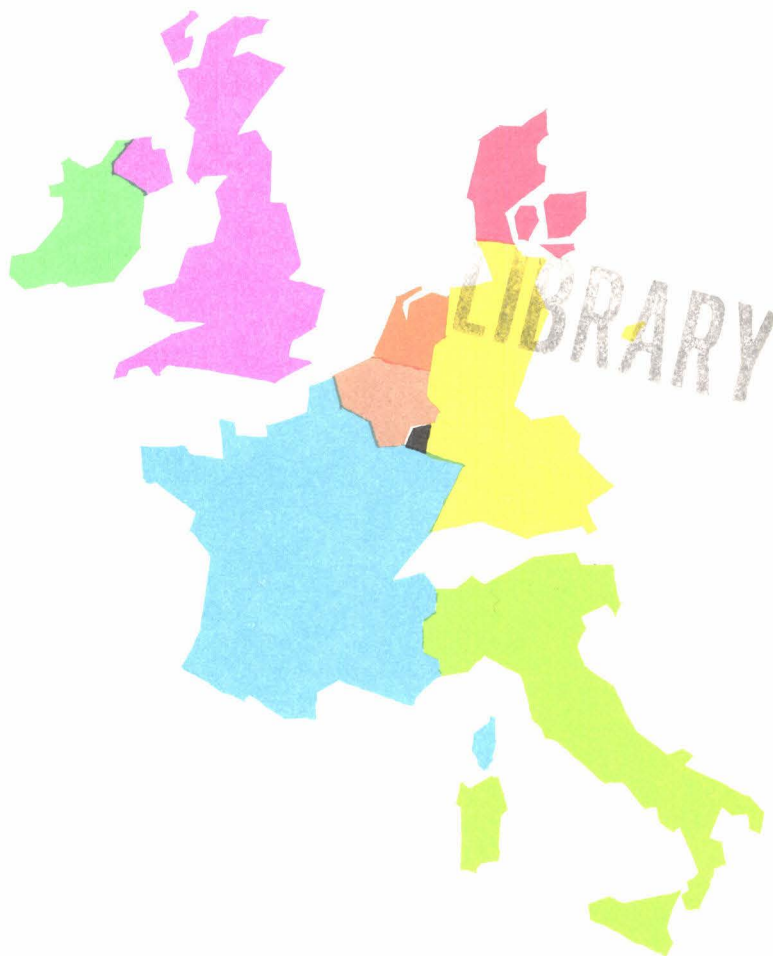


Commission of
European
Communities

Directorate-
General
for Economic
and Financial
Affairs



4
1975

The economic situation in the Community

This publication appears quarterly. Numbers 2 (June) and 4 (December) are surveys by the Commission of the European Communities of recent developments in and the outlook for the economic situation in the Community as a whole and in each of the Member States. They do not contain economic policy recommendations or guidelines, but are limited in this area to a statement of the conjunctural policy problems arising at Community level and in the various Member States. Number 3 (October) reproduces the Commission proposal for the annual report on the economic situation in the Community. This report, which the Council adopts in the autumn of each year in accordance with its decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States, establishes the economic policy guidelines to be followed by the Member States in the year that follows. Number 1 (March) reproduces the text of a communication by the Commission to the Council concerning the adjustment of these guidelines for the current year. It contains in addition a summary account of the economic policies pursued in the previous year, and a report on the application of the Council decision on the attainment of a high degree of convergence of the economic policies of the Member States and on the conformity of the policies pursued with the objectives set.

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

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EUROPEAN COMMUNITIES

COMMISSION

**The Economic Situation
in the Community**

The writing of this report was completed on 15 December 1975.

DECEMBER 1975

Contents

	<i>Page</i>
I. The overall situation	3
A. <i>Economic policy problems</i>	3
1. The world recession in 1974 and 1975	3
2. The problems	5
B. <i>The world economic situation</i>	5
1. Recent developments	5
2. Outlook	7
C. <i>The economic situation in the Community</i>	9
1. Recent developments	9
a) Demand, production and employment	9
b) Prices and payments' balances	14
c) The recent stance of economic policies	15
2. Outlook	18
II. The situation in each of the Community countries	25
A. Denmark	25
B. Germany	31
C. France	38
D. Ireland	45
E. Italy	51
F. Netherlands	58
G. Belgo-Luxembourg Economic Union	65
Belgium	65
Luxembourg	71
H. United Kingdom	77

I. The overall situation

The deterioration in the economic situation, which began in the spring of 1974, seems to have been checked since last summer. Indeed in the autumn some pick up in demand came about, although still only affecting a limited number of sectors and countries. This turn-around seems to be largely due to the end of the destocking process and even to some renewed stockbuilding, to a certain normalisation of consumer behaviour and to the first effects of the recovery in the world economic situation; but the stimulatory programmes put into operation in the Community have also contributed usefully. The improvement is most noticeable in the Federal Republic of Germany and in France. In the majority of Member States, however, the labour market situation has continued to worsen and in October the number out of work was about five million. Capacity utilization rates have remained very low. At the same time, the basic tendency towards a weakening in inflationary pressures, which has continued for more than a year, seems to have stopped and renewed differences in its development from one country to another have become apparent. The moderate surplus of its current account, which the Community had for the first half of the year, has more recently tended to decline, due to some recovery in imports and a slight deterioration in the terms of trade.

Uncertainty remains as to the actual pace of the recovery, the lags which will appear before it spreads throughout the Community, and finally as to its duration. It seems, nevertheless, that developments in the course of the months ahead will result in a progressive improvement in the conjunctural situation. Not only should the components of demand which have already progressed, particularly household expenditure, become more buoyant, but it can also be expected that fixed business investment will stop declining, in the majority of member countries, or even experience a recovery in some of them. This is of fundamental importance, since it can lead in the latter part of the year to a gradual improvement in the employment situation in the Community. Nevertheless, an essential condition for its realisation is that profits increase and are translated as quickly as possible into new investment, without provoking new inflationary pressures. Undoubtedly the probable slowdown in the rise of unit wage costs can induce some prudent optimism in this regard. But despite the persistence of substantially underutilized production capacity in numerous sectors, the danger of new inflationary upsets and doubts about the economic recovery have not been completely removed. Cyclical factors could equally contribute to this development, as the structure of supply which has come about because of the relative rise in energy prices, may not be as able as in the past to adjust to the expected strengthening in demand. In total it is foreseen that gross domestic product in real terms will increase by around 3 % in 1976, whereas a fall of more than 2 ½ % will undoubtedly be recorded in 1975. Such rates of growth should only result in a moderate deterioration in the current account balance of the Community, especially if those member countries which have been most hit by the rise in prices in imported oil are able to benefit completely from the recovery expected in the world conjunctural situation.

A. Economic policy problems

1. The world recession in 1974 and 1975

For the first time in the post-war period almost all the industrialized countries in the West have experienced, with lags from one country to another, a weakening of exceptional size in aggregate demand and production. At the end of 1973 the downturn in the conjunctural situation was already evident in the United States, Japan and Germany. But in most of the Community countries the sharp fall in economic activity began in the middle of 1974. The lowest point of the depression now seems to have been passed in Germany and also in France. In the other member countries it can be seen that either economic activity is stagnating at the low level to which it has fallen, or the recession is reaching its end.

In the second or third quarter of 1975, depending on the country, the gross domestic product of Germany, France and Italy was about 6-7% below its level in the corresponding period of 1974; in the United Kingdom

the decline was almost 5%. Industrial production in most of the member countries shows a fall, at an annual rate, of about 13-15% between the peak and the trough recorded during 1974/1975. Before the recession there were more than two million unemployed in the Community; by the autumn of 1975 almost three million persons had been added to this total. Several hundred thousand foreign workers have left the Community. On top of this, between one million and one and a half million employees have had to accept short-time working.

The sequence of the conjunctural recession has been about the same in most of the member countries: a weakening of demand for investment goods and construction, a fall in car sales after the oil crisis, a reduction of excessive stocks built up for speculative reasons and a corresponding cut in production, an increase in unemployment and a rise in the personal savings ratio, a fall in imports and in foreign trade, and a

sizable and unexpected downturn in demand from trading partners.

An attempt to describe the complex reasons for the world recession may appear premature. Neither the statistical data nor the other information on the changes which have occurred in behaviour and in the lags in responses are yet sufficient to undertake an analysis in depth. But it is now possible at least to explain partially the exceptional and unexpected size of the world crisis through the combined effects of several important factors:

- the acceleration of inflation and the effects of the economic agents becoming increasingly accustomed to this phenomenon;
- the deflationary impact of the increase in the price of oil and the difficulties which arise in the economic policy area from the solution to the problems of adjustment;
- the multiplicative and interactive effects of the recessionary trends between economies closely linked to each other.

As far as the first of these factors is concerned, it must be stated that the present changes in development and behaviour have their source to a considerable extent in the lack of success in controlling in time the inflation which has kept on getting faster in the industrialized countries. Until the sixties the annual average rate of increase of prices in the Community was in the region of 3-4%. After 1970 the rise in consumer prices did not stop accelerating before reaching an average annual rate of increase of 14% at the end of 1974, within a range of from 6% to 26% depending on the country. The main causes of this acceleration are a more severe conflict between the various social groups on the distribution of income, a growing claim on potential output by the public sector, an explosive expansion of international liquidity after the disintegration of the international monetary system, a rise in food prices caused by bad harvests, speculative movements on the commodity and foreign exchange markets, and, finally, the quadrupling of the price of oil. This succession of various factors caused and fed a spiralling of costs and prices which did not stop accelerating. The vigorous application of a restrictive policy could not in the end be avoided. But because people had become accustomed to inflation and because of the rigidity of prices and wages, this was bound to be accompanied by a stabilization crisis. Germany was the first of the Member States in the spring of 1973 to determine on a severe stabilization policy, after the introduction of flexible exchange rates had enlarged the scope for action on monetary policy. The other Community countries followed, either immediately or under pressure from the substantial balance of payments deficits during 1974 arising from the increase in the oil price. However, the effects of this restrictive policy was not to be felt until the conjunctural trend, after the world boom of 1973, was already heading downwards in most countries.

The second factor which turned the weakening of the world economic situation into a world recession was the

sudden and huge increase in the oil price. Its immediate result was a loss of purchasing power with a deflationary effect in the oil-importing countries, a loss which was only partly offset by the growth in the imports of the oil-producing countries and by the various fiscal and budgetary measures taken in the industrialized countries. At the same time the rise in the oil price set off a new surge in costs and prices, leading to a further deterioration of company profitability. Some side-effects of the oil crisis became evident on top of this: severe shifts in price structures, wider fluctuations in exchange rates, additional uncertainties about the outlook for profits and unwillingness to engage in new investment, shrinking of the demand for cars, etc. They all contributed to accentuating the negative repercussions on demand, employment and prices, and to increasing the need for structural adjustments.

Finally, the last factor which explains the strength of the recessionary forces was the under-estimation of, on the one hand, the delayed effects of the restrictive monetary and fiscal policy measures taken at national level, and, on the other hand, their multiplicative and feed-back effects on other industrialized countries and on world trade. The effects of the anti-inflationary policy in the United States, Japan and Germany were added to the deflationary impact from the increase in the oil price and to the sharp reactions of the countries in deficit attempting to reduce their balance of payments deficits and to hold back inflationary tendencies. The balance of payments deficits of the industrialized countries were more rapidly reduced than was necessary or desirable having regard to the continued large surpluses of the OPEC countries. The current accounts of the Community and of Japan will be just about in balance in 1975, and that of the United States will even be in substantial surplus, while the total deficits of these countries still amounted to more than \$ 20 000 million in 1974. This improvement is due almost exclusively to the strong fall in imports. Since the imports of one country are the exports of others, and given the heavy reliance of the industrialized countries on foreign trade, a deflationary self-amplifying process was bound to appear. From this resulted a large reduction in world trade, (See Table 3), and an unexpected fall in the volume of exports, especially within the Community, where trade relations are closer than in any other economic zone.

The consistency of conjunctural policies at Community and international level can be seen to have been insufficient at two stages:

- in the stabilization phase in 1973, when the separate policy of some countries brought about differences in conjunctural trends and thus made more acute the imbalances between industrialized countries in 1974;
- next, when conjunctural measures were introduced to reduce balance of payments disequilibria resulting from the rise in the oil price, although the elimination of the deficits worked to a large extent to the detriment of the non-oil-producing countries.

The coordination of conjunctural policies at Community and international level was not carried out until affairs had already taken a disquieting turn. It was, however, able to prevent a further deterioration in the conjunctural situation.

2. The problems

The large industrialized countries outside the Community have now passed the most acute phase of the recession in economic activity and most of the Community countries have reached the end of the downturn.

The prospects for general, if modest, expansion during the coming months have clearly improved. The size and the length of the conjunctural recovery remain uncertain however. They will depend essentially on the strength of the revival of foreign demand, on the restoration of confidence to consumers and investors about the future development of the economy, and on the delay before this change in behaviour occurs.

The reestablishment of confidence will be closely linked to progress to be made in fighting against unemployment and cutting inflation. To reconcile these goals the room for manoeuvre for conjunctural policy as strictly defined remains limited. The danger of a further inflationary surge is still there.

Taking into account the recovery of world trade which is beginning, the positive influence of the restocking process, the impact of the relationary programmes adopted last summer and the expansionary monetary policy followed since the end of last year or the beginning of 1975, additional global measures are not appropriate at present. It is however necessary to apply energetically and without delay the measures already decided upon. It would be prejudicial if administrative delays lead to a "pro-cyclical" application of the conjunctural programmes.

In the immediate future it is appropriate that budgetary policy in most member countries should continue to support economic activity, and that the expansionary stance of monetary policy should be maintained¹.

As far as the stance of conjunctural policy later on is concerned, it would be suitable to adopt an extremely flexible attitude. Given the uncertainties which still exist

the authorities responsible for economic policy should be in a position as necessary to redirect rapidly the instruments available either in an expansionary or a restrictive way.

Furthermore it seems important from a sectoral viewpoint to favour those economic activities which, like construction, have a strong impact on the level of employment. There is little opportunity, however, to obtain in a short time a reduction in unemployment, given that, in a situation where there exist substantial productivity reserves, a recovery in output will only be followed by an improvement in employment after some time-lag.

The return to normality of consumers' behaviour and a vigorous recovery in investment activity rely on at least two conditions:

- greater harmonization of short- and medium-term policies, especially in the budgetary field, and a closer coordination between overall economic management and social, incomes and employment policies;
- a strengthening of the dialogue between the two sides of industry, and also between them and government, so as to increase understanding of the need for and consequences of long-term changes, and so as to reduce, or indeed to avoid, the danger of a single group being made to carry the burden of these changes.

Under these conditions not only the effectiveness of government intervention, but also the climate for wage negotiations already under way will improve, and, as a result, the outlook for investment and employment in 1976.

In the coming months, the recovery of world trade takes on a special importance. In this respect, the Community assumes a double responsibility:

- to help the developing countries affected by the oil crisis and the recession to finance their large external deficits, and so to contribute to the stability of trade flows between the industrialized countries and the developing countries;
- to line itself up against the dangerous tendencies to adopt protectionist measures both within and outside the Community. It would be unfortunate if some Community countries started on this path, even on a temporary basis, when the liberalization of foreign trade and the development of world trade is a condition necessary for a durable conjunctural expansion.

B. The world economic situation

1. Recent developments

Following the very sharp falls in *economic activity* in almost all the developed countries during the second half

of 1974 and the first quarter of this year (taking industrial production in the non-EEC developed countries to some 12% below its peak a year earlier), a revival in output began in the USA and Japan in the spring and summer. The two non-member countries which were the first to move into recession were thus also the first to show signs of a recovery, in part due to the

¹ Cf. Annual report for 1975 on the economic situation in the Community.

earlier introduction of reflationary budget programmes. A gradual recovery in output is also now under way in Canada, but in almost all the other developed countries outside the Community output has recently continued to decline or has been stagnant. Although *unemployment* has declined a little in the USA since the spring, elsewhere almost without exception it has continued to rise in recent months.

Inflation remains a problem in all countries. However, the weakness of non-oil commodity prices throughout most of the year, and, in some countries, the easing of wage cost pressures have helped to restrain domestic price increases to some extent. Particular success in braking the rise in prices has been achieved in Japan and Switzerland.

The volume of *world trade* dropped very sharply in the first half of the year, principally due to very much reduced demand for imports from the developed countries. In the third quarter trade tended to steady, as the imports of the USA and Japan began to expand again and the decline in the imports of other developed countries became less pronounced. Imports by the oil-producing countries have been growing very strongly throughout the year, and the imports of the centrally planned economies have also continued to rise. The non-oil-producing developing countries, which as a group are in serious balance of payments deficit, seem to have been cutting back their imports in recent months.

In the *United States*, after the longest and most severe downturn in economic activity since the Second World War, there was positive real GNP growth of 0.5% in the second quarter of this year accelerating to more than 3% in the third quarter. The main factor behind this

acceleration in GNP was the movement of stocks. In the second quarter stocks fell very rapidly; while stock liquidation continued during the third quarter it did so at a much slower rate, thus having a positive influence on output. Final domestic demand grew moderately in the third quarter, mainly due to the rise in consumers' expenditure, especially on durable goods, following the personal tax rebates and cuts made in May. The tax measures were also intended to stimulate business investment, do appear to have stopped declining in the third quarter. Residential construction showed an increase from the very low level reached earlier in the recession. Employment rose throughout the second and third quarters, and so unemployment fell from its peak of 9.2% reached in May to 8.3% in November. The improvement in the labour market situation appears to have slowed down recently however.

The trade balance in the third quarter was \$ 3.0 milliard compared with \$ 3.3 milliard in the second quarter. Exports grew by 6.5% over the same period, mainly as a result of increased agricultural exports, and imports also started to recover, rising by 9%, with oil imports increasing especially fast in advance of the expected price rise. Higher food and raw material prices led to some slight acceleration in wholesale and consumer prices during the summer months, after a gradual slowing down in the first half of the year. Consumer prices in October were 7.6% higher than 12 months earlier.

A gradual recovery also appears to be under way in *Canada*, where there was a small increase in real GNP in the second quarter and a slight acceleration in this trend in the third quarter. Unemployment has been almost stable in recent months; in September the rate was 7.2%. Canada has a large current account deficit mainly

TABLE 1:
Changes in Consumer Prices in Major Non-EEC Countries

	June 74 Dec. 74	Dec. 74 June 75	Apr. 75 Oct. 75	1975				Oct. 74 Oct. 75
				July	Aug.	Sept.	Oct.	
	Half-yearly % increase			% increase on preceding month				% increase
USA	5.8	3.3	3.8	1.1	0.3	0.5	0.7	7.6
Canada	5.4	4.7	5.9	1.5	1.0	0.2	0.9	10.6
Japan	8.7	4.7	4.2	0.2	-0.2	1.9	1.7	9.6
Community	6.4	7.5	5.2	0.5	0.4	0.8	0.8	12.4

because of the impact on exports of the US recession; in the third quarter the trade deficit widened to \$ 260 million from \$ 185 million in the previous quarter, but this was an improvement on the \$ 448 million deficit in the first quarter. Consumer prices continue to increase at a double-digit rate and wage cost pressures have not abated; this situation led the Canadian government to introduce new prices and wages controls in the middle of October.

Industrial production in *Japan* had by September risen some 8% above the trough it reached in February. The Japanese government has introduced a series of reflationary packages during the year to stimulate the economy; the fourth of these was introduced in September and included measures to speed up public works expenditure and to encourage business investment. A further stimulus to demand was judged necessary because private consumers' expenditure and business investment remained weak during the summer months. Housing investment has, however, been increasing and the large running down of stocks which took place in the early part of the year has now ended. Unemployment is still rising: there were over 1 million unemployed in September. Exports have been falling throughout the year; in the first half imports were even weaker, but they started to increase again in the third quarter, causing the trade surplus to narrow. Wholesale prices rose by only 0.8% in the twelve months to October, and the increase during the same period in consumer prices came down to 9.6%.

The *other developed countries* outside the Community have almost all recorded falls in production during 1975.

They have been very much affected by falling demand for their exports from foreign markets, and then by declining investment demand. Although, apart from Australia, unemployment is not at such a high level as in the larger economies, most countries have experienced a rapid increase in the numbers without work in recent months. Norway, which is benefitting from development in the oil sector, is one of the few countries where growth in activity has continued, but even there the export industries have been hit by the fall in world demand. As a group these countries remain deep in current account deficit, although the position of Australia has substantially improved and Switzerland has a large surplus. Some countries have made further progress in moderating the rise in prices, but performance in this respect is still very different between countries. In the latest 12 months period for which information is available consumer prices rose by 5% in Switzerland, 8% in Austria, 11% in Sweden, 12% in Norway and Australia, and 17% in Finland and Spain.

2. Outlook

The recovery in *economic activity* already under way in the United States and Japan and now beginning in Canada and Australia should continue in the months ahead and underlying demand should strengthen somewhat. Changes in output from period to period will continue to be distorted by the movement of stocks. In the non-EEC developed countries in Europe output is now tending to stabilize but it will be several months before any recovery can be expected and then it is likely

TABLE 2
GNP and Imports in the Non-EEC Developed Countries 1974-76
(% change on preceding year)

	Real GNP			Volume of imports		
	1974	1975	1976	1974	1975	1976
USA	- 2.1	- 3	6	- 2.5	-13	11
Japan	- 1.8	1½	5	- 0.9	-16	10
Other developed countries ¹	3.2	0	3	9.5	- 6	3
Total developed countries ¹	- 0.8	- 1½	5	3	-10½	7
Community	2.0	- 2½	3	- 1.5	- 7	6

¹ Excluding EEC.

Sources: 1974-national statistics; 1975 and 1976-services of the Commission.

to remain gradual. Investment demand will generally remain weak in the months ahead. Not until there is a genuine recovery in the confidence of households and some of the slack in production capacities has been taken up will investment react.

A fall in real GNP of the non-EEC developed countries of about 1½% in 1975, could be followed by a rise in 1976 approaching 5%, but in the non-EEC European countries the increase in 1976 is unlikely to exceed 1½%. Unemployment will continue to rise in many of these countries in the months ahead.

There should be some further gradual easing in the rate of increase of prices in a number of countries, but now that the downward trend in non-oil commodity prices has probably come to an end and with the 10% increase

in oil prices adding to costs, further progress may be slight.

World trade in volume terms appears to be steadying at present and should soon start to expand gradually once more, influenced by the increased imports of the larger developed countries. Imports by the OPEC countries will continue as an important positive element in world trade, but there could be some slowing in the rate of increase compared with the very rapid expansion over the last two years. Demand from the non-oil producing developing countries could fall further, as the increasing difficulty of financing large balance of payments deficits forces cuts in imports. The imports of the centrally planned economies, many of which also face severe trade imbalances, are likely to be less buoyant next year. The volume of world imports (excluding EEC imports) may fall by some 2½% this year, but a gradual rate of expansion of some 5% could be achieved in 1976.

TABLE 3

Volume of World Trade 1974-76

	Shares in EEC exports; % (1974)	Volume of imports (% change on preceding year)		
		1974	1975	1976
Total developed countries (excluding EEC)	55.9	3	-10½	7
OPEC countries	10.2	38	50	25
Other developing countries	23.3	14	- 4	- 5
Centrally planned economies	10.7	10	6	4
World (excluding EEC)	100.0	9	- 2½	5
World (including EEC)		5	- 4	5½

Sources: 1974-national statistics, etc.; 1975 and 1976-services of the Commission.

In the *United States* the growth of activity is expected to continue during the months ahead, but not at as high a rate as during the third quarter of this year. Consumer spending is likely to keep on rising in line with the increase in disposable incomes due to higher wage rates, employment and hours worked. However, the savings ratio is likely to remain high in a situation where unemployment is falling only slightly and prices are still rising quite fast. Residential construction should

continue its strong recovery, but business fixed investment is unlikely to start rising appreciably before the second half of 1976. The rebuilding of stocks could soon get under way. The growth in imports already evident in the third quarter should continue as the move out of recession proceeds, and while exports are also expected to rise there is likely to be a deterioration in the trade balance and current account surplus during the remainder of this year and in the early months of 1976.

In *Japan*, despite the various reflationary measures introduced by the government, business confidence remains very low; profits are being severely squeezed and orders remain weak. The recovery is clearly not going to be of the export and investment-led kind which Japan has experienced in previous cyclical upswings. However, influenced mainly by government expenditure, production should continue its recovery, and the other components of demand should also in due course begin to pick up. Some deterioration of the current balance is likely to occur during the next few months.

In *Canada* government policy has generally become more cautious in recent months, but recovery should go ahead under the influence of the revival in the USA.

In the *non-EEC countries of Western Europe* some months of relative stagnation in output can be expected before the first effects of the gradual revival in world trade are felt. Even if growth in activity does recommence towards the middle of 1976, investment demand is likely to remain depressed throughout the year.

C. The economic situation in the Community

1. Recent developments

a) Demand, production and employment

In the summer the Member States were still in the throes of the deepest recession they have had to cope with since the war. But at this point production seems to have "bottomed out" in a number of countries and the first signs of a more favourable trend in stocks, consumer demand and exports were discerned. The fact that in most member countries previously restrictive economic policies have become more expansionary has a good deal to do with this. Inflationary strains have also eased a little in several countries, no doubt putting an end to the deterioration in confidence. The lull in the upward movement of oil prices until the autumn has also played a part by stimulating replacement buying of certain goods such as motor vehicles, and by softening the impact of changes in relative price of oil on the pattern of private spending.

The exceptional reduction in *stocks*, which had, from late 1974 onwards, been one of the key factors in the decline in production, appears to have slowed down considerably in recent months. It will nevertheless result in a reduction in real gross domestic product for the year as a whole varying between about 1/2% in Germany and some 4% in France. Stocks have been run well down at all stages of production and distribution, but this is a process which for many firms is now practically complete. However, only a few industries, notably the motor vehicle industry, have so far been able to normalize entirely the situation as regards stocks previously swollen because of marketing difficulties.

Private consumers' expenditure, the trend of which had lacked vigour since mid-1974, picked up slightly during the autumn in a number of member countries, particularly Germany and France; these are the Community countries in which the real disposable income of households expanded most rapidly in 1975,

mainly as a result of the tax reliefs granted by the authorities, or in which the savings ratio started to ease downwards from the exceptionally high levels it had reached. The firmer propensity to consume has been reflected in particular in a quite significant revival in purchases of consumer durables, especially private cars. In other countries, like the United Kingdom, Belgium and Ireland, where the fall or a relatively modest increase in real private disposable income has sometimes been accompanied by a persistent high savings rate so as to preserve the purchasing power of liquid assets, private consumers' expenditure was still very sluggish during the autumn.

