | 215                 | 2 831           | 24.0           |
| <b>Visible imports</b>  |                            |        |        |        |        |                     |                 |                |
| Total   | + 7.5                      | + 4.0  | + 11.5 | + 17.3 | + 23.0 | 224                 | 13 395          | 100            |
| Intra-EEC   | + 8.7                      | + 5.0  | + 13.2 | + 19.2 | + 22.1 | 243                 | 7 484           | 55.9           |
| From non-EEC countries  | + 6.0                      | + 2.9  | + 9.5  | + 15.0 | + 24.1 | 205                 | 5 911           | 44.1           |
| <b>Imports of food, beverages and tobacco</b>                 |                            |        |        |        |        |                     |                 |                |
| Total   | + 3.9                      | + 11.3 | + 9.7  | + 19.0 | + 13.5 | 205                 | 1 686           | 12.6           |
| Intra-EEC   | + 8.8                      | + 22.7 | + 23.1 | + 49.4 | + 5.1  | 405                 | 607             | 4.5            |
| From non-EEC countries  | + 2.5                      | + 7.6  | + 3.2  | + 5.4  | + 18.8 | 161                 | 1 079           | 8.1            |
| <b>Imports of raw materials, fuel and power</b>               |                            |        |        |        |        |                     |                 |                |
| Total   | + 0.9                      | + 5.2  | + 8.6  | + 13.8 | + 24.3 | 194                 | 2 747           | 20.5           |
| Intra-EEC   | + 7.7                      | + 9.9  | + 4.8  | + 3.0  | + 7.1  | 155                 | 475             | 3.5            |
| From non-EEC countries  | - 0.9                      | + 3.9  | + 9.7  | + 16.9 | + 28.7 | 205                 | 2 272           | 17.0           |
| <b>Imports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |                     |                 |                |
| Total   | + 10.5                     | + 2.2  | + 12.8 | + 18.1 | + 24.5 | 248                 | 8 962           | 66.9           |
| Intra-EEC   | + 8.8                      | + 3.3  | + 12.9 | + 18.1 | + 25.3 | 252                 | 6 402           | 47.8           |
| From non-EEC countries  | + 14.7                     | - 0.3  | + 12.6 | + 18.1 | + 22.5 | 239                 | 2 560           | 19.1           |

TABLE 4: Selected monthly indicators

|  | Year | Jan.   | Feb.   | Mar.   | Apr.   | May    | June   | July   | Aug.   | Sept.  | Oct.   | Nov.   | Dec.   |
|--|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Industrial production</b><br>(1963 = 100)                                     | 1969 | 155.9  | 158.5  | 159.8  | 159.0  | 161.3  | 163.9  | 167.1  | 165.0  | 166.8  | 169.0  | 175.5  | 177.7  |
|  | 1970 | 179.9  | 182.2  | 183.2  | 180.5  | 177.0  | 176.9  | 184.6  | 173.8  | 180.0  | 185.7  | 186.5  | 189.2  |
|  | 1971 | 197.9  | 19.79  | 195.2  | 191.4  | 188.9  | 189.9  | 188.5  | 192.3  | 191.1  |        |        |        |
| <b>Unemployed</b><br>(1 000)   | 1969 | 67.1   | 67.1   | 70.0   | 67.7   | 66.0   | 65.1   | 66.2   | 66.3   | 64.4   | 63.1   | 62.2   | 65.4   |
|  | 1970 | 60.3   | 56.7   | 56.7   | 55.3   | 56.7   | 56.1   | 53.4   | 53.8   | 55.1   | 55.8   | 54.7   | 54.1   |
|  | 1971 | 57.9   | 53.2   | 53.1   | 57.5   | 61.4   | 65.1   | 66.0   | 63.6   | 72.5   | 79.2   |        |        |
| <b>Construction: permits for residential construction</b><br>(1 000)             | 1969 | 9 371  | 11 105 | 11 384 | 11 543 | 11 211 | 9 373  | 9 347  | 13 402 | 9 680  | 9 330  | 10 339 | 12 137 |
|  | 1970 | 10 030 | 9 723  | 11 336 | 10 780 | 10 668 | 11 735 | 15 533 | 12 208 | 12 864 | 12 049 | 9 698  | 10 150 |
|  | 1971 | 11 983 | 8 604  | 11 154 | 13 187 | 10 509 | 11 341 | 11 933 | 11 529 | 11 017 |        |        |        |
| <b>Private consumers' expenditure: department store turnover</b><br>(1963 = 100) | 1969 | 170    | 186    | 194    | 195    | 209    | 196    | 197    | 210    | 202    | 171    | 211    | 229    |
|  | 1970 | 208    | 208    | 214    | 213    | 225    | 216    | 227    | 222    | 229    | 200    | 214    | 252    |
|  | 1971 | 218    | 232    | 226    | 235    | 232    | 263    | 236    | 278    |        |        |        |        |
| <b>Consumer prices</b><br>(1963 = 100)   | 1969 | 132.3  | 133.4  | 134.4  | 135.0  | 135.4  | 135.4  | 134.2  | 134.9  | 135.8  | 136.4  | 136.2  | 136.1  |
|  | 1970 | 136.6  | 137.9  | 139.3  | 139.9  | 139.8  | 140.5  | 140.9  | 142.3  | 143.3  | 143.8  | 143.8  | 143.9  |
|  | 1971 | 145.3  | 147.4  | 148.5  | 150.4  | 150.8  | 151.3  | 151.7  | 153.0  | 154.3  | 155.7  |        |        |
| <b>Visible imports</b><br>(million u.a.)   | 1969 | 815    | 846    | 833    | 881    | 914    | 885    | 923    | 908    | 974    | 1 014  | 964    | 1 029  |
|  | 1970 | 1 001  | 1 049  | 995    | 1 079  | 1 115  | 1 153  | 1 135  | 1 105  | 1 117  | 1 120  | 1 261  | 1 254  |
|  | 1971 | 1 102  | 1 238  | 1 259  | 1 200  | 1 170  | 1 214  | 1 188  | 1 254  | 1 312  |        |        |        |
| <b>Visible exports</b><br>(million u.a.)   | 1969 | 744    | 768    | 796    | 779    | 814    | 825    | 864    | 850    | 875    | 913    | 848    | 873    |
|  | 1970 | 899    | 952    | 945    | 993    | 928    | 968    | 991    | 971    | 1 036  | 981    | 1 071  | 1 064  |
|  | 1971 | 1 044  | 1 078  | 1 165  | 1 107  | 1 041  | 1 140  | 1 112  | 1 161  | 1 134  |        |        |        |
| <b>Balance of trade</b><br>(million u.a.)  | 1969 | - 71   | - 78   | - 37   | - 102  | - 100  | - 60   | - 59   | - 58   | - 99   | - 101  | - 116  | - 156  |
|  | 1970 | - 102  | - 97   | - 50   | - 86   | - 137  | - 185  | - 144  | - 134  | - 81   | - 139  | - 190  | - 190  |
|  | 1971 | - 53   | - 160  | - 94   | - 93   | - 129  | - 74   | - 76   | - 93   | - 178  |        |        |        |
| <b>Official gold and foreign exchange reserves</b><br>(million u.a.)             | 1969 | 2 377  | 2 401  | 2 408  | 2 416  | 2 438  | 2 366  | 2 428  | 2 387  | 2 365  | 2 866  | 2 636  | 2 529  |
|  | 1970 | 2 676  | 2 673  | 2 670  | 2 611  | 2 657  | 2 633  | 2 790  | 2 943  | 2 990  | 3 246  | 3 242  | 3 235  |
|  | 1971 | 3 339  | 3 529  | 3 543  | 3 394  | 3 540  | 3 492  | 3 476  | 3 488  | 3 585  | 3 564  |        |        |
| <b>Money supply</b><br>(million u.a.)  | 1969 | 6 055  | 6 071  | 6 052  | 6 071  | 6 177  | 6 201  | 6 194  | 6 236  | 6 235  | 6 436  | 6 410  | 6 472  |
|  | 1970 | 6 506  | 6 523  | 6 649  | 6 699  | 6 819  | 6 774  | 6 925  | 6 973  | 7 058  | 7 119  | 7 198  | 7 214  |
|  | 1971 | 7 483  | 7 590  | 7 695  | 7 898  | 8 197  | 7 964  | 8 109  | 8 081  |        |        |        |        |

## Netherlands

### NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).  
Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

#### *Graph 1*

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

#### *Graph 2*

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

#### *Graph 3*

Wages and consumer prices: indices of gross hourly earnings in industry (excluding mining, quarrying and construction); index of agreed wages. Cost-of-living index, source: CBS.