The volume of member countries' *exports* to the rest of the world seems to have stopped declining in recent months. This trend — unmistakable in Italy and Ireland — is probably due to the initial effects of the economic upswing discerned in the major industrialized non-member countries or to special factors encouraging sales of agricultural products. In addition, for several member countries, markets in the OPEC countries and, to a much lesser extent, in the State-trading countries have continued to expand at a rapid rate. Generally speaking, steps taken to restimulate domestic demand have played a key role in stabilizing sales abroad.

Gross fixed capital formation is the demand component the slackness of which has proved the sharpest brake on activity in most member countries. For the year as a whole, spending in this field is expected to have fallen by nearly 7% in real terms in the Community. The mood of investors has remained generally pessimistic: there is still a very tight squeeze on profits in several member countries as result of the combined effects of a drop in productivity gains per person employed, which has occurred because workers who are in fact redundant have been left on the payroll and of an increase in wage costs which has remained rapid in spite of a "negative" wage drift in several countries. Moreover, industry's profits have suffered as the improvement in the

TABLE 4
Changes in industrial production ⁽¹⁾

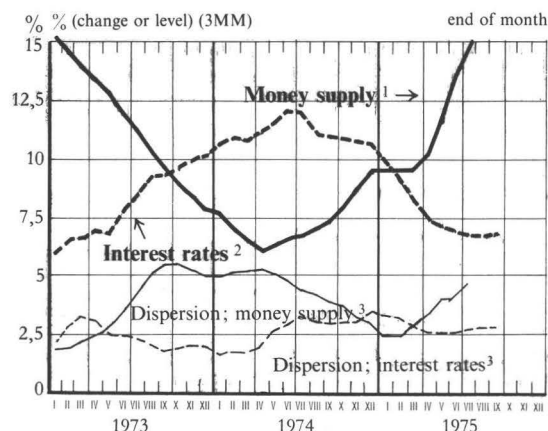
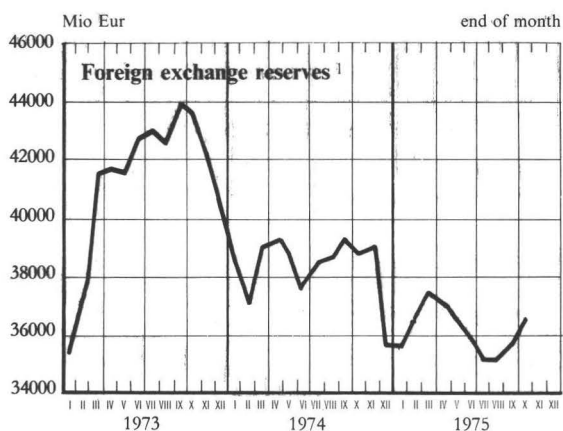
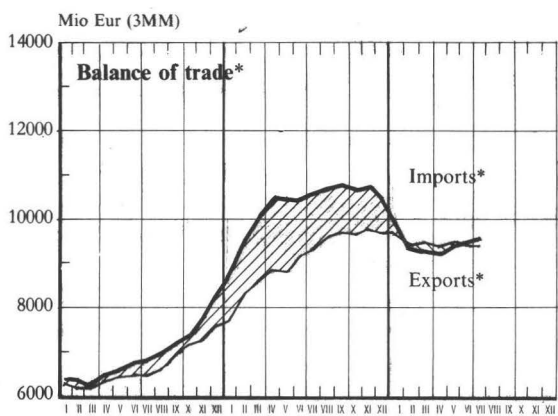
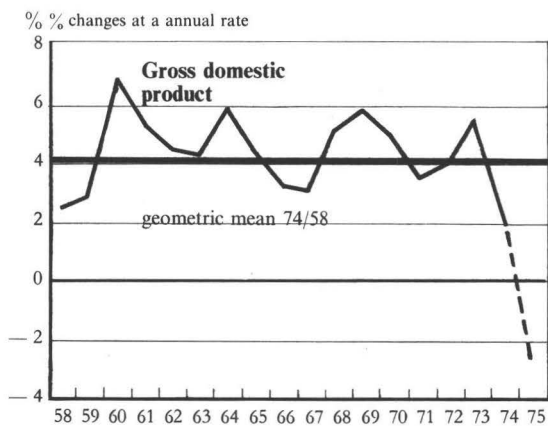
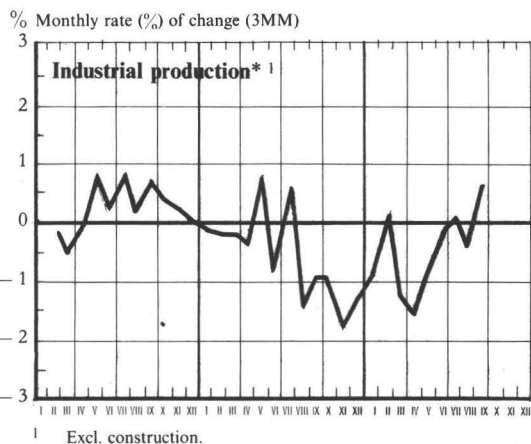
	% change on preceding year			Max. 1974		Min. 1975		Max. 74 Min. 75	% change on preceding quarter									Sept. 74 Sept. 75
	1973	1974	1975 ²	Month	Index 1970 = 100	Month	Index 1970 = 100	% change	1973		1974				1975			% change
									III	IV	I	II	III	IV	I	II	III	
Germany	7.3	- 1.1	- 8.9	June	119.3	July	98.7	-17.3	1.4	- 0.3	- 0.2	- 0.7	- 2.7	- 3.1	- 2.4	- 2.9	- 0.4	- 8.1
France	7.6	2.8	-10.9	May	126.7	May	107.7	-15.0	0.3	1.9	2.2	0.5	- 1.9	- 3.2	- 4.9	- 2.4	- 1.6	-10.8
Ireland ⁽³⁾	10.3	2.8	- 7.8	1st qtr.	126.8	2nd qtr.	115.3	- 9.1	0.4	- 0.1	6.0	- 2.4	- 2.4	- 2.0	- 2.3	- 0.4	:	:
Italy	9.8	3.8	-12.1	April	124.1	May	101.2	-18.5	4.1	2.0	1.2	0.7	- 1.7	- 9.1	0.0	- 4.3	1.2	-13.1
Netherlands	6.1	3.2	- 7.0	June	123.1	July	110.3	-10.4	2.0	1.7	1.2	- 0.1	- 0.3	- 1.6	- 2.4	- 3.8	- 1.6	- 8.3
Belgium	6.1	3.2	-11.5	June	131.3	July	102.9	-21.6	1.7	0.4	4.2	1.1	- 1.5	- 3.7	- 3.2	- 4.6	- 4.0	-14.1
Luxembourg	11.8	3.9	-24.0	Feb.	127.8	Aug.	64.9	-49.2	1.9	3.6	4.4	- 1.5	- 2.4	- 5.2	- 8.5	-12.3	- 4.8	-20.5
United Kingdom	8.4	- 2.5	- 4.6	July	110.1	Aug.	98.9	-10.2	1.3	- 1.9	- 4.2	4.2	- 0.2	- 1.6	- 0.3	- 5.7	- 1.2	- 7.6
Community	7.5	0.6	- 8.9	June	120.1	July	104.0	-13.4	1.3	1.1	- 0.2	1.0	- 1.6	- 3.8	- 1.9	- 3.8	- 0.8	- 9.5

⁽¹⁾ Excluding building and construction, and for France the food, drink and tobacco industry; seasonally adjusted.

⁽²⁾ Average of January-September 1975 compared with average of January-September 1974.

⁽³⁾ Quarterly data.

Source: SOEC.



1 Gross foreign exchange reserves including S.D.R.'s and reserve position at I.M.F.; excl. gold.

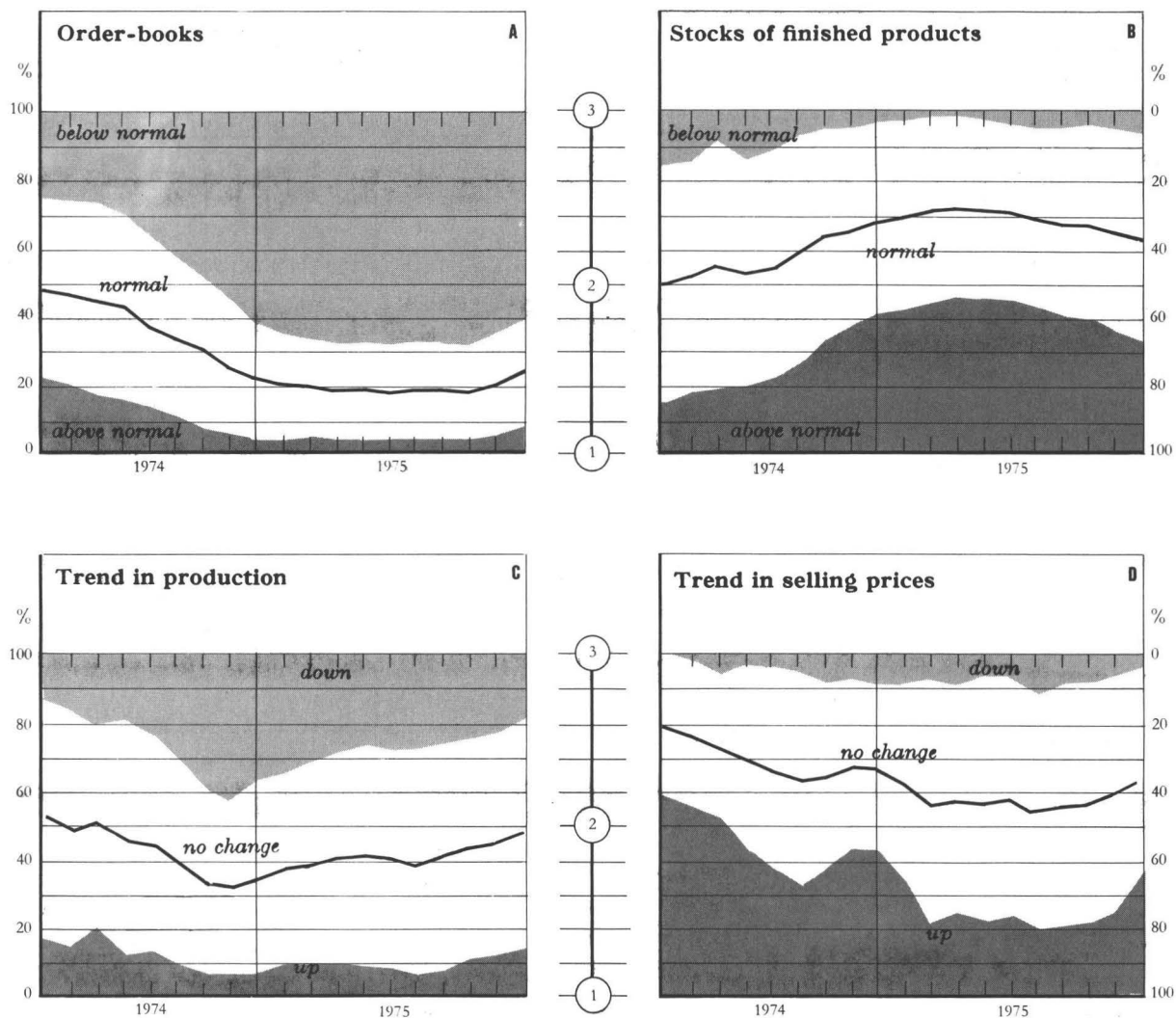
1 Arithmetic mean of the rates of change over the previous 12 months of money supply (M1) in member countries.

2 Arithmetic mean of call money rates (except Denmark).

3 Average deviation between the average for the Community and country observations.

* = Seasonally adjusted figures.
 3MM = Three month moving average.
 Source: Services of the Commission.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in the countries of the original Community.

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".

relationship between the selling prices of finished products and the purchase prices of producer goods, which had been under way since mid-1974, has come to a halt. However, to judge from the flow of new orders in the capital goods sector in the most recent months of 1975, it seems that the deterioration in industrial investment has been checked in Germany and has slowed elsewhere. The key to this trend would seem to lie in the various economic recovery programmes and also in somewhat greater confidence on the part of firms. Lastly, although, with the exception of Italy and Germany, the extension of public works has clearly continued in several countries, activity in residential construction could have fallen off, although at a slower rate.

Until the middle of the year, the downturn in final demand and the extent of destocking led to a contraction in domestic supply in the Community as a whole. During the summer months, however, industrial production "bottomed out" at a very low level close to that it had reached in early 1972. According to the SOEC index, which does not cover building and construction, production was 13 1/2% lower than its highest level in 1974. The countries most affected were the BLEU (-23%), Italy (-18 1/2%) and Germany

(-17 1/2%) (Cf. Table 4). In the third quarter, industrial production in the Community is put at some 9% less than in the corresponding period a year earlier, the rate of capacity utilization had dropped to about 75% and delivery lead-times had in general become very short. The signs of a recovery were, however, evident after the summer in a number of industries, among them chemicals, including man-made fibres, and textiles and the clothing and leather industries. The most positive signs were, however, to be found in the metal-processing industry, boosted by the recovery in the motor vehicle industry.

First indications for October suggest some recovery in industrial production in some member countries. However, activity in the capital goods industries remained sluggish until quite recently. Output in building and construction seems to have settled at a stable level in recent months.

The trend has varied widely in the services sector. While the tourist industry has expanded quite sharply and passenger transport by rail has grown by about 5% in 1975, the transport of goods, air transport and activity in certain branches of the distributive trades lost ground. Recently, agricultural production has been hard hit by

TABLE 5
Unemployment rates (1)
(%)

	1974				1975			
	I	II	III	IV	I	II	III	October
Denmark	0.7	1.6	2.5	2.8	3.9	4.3	4.6	4.7
Germany	1.8	2.1	2.6	3.1	3.6	4.8	4.9	4.8
France	1.9	2.1	2.5	3.0	3.3	3.8	4.3	4.3
Ireland	5.8	6.1	6.7	8.0	9.0	9.1	9.2	9.4
Italy	2.7	2.9	3.1	2.8	3.1	3.6	:	:
Netherlands	2.7	2.9	3.2	3.5	3.9	4.3	4.7	4.7
Belgium	2.7	2.9	3.2	3.6	4.3	5.1	5.6	5.9
Luxembourg	0	0	0	0.1	0.1	0.1	0.2	0.2
United Kingdom	2.3	2.5	2.7	2.8	3.0	3.8	4.9	4.7
Community	(2.2)	(2.4)	(2.8)	(3.0)	(3.4)	(4.1)	(4.5)	(4.5)

¹ Number of unemployed as % of civilian labour force; seasonally adjusted figures for final month of each quarter. Italy: ISTAT figures. As a result of disparities in definition, the unemployment rates cannot be compared between countries.

Source: SOEC.

disappointing harvests (cereals down by 10%, and fruit and vegetables by 1%). Beef production, on the other hand, is up slightly on last year.

As a whole a fall of about 2½% in the real *gross product* of the Community can be expected in 1975 (Cf. Table 10). The fall may reach about ½ — 1% in the United Kingdom and Denmark, 2% in the Netherlands and Belgium, 2½% in France, 3 — 3½% in Ireland, Italy and Germany, and some 7½% in Luxembourg.

In the autumn, despite some scattered signs of improvement, the continued rise in unemployment remained a feature of the situation on the *labour market* in the Community: in October, the seasonally adjusted number of wholly unemployed, at about 5 million, or some 4½% of the labour force in the Community, was more than 50% higher than in October 1974. (Cf. Table 5). In addition, the number of people reported to be on short-time working has continued to rise in several member countries and, for the Community as a whole,

topped the one million mark in early autumn. As from the summer the market had to accommodate the annual wave of school-leavers looking for their first job and this has had a considerable impact on the level of unemployment: at the beginning of the autumn about 1½ million people under 25 are thought to have been out of work in the Community as a whole. Indeed, the general spread of unemployment would seem to have led, in a number of countries, to a contraction in the labour force as certain categories of workers, particularly women, have given up trying to find a job altogether.

b) Prices and payments balances

The tendency in the first half of the year for the climate for *prices* to improve seems to have come to an end in the last few months. Consumer prices in Germany have once more risen at a relatively modest rate since the summer, and falls were even recorded in Ireland in August and in Denmark in October under the influence of specific measures introduced by the governments of these

TABLE 6

Changes in consumer prices in the Community since 1973

	Dec. 73	June 74	Dec. 74	April 75	1975					Oct. 74
	June 74	Dec. 74	June 75	Oct. 75	June	July	August	Sept.	Oct.	Oct. 75
	Half-yearly increase (%)				Increase on preceding month (%)					Increase (%)
Denmark	7.0	7.0	3.4	0.9	0.6	0.5	0.3	0.9	- 2.6	4.6
Germany	3.5	2.0	4.1	2.0	0.7	0.0	- 0.1	0.5	0.3	5.8
France	8.4	6.3	5.1	4.5	0.8	0.7	0.7	0.8	0.8	10.2
Ireland ¹	10.5	8.7	14.6	5.2 ²			- 0.8			18.9 ³
Italy	10.9	12.3	6.0	4.6	0.8	0.4	0.6	0.8	1.1	12.1
Netherlands	5.5	5.0	4.7	4.5	0.2	0.4	1.0	1.3	0.9	9.9
Belgium	8.3	6.8	5.3	5.0	0.4	0.9	0.7	0.9	1.1	11.2
Luxembourg	5.8	5.0	5.7	5.0	0.7	0.9	0.4	0.8	1.6	11.5
United kingdom	10.8	7.5	17.3	10.4	2.0	1.0	0.6	0.9	1.4	25.9
Community	7.8	6.4	7.5	5.2	1.0	0.5	0.4	0.8	0.8	12.4

¹ Changes calculated from indices relating to the middle of each quarter.

² February 75-August 75.

³ August 74-August 75.

Source: Services of the Commission.

countries. But in most other member countries, particularly the BLEU countries and Italy, the upward movement in consumer prices has speeded up again somewhat.

For the Community as a whole, consumer prices rose between September and October at an annual rate of about 10%, compared with more than 15% in the first half of the year but only 5½% between July and August. Thus in October consumer prices in the Community as a whole were 12½% higher than a year earlier (Cf. Table 6). This rise is however much lower than that recorded over the same period of 1974 (+16% between October 1973 and October 1974). Although the higher prices of agricultural foodstuffs and services had a crucial impact in most member countries, a number of them were also faced with a more rapid increase in the prices of manufactures as a result of the continuing surge in wage costs and firmer import prices.

After the summer break, the tendency for the Community's *trade balance* to improve, discernible since mid-1974, was apparently reversed, reflecting a modest increase in *imports* in several member countries, notably Germany and France. A slight deterioration in the terms of trade appears to have contributed to this development. Nevertheless, the Community's current account as a whole should yield a slight surplus in 1975 (Cf. Table 10).

Intra-Community trade (calculated on the basis of imports) contracted until the summer, reflecting the economic downswing, notably in Italy and France. Only in Germany is the volume of imports from other member countries likely to have remained unchanged in 1975 from its level a year earlier. For the Community as a whole, the decline (at constant prices) is likely to exceed 7½% between 1974 and 1975, but is expected to be less marked than the probable fall-off in trade between industrialized countries as a whole. Like trade with non-member countries, intra-Community trade is thought to have remained firm since the summer.

c) *The recent stance of economic policies*

Since the autumn of 1974, *budgetary policy* in almost all Member States has been geared to sustaining economic activity and holding back unemployment. In August and September of this year, five Member States decided to implement extensive and coordinated economic re-stimulation programmes entailing in some respects heavy expenditures (Cf. Table 7). However, the built-in stabilization mechanism of the budgets has also performed an important function in all Community countries, especially in the United Kingdom and Ireland. On the whole, public sector borrowing requirements again rose sharply in the summer months, particularly in France. With the exception of Belgium, where there has been a quite steady expansion, tax revenues have remained at a low level or have even fallen sharply compared with 1974, at a time when the continuing

spread of unemployment is making further demands on available funds.

Monetary policy has generally remained expansionary. (Cf. Table 7). In France, the compulsory reserve ratio for sight deposits was cut in September from 12 to 2%. The rediscount quota for credit establishments was raised in Belgium at the end of August and in Germany at the beginning of October. In the Netherlands, the Central Bank has continued to promote the expansion of bank liquidity. On the other hand, the National Bank in Denmark announced, at the end of October, a number of measures (institution of a special compulsory reserve and introduction of 91-day certificates of deposit) designed to mop up some of the liquidity created by the sizable public-sector deficit.

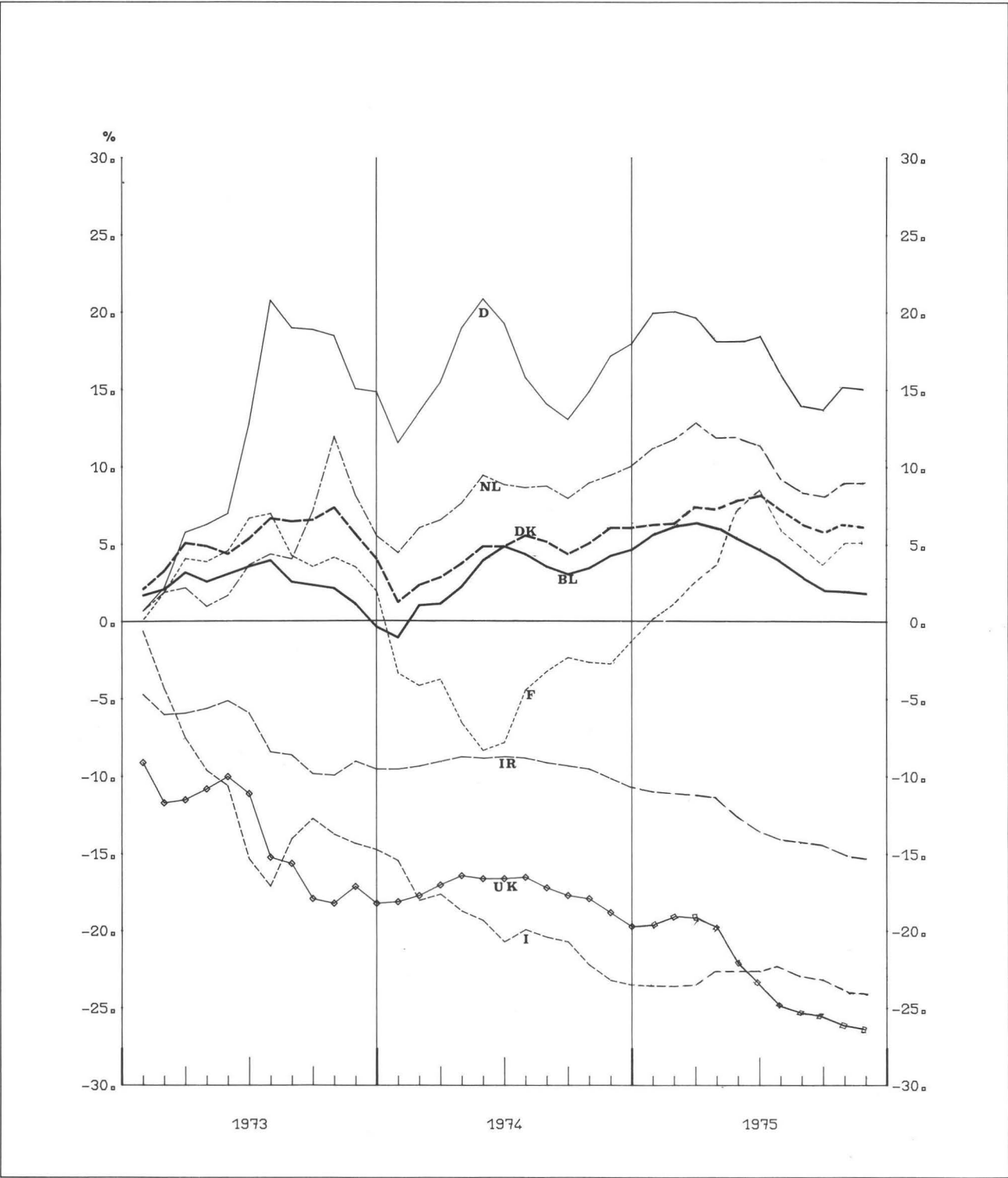
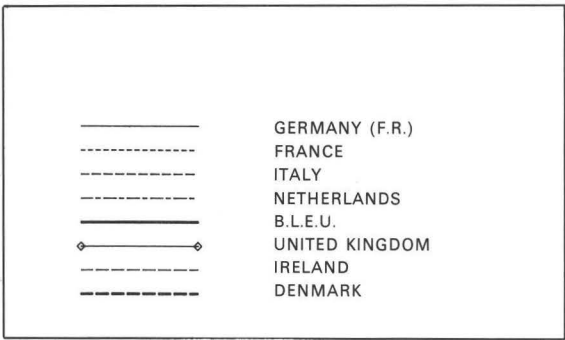
The demand for *credit* seems to have picked up in a few Member States, the revival being most marked in France and Germany, but recent information suggests that a recovery, which should still be interpreted with care, is also under way in the United Kingdom, Italy and Ireland. The bank liquidity situation and the quantitative credit restrictions imposed in a number of countries, particularly in France and Denmark, do not constitute an obstacle to a more vigorous expansion of bank credit. In Denmark, the credit ceiling was raised by 3% at the end of October.

In most Member States, these factors, especially the government deficits, have combined to produce a renewed and more rapid expansion in the *money supply* (notes and coin and sight deposits) since the spring. On average its annual rate of growth has doubled to reach about 15% at the beginning of the autumn (Cf. Graph). In the United Kingdom and in the Netherlands, money supply in the autumn was some 25% higher than a year earlier. Money supply broadly defined, which includes near-money, is generally expanding at a more modest rate than the narrow version. However, in this case, the trend of this aggregate seems to have been distorted in several Member States as a result of changes in interest rates: the lowering of rates on bank deposits led many savers to resort to other forms of saving all of which are included in the statistics on near-money.

The tendency for *short-term interest rates* to fall, which has been predominant since the autumn of 1974, is no longer to be found everywhere. In a number of Member States, these rates appear to be settling at the low level to which they have fallen, or they are even starting to rise again, as in the United Kingdom. In August and September, the policy of bringing interest rates down was strengthened by further reductions in the discount rate in all countries, except the United Kingdom and Ireland. At the beginning of October, the Bank of England, prompted above all by external policy considerations, actually raised the "minimum lending rate" from 11% to 12%, but was able to lower it again by ½% in mid-November as the gap between the rate in the United Kingdom and rates in other countries had widened. In

WEIGHTED APPRECIATION OR DEPRECIATION OF THE CURRENCIES OF MEMBER COUNTRIES IN %

(Reference period: "Smithsonian Agreement", December 1971; weighting according to the structure of foreign trade)



spite of the easy conditions on money markets and the sluggishness of investment demand, *long-term interest rates* have tended to move upwards in several Member States, notably Germany, Belgium and the Netherlands. A similar development has been evident of late in the United Kingdom, France, Italy and Denmark. Although the propensity to save is buoyant, many savers are shunning long-term investment in fixed-interest securities since they are reckoning on a renewed upward movement in interest rates when the recovery in private demand for credit gets under way and assuming that a sizable reduction in the public authorities' substantial financing requirements will not be feasible.

The *exchange rates* of the Community currencies had tended to drift downwards since the spring mainly as a result of the member countries' interest rate policies, which were more expansionary than that pursued in the United States. There was a reversal in this trend at the beginning of October for the currencies in the Community exchange rate system, notably as a result of the impact of the lowering of short-term interest rates in the United States on the rate of the dollar. However, during November the Community currencies once more exhibited some weakness against the dollar. The lira and sterling were more inclined to move in line with the dollar, thereby again weakening somewhat against the other Community currencies (Cf. Graph).

During the year some member countries have made use of direct measures in the field of *incomes policy* in addition to the application of the usual array of budgetary and monetary instruments (Cf. Table 7). In Denmark controls on profit margins and wages were introduced last spring, and a set of measures to restrain the rise in incomes and prices was adopted in the United Kingdom in July and in the Netherlands in December. Also in the field of prices, Belgium has been carrying out a selective price freeze policy since last May, Ireland adopted budgetary measures in June aimed at holding back prices and France has recently extended the system freezing gross margins. At Community level employers' and union representatives, the Ministers of Economic Affairs and Employment of the Member States and the Commission met at the first Tripartite Conference on 18 November 1975 in Brussels to examine the economic and social situation in the Community, especially the problem of stimulating economic activity and employment.

2. Outlook

The recovery which is beginning to get under way in the Community is likely to become stronger in the coming months. Under the influence of reflationary measures and spontaneous cyclical factors inside and outside the Community, activity should pick up again gradually in more and more industries and countries. However, the signs are that any recovery will be limited and a large

proportion of production capacity will remain unused in 1976 because of the persistence of excessive inflationary pressures.

Economic recovery in the main non-member developed countries should help to sustain the growth of *export demand*. However, given the hesitant trend in demand from most other countries and areas the growth in the volume of exports may well be only a fairly modest one compared with previous upswings. In the second half of 1976 the rise in exports is likely to strengthen, particularly once imports by the oil-importing developing countries, so long as the problems of financing their external deficits can be met, begin to rise as a result of the improvement in their purchasing power generated by the upturn in the developed countries.

Domestic demand will probably be boosted by the replacement of depleted stocks. The situation is by no means uniform from country to country and management are proceeding with caution, but the present level of stocks in some industries does seem to be too low for deliveries to keep pace with the trend of sales. Initially, however, many industries may well continue to run down stocks, particularly of finished products, but at a much slower rate than previously.

The drop in *gross fixed asset formation* may well be checked by the combined impact of support measures introduced in the Community and a more vigorous rationalization drive by firms. This is particularly true of the building and construction industry, where a number of Member States have introduced public works and subsidized housing schemes. However, activity in the private residential construction sector, especially the building of blocks of flats, could well continue to decline, particularly in Germany. In the company sector, private investment is likely to remain low for much of 1976, with the probable exception of the fuel and power industry, where there is likely to be a sizable increase in investment expenditure. Demand for plant and machinery should gain some momentum or at least be less restricted in a number of countries, although growth of this type of expenditure could well be somewhat irregular because some of the incentives offered are not permanent.

A recovery in private *consumers' expenditure* has just got under way in France and Germany and it is very likely that this trend will be consolidated and spread to other countries in the coming months. However, the outlook is unclear: it is possible that the gradual improvement in the economic climate will engender a firmer trend in consumer spending, which was particularly depressed in a number of Member States until recently. Although the number of hours worked is likely to rise a little in most countries, wages should increase more slowly on the whole. This would result in a smaller increase in disposable incomes than in 1975, especially as taxation may be heavier in a number of countries in 1976. In the present period of worsening unemployment, an increasing number of those out of work will receive smaller

TABLE 8

Demand for and supply of goods and services

Community	1973	1974 ³			1975 ³			1976 ³
	At current prices Mrd Eur ²	% increase on preceding year						
		Vol.	Price	Value	Vol.	Price	Value	Vol.
Private consumption	504.2	1.5	12.5	14.1	1	12½	13½	1½
Public consumption	121.1	3.5	14.9	18.9	3	16	19½	2½
Gross fixed asset formation	193.3	- 2.4	14.6	11.9	- 6½	11½	4	½
Domestic final uses (excluding change in stocks)	818.6	0.9	13.5	14.5	- ½	13	12½	1½
Domestic final uses (including change in stocks)	831.3	0.4	13.5	14.0	- 2½	13	10	3
Exports ¹	199.7	10.5	22.5	35.0	- 6	10	3½	5
Imports ¹	194.0	4.0	35.1	40.5	- 6	5½	- 1	6
GDP at market prices	837.0	2.0	10.5	12.7	- 2½	14½	11½	3
Contribution to change in GDP								
Domestic final uses (excluding change in stocks)	818.6	0.9		14.2	- 0.5		12.2	1.6
Change in stocks	12.7	- 0.4		- 0.2	- 2.2		- 2.2	1.5
Balance of exports and imports ¹	5.7	1.5		- 1.3	0.2		1.4	- 0.3

¹ Goods and services.

² SOEC, National accounts 1-1975.

³ Estimates.

unemployment benefits in the coming months. The extent to which the volume of consumer spending can help to boost activity will therefore depend to a very great extent on the development of consumer prices for essential goods and services.

In these circumstances, it looks as though it will be increasingly difficult, at least for the Community as a whole, to reduce *inflationary pressures* any further. Although consumer price rises have slackened since the peak reached during the first half of 1974, which was equivalent to an annual rate of almost 17%, price

increases have not yet been brought down to an acceptable level despite the severity of the recession, and strong differences continue within the Community. Prices will continue to rise substantially during the coming months because of further increases in the price of energy, foodstuffs and a number of industrial raw materials. Although the increase in wage costs per unit of output is likely to have a restraining influence on prices of industrial finished products, the general price climate could well be affected by attempts by managements to restore profit margins now that overall demand has begun to rise.

These assumptions all the same suggest that there will be a gradual improvement in order-books and industrial production in the Community. It is unlikely, however, that production will exceed before the end of 1976 the peak reached towards the middle of 1974. The gross product in real terms of the Community as a whole will probably grow by about 3% for the full year (Cf. Table 8).

There is little hope, however, of any substantial improvement in the labour market over the next few months. The moderate upturn in production will, to

begin with, only provide more employment for those on short-time working and a longer working week. Only once the winter is over will the number out of work begin to level out before falling again slowly in several countries. The timing of this trend will vary considerably from country to country and industry to industry.

In most Member States the improved economic situation should stimulate the volume of imports. The external trade balance will be adversely affected by this trend, especially as, in general, the terms of trade could swing against the Community in the coming months.

TABLE 9

Principal monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	111.4	113.4	112.5	113.0	113.4	115.6	113.5	116.4	116.4	115.9	117.2	116.9
	1974	116.1	116.9	116.3	116.6	116.0	120.1	116.6	115.5	115.1	113.1	112.4	108.6
	1975	108.9	109.6	109.2	104.7	104.4	106.2	104.0	104.7	104.7	105.5	E :	
Orders	1973	- 5	+ 3	+ 7	+ 7	+11	+14	+11	+ 7	+ 6	+ 7	+ 3	- 1
	1974	+ 1	+ 1	0	- 2	- 5	- 9	-13	-24	-31	-39	-48	-56
	1975	-59	-60	-62	-62	-63	-62	-62	-63	-59	-51	:	
Unemployment rate	1973	2.3	2.3	2.3	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1
	1974	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.6	2.8	2.9	3.0	3.0
	1975	3.0	3.1	3.4	3.8	3.9	4.1	4.3	4.4	4.5	4.5	:	
Consumer prices	1973	0.7	0.7	0.7	1.0	0.9	0.6	0.4	0.4	0.7	1.2	1.0	0.9
	1974	1.3	1.4	1.2	1.7	1.1	1.0	1.0	0.7	1.3	1.3	1.3	0.8
	1975	1.3	0.7	0.9	1.6	1.5	0.9	0.5	0.4	0.8	0.8	:	
Intra-Community trade (million Eur)	1973	7 008	6 815	6 741	6 756	7 850	7 148	7 075	7 573	7 357	8 138	8 315	7 716
	1974	8 803	8 423	9 006	9 550	9 822	8 476	9 924	9 283	9 402	9 549	8 775	8 700
	1975	8 670	8 631	8 216	9 551	8 391	8 981	8 948	8 325	:	:	:	
Exports of goods (million Eur)	1973	6 344	6 256	5 845	6 363	6 731	6 242	6 551	6 655	6 707	7 362	7 530	7 100
	1974	8 000	8 142	8 543	8 862	9 223	8 288	9 724	9 622	9 400	9 809	9 433	9 903
	1975	9 618	9 442	8 831	9 737	9 190	9 378	9 644	8 899	:	:	:	
Imports of goods (million Eur)	1973	6 538	6 259	6 194	6 157	7 032	6 391	6 770	7 060	6 897	7 695	7 739	7 998
	1974	9 041	9 402	10 238	10 659	10 551	10 080	10 650	10 758	10 325	11 153	10 230	10 560
	1975	10 044	9 056	9 013	9 963	9 000	9 463	9 851	8 816	:	:	:	
Trade balance (million Eur)	1973	- 194	- 3	- 299	+ 206	- 301	- 149	- 219	- 405	- 190	- 333	- 209	- 890
	1974	-1 041	-1 278	-1 695	-1 797	-1 328	-1 692	- 926	-1 136	- 925	-1 344	- 797	- 657
	1975	- 426	+ 386	- 182	- 226	+ 190	- 85	- 207	+ 83	:	:	:	
Gross official reserves (gold excl.; million Eur)	1973	35 177	37 835	41 368	41 606	41 492	42 668	42 950	42 447	43 977	43 580	41 950	40 743
	1974	38 341	37 098	39 008	39 168	38 690	37 659	38 255	38 542	39 147	38 649	38 792	35 561
	1975	35 596	36 375	37 336	36 985	36 553	35 971	35 053	35 046	35 752	36 646	:	
Exchange rate 1 Eur = ...\$	1973	1.09	1.15	1.22	1.21	1.23	1.30	1.37	1.32	1.32	1.33	1.26	1.21
	1974	1.14	1.18	1.22	1.26	1.29	1.27	1.28	1.25	1.23	1.26	1.29	1.31
	1975	1.36	1.39	1.41	1.38	1.39	1.39	1.32	1.27	1.24	1.25	:	

Source: SOEC.

Industrial production: excluding building and construction; seasonally adjusted.

Orders: balance of above normal (+) and below normal (-) replies to business surveys.

Unemployment rate: number of unemployed relative to civilian labour force; seasonally adjusted.

Consumer prices: change from preceding month.

Intra-Community trade: on imports basis; seasonally adjusted.

External trade: trade with non-member countries; seasonally adjusted.

TABLE 10

Changes in the principal macro-economic aggregates in the Community (a)

	Gross domestic product (volume)			Consumer prices (b)		
	% changes on preceding year					
	1974	1975	1976	1974	1975	1976
Denmark	1.6	- 1	4	15.0	9½	8
Germany	0.6	- 3½	4	7.3	6	5½
France	3.8	- 2½	4	13.7	12	10½
Ireland	0.4	- 3	2	17.3	21	16
Italy	3.4	- 3½	2	19.6	17	12
Netherlands	2.8	- 2	2½	10.0	11	10
Belgium	3.9	- 2½	2	12.3	12½	10½
Luxembourg	4.4	- 7½	3	9.5	10½	9
United Kingdom	0.7	- ½	0	15.2	21½	15½
Community	2.0	- 2½	3	12.5	12½	10
	Unemployment rate (c) (% of civilian labour-force)			Balance on current account (^{'000 million Eur) (d) (e)}		
	1974	1975	1976	1974	1975	1976
Denmark	2.4	4.5	5.7	- 0.9	- 0.3	- 0.6
Germany	2.2	4.5	4.6	7.5	1.7	1.6
France	2.3	4.0	4.5	- 5.6	- 0.2	- 3.3
Ireland	5.7	8.4	10.5	- 0.6	- 0.1	- 0.2
Italy	2.9	3.5	3.7	- 7.3	- 0.3	- 0.7
Netherlands	3.0	4.3	5.2	1.3	1.2	1.6
Belgium	3.0	5.0	5.8	0.8	0.6	0.5
Luxembourg	0	0.7	0.8			
United Kingdom	2.4	3.6	5.2	- 6.9	- 3.0	- 3.1
Community	2.5	4.1	4.7	- 11.7	- 0.4	- 4.2

(a) 1974: actuals; 1975: estimates; 1976: forecasts by the services of the Commission.

(b) On a national accounts basis.

(c) As a result of disparities in definition, unemployment statistics cannot be compared between countries but only reflect developments within each country.

(d) Sum of components may not exactly equal total because of rounding differences.

(e) Using central or market Eur conversion rate; see Table 853, "General Statistics", SOEC. For floating currencies the conversion into Eur is based on assumption that the rate in October 1975 will be maintained during the fourth quarter of 1975 and throughout 1976.

TABLE 11

Community trade balance 1973, 1974 and 1975¹

Mio Eur

Monthly average

Balance of With respect of	Year	Ger- many	France	Italy ¹	Nether- lands ¹	B.L.E.U.	United Kingdom	Ireland ¹	Den- mark
	INTRA E.E.C.								
Germany	73		-101	- 53	+ 62	- 11	- 92	- 6	- 49
	74		-152	-109	+ 82	- 36	-136	- 9	- 55
	75		- 78	+ 8	+105	- 21	-100	- 3	- 47
France	73	+104		- 64	+ 33	+ 34	- 49	- 1	- 7
	74	+167		-103	+ 58	+ 34	- 66	- 8	- 7
	75	+ 90		- 32	+ 48	+ 1	- 74	- 5	- 7
Italy	73	+ 23	+ 56		+ 33	+ 17	- 20	- 1	- 9
	74	+ 97	+ 93		+ 42	+ 10	- 35	- 3	+ 5
	75	- 38	+ 15		+ 28	- 9	- 35	- 1	+ 8
Netherlands	73	- 61	- 19	- 26		- 30	- 50	+ 0	- 12
	74	- 45	- 34	- 27		+ 3	- 36	- 2	- 23
	75	- 83	- 32	- 11		+ 0	- 25	+ 3	- 20
B.L.E.U.	73	+ 12	- 13	- 21	- 34		+ 29	+ 1	- 13
	74	+ 43	- 12	- 16	- 3		+ 38	+ 0	- 16
	75	+ 30	+ 16	+ 5	- 35		+ 16	+ 3	- 14
United Kingdom	73	+ 82	+ 36	+ 10	+ 44	- 27		- 17	+ 22
	74	+125	+ 43	+ 22	+ 80	- 13		- 19	+ 16
	75	+ 85	+ 62	+ 18	+ 69	- 2		- 6	+ 33
Ireland	73	+ 6	- 0	+ 1	+ 2	- 1	+ 16		+ 2
	74	+ 8	+ 6	+ 2	+ 4	+ 1	+ 31		+ 2
	75	+ 1	+ 2	+ 0	+ 3	- 1	+ 17		+ 1
Denmark	73	+ 48	+ 5	- 9	+ 13	+ 11	- 24	- 2	
	74	+ 57	+ 4	- 7	+ 22	+ 12	- 20	- 2	
	75	+ 45	+ 4	- 7	+ 21	+ 12	- 25	- 1	
E.E.C. Total	73	+214	- 36	-162	+153	- 7	-190	- 26	- 66
	74	+452	- 52	-238	+285	+ 11	-224	- 43	- 78
	75	+130	- 11	- 19	+239	- 22	-226	- 10	- 46
EXTRA E.E.C.									
U.S.A.	73	+ 72	- 94	- 27	- 85	+ 1	- 17	+ 1	- 5
	74	+ 87	-128	- 54	-110	- 23	-117	- 0	- 10
	75	- 40	-132	- 75	-148	- 46	-133	- 8	- 9
Japan	73	- 21	- 8	- 6	- 12	- 5	- 28	- 1	- 8
	74	- 12	- 32	- 8	- 16	- 8	- 44	- 2	- 11
	75	- 49	- 38	- 9	- 22	- 17	- 57	- 2	- 4
O.P.E.C. ²	73	- 95	-109	-139	-129	- 35	- 47	- 4	- 14
	74	-288	-372	-451	-284	-138	-491	- 16	- 58
	75 ³	-129	-303	-265	-217	- 64	-356	- 9	- 39
Other	73	+ 675	+154	- 37	+ 32	- 97	-436	- 15	- 29
	74	+1 094	+120	+ 43	+110	+ 60	-157	- 18	+ 12
	75	:	:	:	:	:	:	:	:
EXTRA E.E.C. Total	73	+631	- 57	-209	-194	-136	-528	- 19	- 56
	74	+881	-412	-470	-300	-109	-809	- 36	- 67
	75	+834	- 66	-119	-276	- 84	-410	- 36	- 40
WORLD	73	+ 845	- 93	-371	- 41	-143	- 718	- 45	-122
	74	+1 333	-464	-708	- 15	- 98	-1 033	- 79	-145
	75	+ 964	- 77	-138	- 37	-106	- 636	- 46	- 86

Source: S.O.E.C.

¹ 1975: January-September only excepting Italy, Netherlands and Ireland: January-August only.² O.P.E.C.: Includes Algeria, Bahrain, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia and Venezuela.³ O.P.E.C.: 1975: January only.

: Figures not available.

Major economic policy measures

May 1975:

— On 22 May representatives of the trade unions, employers and the Commission held their first joint meeting. In the communiqué issued at the end of the meeting it was clearly stated that the coordination at Community level of economic policy measures could be a vital factor in achieving stability and should therefore be pursued more vigorously.

June:

— On 16 June the Council adopted the economic policy guidelines for 1975 proposed by the Commission.

— On 17 June the Council agreed on a recommendation to the Member States on the application by 31 December 1978 of the principle of the forty-hour working week and four weeks' annual paid holiday.

July:

— On 10 July the Council carried out its second examination for 1975 of the economic situation in the Community and noted with satisfaction the French Government's decision that the French franc should re-enter the Community exchange rate system, the "snake". It also took note of the changes to the operation of the system for narrowing currency fluctuation margins decided on 8 July by the Community Central Banks and the Board of Governors of the EMCF. The period of very short-term

financing was increased to three months and it was agreed that gold would not be taken into account for settling outstanding balances.

— At the same meeting the Council authorized the Commission to open formal negotiations with a view to launching the first Community loan operation.

— On 23 July the Commission issued a recommendation to the Member States based on Article 155 of the Rome Treaty, on action to combat the recession.

September:

— On 29 September the Council adopted the draft general budget for 1976.

November:

— On 17 November the Council adopted the Annual Report on the Economic Situation in the Community. It also gave a unanimous opinion on the ECSC decision of the Commission on the 15 July, on the rates to be used for converting the currencies of Member States into units of account in the areas covered by the treaty establishing the ECSC.

— On 18 November the first Tripartite Conference, attended by Ministers for Economic Affairs, Ministers of Employment, the Commission and representatives of the two sides of industry was held to examine the problems facing the Community.

II. The situation in each of the Community countries

A. Denmark

Some signs of a recovery in activity have been observed in the course of the past few months. Although external markets have remained weak, certain components of internal demand seem to have been more dynamic. Employment levels have stabilised but the unemployment rate is still tending to increase. Prices have recently accelerated slightly. The trade balance has tended to deteriorate.

The conjunctural position is likely to strengthen over the coming months. The effects of the recovery should first be felt in private consumption and the housing sector and later through exports. The employment situation should, however, only improve slowly and unemployment will remain high. The rise in prices could persist and the external deficit worsen.

1. Recent developments

Over the past few months activity in the Danish economy has shown some recovery, linked essentially to a strengthening of internal demand. On the other hand, external demand has remained weak. Unemployment and the trade balance have deteriorated somewhat.

The frailty of the international conjuncture has continued to affect Danish *exports*, as can be seen from the continuing drop in external orders since the beginning of the year. Undoubtedly, total exports, seasonally adjusted, have grown in value in the third quarter by 3% on the preceding period. However, this development reflects essentially the dynamic nature of sales of agricultural products (+11% in the third quarter) which has resulted in the main from the rise in internal Community prices. On the other hand, deliveries of industrial products have only grown by 0.4% in the third quarter on the preceding three months, which implies, on account of the increase in export prices, a substantial reduction in volume. In this respect, the more pronounced slowdown in demand from the Scandinavian countries, in particular Sweden, as well as from the Federal Republic of Germany, is likely to have played a major role.

Internal demand has in total been a little more dynamic. As is shown by the latest business survey results, industrial *investment*, although remaining weak, has probably improved slightly in recent months. However, it is principally in the residential construction sector that signs of an appreciable growth appear, due in large part to the stimulatory measures taken during the year, as well as to the effect of the fall in interest rates up to September. Thus, in the third quarter, the number of housing starts, although remaining below earlier year figures, was still more than 55% above the figure for last year. In addition, public authority construction has progressed at a rapid rate. Over the past few months the rebuilding of stocks, which had fallen to a very low level, may also have begun.

Private consumption ought to be more sustained after the stimulatory measures taken in September¹. The tem-

porary reduction from 15% to 9.25% of the VAT rate on most consumer goods and the immediate repayment of sums transferred by individuals in the autumn of 1974 (around Dkr. 900 million) under the compulsory savings scheme¹ should without doubt encourage households to increase their purchases from the autumn. Undoubtedly, the volume index of retail sales, seasonally adjusted which fell by 1.1% in the third quarter from the preceding three months level has been influenced by the fact that individuals have waited until the fiscal measures came into operation. But over the same period the number of new car registrations has increased by 2%, even though the reduction in VAT is not applicable to this sector. In addition, order books for the domestic market of the consumer goods industries have for several months shown an increased trend. Because of the moderation in salary rises and the slow growth in numbers employed, public consumption has no doubt grown a little less rapidly.

In conjunction with this slightly more favourable development in internal demand, *production* is likely to have recovered somewhat, as is indicated by the improvement in the industrial turnover statistics starting in the second quarter. The construction and consumer goods industries have been the most dynamic. On the other hand, those sectors depending on exports have continued to be affected by the weakness of world demand. Agricultural production does not appear to have increased in real terms.

The *employment* situation is no longer deteriorating. The number at work in manufacturing industry has tended to stabilise and the number of hours worked in industry has even grown slightly. In October the number of unfilled vacancies was, for the first time in two years, higher than that recorded a year earlier. The unemployment rate has however still been rising; in October registered unemployment reached 114 900, which represents 4.7% of the active population, as against 76 100 and 3.1% respectively for the same month in 1974.

¹ Introduced in April 1974.

TABLE 1: Key-indicators

Denmark	Unit	1968-72 average ⁴	1973	1974	1975 ⁵
Gross domestic product, volume	change in %	4.8	3.0	1.6	- 1
of which: Industry ¹		7.3	4.8	2.5	- 2.5
Gross domestic product in volume per person in employment	change in %	4.2	3.0	2.0	1.1
Total employment (number of persons) ²	change in %	0.6	0.0	- 0.5	- 2.1
—Enterprises		:	:	:	:
—General Government		:	:	:	:
Unemployment	in % of labour force	1.2	0.8	2.4	4.5
Compensation of employees per wage and salary earner	change in %	11.2	15.3	19.0	14.5
Price index of private consumption ³	change in %	5.6	8.5	15.0	9.5
Balance of payments: current account	Dkr. '000 million	- 2.6	- 3.2	- 6.6	- 2.2

¹ Excluding construction but including repairs and maintenance.

² Domestic concept.

³ National accounts concept.

⁴ Change in %: geometric mean on annual basis of the change from 1967 to 1972; unemployment and balance of current transactions: arithmetic mean over the five years.

⁵ Estimates.

:

The rise in *prices* which had slowed down rapidly from January until August seems, since then, to have been a little more rapid, notably due to the rise in food prices; in the third quarter the index of consumer prices grew by more than 8% at annual rates as opposed to 7% from January to August. On a year-to-year basis the index in October grew by 4.6%.¹

Imports have been a bit more dynamic in recent months. In the third quarter their value rose by 3.2% on the previous three months. The principal growth has been in imports of consumer goods, energy and cars.

Because of this and on account of the weak performance of exports, the *trade balance* has deteriorated slightly. The deficit, seasonally adjusted, went from Dkr. 2 000 million from May-July to 2 500 million in August-October. Despite the growth in the services surplus, the current deficit rose to Dkr. 515 million in the third quarter (instead of a surplus of 205 million in the second quarter). Public and private inflows have increased by Dkr. 1 000 million. Thus, total net reserves grew and reached Dkr. 6 500 million at the end of November.

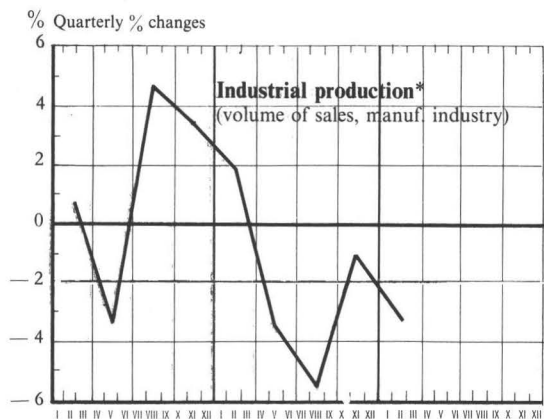
Monetary policy has remained relatively relaxed. The latest reduction from 8 to 7½% in the discount rate was

¹ 8.4% without the reduction in VAT.

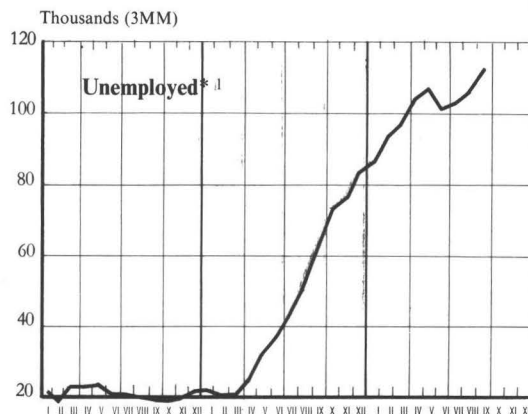
in August. The credit ceiling was raised by 2% in August and 3% in October. The use of credit has, however, continued to fall, despite the more sustained demand in the construction sector. The increase in the money supply (M2) has been a little more rapid; the year-to-year increase reaching 25.0% in October instead of 18.2% in June. Without losing sight of the employment problem the objective of the monetary authorities has been to neutralise the effects on internal liquidity of the strong increase in the State deficit, as can be seen from the issuing in the summer of a national loan of Dkr. 6 000 million and the restrictions imposed recently on the banking system.