#### *Graph 4*

Bank lending: short-term bank loans, not adjusted for seasonal variations; position at end of month.

#### *Graph 5*

Exports fob. Series adjusted for seasonal variations; three-month moving averages.

#### *Graph 6*

Imports cif. Series adjusted for seasonal variations; three-month moving averages.

#### *Graph 7*

Balance of trade: difference in terms of value between imports and exports, seasonally adjusted.

---

#### *Table 1*

GNP at market prices.

Industrial production: value added by industry.

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment, including employers' share of social insurance contributions.

#### *Table 2*

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of the civilian labour force in employment. Source: CBS.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

#### *Table 3*

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

#### *Table 4*

Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco.

Unemployed: end-of-month figures, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

Consumer prices: cost of living index, not adjusted for seasonal variations.

Imports cif, exports fob; values, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange in the Nederlandsche Bank at end of month.

Money supply: notes and coin in circulation excluding cash holdings of monetary institutions, plus sight deposits with banks; position at end of month, adjusted for seasonal variations.

## E. Belgo-Luxembourg Economic Union

### Belgium

*Towards the end of the year there was a further slowing down of the growth rate of the Belgian economy. The expansion of exports and the investment activity of enterprises fell away. The trend of private consumers' expenditure was somewhat more subdued. Consequently there was only a relatively modest advance in industrial production, but this did not stop prices from continuing rapidly upwards. Despite the appreciation of the Belgian franc, the current balance of payments remained in large surplus.*

*There are no signs of any notable change in these underlying trends in the coming months. In particular demand from abroad and enterprises' readiness to invest are likely to lose further in vigour. As prices will still be subject to relatively strong upward pressures and the budget deficit will at all events remain very heavy because of sharp increases in expenditure on investment and consumption, the elbow-room for additional measures to revive demand is relatively limited.*

### 1. Recent developments

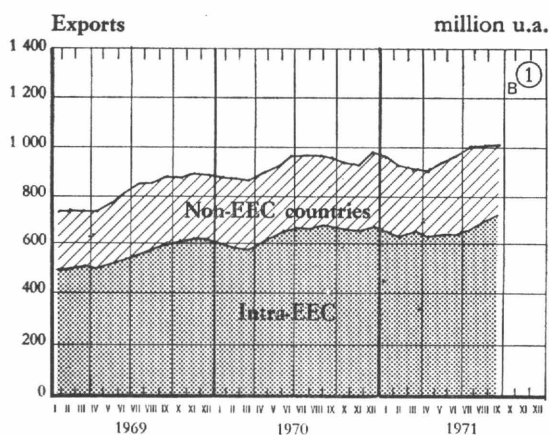
Overall demand in Belgium tended to grow more slowly after summer, but the degree of utilization of the factors of production was still relatively high. There was no let-up in the powerful upward pressures on costs and prices.

The growth of export demand has slowed down in recent months for various reasons: the calmer economic trend in a number of major importing

countries, the effects of the import surcharge and the dock strike in the United States, and the appreciation of the Belgian franc on the currency markets.<sup>1</sup>

Influenced mainly by the growing weakness of fixed investment, domestic demand lost some of its buoyancy. The less favourable economic outlook and the pressure on profit margins checked the propensity to invest of industrial enterprises; only in a few industries did capital spending increase further. In addition, investment in residential construction slackened. Investment by the public authorities, on the other hand, continued on a distinctly upward course.

While nothing could be done to prevent stocks of finished products building up in industry and the distributive trades, the increase in stocks of



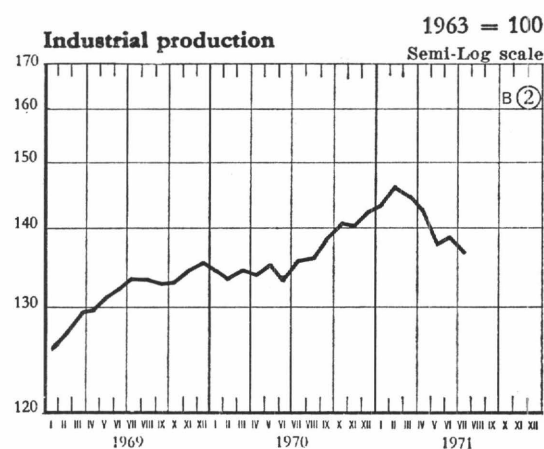
<sup>1</sup> On 9 December the dollar value of the Belgian franc had risen by 9.3% above the parity declared to the IMF. The Commission's departments calculated that the actual revaluation against all other currencies was 3.2%.

raw materials and semi-manufactures has tended to slow down in the past few months.

According to the partial indicators available the expansion of private consumers' expenditure had dropped off somewhat at the beginning of autumn. This can be explained primarily by a renewed increase in the propensity to save and to a lesser degree by the somewhat less lively growth of disposable income. While income from wages and salaries did not increase as sharply as before, there was a further appreciable improvement in transfer incomes. In addition, the lower income groups have been granted tax concessions since summer.

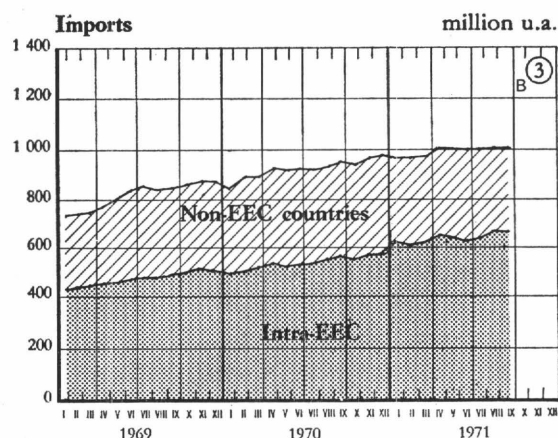
Since summer the appreciable rise in wages and salaries in public administration has brought about a fairly rapid expansion of public current expenditure on goods and services.

Only relatively modest advances have been recorded in domestic production since the middle of the year. In the July-September

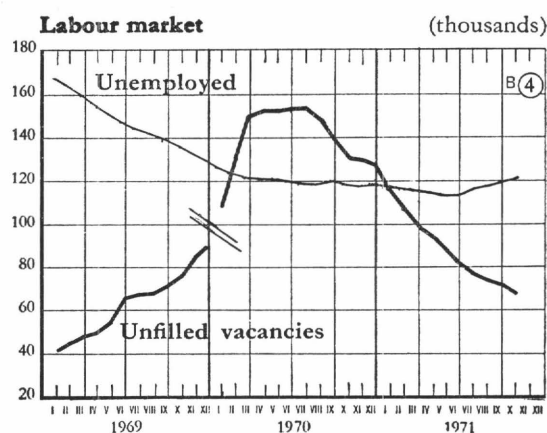


period the INS index of industrial production was only 1.7% up on the same period of 1970. In most branches of the services sector, by contrast, activity has probably been increasing somewhat more rapidly.

After increased purchases from the other Community countries had helped imports to recover slightly in spring, there has in recent months been a rather marked tendency for them to slow down. This reflects above all the reduction in requirements of semi-manufactures and plant and machinery.