2. Outlook

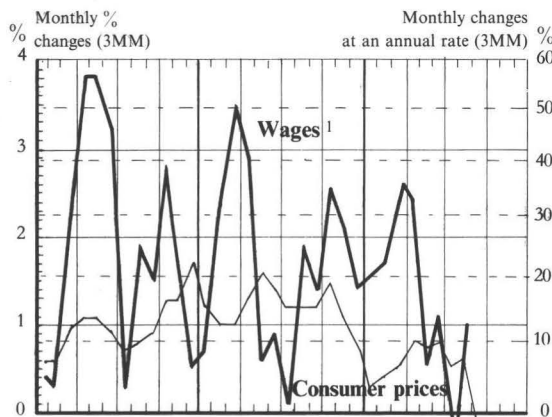
The signs of recovery observed during the past few months in internal demand should be backed up by the stimulatory measures taken in September. Under this hypothesis the conjunctural pick-up should be consolidated in the course of the coming months by the expected strengthening of external demand. Thus, the progressive improvement of the conditions for a recovery in growth should permit the achievement of a rate of expansion in gross national product of about 4% in real terms. However, the employment picture will only improve slowly.



Source: Danmarks Statistik.

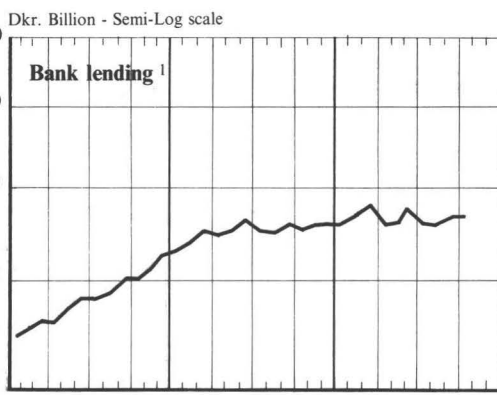


¹ Insured unemployed.

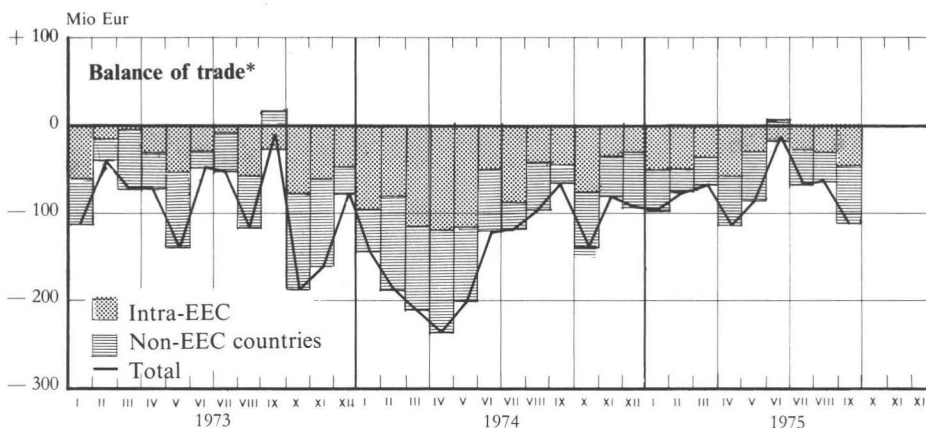
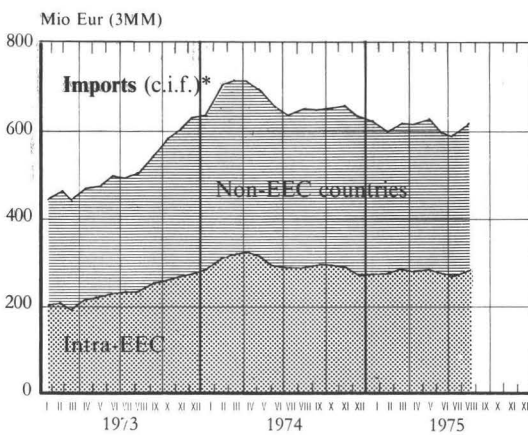
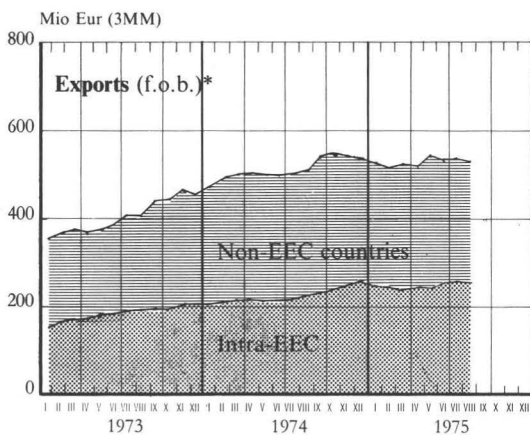


¹ Hourly earnings in industry.

Source: Danmarks Statistik.



¹ By commercial and major savings banks.



* = Seasonally adjusted figures.

3MM = Three month moving average.

Source: SOEC except where otherwise indicated.

Exports should be more dynamic over the course of the next few months because of the improvement expected in demand in some important market, in particular in France and the Federal Republic of Germany. In addition, sales to other Community countries should also be stimulated by the further reduction of 20% in customs duty on 1 January next. Thus, the progress seen up to the autumn of 1975 in costs gives Danish exports a competitive edge in the expected recovery phase. Nevertheless, the results will no doubt be affected by the less favourable outlook for sales to the British and Swedish markets which represent 1/3 of Danish exports.

Internal demand should be substantially more vigorous. Undoubtedly, investment in machinery will still, for a certain time, remain hesitant, particularly because of low capacity use in numerous sectors. However, a progressive strengthening should be observed in the course of the year, tied to the improvement in the general economic climate and above all as a result of the stimulatory measures taken in September which will be applicable up to the end of 1976. In addition, the construction sector should continue to be particularly dynamic because of the fall in interest rates and the more relaxed credit policy. The measures, also taken in

TABLE 2: Demand for and supply of goods and services

Denmark	1973 ²	1974 ²			1975 ³			1976 ³
	At curr. prices (D.Kr. '000 mill.)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	94.6	- 3.5	15.0	11.0	4½	9½	14½	4
Public consumption	36.3	2.6	18.3	21.2	3½	12	16	3
Gross fixed asset formation	38.1	- 9.7	18.0	6.6	-16½	9	- 9	8
—Enterprises	:	:	:	:	:	:	:	:
—Dwellings	:	:	:	:	:	:	:	:
—General Government	:	:	:	:	:	:	:	:
Domestic final uses (excluding change in stocks)	169.0	- 3.4	16.1	12.2	- ½	10	9½	4½
Domestic final uses (including change in stocks)	170.4	- 1.2	14.4	13.1	- 2½	10	7	5
Exports ¹	52.9	5.1	19.6	25.7	- 4	7½	3	5
Imports ¹	55.9	- 3.5	33.2	28.4	- 8½	4½	- 4	8
GDP at market prices	167.4	1.6	10.2	11.9	- 1	11.0	10	4
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	169.0	- 3.4		12.3	- 0.5		9.9	4.5
Change in stocks	1.4	3.3		1.0	- 2.3		- 2.7	0.5
Balance of exports and imports ¹	- 3.0	- 6.1		- 1.3	1.8		2.7	- 1.0

¹ Goods and services.

² Source: Danmarks Statistik.

³ Estimates.

: Not available.

September, to encourage public investment should in addition be reflected in a marked growth in the investment of central government and local authorities. Also some stimulus could come from investment in stocks which should increase in line with the general pick-up in demand.

For the reasons indicated previously in the analysis, *private consumption* should still expand appreciably, at least until the end of February, the date foreseen for the abolition of the VAT reduction. A decrease in the savings ratio from the exceptionally high level reached in the middle of 1975 could equally well be observed especially if the employment situation tends to improve. Household expenditure should also be favourably influenced by the effect on disposable incomes of the income increases expected in March, within the framework of the March 1975 national pay agreement. Public consumption could on the contrary progress a little more slowly.

This more satisfactory development in total demand should be reflected in a recovery of *production*, which, beginning in the construction and consumer goods' sectors, is likely to extend progressively to other areas of activity. The employment situation should improve slowly; the unemployment rate will remain high and only then come down gradually.

Because of the acceleration expected in consumer goods' purchases, and due to restocking, in particular of raw materials, *imports* should progress more rapidly. As a result, and despite the slight improvement in the terms of trade, the trade balance should deteriorate, particularly in the phase before the recovery of exports. This development could however be compensated for in part by supplementary receipts on the services' and current transfers' accounts.

The forces behind the rise in *prices* could still gather momentum in the coming months. On the one hand, the increase in prices of energy products and a certain number of imported primary commodities will play an important role. On the other the rise in rents coming in July and taking effect in November will push up the index. Besides the abolition the reduction in VAT will be reflected in a general rise in prices in March.

In these circumstances, the principal problem of economic policy will be to ensure that the present phase of moderate conjunctural recovery does not cause renewed inflationary pressure. In this regard incomes policy will have an important role to play, in so far as it can contain, in conjunction with fiscal policy, the rise in prices and of salaries within those limits compatible with the objectives of export growth and consolidation of the recovery needed to bring about an improvement in the employment position. Furthermore, the question arises as to whether demand management will be sufficient to prevent an eventual overheating of the construction sector and whether the effects on the economy of an excessive growth of internal liquidity can be moderated.

Major economic policy measures

May 1975:

- State loans totalling Dkr. 40 million per financial year (formerly Dkr. 20 million) can be granted for the extension and modernization of small and very small businesses.
- The minimum age for drawing unemployment benefit was lowered from 18 to 17.

June:

- The rules governing the depreciation of plant and machinery and similar assets were eased. As an extraordinary measure, 15% of the value of purchases in 1975 or 1976 can now be written off. The allowance can be spread over four and three years respectively. The restrictions on normal depreciation of assets purchased in the second half of the year were relaxed so that now 30% can be written off in the second half of the year as well.
- Investment tax credits may be granted in respect of the construction, conversion or improvement of commercial premises. The credit, which applies only to the portion of the purchasing price in excess of Dkr. 60 000 can amount to 5% a year for two years when the building work started between 1 April 1975 and 31 December 1976.
- A subsidy of up to Dkr. 100 million may be granted on investments in anti-pollution projects in the 1975/76 financial year. A subsidy of more than Dkr. 50 000 can be granted in respect of projects started between 15 July and 1 April 1976 and completed by 1 April 1977. The subsidies will amount to 50% of the investment, though no more than 10 million per project.
- Limited liability companies with a loss, for income tax purposes, in the 1975/76 fiscal year can have the income tax which they have paid or still have to pay in respect of the 1974/75 fiscal year reduced by an amount equivalent to 37% of the loss.
- State guarantees totaling Dkr. 200 million can be granted on loans made to small or very small businesses for major conversion projects involving a change-over to new production lines or adjustment to new markets. The guarantee can be given to firms with up to 75 workers in respect of loans not exceeding Dkr. 250 000 granted by a bank for a maximum period of 5 years.
- A fund of Dkr. 100 million was set up to give financial support until 1 July 1977 to firms hit by the business recession.
- The Government was authorized to float a Dkr. 6 000 million loan on the domestic market. The bonds, which will be sold taking account of price and interest rate trends on the bond market, will mature after three, four and six years.
- The Export Credit Council introduced an exchange rate guarantee scheme in respect of long-term export credits, under which exporters can insure themselves against exchange losses on foreign-currency contracts by paying a premium of 0.7%. Exchange losses of over 3% will be compensated by the Export Credit Council while exchange gains of more than 3% shall be paid over to the Council.

July:

- The rules on the financing of new building were amended. The credit ceilings were raised and the term of certain forms of loan was provisionally extended.

August:

- The discount rate was reduced from 8% to 7.5% with effect from 18 August.
- The credit ceiling was raised by 2% to approximately Dkr. 83 500 million.

September:

- The Danish Parliament approved the following measures to stimulate production and employment:
- Value-added tax was reduced from 15% to 9.25% on all goods with the exception of motor vehicles, electricity, telephone, telegramme and telex charges and radio and television licences. The reduction applies to the period between 29 September 1975 and 29 February 1976.
- Appropriations, frozen in April 1974 under the compulsory savings law, were released from 23 September 1975.
- A 20% investment tax credit can be granted on the amount by which the price of plant and machinery etc. purchased between 20 September 1975 and 31 December 1976 exceeds the price for plant and machinery sold in the same period.

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973			110			106			111			115
	1974			117			113			106			105
	1975			101									
Unemployed (1 000)	1973	18.7	19.1	18.2	30.3	19.7	19.8	20.8	20.0	19.1	17.7	18.6	21.8
	1974	23.6	19.2	17.2	25.1	33.5	39.4	40.2	50.4	61.6	76.1	79.0	73.6
	1975	96.3	86.5	97.4	107.6	106.3	105.0	91.8	110.9	113.9	114.9	:	
Construction: permits for residential construction	1973	4 248	4 793	6 601	3 931	4 725	4 209	3 115	3 860	4 661	4 853	2 834	3 467
	1974	3 104	2 407	2 590	3 294	1 690	2 760	1 113	1 224	1 939	1 690	1 070	1 384
	1975	1 915	1 723	2 141	2 379	2 925	3 263	2 271	2 363	3 181	3 564	:	
Private consumers' expenditure (1970 = 100)	1973	127.5	125.1	129.5	127.2	128.7	135.7	132.7	139.7	136.6	137.2	144.3	141.9
	1974	143.1	142.8	142.0	148.8	153.7	141.9	149.7	152.7	144.2	147.6	156.9	154.9
	1975	161.0	137.4	157.8	161.7	164.1	159.6	169.7	167.3	159.5	:	:	
Consumer prices (1970 = 100)	1973	116.8	118.0	118.7	120.3	121.8	122.8	123.6	124.3	125.7	127.1	129.2	131.2
	1974	133.6	134.0	135.1	137.4	139.2	141.6	143.3	144.2	146.6	148.5	150.5	151.5
	1975	151.7	152.1	153.2	153.9	155.8	156.7	157.5	158.0	159.4	155.4	:	
Visible imports (million Eur)	1973	489.0	417.1	449.1	420.4	534.1	448.1	469.6	505.8	472.6	607.8	583.3	541.1
	1974	712.4	697.6	721.7	733.8	695.5	618.2	640.1	634.8	608.7	694.2	638.9	613.1
	1975	625.6	613.9	558.6	677.6	591.4	593.2	595.8	578.7	667.5	:	:	
Visible exports (million Eur)	1973	372.3	386.6	371.1	343.5	403.6	398.5	425.5	390.9	490.9	440.5	443.1	480.2
	1974	470.6	504.9	506.1	492.4	493.1	496.1	519.2	536.2	546.2	554.3	556.9	517.6
	1975	526.4	535.0	484.8	562.7	499.7	575.7	526.4	512.4	551.6	:	:	
Balance of trade (million Eur)	1973	-116.7	-30.5	-78.0	-76.9	-130.5	-49.6	-44.1	-114.9	-18.3	-167.3	-140.2	-60.9
	1974	-241.8	-192.7	-215.6	-241.4	-202.4	-122.1	-120.9	-98.6	-62.0	-139.9	-82.0	-95.5
	1975	-99.2	-78.5	-73.8	-114.9	-91.7	-18.0	-69.4	-66.3	-115.9	:	:	
Official foreign exchange reserves (million Eur)	1973	744	804	830	904	906	898	848	692	715	736	944	1 034
	1974	891	817	774	802	644	589	572	607	567	569	611	640
	1975	622	574	627	565	572	586	544	565	600	627	:	
Money supply (million Eur)	1973	4 651	4 557	4 690	4 884	4 826	5 186	5 005	5 043	5 183	5 176	5 360	5 404
	1974	5 077	5 001	4 954	5 198	5 182	5 319	5 181	5 162	5 337	5 370	5 649	5 722
	1975	5 210	5 219	5 423	5 659	5 683	6 303	6 184	6 012	6 259	6 711	:	

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

Conversion into Eur (1 Eur = 0.888671 g of fine gold).

- Industrial production: volume of sales in manufacturing industry; seasonally adjusted, Danmarks Statistik.
- Unemployment: Number of insured unemployed; seasonally adjusted.
- Construction: number of dwellings authorized not seasonally adjusted.
- Private consumers' expenditure: Retail Sales Index; seasonally adjusted.
- Consumer prices: Consumer price index; not seasonally adjusted.
- Imports: cif, exports: fob; seasonally adjusted.
- Balance of trade: difference between the seasonally adjusted figures of exports and imports.
- Official foreign exchange reserves; monetary reserves: monetary authorities gross reserves of convertible currency, holdings in special drawing rights and reserve position at the IMF; liabilities to abroad have not been deducted, position at end of month; not seasonally adjusted.
- Money supply: notes and coins in circulation and sight deposits at post giro accounts commercial and major savings banks, position at end of month; not seasonally adjusted.

- State subsidies totalling Dkr. 100 million may be granted in the 1975/76 and 1976/77 financial years for insulating, improving and renewing heating installations and for other energy-saving measures in existing commercial premises. The subsidy is to total 25% of the expenditure approved by the local authority, though with a maximum of Dkr. 50 000 and a minimum of Dkr. 1 000 per firm.
- State subsidies totalling Dkr. 370 million may be granted in the 1975/76 and 1976/77 financial years for the construction, extension and conversion of commercial premises being fitted out for the use of small or very small manufacturing businesses. The subsidy shall total 25% of approved expenditure, though with a maximum of Dkr. 750 000 and a minimum of Dkr. 10 000 per firm.
- State subsidies totalling Dkr. 50 million may be given in the 1975/76 and 1976/77 financial years in respect of construction work to improve working conditions in existing non-agricultural firms. The subsidy shall total 25% of approved expenditure, though with a maximum of Dkr. 250 000 and a minimum of Dkr. 5 000 per firm.
- Firms may deposit 25% (instead of 20% previously) of their surplus with the investment fund. The deposit may be paid back in or after the financial year following the year it is made.
- Guarantees totalling Dkr. 50 million can be given in respect of operating loans granted to firms in the fish foods industry.
- The term of loans for improving and building office and business

premises and industrial and small craft premises was extended from 15 to 20 years in respect of work begun by the end of 1976.

- Parliament adopted a decision requiring continued efforts to be made to curb the rise of prices, incomes and expenditure, inter alia by reducing public expenditure by Dkr. 4 500 million during the next three years; expenditure in the 1978/79 financial year is to be cut by Dkr. 2 500 million.
- The tax on petrol was raised by approximately 12.5% for the period between 29 September 1975 and 29 February 1976.

October:

- The National Bank and the Government approved the following measures to restrict the liquidity of the private banks:
- The private banks are to pay 3% of their deposits as at 30 September 1975 or 24% of the increase in their deposits from 31 March to 30 September 1975 into a special account at the Central Bank. Subsequently the banks are to pay in 12% of the monthly increase in deposits between 31 October 1975 and 31 March 1976. The amounts bear 4½% interest per annum and are frozen for an indefinite period.
- 91-day deposit certificates shall be introduced on 5 November 1975. The certificates may be bought by both banks and private individuals at the current rate.
- The lending ceiling was raised by 3% from 31 October 1975.

B. Federal Republic of Germany

In particular owing to the Government's expansionary policy the conjunctural situation in Germany has, since the autumn, taken a more favourable course and in some areas activity picked up significantly. The prospects for a gradual and more broadly-based upturn in the economy have therefore improved. However, in view of the high productivity reserves there is little hope of an early rise in employment.

1. Recent developments

In the autumn, the first signs of a progressive recovery in economic activity appeared in the Federal Republic of Germany. Export and domestic demand became distinctly firmer, although certain special factors have undoubtedly contributed to this development. Production and employment also showed a steadier performance.

The fall in German visible exports has probably bottomed out in the last few months. However, the average value of exports for the months August to October was still 7% down on the admittedly very high level of a year earlier. Sales to the Member States of the Community and other major industrialized countries, which are still feeling the effects of the recession, continued to be disproportionately slack, while exports to the OPEC countries went on expanding. With demand still very depressed, the upward movement in German export prices has remained moderate.

There was a sharp upsurge in business investment demand shortly before the investment premium lapsed. In the following months, new orders in the capital goods industry fell off again as expected, but, although planned investment expenditure was brought forward to a certain extent, the feared drying-up of orders has so far not materialized. Besides capital spending on plant and machinery, investment in industrial and commercial building was also stimulated by the investment premium.

In residential construction, the tendency for activity to stabilize continued. In public sector building, by contrast, the difficult budgetary position had a dampening effect, particularly at Länd and local government level.

Private consumers' expenditure still largely reflected consumers' reluctance to spend, although demand picked up in some sectors. Besides the very high savings ratio has moderated to some degree in recent months, and this has resulted in a distinct revival of retail sales. In the third quarter, they were 8.9% higher in terms of value than in the same period last year, and in real terms the year-to-year rise was 2.8%. Demand for new motor vehicles continued to be very brisk, and sales in a number of consumer durables also turned up.

Owing to the rapid decline in employment and the slower rise in wages per head, total gross wages and salaries in industry fell in the third quarter by 1.3% in annual terms. Even so, disposable incomes have probably not fallen to the same extent since short-falls in primary incomes were largely offset by the marked increase in state transfer payments.

Industrial production, rose substantially in recent months, nevertheless the average for the period August-October was still 6% down on the level of the previous year. Progress was particularly marked in the motor vehicle industry, electrical engineering, mechanical engineering and the chemical industry. The rhythm of output has also begun to accelerate in the textile sector.

TABLE 1: Key-indicators

Federal Republic of Germany	Unit	1968-72 average ^{4,5}	1973 ⁵	1974 ⁵	1975 ⁶
Gross domestic product, volume	change in %	5.5	5.1	0.6	- 3½
of which: Industry ¹		6.7	6.4	- 0.4	- 6
Gross domestic product in volume per person in employment	change in %	4.9	4.8	2.5	0
Total employment (number of persons) ²	change in %	0.6	0.3	- 1.9	- 3½
—Enterprises		0.3	- 0.1	- 2.6	- 4
—General Government		3.0	3.0	3.4	1½
Unemployment	in % of labour force	0.8	1.0	2.2	4½
Compensation of employees per wage and salary earner	change in %	10.7	12.9	11.6	7½
Price index of private consumption ³	change in %	3.8 ³	7.0	7.3	6
Balance of payments: current account ³	'000 million DM	4.0	8.9	24.0	5½

¹ Excluding construction.

² Domestic concept.

³ National accounts.

⁴ Change in %: geometric mean of the change from 1967 to 1972: unemployment and balance of current transactions: arithmetic average over the five years.

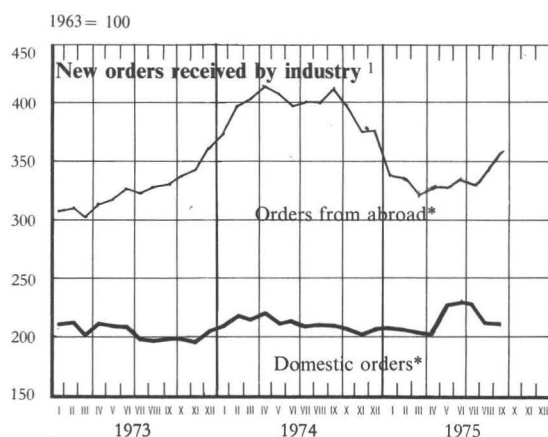
⁵ Source: Federal Statistical Office "National Accounts 1974", Series 1.

⁶ Estimates.

The *labour market* situation ceased to deteriorate. At the end of November unemployment reached 1 114 200, equivalent to 4.9% of wage and salary earners. More than half of these were workers with no proper training. A large proportion of these (some 160 000) were women seeking part-time employment. Unemployment among those under twenty years of age, which, according to a special survey carried out by the Federal Labour Office was 86 100 at the end of May and, at 4.3% roughly matched the average unemployment rate, probably rose again in the autumn as school-leavers came on to the labour market. According to the same survey, 93% of unemployed persons at the end of May had been out of work for less than one year. However, this situation has probably tended to deteriorate in recent months. The number of people on short time rose once again following a decrease during the summer holiday period; however, in October, when the figure was 689 400, it was distinctly below the level recorded in the spring.

Total visible imports showed a more favourable evolution than was to be expected in a period when domestic economic activity was so slack. Foreign exporters of finished products expanded their share of the German market, particularly in consumer and capital goods. On average for the period August-October imports were 1.2% up on a year age.

Progress has been made recently, particularly in the area of industrial producer prices, in holding down price rises; in October they were 2.4% up on a year earlier. On the other hand agricultural producer prices rose more rapidly and in October were 18.6% above their level of a year ago. Import prices too have increased appreciably in recent months, following a fairly prolonged decline. The cost of living index in November was 5.4% higher than a year earlier.

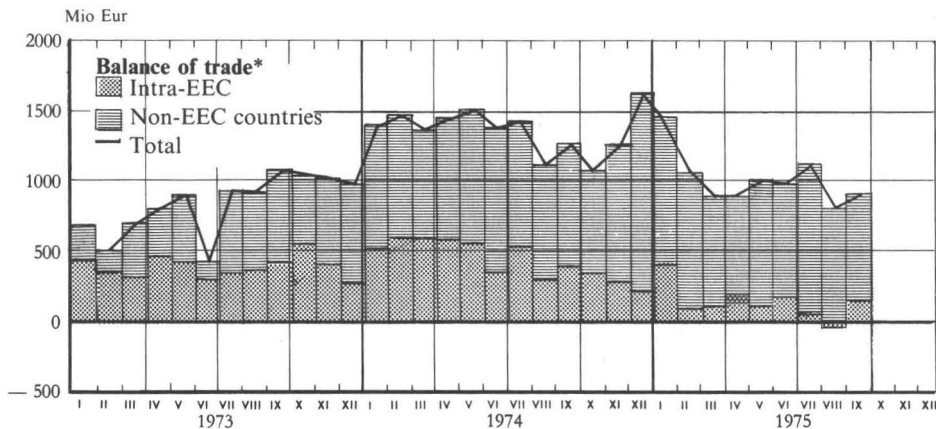
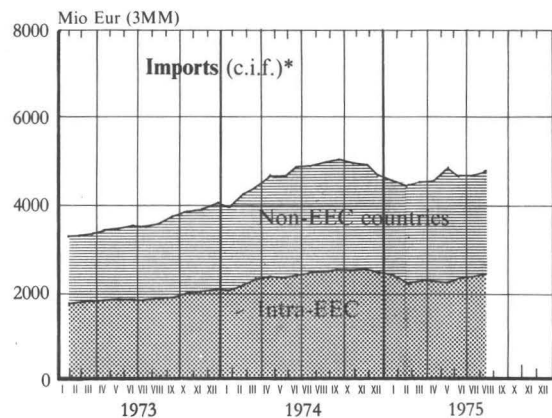
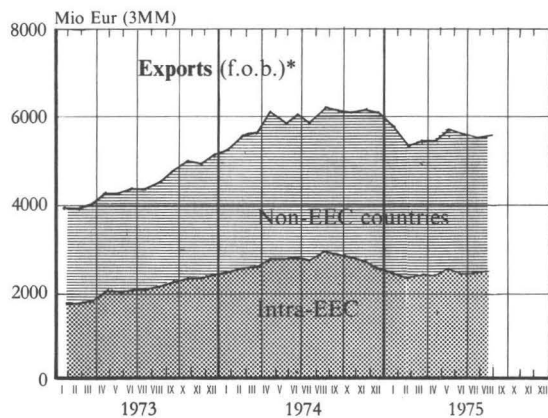
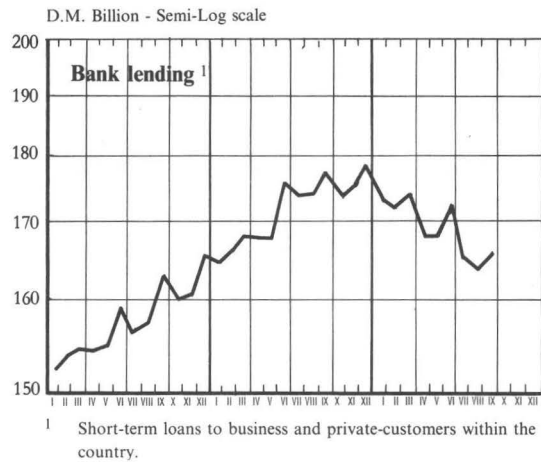
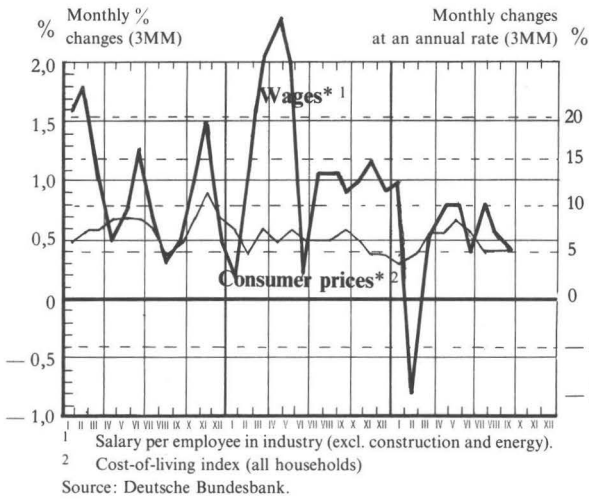
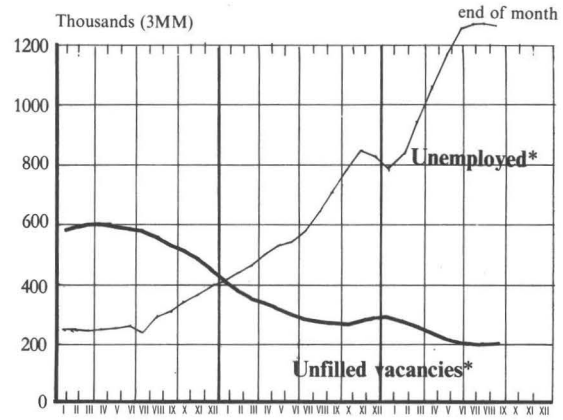
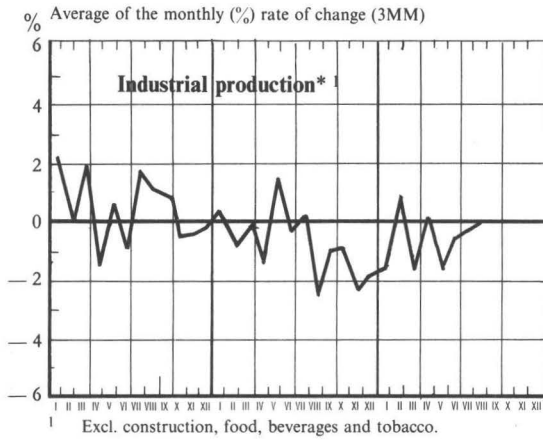


¹ Manuf. industry (excl. food, beverages and tobacco).

Source: SOEC.

* = Seasonally adjusted figures.

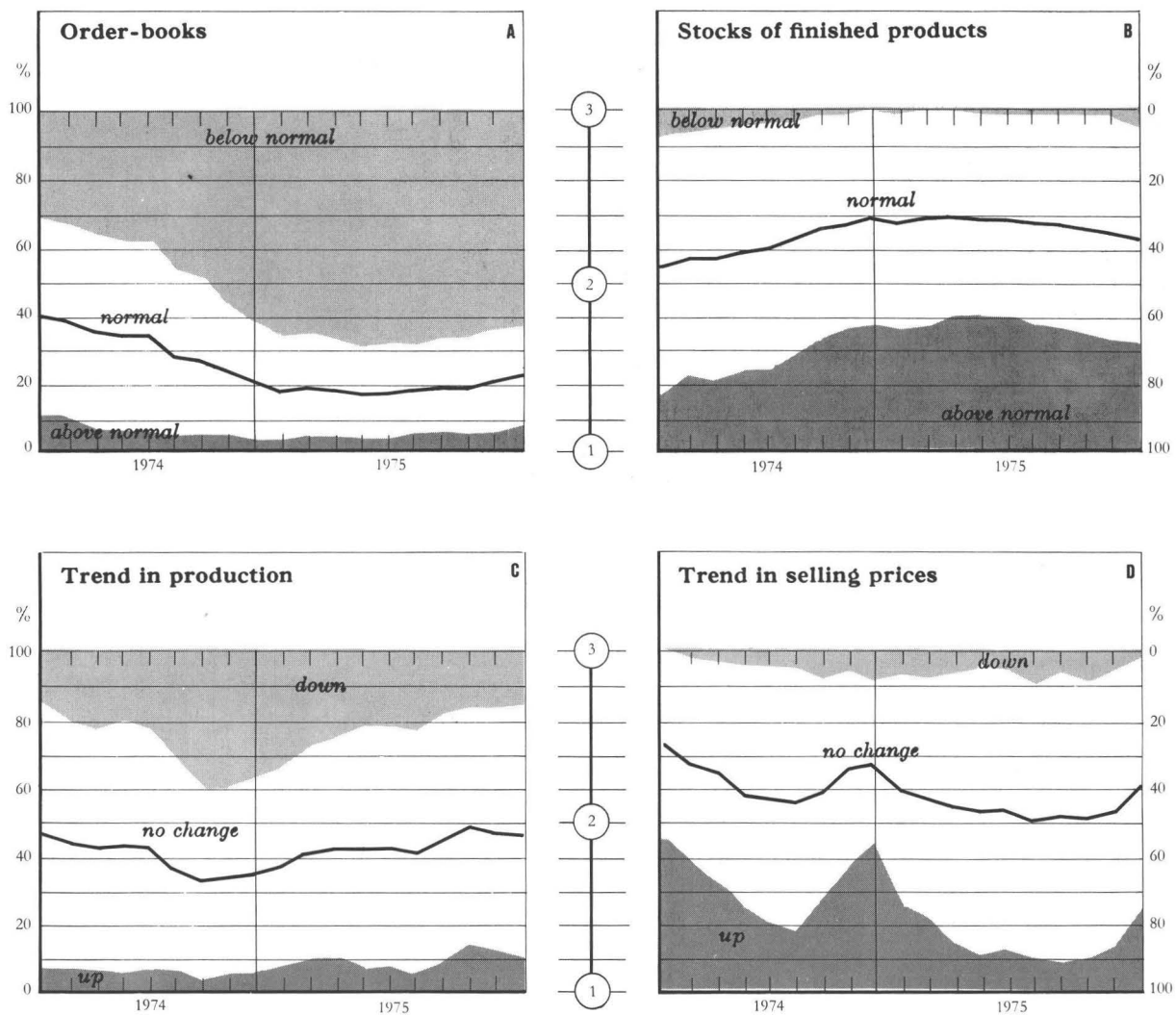
Federal Republic of Germany



* = Seasonally adjusted figures.
3MM = Three month moving average.
Source: SOEC except where otherwise indicated.

Germany

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".

The *foreign trade surpluses* continued to shrink markedly; in the ten months to October, they totalled DM 30 800 million as against DM 41 600 million in the same period last year. With almost no change in the heavy deficits in services and transfers, the current account surplus fell sharply. Long-term capital movements as a whole have continued to show a deficit in the last few months. On the other hand, a large inflow of short-term capital was recorded at the same time. On balance, the net gold and foreign exchange reserves of the Bundesbank have scarcely changed in recent months. At the end of November, they stood at DM 80 000 million. The exchange rate for the DM, which had distinctly eased during the summer, has more recently become firmer.

Monetary expansion has accelerated in recent months, largely because of the high rate of public authority borrowing from the banks; however, industrial demand for credit has also revived. The stock of money and near money (M2) at the end of October was only 0.2% above the level of a year ago. The Bundesbank has lowered its lending rates on several occasions since the spring, causing interest rate levels to decline further. However, with the public authorities making heavy calls on the capital market, yields on fixed interest securities rose again in the summer. In recent months, following the substantial addition to liquidity in the banking sector from large-scale open market interventions by the Bundesbank, long-term interest rates have eased again slightly.

2. Outlook

The expansionary measures introduced by the public authorities have helped to set the stage for a gradual upturn in domestic demand over the months ahead. Assisted by an improvement in the world economy, economic activity should pick up gradually. However, growth will probably not be sufficient to bring about any significant improvement in the employment situation, and unemployment is likely to remain high.

The recovery of German exports should gather additional momentum as the main industrialized countries inside and outside the Community emerge increasingly from the recession. Since domestic price and cost increases are a great deal smaller than in most of Germany's export markets, and since this difference is likely if anything to make itself felt more strongly in the year ahead, German exports should expand at a rate at least equal to the expected growth of world trade.

It is safe to assume that the surge in orders produced by the investment premium in the summer will lead over the months ahead to an increase in capital spending, particularly on plant and machinery and on industrial and commercial building. Similarly, residential construction, particularly the modernization of old buildings, and building activity by the public authorities should not experience any further decline, thanks to the support programme launched in September 1975.

However, it is difficult to predict at the moment to what extent the bringing forward of investment programmes in order to benefit from the public subsidies will later weaken investment demand. There are, in any case, hopes for an autonomous, if moderate, recovery in the propensity to invest, which has been very weak for several years. The improved sales prospects and favourable financing situation of firms would seem to suggest such a recovery. However, the key factor will probably be a further curbing of the rise in costs, with success in this field hanging primarily on appropriate agreements being reached in the forthcoming wage negotiations. Following the continued rundown of stocks, stock replenishment, needed to meet rising sales, can at any rate be expected to provide appreciable stimulus.

A substantial acceleration in growth can hardly be expected unless there is a faster rise in expenditure on consumption. Since public current expenditure will probably tend to increase somewhat more slowly because of the precarious financial situation of the public authorities, any faster rise in expenditure on consumption will depend primarily on private households abandoning their high preference for saving, particularly as disposable incomes will, if anything, expand more slowly next year.

If all the components of demand expand at the rate expected, real gross domestic product may grow by 4% in 1976. This means, however, that a sizeable proportion of production capacity will remain unused and that unemployment can be reduced only very slowly.

The level of productivity of labour, which is still very low following the sharp decline up to the end of 1974, suggests that manning levels were not fully adapted to the lower level of production, so that, except in a few sectors, the expected rise in production can be accommodated virtually without taking on new staff. If it is nonetheless anticipated that unemployment will fall as the year goes on, this will be largely due to unemployed foreigners returning to their home country. Overall, the structural imbalances in the supply of labour, which will not be automatically eliminated by an economic revival, are likely to take on increasing importance.

As domestic activity is picking up, imports should expand at about the same rate as exports. With terms of trade remaining unchanged, the external surplus in money terms should thus not decline any further.

With the economy recovering as expected, it should be possible, given the scope for productivity gains and assuming moderate wage increases, to curb the rise in prices still further.

Budgetary policy and monetary and credit policy will for the time being have to concentrate essentially on measures which do not jeopardise the factors making for expansion which, with the degree of plant utilization still low and unemployment high, remain on the whole

TABLE 2: Demand for and supply of goods and services

Federal Republic of Germany	1973 ²	1974 ²			1975 ³			1976 ³
	At curr. prices ('000 mill. DM)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	495.7	0.2	7.3	7.5	2	6	8½	2½
Public consumption	168.3	4.7	11.4	16.7	3	8	11	2½
Gross fixed asset formation	228.6	- 8.1	6.6	- 2.1	- 8	5	- 3	3½
—Enterprises	137.0	- 9.5	6.4	- 3.7	- 7½	6	- 2	4½
—Dwellings	58.8	-16.3	6.9	-10.5	-16½	3	-14	1
—General Government	32.8	11.0	8.3	20.2	3	3½	6½	3½
Domestic final uses (excluding change in stocks)	892.6	- 1.4	8.3	6.8	0	6	6	2½
Domestic final uses (including change in stocks)	902.2	- 2.6	8.6	5.8	- ½	6	6	3½
Exports ¹	215.9	13.4	16.4	32.0	- 9½	8	- 2½	5
Imports ¹	190.5	3.9	22.5	27.3	1	3	3	6
GDP at market prices	927.6	0.6	6.8	7.4	- 3½	7½	4	4
Contribution to change in GDP								
Domestic final uses (excluding change in stocks)	892.6	- 1.3	—	6.5	- 0	—	6	2½
Change in stocks	9.6	- 1.2	—	- 0.9	- ½	—	½	1½
Balance of exports and imports ¹	25.4	3.2	—	1.8	- 3	—	- 2	- 0

¹ Goods and services.

² Source: Federal Statistical Office "National Accounts 1974" Series 1.

³ Estimates.

delicately balanced. This means that there will be hardly any scope in the coming year for tackling the structural problems which became apparent in the recession.

Major economic policy measures

July 1975:

- From 1 July retirement pensions under the statutory pension insurance scheme and war victims' pensions were increased by 11.1%.
- In July the Bundesbank took the following credit policy decisions:
 - From 1 July the minimum reserve ratios on domestic and foreign liabilities were lowered by 10%.
 - With effect from 1 August the minimum reserve ratios on foreign liabilities were brought into line with the reserve ratios on domestic liabilities. This increased bank liquidity by approximately DM 1 500 million.

— On 11 July the Federal Government and the Länder agreed on a reapportionment of the yield of turnover tax: with retroactive effect from 1 January the Federal Government's share was fixed at 68.25% (previously 62%) and the Länder's share at 31.75% (previously 38%). In 1976 the Federal Government is to receive 69% of the tax yield and the Länder 31%. This reapportionment will partially offset the additional expenditure on family allowances to which the Federal Government is committed under the tax reform of 1 January this year.

August:

- On 14 August the Bundesbank lowered the discount rate from 4.5 to 4% and the rate for advances on securities from 5.5 to 5%.
- On 27 August the Federal Government launched a "Programme to encourage construction and other investment" involving expenditure amounting to DM 5 750 million, with DM 1 350 million to come from the Länder. The funds will be concentrated on the following areas:
 - DM 1 200 million for additional Federal Government investment,

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	110.2	114.7	111.6	113.4	111.7	114.5	110.2	116.9	117.7	112.7	113.6	117.5
	1974	113.5	114.9	113.9	112.1	112.7	119.2	111.8	111.6	112.1	108.1	110.2	104.2
	1975	102.5	104.3	107.7	99.1	104.5	102.3	97.8	103.9	102.4	:	:	:
New orders received (1970 = 100)	1973	135.8	126.1	129.1	123.1	144.3	123.6	124.7	128.0	125.1	128.0	130.4	124.6
	1974	140.7	139.6	141.0	142.0	149.7	134.8	142.2	145.7	137.3	145.8	132.2	121.7
	1975	136.1	131.4	121.1	139.4	124.7	160.2	136.6	123.2	141.4	140.1	:	:
Unemployed (000)	1973	232	236	248	247	255	265	277	282	286	308	340	408
	1974	433	453	483	513	529	564	607	663	731	802	800	788
	1975	826	893	970	1 058	1 148	1 211	1 247	1 266	1 274	1 252	1 230	:
Construction: permits for residential construction (000)	1973	64.6	63.2	66.0	56.9	65.5	55.7	56.2	55.4	46.8	45.5	43.2	41.0
	1974	43.9	38.0	37.1	34.8	39.7	31.1	33.9	33.3	32.6	34.3	27.5	35.1
	1975	29.7	30.6	29.7	29.3	27.9	30.9	28.1	28.5	31.5	:	:	:
Private consumers' expenditure: turnover of retail trade (1970 = 100)	1973	129	134	129	131	131	132	128	129	130	132	132	134
	1974	135	133	134	136	137	135	139	138	142	142	140	134
	1975	144	146	147	148	146	151	149	149	155	:	:	:
Consumer prices (1970 = 100)	1973	115.2	116.0	116.8	117.5	118.2	119.0	119.3	119.3	119.4	120.3	121.8	122.9
	1974	123.7	124.8	125.2	125.9	126.7	127.2	127.5	127.7	128.1	128.8	129.7	130.1
	1975	131.3	132.0	132.6	133.6	134.4	135.4	135.4	135.2	135.9	136.3	136.7	:
Visible imports (million Eur)	1973	3 324	3 418	3 356	3 386	3 789	3 406	3 562	3 723	3 605	4 080	4 129	3 697
	1974	4 306	3 937	4 379	4 550	4 978	4 335	4 935	5 019	4 688	5 129	4 840	4 616
	1975	4 241	4 440	4 261	5 214	4 422	4 765	4 762	4 377	4 929	:	:	:
Visible exports (million Eur)	1973	4 008	3 921	4 043	4 168	4 664	4 020	4 500	4 661	4 719	5 133	5 150	4 669
	1974	5 735	5 407	5 746	5 999	6 502	5 226	6 330	6 251	6 010	6 198	6 098	6 256
	1975	5 668	5 506	5 155	6 109	5 431	5 757	5 914	5 174	5 847	:	:	:
Balance of trade (million Eur)	1973	+ 684	+ 503	+ 687	+ 782	+ 875	+ 614	+ 938	+ 938	+1 114	+1 053	+1 021	+ 972
	1974	+1 429	+1 470	+1 367	+1 447	+1 524	+ 891	+1 395	+1 232	+1 322	+1 069	+1 258	+1 640
	1975	+1 427	+1 066	+ 894	+ 895	+1 009	+ 992	+1 152	+ 797	+ 918	:	:	:
Official gold and foreign exchange reserves (DM 000 million)	1973	77.0	86.4	93.9	92.9	91.2	93.5	98.2	96.2	101.4	100.4	98.2	92.5
	1974	89.6	89.2	91.5	93.8	95.6	94.9	94.1	92.5	90.8	89.3	90.6	83.4
	1975	84.8	86.8	87.8	85.8	85.0	83.8	82.4	81.8	81.3	82.4	81.7	:
Money supply (DM 000 million)	1973	132.2	133.1	136.7	135.2	132.8	131.9	130.7	128.6	130.0	130.5	132.0	134.0
	1974	134.1	135.5	135.5	136.7	138.7	138.7	140.4	141.3	142.6	142.9	147.4	149.7
	1975	149.7	150.0	152.2	153.7	158.3	158.2	158.4	161.3	166.7	:	:	:

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

Conversion into Eur (1 Eur = 0.888671 g of fine gold).

- 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. Source: Deutsche Bundesbank.
- Construction: seasonally adjusted number of dwellings authorized.
- Private consumer's expenditure: Total retail trade; seasonally adjusted value index of the Deutsche Bundesbank.
- Imports cif, exports fob, adjusted for seasonal variations.
- Consumer prices: cost-of-living index (all households), not adjusted for seasonal variations.
- Balance of trade: difference between the seasonally adjusted values of imports and exports.
- Official gold and foreign exchange reserves: including IMF Special Drawing Rights and reserve position at the IMF. Figures are given gross, liabilities to abroad not having been deducted. Position at end of month.
- Money supply: Money stock (notes and coins in circulation and sight deposits = M1); position at end of month, adjusted for seasonal variations.

: Not available.

- DM 1 700 million to promote local authority infrastructure and urban renewal,
- DM 700 million for the repair and modernization of 250 000 to 300 000 dwellings,
- DM 300 million for bridging loans to finance housebuilding pending the allocation of mortgage finance under building society savings contracts (2.5% interest relief),
- DM 600 million for the Federal Labour Office to finance work procurement schemes.
- On the same day the Federal Government adopted a DM 15 200 million supplementary budget for 1975. This amount covers mainly a DM 8 800 million recession-induced shortfall in tax revenue and DM 6 300 million additional expenditure on subsidies to the Federal Labour Office because of unexpectedly high unemployment. As a result, the financial deficit for 1975 rose from DM 25 700 million to DM 40 900 million.

September:

- At the beginning of September the Federal Government, in agreement with the Bundesbank, decided to lift the ban on the payment of interest on non-residents' balances with domestic financial institutions.
- On 11 September the Federal Government approved measures to reduce the structural deficits in the Federal budget. Besides a large number of savings in the individual programmes, from 1 January 1976 unemployment insurance contributions are to be increased from 2 to 3%

and from 1 January 1977 the standard rate of value added tax is to go up from 11 to 13% and the reduced rate from 5.5 to 6.5%. The excise duty on tobacco and alcohol is to be increased also from 1 January 1977. According to the 1976 draft Federal budget, which the Federal Government adopted on the same day, these measures will produce net financial improvements of approximately DM 8 000 million. With expenditure at DM 168 100 million (4.1% up on the 1975 budget plus the supplementary budget) the budget closes with a financial deficit of DM 38 900 million.

— On 11 September the Bundesbank lowered the discount rate from 4 to 3.5% and the rate for advances on securities from 5 to 4.5%. At the same time it decided to increase the rediscount quotas by approximately DM 3 000 million from 1 October.

October:

— The Federal Government decided on 29 October to increase old age pensions by 11% with effect from 1 July 1976 and disability pensions by 7½% from 1 January 1977.

November:

— The Federal Government decided at the beginning of the month to increase war victims pensions by 11% from 1 July 1976.

— Because of structural improvements which have taken place, the salaries of some 220 000 workers employed in the steel industry of North Rhine-Westphalia were increased by around 6% from 1 November.

C. France

The second half of 1975 saw the beginning of a recovery in economic activity, under the influence in the first place of a revival in domestic demand. While the increase in unemployment slowed down, the rate of price inflation remained high.

The continuation of this pattern into the early months of 1976 appears likely, but it will depend in part on the development of foreign demand. In present conditions however, no improvement in employment should be expected in the near future. The rise in prices could accelerate once more while the increase in imports has caused the trade surplus to disappear.

1. Recent developments

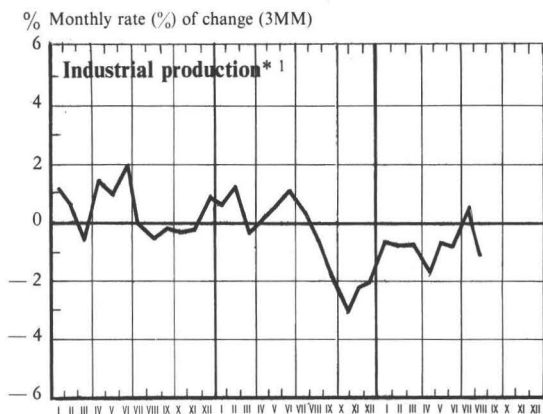
The recession in the French economy in 1975, which has been by far the most severe of recent years, seems to have come to an end. The first signs of a gradual recovery appeared towards the middle of the year. The revival of domestic demand has resulted in the trade balance moving into deficit, and inflation is no longer slowing down; finally, the worsening of the employment situation has slowed down significantly because of the recovery.

French exports, which as a whole have stood up quite well to the sharpness of competition on foreign markets, have nevertheless fallen (in seasonally-adjusted value terms) since the middle of the year back to about the level of a year ago. This applies particularly to sales to other member countries, especially Germany, Italy and Belgium; the value of exports to the rest of the world has also continued to decline, but less rapidly.

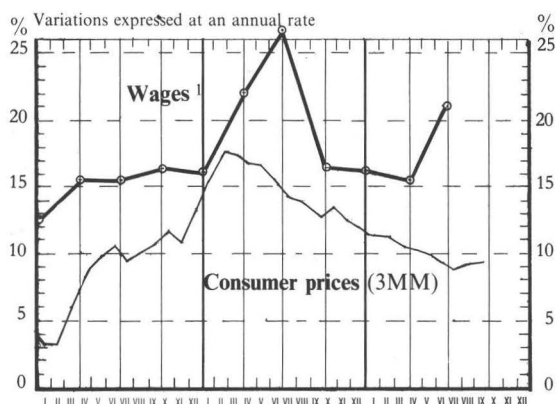
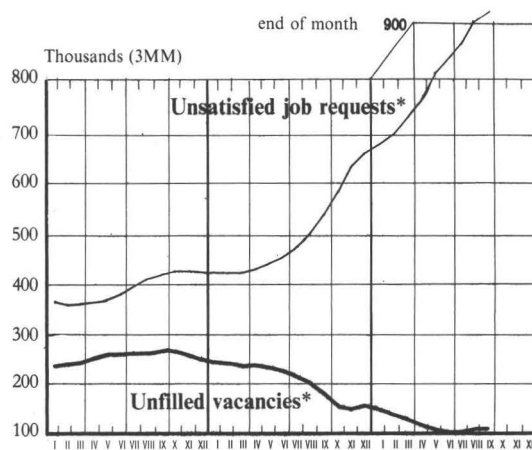
While several of the components of domestic demand have still been developing more slowly than their long-term trend, in total an expansionary phase seems to have been under way since the middle of the year. The sharper reversal of trend should concern stocks, now being built up again, especially in retailing where they had reached a

very low level. At the various stages of production, the situation is also tending to turn around, with stocks of materials and products to be processed increasing and those of products for delivery falling. Indeed, in many cases it appears that deliveries may have exceeded production. Investment in fixed plant and equipment has continued to worsen: the slowing of activity having led to considerable surplus capacity, it is not surprising that productive investment remains depressed. On the other hand, there has been some slight improvement in residential construction mainly affecting single dwellings, but orders for industrial and commercial buildings and for multiple dwellings still lack strength. As for publicly-financed investment, there has been a strong increase in real terms as a result of the introduction of the stimulatory measures decreed in April and September. It is even possible that, as a result of these measures, certain branches of industry producing particular types of machinery, for example electric or electronic machinery will once again be producing at a high degree of capacity.

Private consumption, in real terms, does not appear to have experienced any interruption in its growth even during the recessionary phase and sales of manufactured products began to rise again from mid-year: thus, in October, the level of sales was 6% higher than a year earlier.