The easing in the situation on the labour market, of which there had been signs in the second quarter already, made further progress. In several branches of industry and in building



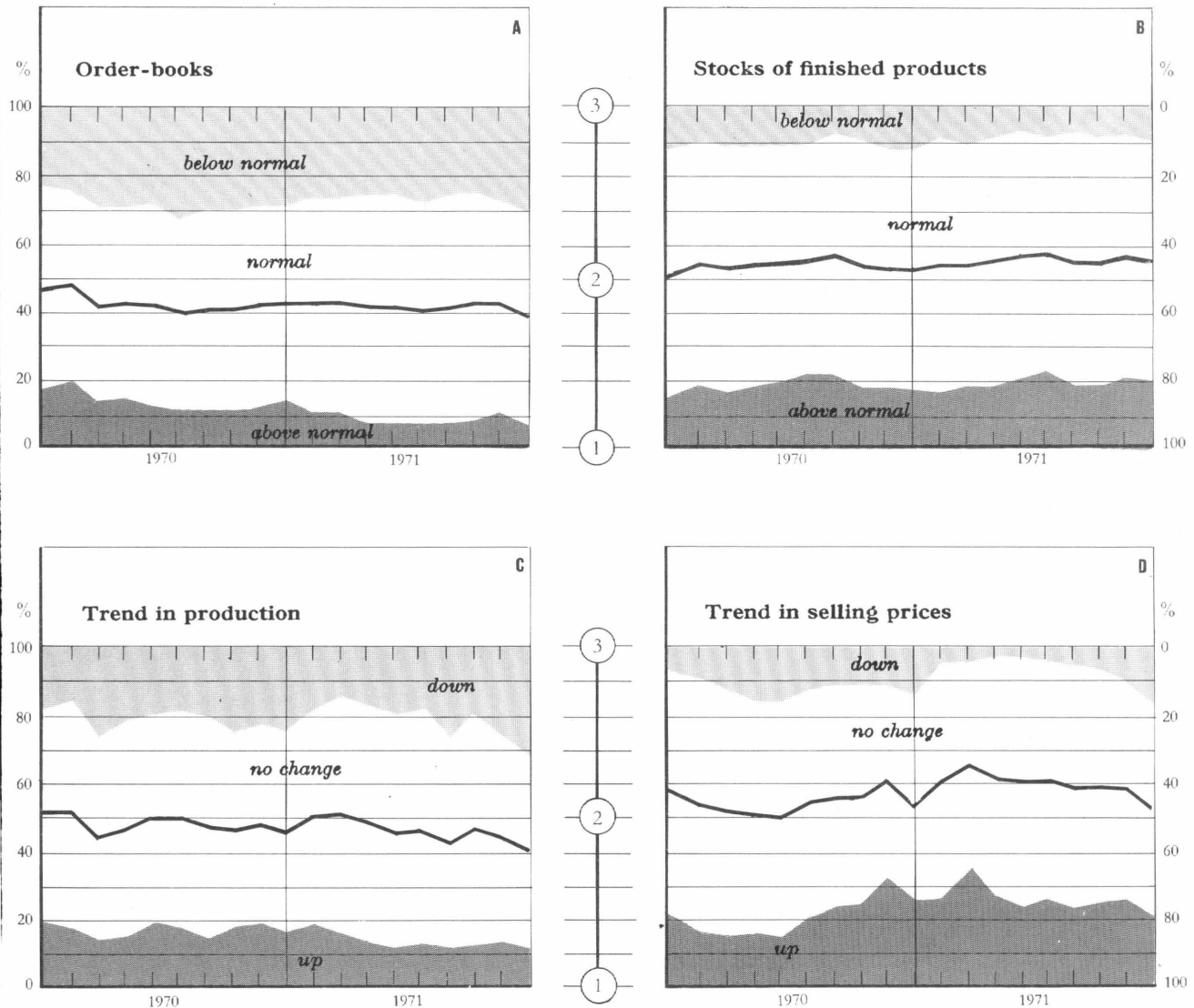
and construction firms began to show a tendency to lay off workers. In November, the seasonally adjusted unemployment rate was 2.0%, as against 1.8% in November 1970.

The price climate showed no signs of improvement, except for prices for a number of basic materials and semi-manufactures. In the summer months, at all events, wholesale prices for finished products remained on an upward course. The consumer price index has been rising at an annual rate of 5% in recent months. In November it was 5.3% higher than a year before.

Helped by the continued influence of the shift in the pattern of leads and lags, the balance of payments on current account still recorded a



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



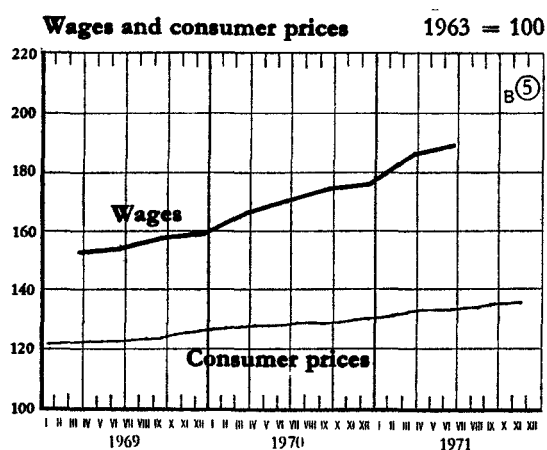
Answers to the questions in the EEC business survey, carried out in Belgium by the National Bank.

GRAPHS A, B, C and D : The three zones (gray, white and black) 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".





large surplus, amounting to Bfrs. 9 300 million in the third quarter as against Bfrs. 21 700

million in the third quarter of 1970. Despite a deficit on capital account, arising mainly because public authorities paid off foreign debts, the overall balance of payments was in surplus by Bfrs. 1 700 million in the third quarter.

The payments surplus and monetary financing by the Treasury caused domestic liquidity to rise quite sharply up to October. The plentiful supply on the money and capital markets, which was reflected in a persistent fall of interest rates on these markets, prompted the monetary authorities to lower the discount rate again in September, to suspend the provisions for limiting banks' foreign indebtedness and to remove credit restrictions. Despite the considerable increase of 13.2% between September

#### *Demand for and supply of goods and services*

|  | 1969 <sup>1</sup>                        | 1970 <sup>1</sup>          |        | 1971 <sup>2</sup> |       | 1972 <sup>3</sup> |  |
|--|--|----------------------------|--------|-------------------|-------|-------------------|--|
|  | At current prices (in Bfrs '000 million) | % change on preceding year |        |                   |       |                   |  |
|  |  | Volume                     | Value  | Volume            | Value | Volume            |  |
| Exports <sup>4</sup>                             | 510.9                                    | + 14.1                     | + 21.2 | + 5½              | + 6½  | + 5               |  |
| Gross fixed asset formation                      | 240.3                                    | + 6.9                      | + 17.0 | + 3½              | + 11½ | + 2               |  |
| Public current expenditure on goods and services | 160.7                                    | + 4.5                      | + 10.9 | + 4½              | + 12  | + 5               |  |
| Private consumers' expenditure                   | 720.2                                    | + 3.9                      | + 6.8  | + 3½              | + 10  | + 3½              |  |
| Gross national product                           | 1 152.2                                  | + 6.1                      | + 11.5 | + 3½              | + 9   | + 3               |  |
| Imports <sup>4</sup>                             | 501.8                                    | + 9.8                      | + 15.5 | + 6               | + 8½  | + 6½              |  |

<sup>1</sup> Institut national de Statistique (INS).

<sup>2</sup> Estimates.

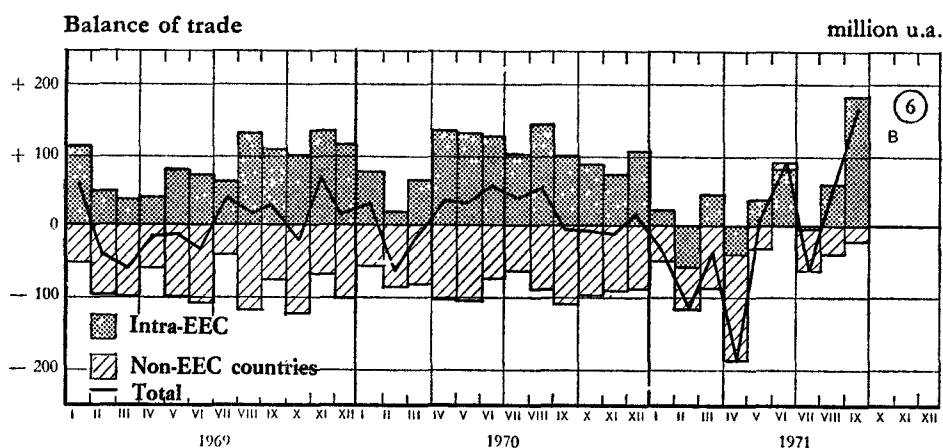
<sup>3</sup> Forecasts.

<sup>4</sup> Goods, services and factor income.

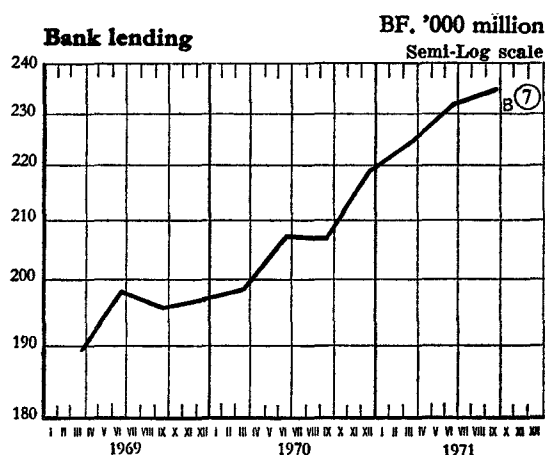
*Note :*

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.