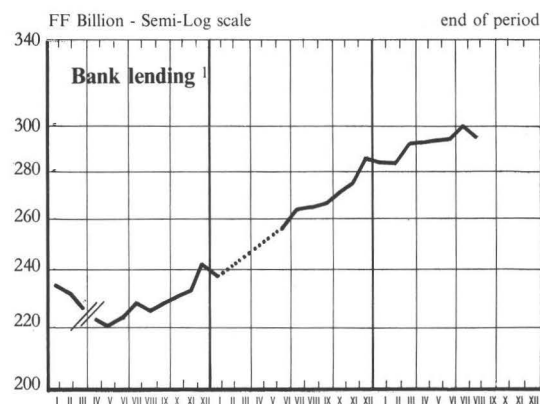


1 Excl. construction, food, beverages and tobacco.



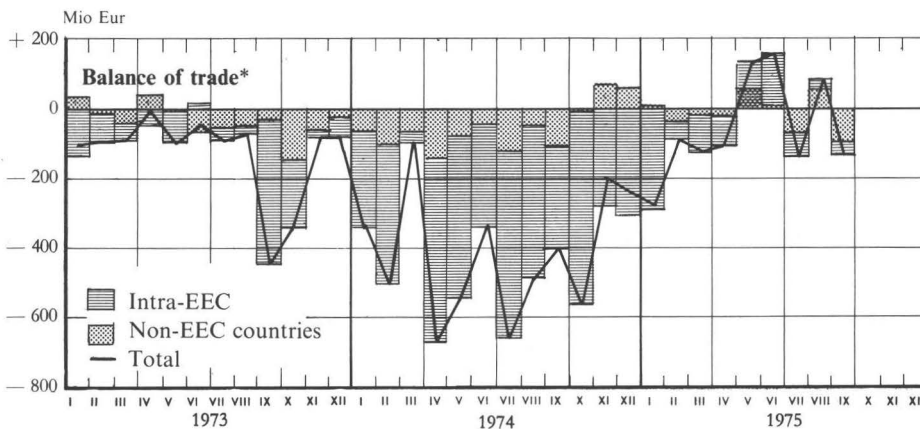
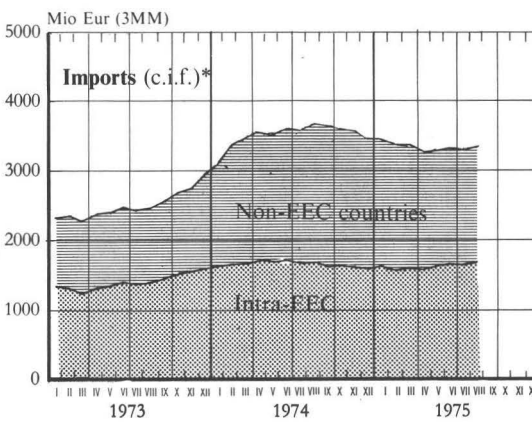
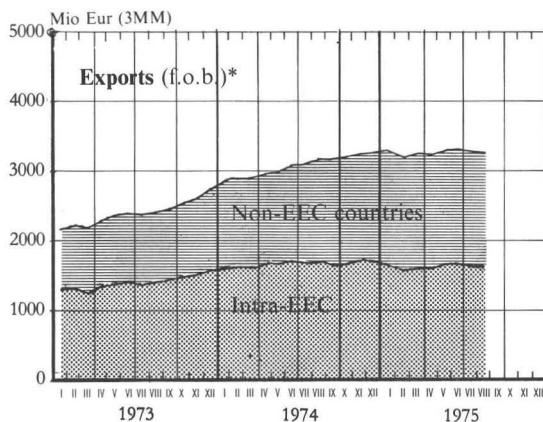
Source: INSEE.

1 Index of hourly wage rates, all activities, all regions.



Source: Conseil National du Cr dit.

1 Short-term loans (up to 2 years) to business and private customers.



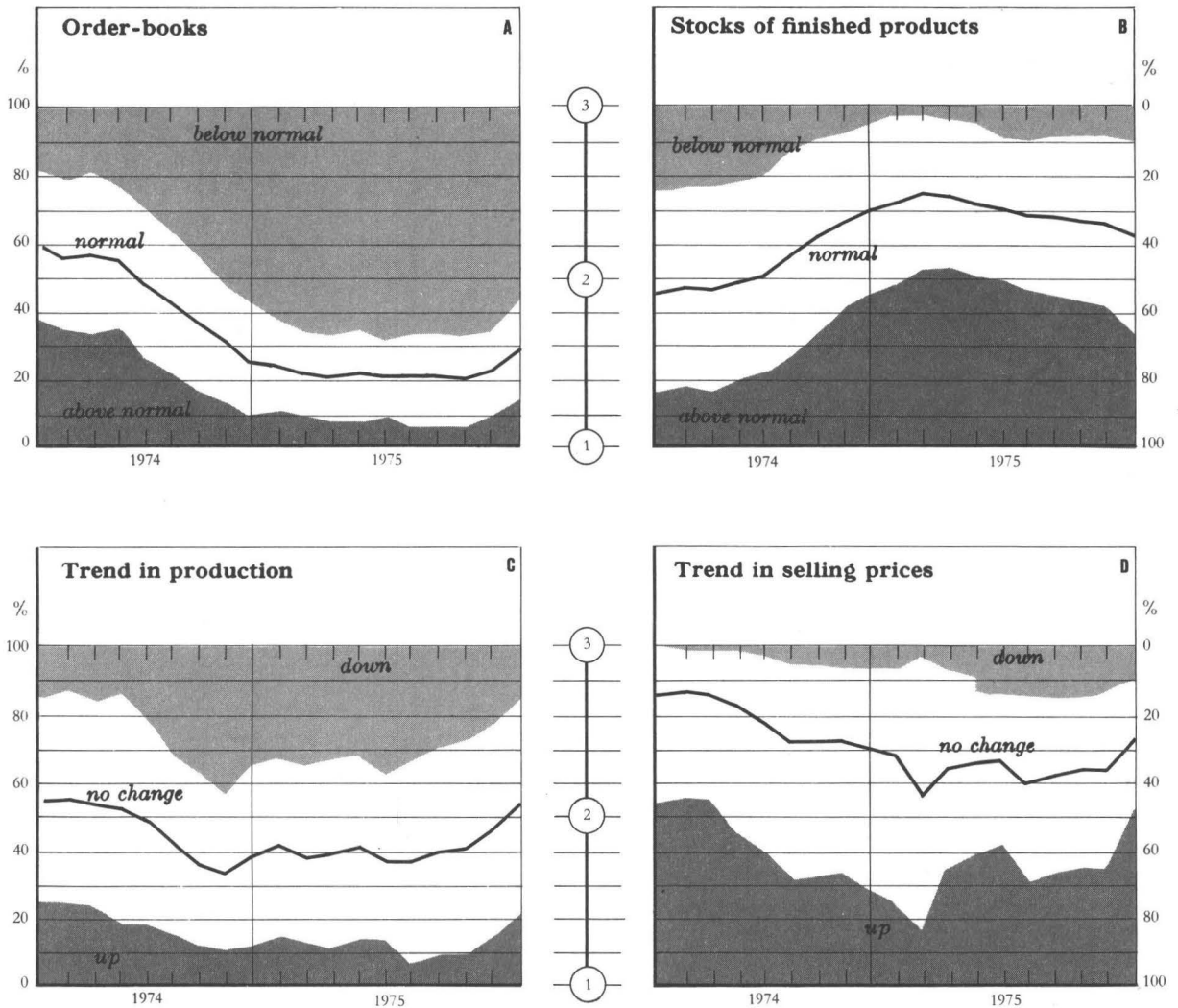
* = Seasonally adjusted figures.

3MM = Three month moving average.

Source: SOEC except where otherwise indicated.

France

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".

The apparent slowdown in the rate of increase of hourly wages recorded in the third quarter is probably not a true reflection of the real movement in income from employment; the purchasing power of disposable income has, in general, continued to increase at a faster rate than that recorded in the majority of western economies.

In these conditions, it is probable that total real private savings have increased at a slightly slower pace, despite a strong increase in liquid savings. On the other hand, private sector indebtedness has probably increased rapidly in the autumn as a result of sizeable purchases of consumer durables.

Industrial production, as measured by the monthly INSEE index, fell until May and afterwards stagnated, until the end of the third quarter, at a level some 10% lower than the average for 1974. This trend was later reversed although the upswing does not seem to be particularly strong. This global picture in fact hides divergent sectoral trends: as a result of low stocks at the retail level, the upturn is particularly marked in the consumer goods industries, where delivery delays were increasing as, for example, in the case of cars.

The degree of capacity utilization of productive equipment has certainly been relatively low during this period. This has been reflected in a stabilization of the number of employees in employment—often on short time—and by an increase in unemployment: using a year-to-year comparison, however, the increase in the number of unsatisfied requests for employment has slowed down markedly, and has fallen from 95% between June 1974 and June 1975, to some 60% in October; in the same way, the number of unfilled vacancies is still falling although less rapidly than a year earlier. Practically all the growth in unemployment continues to be caused by the cessation of recruitment; thus, it has affected, first of all, young people and women. This cautious attitude on the part of firms seems to be the result of the increased job security enjoyed by employees which restricts to an extraordinary extent the possibilities of reducing the labour force.

The value of imports (fob and seasonally adjusted), which had fallen month by month since the summer of 1974, began to increase again from the end of the first half-year. To some extent, this increase reflects the rise in import prices, particularly of raw materials, and, partly

TABLE 1: Key-indicators

France	Unit	1968-72 average 4 5	1973	1974	1975
Gross domestic product, volume	change in %	5.7	5.6	3.8	- 2.5
of which: Industry ¹		6.4	5.9	2.8	9.0
Gross domestic product in volume per person in employment	change in %	4.9	4.2	2.9	- 1.3
Total employment (number of persons) ²	change in %	0.8	1.3	0.9	- 1.3
—Independent entrepreneurs		- 2.5	- 2.6	- 2.5	- 2.5
—Wage and salary earners, enterprises		2.1	2.2	1.9	- 1.8
—Wage and salary earners, Gen. Government		2.4	1.1	1.7	2.0
Unemployment	in % of labour force	2.0	2.1	2.3	4.0
Compensation of employees per wage and salary earner	change in %	10.8	12.4	17.8	15.0
Price index of private consumption ³	change in %	5.3	7.2	13.7	11.8
Balance of payments: current account	'000 million FF	- 4.9	- 5.3	-33.7	- 1.0

¹ Excluding construction.

² Domestic concept.

³ National accounts concept. on annual basis.

⁴ Change in %: geometric mean of the change from 1967 to 1972; unemployment and balance of current transactions: arithmetic mean over the five years.

⁵ Source: Rapport sur les comptes de la Nation, 1974, Ministère de l'Economie et des Finances.

⁶ Estimates.

also the depreciation of the franc vis-à-vis the dollar; this upturn, however, also marks the end of the period of destocking and a certain expansion of demand as the volume of imports has increased especially of consumer goods and machinery.

Even during the phase when activity was at its lowest point, the rate of increase in consumer prices did not fall below 0.7% per month (equivalent to an annual rate of 9%). Given the current low level of productivity in the economy resulting from a high level of employment compared to output, one would, in fact, not expect any better results.

The reversal in the third quarter of the trends in external trade flows produced a very rapid reduction in the trade surplus followed by a small deficit.

Monetary conditions have continued to ease and the rate of interest on call money which was around 13% in October 1974 had fallen back to some 7% in October 1975. The value of official reserves of gold and foreign currencies has fluctuated somewhat, mainly as a result of changes in the price of gold. The money supply has increased rapidly since mid-year: it grew by nearly 5%, on a seasonally adjusted basis, during the third quarter. The growth of the Treasury's debt has been especially great; this is the result of the introduction of a programme of measures to support the economy, including, notably, assistance for families and the postponement of tax payments. This strong increase in this component of the money supply has not been countered by any slowing down in the growth of bank advances.

2. Outlook

The uncertainties which until recently have overshadowed the immediate outlook for the French economy have to some extent, now been removed, although the rate of growth, which will be reached during 1976 depends largely on the behaviour of foreign trade. Moreover it is not possible to expect an improvement either in the employment situation or a stabilising in the rate of inflation.

The outlook for exports during the forthcoming months has improved a great deal as many industrialised countries appear to be coming out of the recession. Moreover as the western economies are all faced with a similar situation it is not possible to count on expanding market shares and so it is likely that the behaviour of French exports will be closely connected with the economic expansion of the important purchasing countries.

Neither is it certain that the expansion of internal demand that is now observed will continue. Consumers' purchasing power will only increase slowly in the course of the coming months and the degree to which this is spent or is saved will be to some extent decisive.

Although the present upturn in activity may be considered to result from internal demand (which has

responded to the September 1975 measures), it is important that external demand should strengthen to ensure that the level of activity does not subsequently weaken.

The measures taken in September 1975 included reductions in taxes in favour of private sector investment. It is not certain whether these measures will have a positive effect on the immediate future, at least as far as the production of plant and machinery is concerned. In the months to come if not for the whole of 1976, the behaviour of investment will continue to suffer from decisions to postpone or cancel projects taken since the summer of 1974. Moreover the recent improvement in the financial position of the company sector is only a result of a reduction in investment (both in fixed assets and stocks) and of the postponement of tax payments; therefore it may not be long-lasting.

During the first half of 1976, the behaviour of production will therefore depend on many factors: the short-term behaviour of total demand and the possibility of an improvement in the economic situation in general, whilst being very important, are not the only determining factors. In addition, French firms are indeed placed in an entirely new production situation. Since it has become very difficult for them to reduce manpower in times of recession, they will be reluctant to expand employment even if the short term economic prospects improve. This cautious behaviour means that capacity constraints will be reached more quickly, so accelerating the move towards imports as a means of satisfying the needs of expansion. In a normal economic situation, firms would aim to rationalise production; many firms however will not be able to make the necessary investments for lack of funds due to insufficient profits having been made during the period just passed. The disturbing consequences of this situation are therefore threefold: firstly the increase in production will not lead to a rise in employment; secondly an important number of industrial firms will deliberately refrain from expanding productive capacity even if bottlenecks appear, and even at the risk of losing markets. Thirdly the substantial increase in profits which cannot be obtained by a reduction in production costs or by an expansion of output will be achieved by increasing prices; in this respect, it is important to recall that many of the increases in production costs which have occurred this year have not been completely reflected in consumer prices. Finally, the result of this possible deficiency of supply combined with an attempt to recover cost increases is likely to be a rapid increase in imports, leading to a substantial trade deficit.

Therefore the forecasts which can be made for employment remain unfavourable even on the most optimistic views of expanding demand and production. Certainly skilled labour will remain in great demand. In the end the unsuitability of a considerable part of the labour force compared to the needs of the economy will become more pronounced; an important part of the labour force will therefore remain isolated, semi-permanently, from the production process.

TABLE 2: Demand for and supply of goods and services

France	1973 ²	1974 ²			1975 ³			1976 ³
	At curr. prices (in FF '000 mill.)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	677.5	4.3	13.7	18.6	3.0	11.8	15.2	2½
Public consumption	139.0	3.5	14.4	18.4	3.5	14.0	18.0	3½
Gross fixed asset formation	294.1	3.1	15.4	19.0	— 5.0	11.0	5.5	½
—Enterprises	:	:	:	:	:	:	:	:
—Dwellings	:	:	:	:	:	:	:	:
—General Government	:	:	:	:	:	:	:	:
Domestic final uses (excluding change in stocks)	1 077.7	3.4	12.7	16.5	0.9	11.9	12.9	2
Domestic final uses (including change in stocks)	1 135.9	3.2	14.5	18.2	— 3.3	12.0	8.3	5
Exports ¹	201.4	15.6	23.6	42.9	— 6.0	7.0	0.6	5
Imports ¹	193.9	12.7	40.0	57.5	— 9.0	0.0	— 9.0	10
GDP at market prices	1 108.7	3.8	11.4	15.7	— 2.5	13.6	10.8	4
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	1 077.7	3.8	—	18.2	0.9	—	12.9	2.2
Change in stocks	23.5	— 0.5	—	— 0.1	— 4.3	—	— 4.5	2.7
Balance of exports and imports ¹	7.5	0.6	—	— 2.3	0.8	—	2.3	— 1.0

¹ Goods and services.

² Source: Rapport sur les comptes de la nation 1974, Ministère de l'Economie et des Finances.

³ Estimates.

:

Major economic policy measures

June 1975:

— The limit on the year-to-year growth of bank credit subject to ceiling controls was left unchanged at 12% until the end of 1975. The ratio for compulsory non-interest bearing reserves was cut from 15% to 11%. The interest rate on pledged bonds (obligations cautionnées) was lowered from 18% to 10.3%.

— The CNPF (employers' organization) and all the trade unions signed an agreement on compensation for short-time working: from 28 July firms and the State would both make higher contributions.

July:

— The minimum hourly wage rate was increased by 6% (FF 7.55 instead of FF 7.12).

— The price of gold used to calculate the reserves of the Banque de

France was lowered from FF 24 078 to FF 22 039/kg. French monetary reserves thus dropped by FF 8 500 million.

— From 1 August family allowances were put up by 6.8% bringing the increase on 1 August 1974 to 14.3% in total.

— Payment of the instalment of the counter-inflation (or "conjunctural") levy due on 31 July was waived.

— The Government announced that the franc would rejoin the "snake".

September:

— The Banque de France lowered the discount rate from 9.5% to 8%. The banks' base rate was cut from 9.8% to 8.8% and the reserve ratio applicable to sight deposits from 11% to 2%.

— The Government announced details of a FF 30½ billion plan to stimulate the French economy:

— FF 5 000 million in the form of a special increase in family allowances and old-age pensions to encourage consumer spending. Consumer credit restrictions were also relaxed;

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	116	117	119	116	121	119	119	122	120	123	125	120
	1974	125	126	124	125	127	126	125	124	122	122	118	119
	1975	115	114	112	112	107	112	108	110	(109)	:	:	:
Number of persons seeking employment (1 000)	1973	367.7	362.9	364.7	372.5	377.3	380.8	396.4	404.7	426.6	428.1	420.4	424.9
	1974	422.2	420.8	421.9	426.4	437.7	455.2	478.8	496.2	547.1	586.6	633.6	662.9
	1975	669.1	695.7	728.6	772.6	810.0	847.9	873.7	880.6	960.7	968.0	:	:
Construction: building permits issued for housing (1 000)	1973			160.9			150.4			171.0			187.7
	1974			159.1			161.5			152.2			152.3
	1975			124.5			131.2						
Private consumers' expenditure: turnover of department stores (1963 = 100)	1973	109.2	113.4	117.5	108.7	116.0	121.0	114.9	111.2	120.4	123.0	119.4	130.5
	1974	127.0	129.0	127.0	129.0	136.5	130.1	130.9	134.2	139.1	143.5	134.8	133.2
	1975	145.0	144.5	140.5	146.5	154.1	140.5	142.6	143.9	149.3			
Consumer prices (1970 = 100)	1973	115.5	115.8	116.4	117.2	118.3	119.2	120.2	121.0	122.1	123.4	124.5	125.3
	1974	127.4	129.1	130.6	132.7	134.3	135.8	137.5	138.6	140.1	141.8	143.1	144.3
	1975	145.9	147.0	148.2	149.5	150.6	151.7	152.8	153.8	155.1	156.3	:	:
Visible imports (million Eur)	1973	2 323	2 249	2 313	2 133	2 555	2 367	2 425	2 425	2 885	2 886	2 760	2 631
	1974	3 325	3 306	3 463	3 619	3 634	3 254	3 852	3 562	3 626	3 352	3 320	3 585
	1975	3 476	3 321	3 159	3 461	3 004	3 250	3 487	2 988	3 453	:	:	:
Visible exports (million Eur)	1973	2 209	2 147	2 219	2 132	2 457	2 324	2 347	2 373	2 432	2 543	2 688	2 559
	1974	2 978	2 801	2 867	2 951	3 085	2 908	3 199	3 073	3 223	3 178	3 119	3 346
	1975	3 203	3 227	3 024	3 350	3 136	3 418	3 357	3 072	3 317	:	:	:
Balance of trade (million Eur)	1973	-114	-102	-94	-1	-98	-43	-78	-52	-453	-342	-72	-72
	1974	-347	-505	-596	-668	-549	-346	-653	-489	-403	-574	-201	-239
	1975	-273	-94	-135	-111	+132	+168	-130	+84	-136	:	:	:
Official foreign exchange reserves (million Eur)	1973	4 659	4 260	4 710	4 899	5 005	4 935	4 951	4 650	4 636	3 758	3 104	3 088
	1974	2 708	2 558	2 567	2 471	2 406	2 423	2 586	2 739	2 788	3 037	3 023	2 886
	1975	2 842	2 944	3 090	3 353	3 788	3 790	3 675	3 932	4 052	4 778	:	:
Money supply (Ffr '000 million)	1973	291.0	291.5	292.8	298.6	300.5	302.8	299.6	301.1	304.8	306.9	307.1	318.7
	1974	318.6	320.9	:	:	:	336.9	329.0	329.4	331.5	336.6	357.9	367.1
	1975	356.6	353.7	359.8	354.5	356.3	367.6	370.9	376.9	385.0	:	:	:

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

- 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: number of dwellings authorized. Position at end of quarter.
- Private consumer's expenditure: turnovers by value, adjusted for seasonal variations. Sources: Centre d'observation économique de la Chambre de Commerce de Paris.
- Consumer prices: national 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.
- Gross reserves of convertible currency.
- 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. Source: Banque de France.

: Not available.

- FF 13 000 million in public spending on infrastructure projects and industrial development aid;
- FF 12 400 million for firms by extending tax relief on orders for investment goods placed before 31 December (FF 2 800 million) and by postponing until April 1976 payment of corporation tax due in September 1975 (FF 9 600 million).
- The arrangements governing producer prices in industry were extended for six months. The freeze on percentage mark-ups was maintained.

October:

- The counter-inflation levy was abolished from 1 September 1975 since the increase in consumer prices of manufactured products had been less than 1.5% over the period June-August 1975.

- A parafiscal charge of FF 150/metric ton was imposed on that part of the consumption of heavy fuel oil which between 1 October 1975 and 30 September 1976 exceeds 87% of the 1973 consumption.

— The 1976 draft budget was tabled in Parliament. Expenditure, at FF 294 030 million, is 13.03% up on the initial budget for 1975, an increase of the same order as the expected growth of the gross domestic product in money terms (13.1%). The increase over the amended 1975 budget is 4.6%. Total revenue is estimated at FF 294 280 million leaving a surplus of about FF 250 million.

November:

- The blocking of margins is extended to most commercial sectors.
- Bank credits subject to ceilings were restricted to a 13% growth between 31 December 1974 and the end of July 1976. They had risen by 4% up to 30 September 1975).

D. Ireland

In the course of the past few months the Irish economy seems to have passed the lowest point of the recession. Activity however remains depressed and the signs of a recovery were still weak at the beginning of the autumn. The unemployment rate remains high and price developments have been less satisfactory than during the summer. The current balance of payments has however improved substantially.

The conjunctural situation should rally in the coming months as a result of a more sustained development in private consumption and a recovery in external demand. Employment will only increase slowly and the trade balance will disimprove. The rate of inflation will remain worrying.

1. Recent developments

The recessionary phase which began in the Spring of 1974, has continued in the past few months and the signs of recovery still remained hesitant at the beginning of the autumn. Capacity utilisation has stayed at a very low level. The unemployment rate still shows an increasing trend. The rise in prices which eased during the summer has again strengthened. The current balance of payments has improved substantially.

Total demand remains sluggish. Although external demand has been relatively sustained, domestic demand is still weak. Despite the depth of the world recession, exports have been satisfactory; from August to October they grew by 23% in value on the previous three months and are 40% above the level of the previous year. Even when account is taken of the rise in export prices, this performance implies a substantial increase in volume. Agricultural exports have experienced the largest rise both in value and volume, the timing of price rises with the Community having encouraged the sale of cattle as well as dairy products.

Internal demand is still depressed. The excess capacity in numerous areas, the unfavourable financial position of firms¹ in major sectors (textiles, footwear, wood and furniture), the slowdown in foreign investment and the uncertain outlook both on the external and internal fronts have led to a fall in investment in the private sector. In addition, cement sales have declined on a year-to-year

basis in the period August-October by 10%. The construction sector has thus also been affected by the unfavourable economic climate. Only in the construction of houses has there been any buoyancy, due principally to the favourable liquidity position of the building societies and to successive injections of public funds.

The latest budgetary statistics on capital expenditure, when adjusted for seasonality, indicate that public authority investment has increased sharply since the second quarter.

Private consumption has only increased slowly despite the measures taken in June which should have stimulated consumer expenditure to a greater extent. The improvements in agricultural incomes since the beginning of the year has been reflected essentially in a growth in savings by farmers. In addition, the continued deterioration in the employment situation and the creation of uncertainty have encouraged other categories of consumers to increase their precautionary saving. During the summer months, the index of retail sales, corrected for seasonal variations, increased slightly in volume (+2.6% from June to August) but was still 3% below the corresponding level of last year. New car registrations which had fallen sharply until August, have more recently recovered, which may be explained to some extent by the lifting of the unofficial restrictions by the unions on certain makes of imported cars. On account of the growth in numbers employed in the public authorities, particularly in the army and police forces, and the more rapid increase of salaries in the public service than in the private sector, government current expenditure is likely to be rising rapidly.

¹ Gross and act profits of public quoted companies reporting in the second half of 1974 and the first half 1975 were -2 and -7% respectively.

The latest statistics available relate only to the second quarter of 1975, but they do indicate that for the first time in a year *industrial production*, corrected for seasonality, has stopped declining and is situated at much the same level as in the first quarter. However, in comparison with 1974, production was still down by 7%. Even though capacity utilisation remains very low, the most recent surveys of firms would seem to point to the fact that the lowest point of the recession has already passed. Despite some stagnation in gross *agricultural output*, net product has continued to grow substantially because of the cut-back in use of primary inputs. In the services sector the fall in activity has persisted despite a slight increase in the number of tourists (+2% in the ten months to October).

The *employment* situation continued to disimprove up to the middle of the year. In transportable goods industries employment fell by 2.7% in the second quarter, as compared to the preceding quarter and by 7% on a year-to-year basis. The number unemployed, seasonally adjusted, continues to grow but at a slower rate than earlier in the year. At the end of October, 106 000 people, or 9.3% of the labour force, were out of work. The unemployment rate is particularly high among young people. A survey carried out in the period January to April 1975 showed that of about 38 000 school leavers in

1974, nearly 5 500 or 15%, had not found employment. In addition, another 3% had emigrated. It can be surmised that a similar, if not more acute development has occurred in 1975. Thus, it would appear that up to 10 000 young people looking for work and an unknown number of married women who are not eligible for unemployment benefit, should be added to the official number of those out of work, but these may be balanced out to some extent by those already on the register unavailable for full-time work.¹

After a fall in the summer months, principally due to the effect of subsidies and VAT reductions in the June budget, *prices* increased again during the autumn. At mid-November the consumer price index rose by 2.8% on the mid-August level and was 17% higher than the previous year. The principal factor behind this increase has been the rise in food prices, in particular meat and potatoes.