1970 and September 1971, the volume of bank lending to business and private customers was substantially below the ceiling authorized. As



the Government loans issued in October quickly found subscribers, the requirement for banks to place half the increase of their deposits in public securities was abolished.

## 2. Outlook

Economic activity will probably slacken further in the coming months. But there should be an appreciable lag before this affects price and wage trends.

Despite the slowing down of the growth of demand in most Community countries and the effects of the American measures, Belgian exports should initially continue to increase in

the months ahead. While the appreciation of the Belgian franc may affect the competitive position in relation to non-member countries in particular, Belgian exporters may well have been holding back part of their deliveries until after the turn of the year when the temporary export charge, introduced in connection with the changeover to value added tax, will have been removed.

Domestic demand will probably fall off further in the next few months. With managements showing a greater reluctance to invest, the impetus given by investment activity will be appreciably weaker. Firstly a tendency to run down stocks would seem likely, and secondly the expenditure of many firms on buildings and plant and machinery will shrink further. According to the EEC investment survey conducted in October, capital expenditure in industry must be expected to fall. On the other hand, there may be a further considerable increase in investment by the public authorities, as some major building projects were recently begun and in 1972 more budget funds are to be made available for infrastructure schemes. If, in addition, the measures to encourage the building of subsidized housing are put into effect immediately, the downward trend in residential construction might come to a halt.

Private consumers' expenditure could increase at much the same pace as in recent months both in value and in volume. The numbers employed will probably rise at a slower pace and the growth of agreed wages is likely to be somewhat more moderate than in 1971. The tax concessions made in September should

*The Central Government Budget*

|  | 1971              |                     | 1972                | 1971                                     | 1972   |
|--|-------------------|---------------------|---------------------|--|--------|
|  | Budget            | Provisional results | Budget <sup>1</sup> |  |        |
|  | Bfrs.'000 million |                     |                     | % changes on the preceding year's budget |        |
| Expenditure <sup>2</sup>               | 378.8             | 395.0               | 431.2               | + 11.5                                   | + 13.8 |
| of which:                              |                   |                     |                     |  |        |
| current expenditure                    | 312.4             | 319.1               | 352.8               | + 12.2                                   | + 12.9 |
| capital expenditure <sup>3</sup>       | 66.4              | 75.9                | 78.4                | + 8.9                                    | + 18.1 |
| Revenue                                | 325.7             | 332.4               | 370.5               | + 9.6                                    | + 13.8 |
| Net borrowing requirement <sup>2</sup> | - 53.1            | - 62.6              | - 60.7              |  |        |

<sup>1</sup> 1971 : draft budget.

<sup>2</sup> Disregarding debt extinction and expected "contingency" expenditure.

<sup>3</sup> Including participations and loans.

*Note :*

The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions.

however contribute to a continued increase in disposable incomes, and the propensity to save could decline, on balance, as a result of the measures taken at the beginning of November to ease hire purchase regulations.

Public current expenditure on goods and services will continue to expand vigorously, to judge by the preliminary draft budget for 1972; this will be mainly due to the substantial pay awards made under the social programme agreement.

The expected slackening in overall demand is certain to have repercussions on the trend of supply. In industry, where order books seem set to shorten, production will probably rise

only relatively slowly. Under these circumstances and on condition that before the end of the year there is a certain revival of economic activity, the growth rate of real gross national product for 1972 could be some 3%.

As requirements of raw materials and finished products will not rise as rapidly as in 1971, imports will increase less vigorously. Nevertheless, with exports losing much of their buoyancy, the external balance will probably tend to deteriorate.

The calmer economic trend will also be felt on the labour market, where the underlying tendency of unemployment is likely to point upward.

Initially, however, prices may still climb at a fairly vigorous rate. At all events a gradual let-up can be expected in the tendency for import prices to rise, and provided the present social climate continues, the underlying forces exerting an upward pressure on prices under the influence of the trend of wage costs, should lose some of their significance.

Given these prospects, the scope for an expansion-orientated economic policy is relatively limited. The aim, for an interim period at least, should be to attach great importance to stabilizing prices, especially as economic growth has not yet faded more than is cyclically normal. In any case the decisions which have already been taken or are likely to be taken by the public authorities will result in an upsurge of public expenditure on consumption and investment and will in the coming months have a relatively strong expansionary effect on the economy. Nevertheless the propensity to invest of managements must be carefully watched. Should it transpire in the first six months of the year that investment plans are being revised appreciably downwards—mainly because of continuing uncertainty in international economic and monetary relations—additional measures to stimulate the economy could prove necessary.

### **Major economic policy measures**

#### *September*

*Various measures were taken to promote subsidized housebuilding. The programmes of two companies building subsidized housing were expanded by Bfrs. 500 million; the ceiling on the value of dwellings and the amount of mortgage loans with State guarantee were raised by Bfrs. 100 000, and authorization was also given for land held in reserve by these two companies to be sold off as building plots at a subsidized price.*

#### *October*

*(1) Unemployment benefits were raised by 10%.*

*(2) The Government laid down the guidelines for the draft budget for 1972. Ordinary revenue and expenditure amount to Bfrs.357 750 million, an increase of 12.2% on the draft budget for 1971. The extraordinary budget, including financial and extra-budgetary expenditure, comes on the basis of commitments to Bfrs.89 300 million, as against the figure of Bfrs.72 400 million budgeted for in 1971.*

*(3) The convention establishing the Belgo-Luxembourg Economic Union, concluded for 50 years in 1922, was extended for a further ten years. The extension of the convention and the new scale for apportioning excise duties between Belgium and Luxembourg are to take effect on 6 March 1972, after ratification by the Parliaments of the two countries.*

*(4) As the last public loan issues had been readily absorbed by the market, the requirement for banks to invest half the increase in their Belgian franc deposits in public securities during the period from 1 March to 30 November 1971 was lifted from 27 October.*

*(5) It was decided to extend the range of family allowance for children from 1 January 1972.*

#### *November*

*(1) Hire purchase regulations were relaxed. The maximum repayment period for the purchase of new motor vehicles was extended from 24 to 36 months and the minimum deposit lowered from 35 to 25%.*

*(2) For the third time in 1971 selective reductions were made in the export charge: the rate for a number of products was lowered from 1.75% to 0.50%.*

TABLE 1 : Key indicators

|   | 1966                                    | 1967  | 1968   | 1969   | 1970     | 1970                  |
|---|---|-------|--------|--------|----------|-----------------------|
|   | % change by volume<br>on preceding year |       |        |        |          | Indices<br>1963 = 100 |
| Gross national product                              | + 2.9                                   | + 4.0 | + 3.5  | + 6.7  | + 6.1    | 139                   |
| Industrial production                               | + 4.9                                   | + 2.2 | + 4.0  | + 9.2  | + 5.7    | 146                   |
| Total imports                                       | + 8.2                                   | + 3.4 | + 13.3 | + 15.9 | + 9.8    | 190                   |
| Private consumers' expenditure                      | + 3.3                                   | + 2.8 | + 5.7  | + 5.9  | + 3.9    | 133                   |
| Public current expenditure on goods<br>and services | + 3.9                                   | + 5.9 | + 4.6  | + 6.5  | + 4.5    | 141                   |
| Gross fixed asset formation                         | + 6.4                                   | + 2.6 | - 2.4  | + 5.6  | + 6.9    | 141                   |
| Total exports                                       | + 4.0                                   | + 6.7 | + 11.6 | + 15.9 | + 14.1   | 196                   |
| Gross national product per head of<br>population    | + 2.2                                   | + 3.4 | + 3.1  | + 6.4  | + 5.7    | 134                   |
| Gross national product per person in<br>employment  | + 2.5                                   | + 4.5 | + 3.6  | + 5.0  | + 5.5    | 134                   |
|   | % change by value<br>on preceding year  |       |        |        |          |                       |
| Gross income per employee                           | + 8.9                                   | + 7.1 | + 6.4  | + 8.4  | (+ 11.3) | (179)                 |

TABLE 2 : Indicators for internal and external equilibrium

|   | 1966  | 1967  | 1968  | 1969  | 1970  |
|---|-------|-------|-------|-------|-------|
| Balance exports less imports                                |       |       |       |       |       |
| in million u.a.   | - 48  | + 176 | + 58  | + 182 | + 784 |
| as percentage of GNP  | - 0.3 | + 0.9 | + 0.3 | + 0.8 | + 3.1 |
| Unemployment rate   | 1.7   | 2.3   | 2.8   | 2.3   | 1.9   |
| prices to private consumers<br>(% change on preceding year) | + 4.1 | + 2.5 | + 2.3 | + 2.6 | + 2.8 |

Belgium

TABLE 3 : Foreign trade (at current prices)

|   | % change on preceding year |        |        |        |        | Indices<br>1963=100 | Million<br>u.a. | % of<br>totals |
|---|----------------------------|--------|--------|--------|--------|---------------------|-----------------|----------------|
|   | 1966                       | 1967   | 1968   | 1969   | 1970   |                     |                 |                |
| <b>Visible exports</b>  |                            |        |        |        |        |                     |                 |                |
| Total   | + 5.2                      | + 3.0  | + 16.0 | + 23.3 | + 15.2 | 240                 | 11 691          | 100            |
| Intra-EEC   | + 6.1                      | + 3.2  | + 18.5 | + 29.5 | + 16.9 | 270                 | 7 948           | 68.6           |
| To non-EEC countries  | + 3.9                      | + 2.5  | + 11.7 | + 12.1 | + 11.6 | 192                 | 3 645           | 31.4           |
| <b>Exports of food, beverages and tobacco</b>                 |                            |        |        |        |        |                     |                 |                |
| Total   | + 8.4                      | + 18.8 | + 15.5 | + 21.8 | + 19.6 | 294                 | 932             | 8.0            |
| Intra-EEC   | + 5.4                      | + 25.7 | + 24.6 | + 27.1 | + 16.9 | 338                 | 778             | 6.7            |
| To non-EEC countries  | + 17.1                     | + 1.3  | - 13.4 | - 1.8  | + 35.3 | 175                 | 154             | 1.3            |
| <b>Exports of raw materials, fuel and power</b>               |                            |        |        |        |        |                     |                 |                |
| Total   | + 0.5                      | - 2.4  | + 13.4 | + 21.4 | + 0.1  | 143                 | 841             | 7.3            |
| Intra-EEC   | + 1.5                      | - 3.6  | + 10.8 | + 21.3 | + 4.6  | 146                 | 524             | 4.5            |
| To non-EEC countries  | - 1.0                      | - 0.5  | + 17.4 | + 21.7 | - 6.4  | 137                 | 317             | 2.7            |
| <b>Exports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |                     |                 |                |
| Total   | + 7.7                      | + 2.8  | + 16.4 | + 23.6 | + 15.9 | 257                 | 9 818           | 84.7           |
| Intra-EEC   | + 9.8                      | + 1.9  | + 18.7 | + 30.3 | + 17.4 | 289                 | 6 644           | 57.3           |
| To non-EEC countries  | + 4.2                      | + 2.9  | + 12.8 | + 11.8 | + 12.6 | 209                 | 3 174           | 27.4           |
| <b>Visible imports</b>  |                            |        |        |        |        |                     |                 |                |
| Total   | + 12.6                     | 0      | + 16.1 | + 19.9 | + 13.6 | 222                 | 11 347          | 100            |
| Intra-EEC   | + 15.4                     | - 0.6  | + 14.8 | + 25.3 | + 16.4 | 249                 | 6 677           | 58.8           |
| From non-EEC countries  | + 9.1                      | + 0.6  | + 17.8 | + 13.3 | + 9.8  | 192                 | 4 670           | 41.2           |
| <b>Imports of food, beverages and tobacco</b>                 |                            |        |        |        |        |                     |                 |                |
| Total   | + 8.1                      | + 10.0 | + 2.8  | + 14.9 | + 17.1 | 221                 | 1 357           | 12.0           |
| Intra-EEC   | + 10.6                     | + 11.8 | + 24.0 | + 28.3 | + 20.4 | 324                 | 772             | 6.8            |
| From non-EEC countries  | + 6.4                      | + 8.6  | - 13.1 | + 5.8  | + 13.1 | 156                 | 585             | 5.2            |
| <b>Imports of raw materials, fuel and power</b>               |                            |        |        |        |        |                     |                 |                |
| Total   | + 1.1                      | - 2.1  | + 22.8 | + 11.3 | + 11.7 | 175                 | 2 450           | 21.6           |
| Intra-EEC   | + 5.2                      | - 5.5  | + 17.6 | + 15.3 | + 12.0 | 176                 | 876             | 7.7            |
| From non-EEC countries  | - 1.3                      | - 0.2  | + 25.7 | + 9.1  | + 11.5 | 174                 | 1 574           | 13.9           |
| <b>Imports of semi-finished and finished industrial goods</b> |                            |        |        |        |        |                     |                 |                |
| Total   | + 18.3                     | - 1.1  | + 16.7 | + 24.2 | + 13.6 | 245                 | 7 540           | 66.4           |
| Intra-EEC   | + 18.4                     | - 1.1  | + 13.0 | + 28.0 | + 16.8 | 260                 | 5 029           | 44.3           |
| From non-EEC countries  | + 18.1                     | - 1.2  | + 23.6 | + 17.9 | + 7.9  | 219                 | 2 511           | 22.1           |

TABLE 4 : Selected monthly indicators

|   | Year | Jan.   | Feb.   | Mar.   | Apr.   | May    | June   | July   | Aug.   | Sept.  | Oct.   | Nov.   | Dec.   |
|---|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Industrial production</b><br>(1963 = 100)                                      | 1969 | 129.3  | 128.4  | 130.5  | 129.8  | 133.8  | 132.6  | 133.2  | 134.2  | 130.8  | 133.5  | 139.6  | 132.5  |
|   | 1970 | 131.0  | 135.8  | 137.1  | 129.6  | 138.5  | 131.1  | 136.7  | 139.1  | 139.4  | 144.3  | 137.9  | 144.3  |
|   | 1971 | 146.7  | 146.0  | 141.6  | 139.7  | 132.3  | 143.1  | 134.2  |        |        |        |        |        |
| <b>Unemployed</b><br>(1 000)  | 1969 | 96.4   | 94.5   | 90.6   | 88.2   | 86.4   | 84.9   | 83.5   | 81.7   | 80.6   | 78.6   | 76.8   | 75.9   |
|   | 1970 | 72.4   | 72.5   | 72.4   | 72.1   | 71.3   | 69.9   | 71.7   | 70.9   | 70.6   | 70.4   | 69.8   | 70.7   |
|   | 1971 | 69.8   | 68.3   | 67.5   | 66.8   | 66.9   | 67.8   | 70.2   | 70.9   | 70.9   | 72.9   | 77.9   |        |
| <b>Construction : permits for residential construction</b><br>(1 000)             | 1969 | 3 365  | 3 896  | 3 542  | 3 870  | 3 784  | 4 072  | 4 195  | 3 741  | 4 012  | 3 462  | 3 637  | 3 465  |
|   | 1970 | 3 397  | 3 125  | 2 620  | 3 346  | 2 500  | 2 530  | 2 668  | 2 875  | 2 954  | 2 766  | 2 867  | 3 120  |
|   | 1971 | 3 299  | 2 153  | 1 999  | 1 695  | 1 669  |        |        |        |        |        |        |        |
| <b>Private consumers' expenditure : department store turnover</b><br>(1963 = 100) | 1969 | 144    | 138    | 145    | 142    | 155    | 145    | 144    | 153    | 146    | 154    | 149    | 155    |
|   | 1970 | 157    | 155    | 157    | 156    | 160    | 162    | 163    | 156    | 165    | 179    | 163    | 182    |
|   | 1971 | 167    | 168    | 161    | 173    | 165    | 182    | 182    | 183    |        |        |        |        |
| <b>Consumer prices</b><br>(1963 = 100)  | 1969 | 121.44 | 121.96 | 122.62 | 122.95 | 123.32 | 123.65 | 124.10 | 124.28 | 124.64 | 125.14 | 125.70 | 126.20 |
|   | 1970 | 126.78 | 127.12 | 127.85 | 128.38 | 128.35 | 128.40 | 129.07 | 129.34 | 129.30 | 129.53 | 129.91 | 130.12 |
|   | 1971 | 130.81 | 131.88 | 132.39 | 133.07 | 133.40 | 133.68 | 134.50 | 135.01 | 135.95 | 136.32 | 136.79 |        |
| <b>Visible imports</b><br>(million u.a.)  | 1969 | 778    | 738    | 776    | 813    | 834    | 841    | 902    | 812    | 870    | 896    | 831    | 872    |
|   | 1970 | 843    | 942    | 887    | 1 023  | 862    | 925    | 1 028  | 838    | 981    | 948    | 986    | 1 021  |
|   | 1971 | 912    | 991    | 1 044  | 1 050  | 962    | 988    | 1 061  | 1 035  | 986    |        |        |        |
| <b>Visible exports</b><br>(million u.a.)  | 1969 | 843    | 700    | 737    | 754    | 829    | 840    | 866    | 855    | 910    | 880    | 911    | 879    |
|   | 1970 | 881    | 883    | 891    | 1 002  | 905    | 1 009  | 997    | 1 001  | 988    | 931    | 982    | 1 038  |
|   | 1971 | 886    | 878    | 1 007  | 862    | 972    | 1 081  | 992    | 1 060  | 1 150  |        |        |        |
| <b>Balance of trade</b><br>(million u.a.)   | 1969 | + 65   | - 38   | - 39   | - 59   | - 5    | - 1    | - 37   | + 43   | + 40   | - 16   | + 80   | + 7    |
|   | 1970 | + 37   | - 59   | + 4    | - 21   | + 43   | + 84   | - 31   | + 113  | + 5    | - 17   | - 4    | + 11   |
|   | 1971 | + 26   | - 113  | - 37   | - 187  | + 10   | + 93   | - 69   | + 25   | + 164  |        |        |        |
| <b>Official gold and foreign exchange reserves</b><br>(million u.a.)              | 1969 | 2 203  | 2 178  | 2 106  | 2 175  | 2 191  | 2 215  | 2 106  | 2 174  | 2 180  | 2 279  | 2 329  | 2 392  |
|   | 1970 | 2 479  | 2 504  | 2 537  | 2 564  | 2 581  | 2 605  | 2 723  | 2 750  | 2 797  | 2 842  | 2 894  | 2 854  |
|   | 1971 | 3 119  | 3 125  | 3 088  | 3 105  | 3 307  | 3 205  | 3 298  | 3 449  | 3 443  | 3 343  |        |        |
| <b>Money supply</b><br>(million u.a.)   | 1969 | 7 395  | 7 538  | 7 505  | 7 500  | 7 522  | 7 570  | 7 439  | 7 534  | 7 482  | 7 566  | 7 533  | 7 585  |
|   | 1970 | 7 719  | 7 768  | 7 864  | 7 905  | 7 898  | 7 903  | 7 987  | 7 912  | 7 990  | 8 066  | 8 011  | 8 236  |
|   | 1971 | 8 466  | 8 446  | 8 411  | 8 490  | 8 627  | 8 715  | 8 836  | 8 808  | 8 940  | 9 047  |        |        |