After the stagnation observed for a number of months, *imports* have been a little more dynamic in the months from August to October. Over this period, their value growth rate, seasonally adjusted has been 3.7% on the

¹ In particular those in the agricultural sector.

TABLE 1: Key-indicators

Ireland	Unit	1968-72 average 4	1973	1974	1975 (5)
Gross domestic product, volume	change in %	5.2	5.4	0.4	- 3
of which: Industry ¹		6.1	11.6	2.8	- 8½
Gross domestic product in volume per person in employment	change in %	5.5	4.9	- 0.3	- 1
Total employment (number of persons) ²	change in %	- 0.3	0.5	0.7	- 2.3
—Enterprises		- 0.4	0.2	0.4	- 2.5
—General Government		3.4	5.8	5.5	1.7
Unemployment	in % of labour force	5.7	5.9	5.7	8.4
Compensation of employees per wage and salary earner	change in %	15.2	18.4	17.6	25
Price index of private consumption ³	change in %	7.5	11.0	17.3	21
Balance of payments: current account	£ mio.	- 54.0	- 78.1	- 300.0	- 40

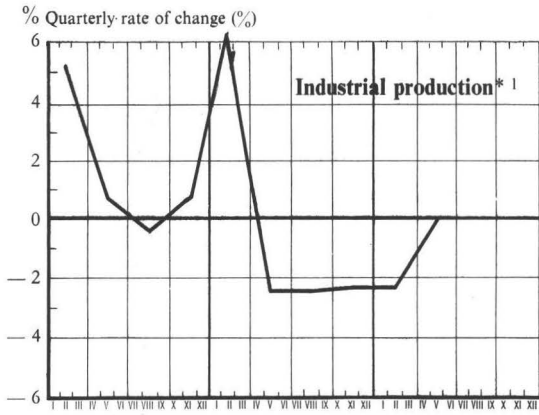
¹ Excluding construction.

² Domestic concept mid April.

³ National accounts concept.

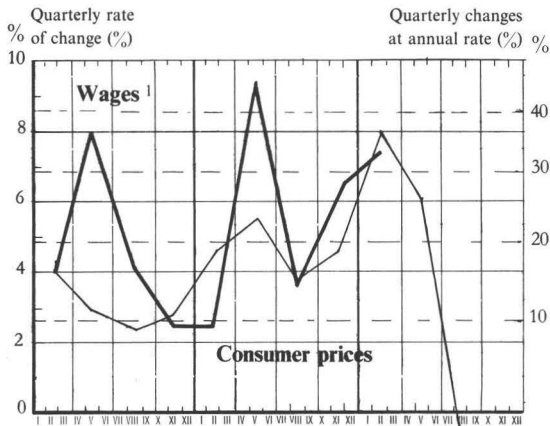
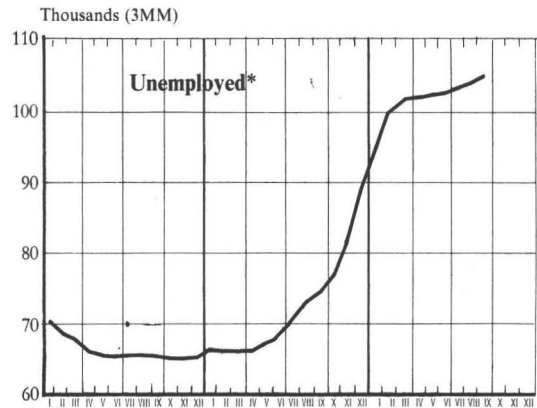
⁴ Change in %: geometric mean on annual basis of the change from 1967 to 1972; unemployment and balance of current transactions: arithmetic mean over the five years.

⁵ Estimates.



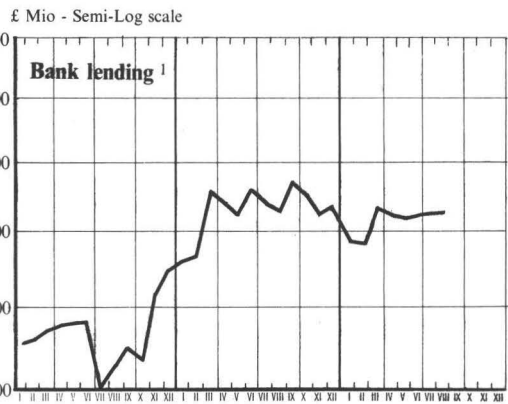
Source: C.S.O.

¹ Mining and manuf. industries.



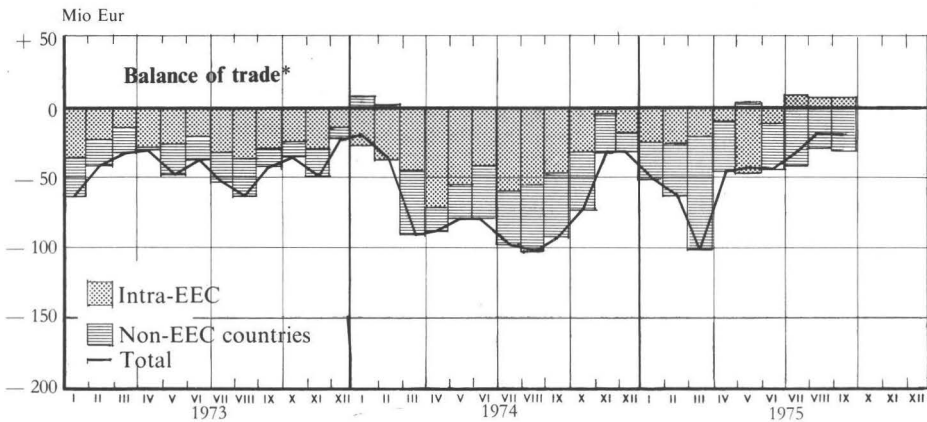
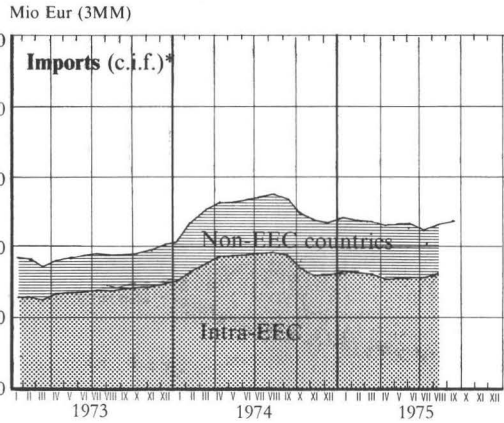
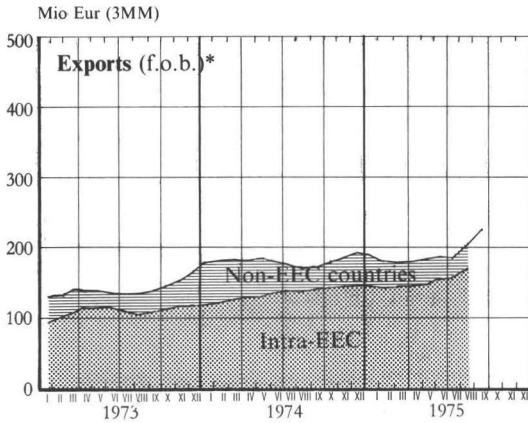
Source: C.S.O.

¹ Hourly earnings in manuf. industry.



Source: Central Bank.

¹ Credits by commercial banks to private sector.



*= Seasonally adjusted figures.

3MM= Three month moving average.

Source: SOEC except where otherwise indicated.

previous three months. This development is no doubt due to some reconstitution of stocks which recently have fallen to a low level.

Given the favourable level of exports the *trade balance* has improved. In the period August-October the deficit was £41 million as against £95 million for the previous three months, and under one third of the level of the previous year. Excluding energy products, a surplus has even been recorded since July. For this reason and due to the recent improvement in tourism (from May to September the number of tourists increased by 4%) the *current balance* is only likely to be slightly in deficit. Official reserves at the end of October were £562 million, or four months import cover, which was £37 million higher than the figure for the end of June.

In the field of *monetary policy*, a certain number of measures have been taken since the spring, designed to create the basic conditions for a sustainable recovery in activity. The growth in the money supply was 20.9% in October, which is about 1% above the corresponding increase at the beginning of the year. The growth of bank lending to the private sector, although still slow, has been slightly more rapid in recent months (+13.3% in October on a year-to-year basis).

2. Outlook

The slight signs which have recently appeared of a conjunctural recovery should be confirmed in the course of the coming months. The recovery in activity will however remain slow up to the moment when the recovery in the world situation and in particular that in the UK, is such as to give a more vigorous push to the economy and provided that no protectionist measures come about to perturb or retard the improvement expected in external demand. In these conditions, a durable and progressive strengthening of the economy can take place, which in turn will improve the development of internal demand, particularly the investment propensity. If this comes about, gross national product in real terms; should grow by a little more than 2% on a year-to-year basis.

Exports should only grow moderately in the first phase. Evidently, a more rapid performance of sales to certain Community countries, in particular to France and the Federal Republic of Germany, can be foreseen because of the recovery expected in these countries and also due to 20% lowering in customs duties within the Community, to come into effect from 1 January but sales to the United Kingdom, which still represent 56% of total exports, should only grow slowly. In addition, the rapid rise of costs in 1974 and 1975 may have dulled the competitive edge of certain Irish industrial products on external markets despite the effects of the depreciation of the pound. Sales of agricultural products, in particular those of beef and cattle, are unlikely to increase in volume.

Internal demand will only recover slowly. Investment in manufacturing industry, and in particular in machinery, will no doubt remain depressed for a considerable period because of a number of factors: the uncertainties as to external demand, the high level of unused capacity, the difficult financial situation of a number of firms and the postponement of some investment projects by foreign companies. In addition, when account is taken of the level of the budget deficit in 1976, it is likely that public sector investment will grow more slowly than in 1975. On the other hand, the residential construction sector should be more buoyant. It is also to be expected that some push may come from the side of stock building, given the necessity of the reconstitution of non-agricultural stocks.

Private consumption should become progressively more attractive. While real incomes will decrease somewhat due to the probable freeze on wages and salaries and the difficulty of firms in according salary increases negotiated in this year's national pay round, the stimulatory measures taken in the June budget, particularly the reduction in VAT will continue to have favourable effects on consumer expenditure. In addition, and based principally on a certain stabilisation of unemployment, a general reduction of the saving ratio is thought likely, particularly for savings in the agricultural sector, which increased strongly in 1975, and should level off. When account is taken of the intention expressed by the authorities to slow down the growth in public service salaries, public expenditure should expand at a less rapid rate.

In conjunction with the strengthening expected in world demand, *production* should reach a more satisfactory level. The most marked improvements should come in construction as a result of the availability of sufficient finance, partly due to the weakness in investment in capital goods. Later on a greater degree of buoyancy should be felt in those industries depending on exports.

The recovery in activity will not however be sufficient to absorb the increase in the labour-force resulting from the reduction in the agricultural workforce and the fall in emigration. Thus, the *employment* situation is not likely to improve very much and the unemployment rate will remain high.

The rise in *prices* will continue for a certain number of reasons, chiefly the rise in food prices and the strengthening of imported commodity prices.

On account of the recovery expected and the restocking cycle, *Imports* should become more dynamic since their share in national production is relatively high. Since the improvement in the terms of trade will probably be less marked than in 1975, the trade balance should disimprove. However, when regard is had to the large surplus in services and current transfers, the current deficit should only grow slightly.

In the coming months the Irish authorities will find themselves confronted by a number of problems; the need to consolidate the recovery, to stabilise the unemployment level and to moderate the rate of

TABLE 2: Demand for and supply of goods and services

Ireland	1973 ²	1974 ²			1975 ³			1976 ³
	At current prices (£ mill.)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	1 776	- 2.3	17.3	14.6	- 3.5	21	17	1½
Public consumption	403	6.4	18.0	25.6	1	33	34.5	0
Gross fixed asset formation	591	- 3.4	25.6	21.3	- 7	20.5	12	- 4
—Enterprises	:	:	:	:	:	:	:	:
—Dwellings	:	:	:	:	:	:	:	:
—General Government	:	:	:	:	:	:	:	:
Domestic final uses (excluding change in stocks)	2 770	- 1.4	19.3	17.6	- 3.5	23	18.5	0
Domestic final uses (including change in stocks)	2 844	- 1.6	19.3	17.4	-10.0	23.5	11.0	2½
Exports ¹	1 017	0.9	22.2	23.3	4	19	24	4
Imports ¹	1 208	- 3.7	47.4	41.9	-12	15.5	1.5	5
GDP at market prices	2 653	0.4	8.1	8.5	- 3	26	22	2
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	2 770	- 1.5	—	18.4	- 4.0	—	20.9	0.1
Change in stocks	74	- 0.3	—	0.2	- 7.6	—	- 8.4	2.6
Balance of exports and imports ¹	-191	2.2	—	10.1	8.9	—	9.6	- 0.7

¹ Goods and services.

² Source: "Review of 1974 and Outlook for 1975".

³ Estimates.

: Not available.

inflation. The size of the existing budget deficit limits what can be done without creating risks on the balance of payments side and without fuelling new inflationary pressures. In considering the appropriate dosage of economic policy to achieve the different and conflicting objectives, the recent demand of the authorities for a pay pause must be welcomed. However, a careful monitoring of its initial deflationary impact on consumer demand will be necessary. By incomes restraint, in the longer term the basic conditions for a moderate development in domestic costs can be established which would encourage exports and the investment (both public and private) necessary to absorb the growing labour force.

Major economic policy measures

June 1975:

— The Minister for Finance introduced a Supplementary Budget on 26 June 1975. The budget included:

- subsidies on bread, flour, butter, milk, town gas, as well as a subsidy to the state transport company to reduce fares;
- removal of VAT from clothing, clothing materials, footwear, electricity and fuels generally (except road fuels);
- a temporary scheme of employment premia for manufacturing industry; subsidising net additions of employed people to a firm's labour force;
- additional capital expenditure of £27 million, nearly half on housing;
- the Associated Banks were asked to provide £40 million long-term finance for house purchase over the next two years. The banks will provide 20 years loans of up to 80% on the purchase price of a house

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973		118.4			119.2			118.8			119.4	
	1974		126.8			123.7			120.6			117.9	
	1975		115.2			115.2			:			:	
Unemployed (1 000)	1973	69.3	69.7	67.0	67.1	65.3	65.4	66.1	66.6	65.8	65.3	64.2	66.1
	1974	67.0	67.7	65.6	66.6	67.2	68.1	69.7	72.1	75.0	76.2	81.5	87.6
	1975	97.5	100.8	101.8	101.8	102.4	102.9	102.9	104.5	104.5	106.1	:	
Construction: permits for residential construction (1 000)	1973	3 612	5 311	4 248	1 101	1 866	1 100	1 970	1 950	2 587	2 219	2 132	1 719
	1974	2 451	1 698	3 423	2 531	2 208	1 831	2 140	2 110	2 330	1 798	1 962	1 726
	1975	1 878	1 693	2 237	:	:	:	:	:	:	:	:	:
Private consumers' expenditure (1970 = 100)	1973	135.6	138.8	140.5	138.1	146.1	152.3	145.1	157.1	143.1	148.1	157.1	153.2
	1974	152.6	159.1	156.0	163.1	162.1	165.0	168.1	170.1	167.1	172.2	176.3	176.0
	1975	179.6	178.7	181.2	181.2	196.8	190.7	196.0	195.2	:	:	:	
Consumer prices (1970 = 100)	1973		126.5			130.3			133.4			137.1	
	1974		143.5			151.5			157.3			164.5	
	1975		177.7			188.5			187.1			192.2	
Visible imports (million Eur)	1973	185.7	177.2	173.6	176.4	191.5	179.1	186.4	200.1	172.0	192.1	207.7	183.2
	1974	210.7	228.9	255.2	275.7	269.2	251.5	281.5	283.8	269.3	258.9	225.3	226.5
	1975	249.7	249.8	206.7	241.4	236.3	208.4	241.3	209.3	233.8	252.7	:	
Visible exports (million Eur)	1973	125.6	134.5	140.2	158.6	135.2	140.0	126.1	147.6	162.8	180.0	185.7	197.3
	1974	163.2	167.1	164.8	175.0	165.2	171.3	186.4	174.8	168.0	187.5	191.0	193.2
	1975	196.4	185.9	155.2	195.9	195.1	163.3	211.8	191.6	213.7	264.2	:	
Balance of Trade (million Eur)	1973	- 60.1	- 42.7	- 33.4	- 17.8	- 56.3	- 39.1	- 60.3	- 52.5	- 9.2	- 12.1	- 22.0	- 14.1
	1974	- 47.5	- 61.8	- 90.4	- 100.7	- 104.0	- 80.2	- 95.1	- 109.0	- 91.3	- 71.4	- 34.3	- 33.3
	1975	- 53.3	- 63.9	- 51.5	- 45.5	- 41.2	- 45.1	- 29.5	- 17.7	- 20.2	+ 11.5	:	
Official foreign exchange reserves (million Eur)	1973	884	837	797	819	823	776	741	776	797	788	825	821
	1974	816	761	809	759	762	732	818	924	870	881	873	862
	1975	822	809	798	799	821	853	900	890	948	902	:	
Money supply (million Eur)	1973	1 060	986	1 030	991	991	998	927	950	976	948	998	1 026
	1974	1 017	960	1 021	971	937	960	952	966	994	968	971	998
	1975	950	920	966	963	938	976	961	1 004	:	:	:	

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

- Industrial production: C.S.O.; Mining and manufacturing industry; seasonally adjusted.
- Unemployment: Number of registered unemployed; seasonally adjusted.
- Construction: Total of dwellings begun or authorized; seasonally adjusted.
- Private consumers' expenditure: Retail Sales Index; seasonally adjusted.
- Consumer prices: C.S.O.; Consumer price index; not seasonally adjusted.
- Visible trade: Imports cif, exports fob; seasonally adjusted.
- Balance of trade: Difference between values of imports and exports; seasonally adjusted.
- Official Foreign Exchange Reserves: Official External Reserves, Monetary Authorities' reserves of convertible currency, holdings of special drawing rights and reserve position in the IMF, not seasonally adjusted.
- Money Supply: Currency and current accounts, not seasonally adjusted.

: Not available.

at an interest rate of 12½%. Initially, priority will be given to loans for new houses;

- a 10% surcharge on income tax charged at rates of 35% and upwards (companies are exempted from this surcharge);
- public servants at present assessed for tax on their preceding year's income will be assessed on a current year basis;
- an embargo on special pay increases in the public sector.

The measures were designed to reduce prices by 4% and boost growth by 2%.

— The arrangements by which the Associated Banks provide credit on concessionary terms for exports of capital goods were revised. Under the new procedure the banks will receive subvention from the Exchequer to enable them to provide additional credit at a preferential rate and without a ceiling on total lending for the purpose. The subvention will be equivalent to the difference between the export credit lending rate, currently 8% and the appropriate rate of interest applicable to term lending to preferential borrowers.

July:

— The Minister for Agriculture announced a £15 million aid plan for farmers under the EEC Disadvantaged Areas' Scheme. A quarter of the cost of the scheme will be met by EEC funds, the balance from the Exchequer.

— Agricultural Ministers of the EEC agreed to devalue the Irish Green Pound by 5% with effect from 4 August.

— The Government announced that it would raise subsidies on food to neutralise the effect on the cost of living of the devaluation of the Green Pound. The extra cost to the Exchequer is £2.5 million.

August:

— The Capital Gains Tax Act became law with effect from 6 April 1974.

— The Wealth Tax Act 1975 became law with effect from 5 April 1975.

— The Industrial Credit Company announced that it has negotiated a \$30 million loan facility from the World Bank.

September:

— The Building Societies increased their mortgage rate by 1/4% to 11½% following the reduction of the Government interest rate subsidy announced in the June budget.

— The Minister for Social Welfare extended the period of entitlement to pay related benefits by a further 78 days to 303 days.

— The European Investment Bank gave an additional loan of £17.5 million for the improvement of the Irish telephone service. The loan is for a period of 12 years with a rate of interest of 9½%.

— The Government announced that as an economy measure the quinquennial census of population would not be held next year.

— The Irish Congress of Trade Unions agreed to modify the increases in pay for all wage and salary earners under the agreement whereby instead of a 4% rise in pay under the third phase, there would be no increase because of the fall in prices in August. The magnitude of the fourth phase of the agreement will be that of the rise in prices in the fourth quarter. At the same time the Government and the unions agreed that discussions should commence concerning special increases for public sector employees.

October:

— The Minister for Social Welfare announced increases in social welfare payments. The improvements simply additional state expenditure of £4 million.

— The Government interest rate subsidy to building societies was extended to house loans of up to £11 000 compared to the previous limit of £9 000.

— Agricultural Ministers of the EEC agreed to devalue the Irish Green Pound by 2.2%. Since the British Green Pound was devalued by 5.8% the effect of the change is to abolish subsidies which have been paid to Ireland by the EEC on exports to Britain.

— The Minister for Finance announced details of two new Government savings schemes designed to protect the value of savings. Under one scheme savings of up to £40 a month for a year are left on deposit for two years. At the end of the period the savings are paid back plus a bonus equal to the amount saved, multiplied by the increase in the consumer price index over the two year period from the date of the last monthly payment. If the savings are left for another three years, an additional bonus of 5% is paid. The second scheme is available to persons over 65. Up to £500 may be subscribed for bonds in £10 units. They must be held for one year but can then be cashed at any time and they then qualify for a sum sufficient to compensate for the rise in the consumer price index over the period. If they are held for three years an additional bonus of 5% is paid.

— The Minister for Finance announced the floating of the 1975 National Loan at a nominal rate of 14% and maturing in the period 1985-1990. The yield to redemption is 14.67%.

E. Italy

The economic situation in the third quarter was again marked by recessionary tendencies, mainly on the investment front. Unemployment and short-time working have become considerably more widespread. While the improvement in the balance of payments, which had been evident for quite some time, continued, the upward movement of prices accelerated.

In the first half of 1976, economic activity may pick up gradually, helped in particular by the recovery in world trade and the stimulatory measures decided last summer. On current trends production in 1976 as a whole can be expected to expand by a little more than 2%.

1. Recent developments

The economic situation in the third quarter was still marked by the recessionary tendencies evident since the middle of last year. On the demand front, only exports held up reasonably well, in spite of the persistent weakness of the world economy. At home, economic activity was dampened mainly by the continuing fall in fixed investment. As a result, the precarious situation on the labour market went on deteriorating, and the rate of utilisation of plant capacity dropped further. While prices rose somewhat more steeply as a result of cost

increases, the improvement in the payments balance continued.

According to the seasonally adjusted figures compiled by ISCO, visible exports in the third quarter were more than 7% higher in terms of value than in the preceding three months. In terms of volume, however, their growth was been less marked. Exports to the oil-producing countries and to the state-trading countries were relatively buoyant. Compared with the same period last year, the value of exports was 7.9 higher in the third quarter and 10.5% in October.

According to the mostly qualitative, and incomplete, indicators available so far, domestic demand in general remained sluggish in the third quarter. At any rate, this was the situation on the *investment* front, where capital expenditure on plant and machinery in particular declined further. Building investment probably also remained sluggish. Finally, the downward movement in stockbuilding would appear to have continued, albeit at a slower rate.

Private consumers' expenditure may have tended to rise somewhat in the third quarter, probably still helped by the sizeable wage and salary awards in the first half of the year. In real terms, however, consumption was no doubt slack, especially as regards consumer durables such as private cars and radio and television sets.

The ISTAT indices—seasonally adjusted by ISCO—suggest that *industrial production* again fell in the third quarter, albeit at a slower rate (by about 1½%). All major industrial sectors were affected. Compared with a year earlier, industrial production was 12.3% down in both the third quarter and the first nine months of the year. In October preliminary information shows that the trend of industrial production has at least ceased falling and was only 6% less than its, admittedly very low, level in October 1974. The degree of utilization of industrial production capacity fell in September to 68%, its lowest level since ISCO began its survey of this subject towards the end of 1968.

On the other hand imports have shown an expanding trend. According to the seasonally adjusted figures compiled by ISCO, *visible imports* in the third quarter were about 4½% higher in terms of value than in the preceding quarter and it appears that their volume growth has been only a little slower. Compared with corresponding periods in 1974 value reductions of 13.6% and 4.9% were recorded in the third quarter and October, respectively.

In spite of the weak trend of production, the number of employed persons as calculated by ISTAT and adjusted for seasonal variations by the Statistical Office of the European Communities rose slightly in the summer. Nevertheless, the situation on the *labour market* worsened distinctly. For one thing, the number of unemployed again rose considerably as the labour force expanded at a more rapid rate than the numbers employed. Above all, however, the average number of hours worked per employee again tended to fall sharply. According to the ISTAT quarterly sample surveys, unemployment was 17.6% higher in July than a year earlier; 648 000 people, or 3.3% of the labour force, found themselves out of work, compared with 2.8% in July 1974. The proportion of the total number of unemployed accounted for by first-time job-seekers, overwhelmingly young people, rose steadily during the year, to almost two-thirds in July. The unemployment rate in Southern Italy and the islands and also among women was above average. Also in July, the officially registered number of persons on short time was no less

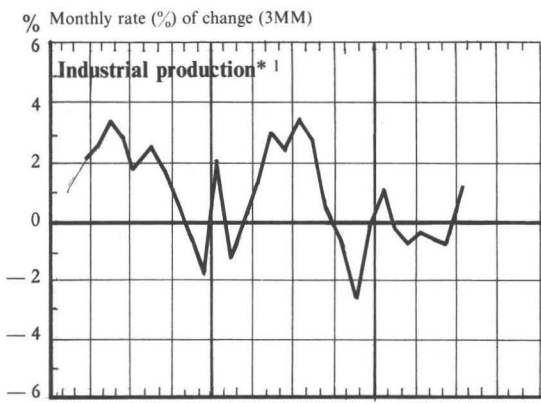
than 49% higher than a year earlier, while, in the third quarter, the Wage Equalization Fund had to provide compensation in respect of more than three times the number of hours not worked than a year earlier.

Owing to cost pressures, the upward movement of *prices*, which had been slowing down significantly for quite some time, accelerated again somewhat in the third quarter, particularly at wholesale level, where, following an actual fall in May and June, prices rose in the ensuing four months by 0.3%, 0.7% and 1.1% and 0.6%, respectively, affecting virtually all major categories of goods. The corresponding increases in consumer prices were 0.4%, 0.6%, 0.8% and 1.1%. In October, wholesale prices were 3.2% and consumer prices 12.1% higher than in the corresponding period in 1974.