## Belgium

### NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).  
Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

#### *Graph 1*

Industrial production: excluding construction, food, beverages and tobacco; series adjusted for seasonal variations; three-month moving averages.

#### *Graph 2*

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

#### *Graph 3*

Wages and consumer prices (not adjusted for seasonal variations): agreed wages for manual workers, all branches, source: Ministère du Travail et de l'Emploi; consumer prices, source: Ministère des Affaires Économiques.

#### *Graph 4*

Bank lending: advances by the banking system, not adjusted for seasonal variations; position at end of month.

#### *Graph 5*

BLEU exports fob: series adjusted for seasonal variations; three-month moving averages.

#### *Graph 6*

BLEU imports cif: series adjusted for seasonal variations; three-month moving averages.

#### *Graph 7*

BLEU balance of trade: difference between seasonally adjusted values of imports and exports.

---

#### *Table 1*

GNP at market prices.

Industrial production : value added by industry.

Total exports and imports : goods, services and factor income.

Gross income per employee : income from paid employment (including employer's share of social insurance contributions).

#### *Table 2*

Balance exports less imports : as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of the civilian labour force in employment.

Price index : price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

#### *Table 3*

BLEU: Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

#### *Table 4*

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unemployed: end-of-month figures, adjusted for seasonal variations.

Construction: seasonally adjusted number of residential buildings authorized.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

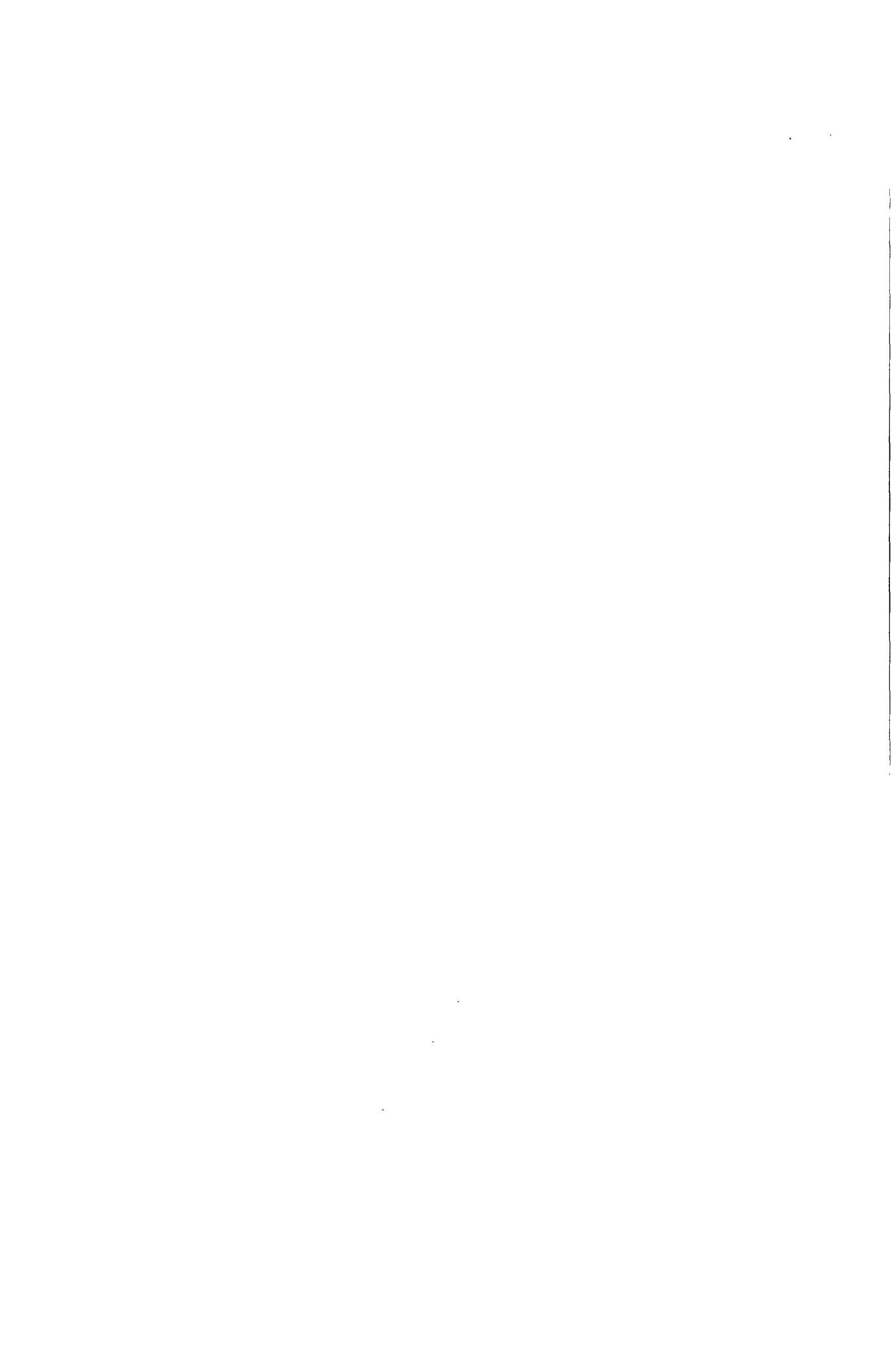
Consumer prices: not adjusted for seasonal variations.

BLEU: Imports cif, exports fob; figures adjusted for seasonal variations.

BLEU: Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange held by the monetary authorities; position at end of month.

Money supply: notes and coin in circulation, excluding cash holdings of the credit institutions other than the Post Office giro; residents' sight deposits (up to one month) with banking institutions; the special Treasury accounts and sums held by non-residents with the Post Office giro; position at end of month, adjusted for seasonal variations.



## Luxembourg

*The tendency for business conditions to calm down has strengthened again in recent months. Export demand provided no additional stimuli to economic activity and domestic demand lost some of its buoyancy. The labour market eased slightly. Prices however continued to move upwards at a fairly rapid pace.*

*With consumption again falling away and fixed investment on the decline, Luxembourg is hardly likely to see an economic revival in the coming months. As the possibilities of export demand expanding are very limited, it would seem that industrial production will not reach the peak registered in the first half of 1970. But it is to be feared that there will be a certain lag before the effects of the new supply-demand situation will show up in prices.*

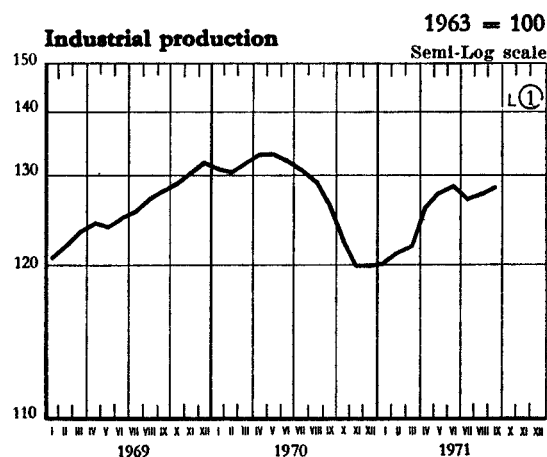
### 1. Recent developments

Following its recovery in the first semester of 1971, export demand fell again and coupled with a weakening of domestic demand this led to a slight decline in overall production.

Exports dropped in the second half of 1971 because of an appreciable fall in deliveries of iron and steel products. Up to summer, sales to member countries declined while exports to non-member countries increased quite considerably, but this trend has since been reversed. Exports to non-member countries, for instance, have been falling, mainly owing to a rundown of the stocks which had been built up when there were fears of a strike in the United States, and to the measures taken by the US Administration on 15 August.

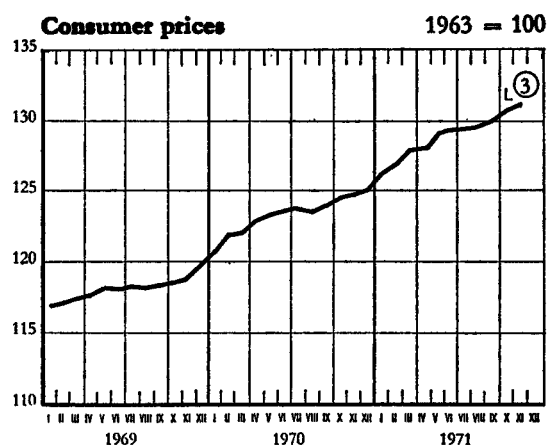
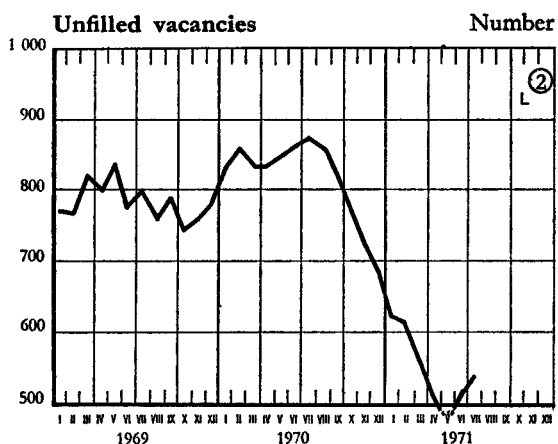
After reaching an unusually high level at the beginning of 1971, fixed investment has since slowed down increasingly; only in a few new enterprises has it maintained its buoyancy. Investment by the public authorities, on the other hand, probably continued to grow. The measures taken by the Government to encourage residential construction were the main cause of the slight revival in expenditure observed in this sector.

The growth in private consumers' expenditure presumably slackened further after summer. Although some new collective agreements were concluded and index-linked wages and salaries and also old age pensions were on several



occasions adjusted to price increases, total wages and salaries were clearly rising more slowly. In addition the increase in the number of persons in paid employment was considerably less rapid, and the propensity to save remained fairly strong.

The growth of domestic supply probably came to a halt in autumn. With iron and steel production falling away and the rates of growth



in all other branches of industry slowing down, industrial production tended downwards. Building activity on the other hand increased further,

boosted by the continued strength of demand and greater flexibility of supply.

*Demand for and supply of goods and services*

|  | 1969 <sup>1</sup>                        | 1970 <sup>1</sup>          |        | 1971 <sup>2</sup> |       | 1972 <sup>3</sup> |
|--|--|----------------------------|--------|-------------------|-------|-------------------|
|  | At current prices (in Lfrs '000 million) | % change on preceding year |        |                   |       |                   |
|  |  | Volume                     | Value  | Volume            | Value | Volume            |
| Exports <sup>4</sup>                             | 38 525                                   | + 1.5                      | + 13.7 | - 3½              | - 6   | + 1               |
| Gross fixed asset formation                      | 10 456                                   | + 11.3                     | + 23.0 | + 8               | + 17½ | - 4               |
| Public current expenditure on goods and services | 4 857                                    | + 1.5                      | + 12.2 | + 1½              | + 11  | + 1½              |
| Private consumers' expenditure                   | 24 810                                   | + 8.0                      | + 13.0 | + 4½              | + 9   | + 4               |
| Gross national product                           | 44 515                                   | + 3.5                      | + 11.8 | + ½               | + 2   | + 1               |
| Imports <sup>4</sup>                             | 34 266                                   | + 6.2                      | + 17.8 | + 1½              | + 4½  | + 1               |

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

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

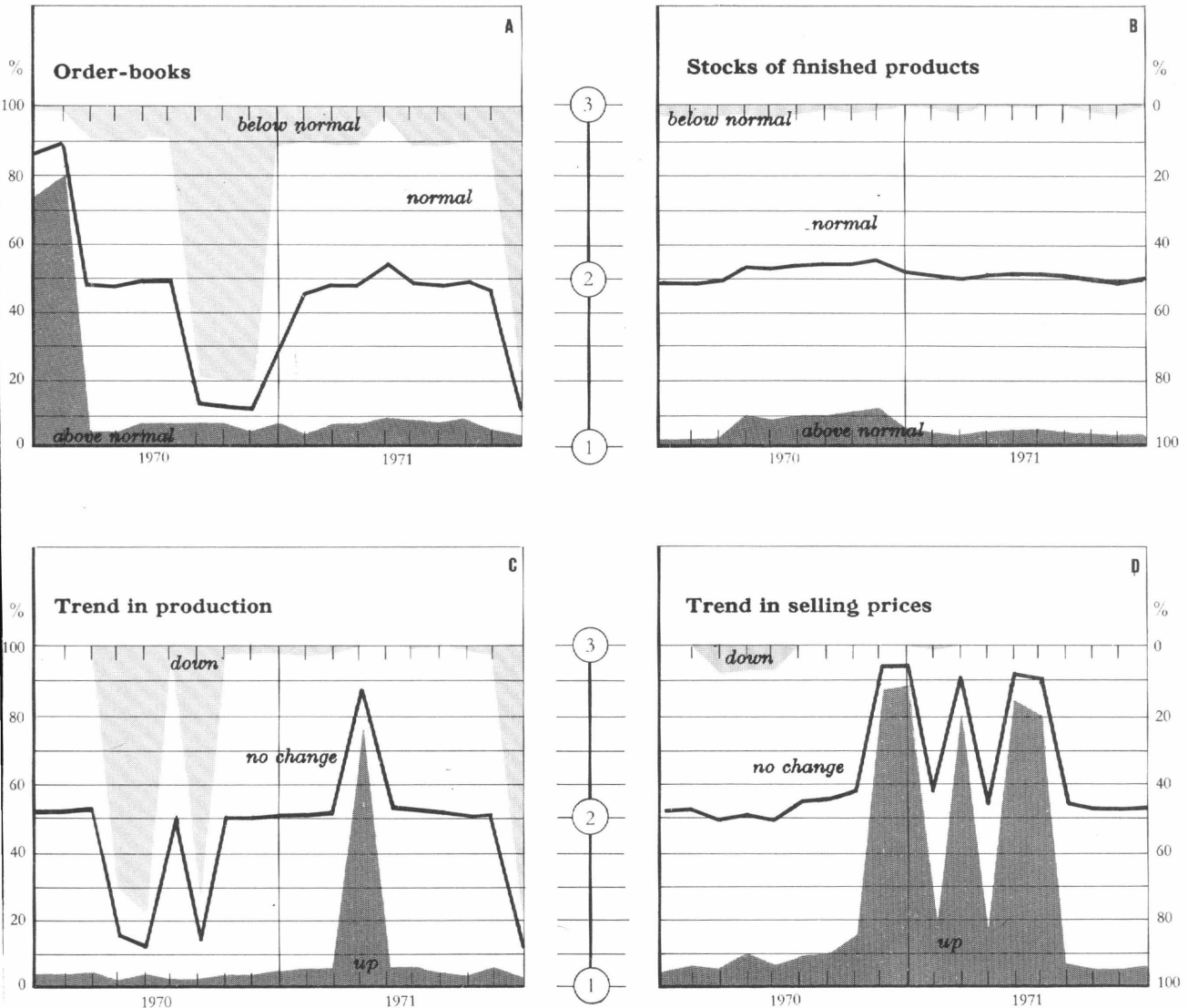
<sup>4</sup> Goods, services and factor income.

*Note :*

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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



With the growth in demand for consumer and capital goods slowing down, the volume of total imports has probably shown a fairly distinct drop in recent months.

There were signs of a certain easing of pressures on the labour market. As fewer new workers were recruited in the iron and steel industry and in mining and the inflow of foreign workers continued, it was easier to meet the additional manpower needs in other sectors.

After a certain let-up in the summer, increased prices of imports caused the consumer price

index to rise somewhat faster. At the beginning of November it was 5.3% up on a year earlier.

## 2. Outlook

In 1972 the growth factors are likely to lose some more of their force and the problem of inflation may become less acute.

Exports must be expected to suffer considerably from the effects of the decisions recently taken in the United States and the uncertainty caused by the international monetary crises. The

*The Central Government Budget*

|  | 1971              | 1972  | 1971   | 1972  |
|--|-------------------|---|--------|-------|
|  | Budget as adopted | Budget  |        |       |
|  | Lfrs.'000 million | % changes on the preceding year's original budget |        |       |
| Expenditure <sup>1</sup>               | 12.8              | 14.0  | + 16.8 | + 8.9 |
| of which:                              |                   |   |        |       |
| current expenditure                    | 9.9               | 10.8  | + 11.8 | + 8.9 |
| capital expenditure <sup>2</sup>       | 2.9               | 3.1   | + 37.4 | + 8.6 |
| Revenue <sup>3</sup>                   | 11.5              | 12.3  | + 18.5 | + 6.8 |
| of which:                              |                   |   |        |       |
| direct taxes                           | 5.9               | 6.5   | + 19.2 | + 9.6 |
| indirect taxes                         | 4.3               | 4.6   | + 15.0 | + 6.9 |
| Net borrowing requirement <sup>1</sup> | - 1.3             | - 1.7   |        |       |

<sup>1</sup> Disregarding debt extinction.

<sup>2</sup> Including participations, advances and loans.

<sup>3</sup> Excluding loans floated.

*Note:*

The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions.

expected revival in sales of iron and steel products will certainly be limited, especially as users are likely, for as far ahead as can be seen, to adopt cautious policies for bringing their stocks back to normal levels. All in all it can be assumed that exports will increase slightly in terms of value but that the increase in volume will not be sufficient to offset the drop recorded in 1971.

Domestic demand too will probably rise only little. Following the unusual growth in the past few years there will hardly be any advance in fixed investment in terms of value, and at constant prices there will even be a decline. The main causes of this trend will be the curtailment of investment programmes in the iron and steel industry and the completion of some major investment projects undertaken by new enterprises. The measures to encourage residential construction will on the other hand have a favourable effect. Capital spending by the public authorities will also continue upwards.

The advance in consumer demand is likely to lose momentum; this applies above all to the increase in the expenditure of households, which will be checked by the slower growth of disposable income. Although new collective agreements in the iron and steel industry and in construction will no doubt provide for pay increases, the rise in actual earnings and in the total number of hours worked will as a whole contribute much less than in 1971 towards the growth of personal incomes.

Supply, both domestic and foreign, is likely to increase only marginally. Despite the relatively firm trend of iron and steel production, the rise in industrial production as a whole will be rather limited. Under these circumstances and assuming that in the second half of the year there are no major changes in the short-term trends outlined above, the rate of growth of the real gross national product for 1972 should be some 1%.

With the slowing down of labour demand from new enterprises and the services sector, the labour market will probably continue to ease.

As imports account for a substantial part of overall supply, the price trend will still depend largely on the rates of inflation in neighbouring countries. Assuming that prices of products

imported from Belgium rise less than in 1971 with the removal of the export charge in Belgium, and that some major autonomous factors tending to force prices upwards disappear, the increase in consumer prices could nevertheless diminish notably in the course of the year.

The prospect outlined above for the pace of economic growth are somewhat less favourable than forecast in the previous Quarterly Survey (No. 3/4-1971). For the immediate future at least, economic policy seems to be suitably adapted to the new requirements of the business situation, especially as prices would again be adversely affected if measures were taken too hastily to encourage growth. Under the draft budget for 1972, for instance, the economy will already be given a much stronger boost than in 1971 through the proposed tax concessions and an increase in public expenditure. In addition, the prospects for building activity, which plays an important counter-cyclical role in Luxembourg, point to a rather favourable trend.

## **Major economic policy measures**

### *October*

*The convention establishing the Belgo-Luxembourg Economic Union was extended for a period of 10 years. After ratification by the Parliaments of both countries a new scale for apportioning certain excise duties between Belgium and Luxembourg will come into force on 6 March 1972.*

### *November*

*(1) Wages and salaries in public administration were increased by 3%.*

*(2) The public authorities announced the creation of a fund to encourage the building of subsidized houses.*

### *December*

*In order to facilitate exchange controls it was decided to require importers to submit to the Belgo-Luxembourg Exchange Institute bills for purchases made abroad.*



TABLE 1 : Selected monthly indicators

|  | Year | Jan.   | Feb.   | Mar.   | Apr.   | May    | June   | July   | Aug.   | Sept.  | Oct.   | Nov.   | Dec.   |
|--|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Industrial production<br>(1963 = 100)                  | 1969 | 123.6  | 123.2  | 125.3  | 124.8  | 122.7  | 127.1  | 125.9  | 127.6  | 130.5  | 129.6  | 133.6  | 132.0  |
|  | 1970 | 129.0  | 132.2  | 135.8  | 133.1  | 133.2  | 130.7  | 128.8  | 128.6  | 122.5  | 116.0  | 121.0  | 123.0  |
|  | 1971 | 116.2  | 124.3  | 124.9  | 129.0  | 129.2  | 127.1  | 124.7  | 130.4  | 129.2  |        |        |        |
| Unfilled vacancies                                     | 1969 | 822    | 735    | 860    | 803    | 812    | 796    | 856    | 721    | 739    | 763    | 803    | 844    |
|  | 1970 | 850    | 871    | 765    | 850    | 887    | 866    | 881    | 829    | 750    | 750    | 663    | 646    |
|  | 1971 | 559    | 646    | 477    | 417    | 479    | 649    | 474    | 489    | 471    |        |        |        |
| Construction : permits for<br>residential construction | 1969 | 16     | 23     | 11     | 20     | 11     | 58     | 26     | 27     | 15     | 35     | 27     | 20     |
|  | 1970 |        |        |        |        |        |        |        |        |        |        |        |        |
|  | 1971 |        |        |        |        |        |        |        |        |        |        |        |        |
| Consumer prices<br>(1963 = 100)                        | 1969 | 116.96 | 117.08 | 117.30 | 117.57 | 118.08 | 117.94 | 118.26 | 118.11 | 118.31 | 118.39 | 118.77 | 120.03 |
|  | 1970 | 121.21 | 121.98 | 122.21 | 122.74 | 123.38 | 123.72 | 124.20 | 123.84 | 124.35 | 124.74 | 124.95 | 125.23 |
|  | 1971 | 126.06 | 126.91 | 128.04 | 128.15 | 129.09 | 129.37 | 129.48 | 129.67 | 130.23 | 131.09 | 131.61 |        |

## Luxembourg

### NOTES TO GRAPHS AND TABLES

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

#### *Graph 1*

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

#### *Graph 2*

Unfilled vacancies: adjusted for seasonal variations; three-month moving averages.

#### *Graph 3*

Consumer prices; source: STATEC.

---

#### *Table*

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unfilled vacancies: seasonally adjusted end-of-month figures.

Construction: seasonally adjusted number of residential buildings authorized.

Consumer prices: not adjusted for seasonal variations.