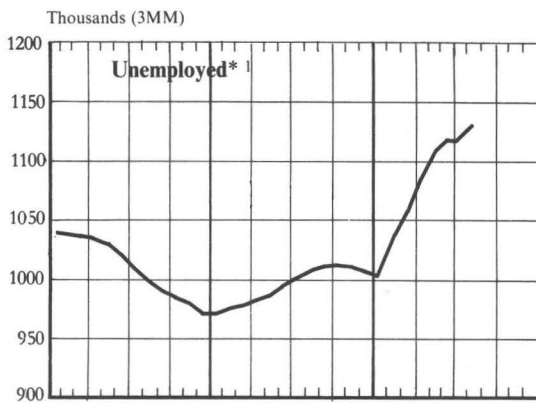
The *balance of payments* performance in the period July/October was affected by opposing tendencies. On the one hand, the statistics compiled by the Italian Exchange Office showed a particularly marked seasonal improvement in the balance on current account, owing partly to the aforementioned trend in visible imports and exports and partly to a large surplus on the balance of service transactions. On the other hand, the capital account, which was still in surplus in the first half of the year, moved into deficit notably as a result of the repayment of loans contracted abroad in previous years for reasons of foreign exchange policy. All in all, the balance of payments showed a deficit of Lit. 118 000 million in the period July/October. The (net) fall in official gold and foreign exchange reserves from Lit. 3 741 000 million to Lit. 3 370 000 million recorded in the same period substantially exceeded this deficit owing to money exports by the commercial banks.

Following the almost continuous improvement since February 1975, the weighted average exchange rate of the lira has fallen back somewhat since September. According to calculations by the Banca d'Italia, the depreciation of the lira from the level on 9 February 1973 widened from 19.7% on 29 August to 20.4% on 9 December.

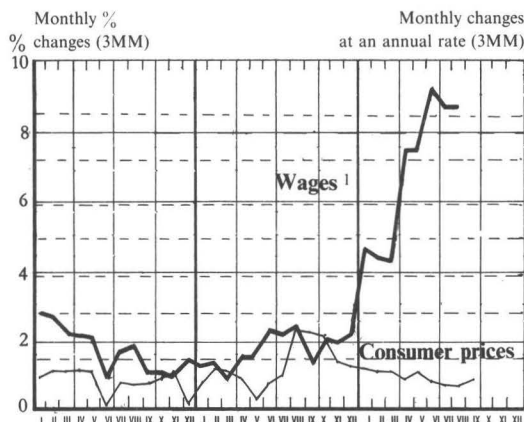
The growth in the *monetary base*, evident since the end of 1974, quickened in the third quarter. This was due notably to the Treasury's extremely large deficit and further releases of funds from the account with the Banca d'Italia, in which a considerable proportion of the proceeds of loans raised abroad in previous years has been frozen. Consequently, short-term *interest rates* declined further with the prime rate falling to 12% in October (from 17.75% a year earlier) and the interest rate on interbank balances being cut to 8.6% in October (from 16.9%). In contrast, although the general public was again more eager to invest in fixed-interest securities, the effective yield on bonds, which had fallen slightly in the first half of the year, rose to 10.6% between June and October as the monetary authorities resorted to open-market sales. *Lending* by the commercial banks in the third quarter appears to be on an accelerating upward trend.



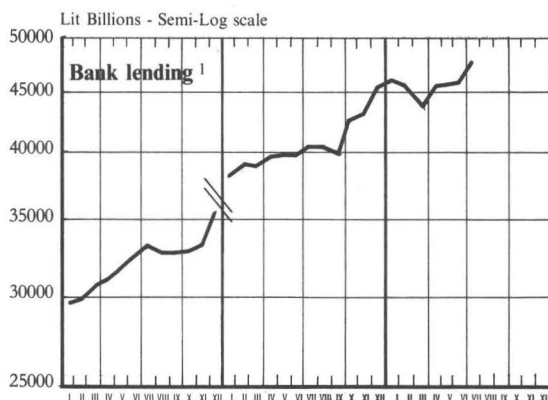
¹ Excl. construction, food, beverages and tobacco.



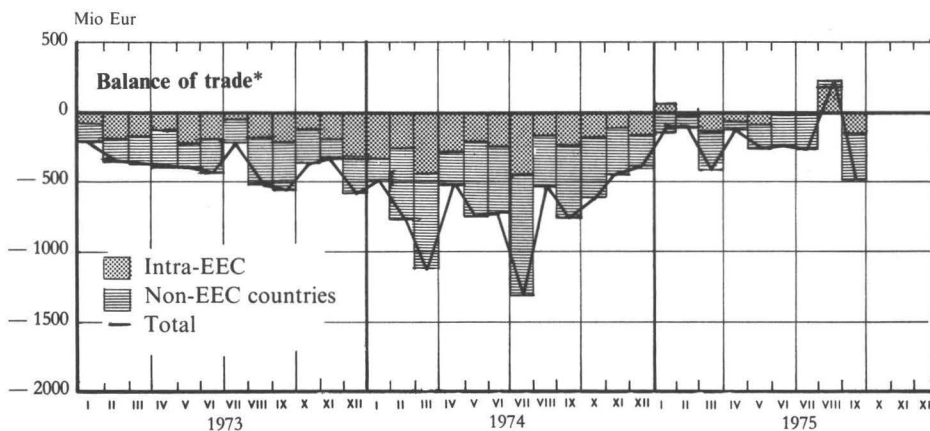
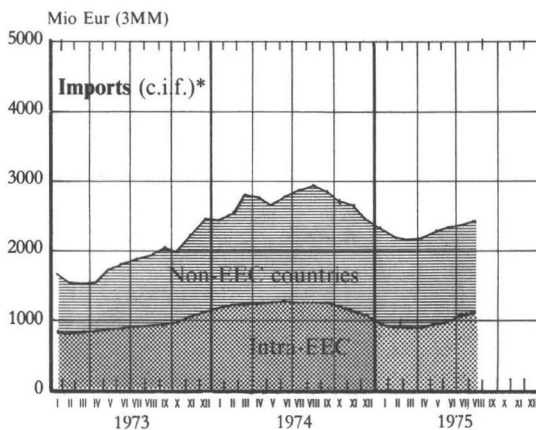
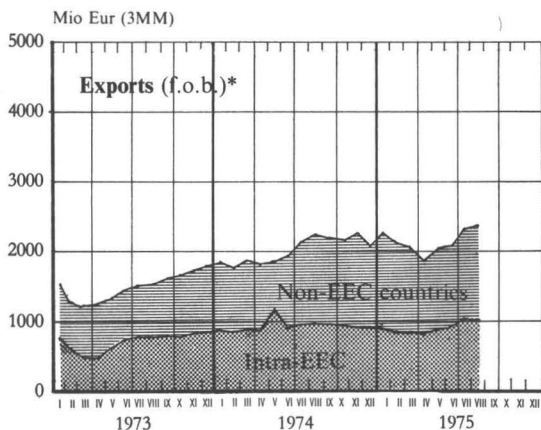
Source: Min. del Lavoro e della Previdenza Sociale.
¹ Registered unemployed (seasonally adjusted by SOEC).



Source: ISTAT.
¹ Agreed minimum wages in industry (excl. family allowances).



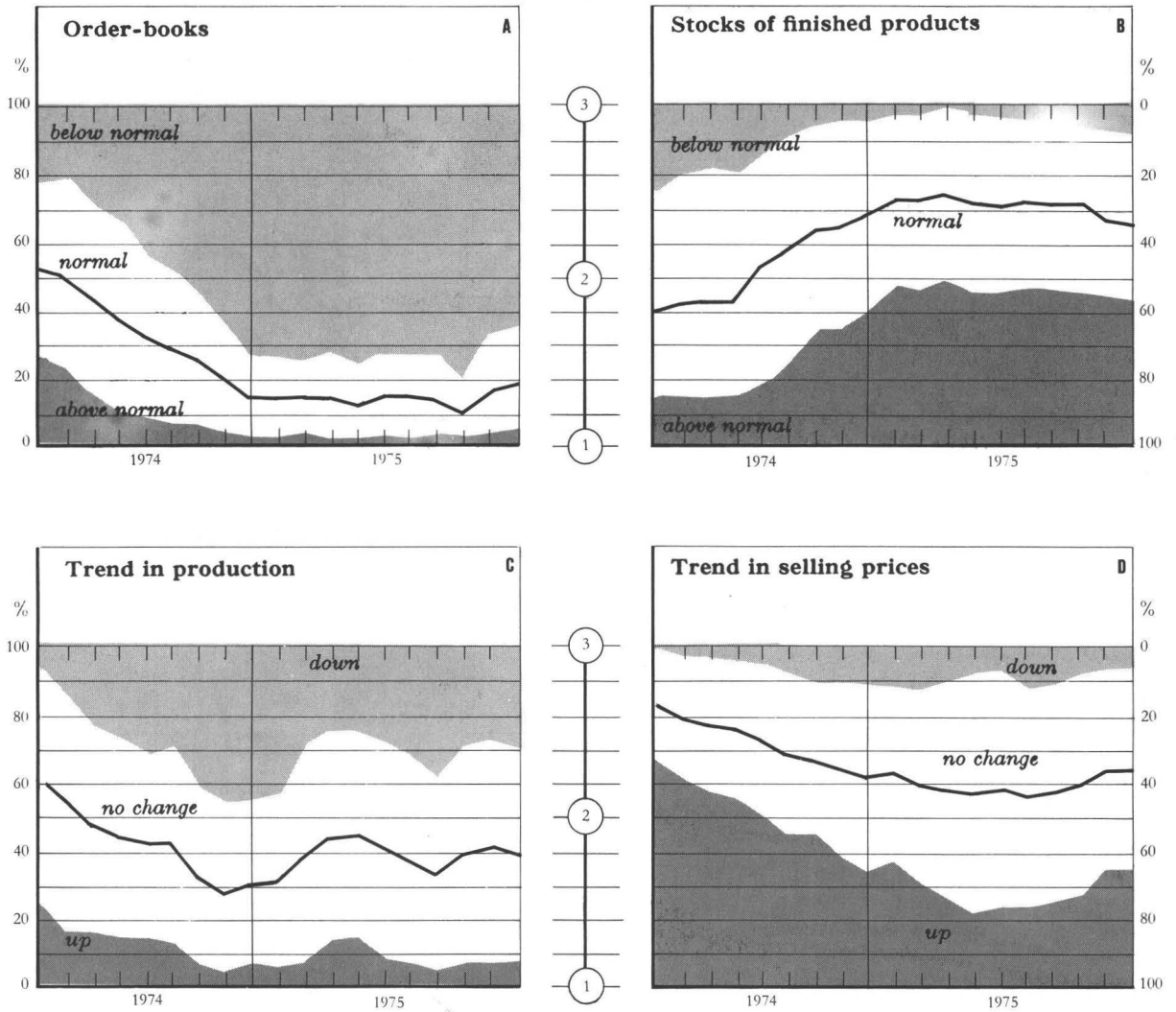
Source: Banca d'Italia.
¹ Short-term loans to business and private customers.



* = Seasonally adjusted figures.
3MM = Three month moving average.
Source: SOEC except where otherwise indicated.

Italy

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".

TABEL 1: Key-indicators

Italy	Unit	1968-72 average 4	1973	1974	1975 ⁵
Gross domestic product, volume	change in %	4.4	6.3	3.4	- 3½
of which: Industry ¹		6.0	9.2	4.8	-12
Gross domestic product in volume per person in employment	change in %	4.9	5.4	1.2	- 3
Total employment (number of persons) ²	change in %	- 0.5	0.9	2.2	- ½
—Enterprises	:	:	:	:	:
—General Government	:	:	:	:	:
Unemployment	in % of labour force	3.4	3.5	2.9	3½
Compensation of employees per wage and salary earner	change in %	11.2	18.3	20.9	20½
Price index of private consumption ³	change in %	4.2	11.6	19.6	17
Balance of payments: current account	'000 million lire	1 146	-1 473	-5 067	0

¹ Excluding construction.

² Domestic concept.

³ National accounts. Unemployment and balance of current transactions: arithmetic average over the five years.

⁴ Geometric mean of the change from 1967 to 1972.

⁵ Estimates.

:

Note:

Except for 1968-1972 and for the current balance of payments, the definitions are those of the ESA ("European System of Integrated Economic Accounts").

2. Outlook

The forecasts of economic developments during the remainder of the year and in the first half of 1976 given below are based on a number of assumptions that are subject to an exceptional degree of uncertainty. For instance, it is assumed that the autumn round of wage negotiations, covering 60% of industrial workers and one-third of all wage and salary earners, will be completed on time, without any disruptive industrial action. It is also assumed that the measures decided in the summer to stimulate economic activity will be implemented without any major delay. Not least, a marked recovery in world trade is assumed for the first half of 1976.

In the circumstances, *exports* should gradually gather momentum, especially as an upturn in world trade would be particularly beneficial for Italian exports, a high proportion of these consisting of consumer goods. However, for exports to become more buoyant again, the international competitiveness of the Italian economy must be safeguarded by moderate wage settlements.

In spite of the squeeze on company profits and inadequate production capacity utilization, there are many factors suggesting that the downward trend in *investment* will give way to some rise towards mid-1976. These factors include the improved outlook for exports and private consumption; the cost-induced pressure to undertake rationalization investment; the structural need to re-equip in order to adjust product ranges; the abnormally low level of primary material stocks; the expansionary credit policy and not least the aforementioned reflationary measures, which are designed in particular to encourage activity in residential construction and the public works sector.

The growth in *private consumers' expenditure* may accelerate somewhat. With the outlook for employment still gloomy, the proportion of disposable income spent on consumption is expected to be rather low, but disposable income itself should go up appreciably as a result of wage increases and income tax concessions.

On these assumptions, the real *gross domestic product* and the volume of *imports* may level off towards the end of the year and expand again in the first half of 1976.

Real gross domestic product is at present thought likely to grow by little more than 2% between 1975 and 1976.

In the first half of 1976, the *employment level* will probably remain very low since productivity, which fell considerably in 1975, is first expected to improve again.

With raw material prices rising and the strong pressure of wage costs persisting, the rate of *price* increases may accelerate again during the course of 1976. The trend of the *balance of payments* on current account should remain relatively favourable for a while.

The main task of *economic policy* undoubtedly remains

that of gradually setting the economy in general and employment in particular on an expansionary course without jeopardizing the progress made towards restoring the economy's internal and external equilibrium. For this to be achieved, it is no doubt essential that the reflationary measures decided in the summer should be applied promptly. Any delay here would hamper the economic upturn and would subsequently have a procyclical effect. There is also an urgent need for the recovery of the economy to be underpinned by action to reduce structural imbalances, particularly as regard social infrastructure and as between the North and South of the country.

TABLE 2: Demand for and supply of goods and services

Italy	1973 ²	1974 ²			1975 ³			1976 ³
	At curr. prices ('000 mill. lire)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	53 290	2.3	19.6	22.3	- 3½	17	13	- 2½
Public consumption	11 530	1.9	15.9	18.1	0	14½	14½	2
Gross fixed asset formation	16 970	4.2	28.7	34.1	-11	18	5	- 1½
—Enterprises	9 562	1.2	29.1	30.6	- 6	17½	10½	1½
—Dwellings	7 408	8.1	28.1	38.5	-17	19	- 1½	5
—General Government								
Domestic final uses (excluding change in stocks)	81 790	2.6	21.0	24.2	- 4½	17	11½	1½
Domestic final uses (including change in stocks)	83 575	1.7	21.6	23.7	- 7	18	9½	2
Exports ¹	15 223	10.8	37.0	51.8	0	14	14	4
Imports ¹	17 980	2.3	57.9	61.5	-14½	7½	- 8	5
GDP at market prices	80 818	3.4	16.6	20.6	- 3½	20	16	2
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	81 790	2.7		24.5	- 4½		12	1½
Change in stocks	1 785	- 0.8		0	- 3		- 2	½
Balance of exports and imports ¹	-2 757	1.5		- 3.9	4		6	0

¹ Goods and services.

² Source: Relazione generale sulla situazione economica del Paese, 1974.

³ Estimates.

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	103.7	103.7	103.7	110.7	112.8	115.4	119.9	115.8	118.9	121.1	120.5	120.6
	1974	123.9	120.2	120.8	123.6	121.6	122.9	122.3	117.8	121.6	115.0	108.7	106.4
	1975	109.1	110.8	105.7	106.6	99.6	103.8	108.5	103.4	105.6	:	:	
Unemployed (1 000)	1973	1 042.7	1 035.0	1 034.8	1 033.4	1 017.9	1 016.6	994.9	989.3	980.6	987.2	972.9	952.8
	1974	975.8	970.1	980.8	982.1	982.8	990.5	997.7	994.1	1 022.4	1 022.2	1 019.8	1 002.8
	1975	1 028.2	1 037.1	1 044.3	1 093.2	1 112.0	1 124.7	1 118.6	1 110.4	1 162.1	:	:	
Construction: permits for residential construction (1 000)	1973	33.5	32.2	32.7	31.1	32.1	31.6	31.6	33.2	31.9	36.3	34.6	55.5
	1974	32.8	28.1	30.5	28.9	27.0	25.8	26.0	20.9	19.9	24.0	19.0	12.2
	1975	27.6	19.0	15.9	16.7	:	:	:	:	:	:	:	
Private consumers' expenditure: department store turnover (1970 = 100)	1973	107.8	98.7	116.3	124.7	128.2	124.3	128.1	118.2	153.8	171.1	161.2	251.6
	1974	139.0	122.9	143.0	154.5	154.1	147.7	166.7	150.2	186.3	209.0	172.3	279.9
	1975	146.6	135.0	164.7	148.2	164.8	156.8	161.7	145.6	178.2	:	:	
Consumer prices (1970 = 100)	1973	116.2	117.6	118.8	120.0	121.8	122.9	123.6	124.4	125.1	126.1	127.6	129.4
	1974	131.5	134.3	137.8	139.5	141.5	143.5	146.4	149.6	153.9	156.8	159.8	161.1
	1975	163.2	165.6	165.8	168.0	169.4	170.7	171.4	172.5	173.9	175.8	:	
Visible imports (million Eur)	1973	1 605.7	1 712.9	1 299.5	1 564.3	1 769.9	1 963.2	1 732.4	2 034.9	2 120.0	1 958.7	1 887.4	2 627.5
	1974	2 221.6	2 637.7	2 961.0	2 986.2	2 425.5	2 593.2	3 340.9	2 662.8	2 898.8	2 856.6	2 400.0	2 769.4
	1975	2 152.5	1 992.6	2 352.6	2 145.8	2 009.3	2 533.0	2 447.0	2 111.5	2 827.7	2 676.8	:	
Visible exports (million Eur)	1973	1 405.7	1 388.0	959.6	1 206.5	1 414.4	1 524.0	1 489.4	1 505.3	1 530.5	1 615.8	1 588.9	2 025.2
	1974	1 726.8	1 850.5	1 822.4	1 952.7	1 676.6	1 861.2	2 346.0	2 120.3	2 121.5	2 231.3	1 955.6	2 393.7
	1975	2 051.5	2 084.7	1 938.9	1 996.2	1 744.4	2 281.5	2 169.3	2 347.2	2 328.1	2 432.6	:	
Balance of Trade (million Eur)	1973	-200.0	-324.9	-339.9	-357.8	-335.5	-439.2	-243.0	-529.6	-589.5	-342.9	-298.5	-602.3
	1974	-494.8	-787.2	-1 138.6	-1 033.5	-748.9	-732.2	-999.2	-538.8	-777.5	-625.3	-444.4	-395.7
	1975	-101.0	+ 92.1	-413.7	-149.6	-264.9	-251.5	-277.7	+235.7	-499.6	-244.2	:	
Official foreign exchange reserves (million Eur)	1973		2 467	2 210	2 252	2 136	1 802	1 524	2 226	2 287	2 004	1 974	2 349
	1974	2 093	1 467	2 496	2 084	1 469	1 307	1 638	1 632	3 396	2 753	2 278	2 550
	1975	2 223	2 155	2 267	2 422	2 275	2 290	1 569	1 367	1 993	1 817	1 466	
Money supply (Lit. '000 million)	1973	42 838	42 740	43 223	44 166	45 504	46 715	47 345	47 314	48 414	49 044	49 930	54 053
	1974	52 218	52 490	53 182	54 176	54 582	55 451	55 585	55 170	55 439	55 816	56 045	59 800
	1975	58 981	57 956	57 065	55 613	56 079	56 893	57 586	58 460	58 956	:	:	

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

Conversion into Eur (1 Eur = 0.0888671 g of fine gold).

- 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 position at end of month.

Gold assets assimilated to gold continue to be calculated on the preceding parity.

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.

: Not available.

Major economic policy measures

June 1975:

— With effect from 17 June, the ceiling on banks' external indebtedness introduced on 19 July 1974 was removed.

July:

— At the beginning of the month the obligation on banks to invest part of their assets in fixed-interest securities was extended for the second half of 1975. However, additional purchases of these securities must in future be equivalent to 30% of the increase in deposits, compared with 40% in the first half-year.

— Towards the end of the month, Parliament extended the rent freeze regulations until 30 June 1986.

— At the end of the month, the draft central government budget for 1976 (budget on an appropriations basis) was presented. Revenue, excluding borrowings, is 17.4% up on the estimates in the draft budget for 1975 (against a rise of 24% in the 1975 budget). Expenditure, excluding redemption of debts, is to grow by 28.3% (against 16.8%). When borrowings and redemption of debts are included, the deficit comes to Lit 10 318 000 million (against Lit 6 064 000 million). Current expenditure is to rise by 24.9% (against 16.3%), with its relative share of total budgetary expenditure decreasing further next year. Capital expenditure plans show a particularly large jump: up 47.3% (against 19.7%). Taking into account the fresh increase in the independent State undertakings' operating deficits, the overall deficit amounts to less than Lit 11 516 000 million, compared with Lit 7 173 000 million in the draft budget for 1975.

August:

— At the beginning of the month, the Government adopted a reflationary programme contained in two decree laws published on 12 August: one is concerned with exports, construction and public works, and the second deals with measures to assist small- and medium-sized industrial undertakings, agriculture, transport and the Mezzogiorno. The

programme involves over Lit 4 000 000 million in budget appropriations spread over several years and is to be financed by borrowing on the capital market. One of the main changes made to the programme, during the debates in Parliament, is the rejection of the chapter on the charging of some of industry's social security contributions to general taxation ("fiscalisation"). The full impact of the programme on the country's economic trend will probably not be felt until next year.

— About 20 August the monetary authorities requested the use of Lit 620 000 million of the IMF facilities to cope with the oil deficit.

September:

— With effect from 15 September, the discount rate and the rate for advances on securities was lowered from 7% to 6% while the maximum additional charge due when certain limits are exceeded was left unchanged at 3%. At the same time, the subsidized interest rate for export credits was reduced from 8.5% to 7.5%. Lastly the banks reduced the prime rate from 14% to 12%.

November:

— On 20 November the Government increased the price of the main oil products. The price of a litre of super petrol was raised to Lit. 315 (5%).

— Towards the end of the month, Parliament approved a draft law on income and succession taxation. The new law which came into operation on 5 December provides among other things for certain reliefs on low incomes, principally: a restructuring of rates in order to neutralise the effects of inflation on tax payments and to aid the less well paid; an extension of the disaggregation of spouses' incomes for tax purposes, the corresponding ceiling being raised from Lit. 4 to 7 million per annum; reliefs for small family firms and cooperative societies; reductions in taxes for holders of bonds (the maximum tax rate on interest was reduced from 30 to 20%); higher tax abatement particularly for salary earners and pensioners. The majority of the fiscal reliefs are backdated to 1 January 1975 which will imply, especially for salary earners, quite substantial repayments at the end of the year.

F. Netherlands

Economic activity reached its trough in the third quarter. Unemployment has risen further. Domestic price increases have slowed down a little. The current account of the balance of payments has remained in substantial surplus. A strengthening of the business climate in the coming months is to be expected. However, economic growth will, in 1976, remain comparatively slow and only relatively late in the year exert an influence on employment. Together with a foreseeable slowdown of the development of domestic cost elements, the rise in prices will be lower than in the year 1975.

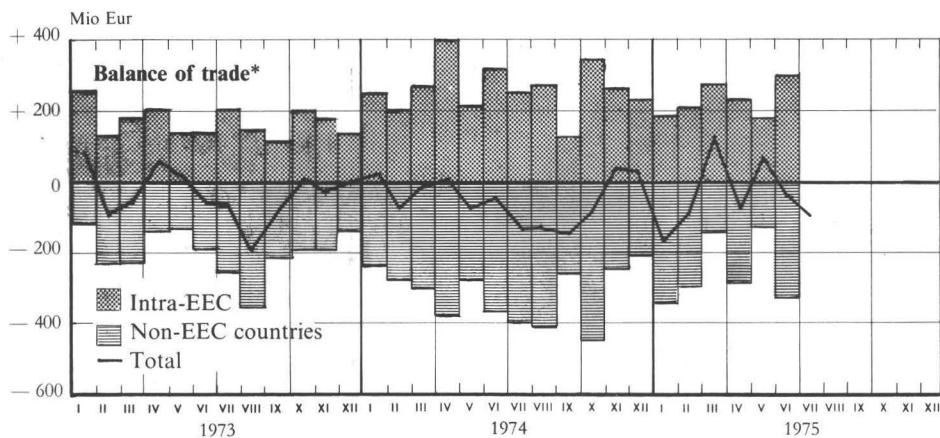
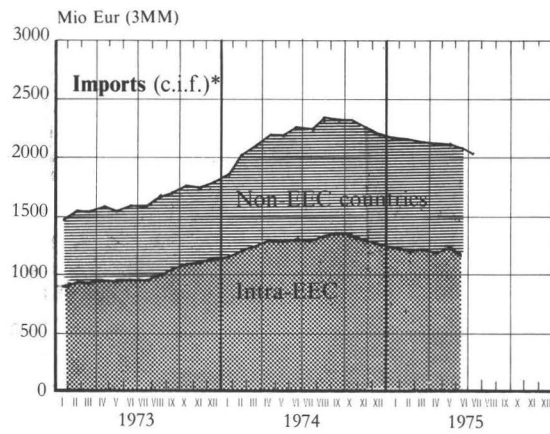
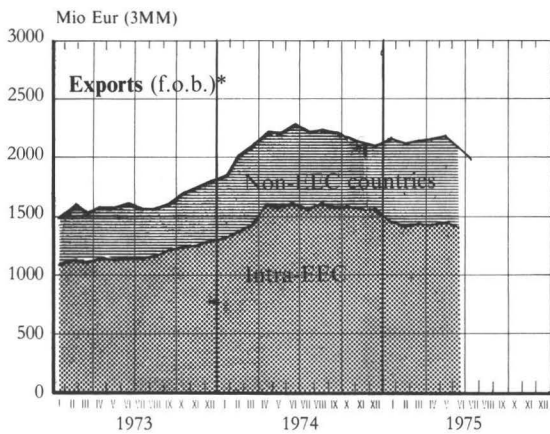
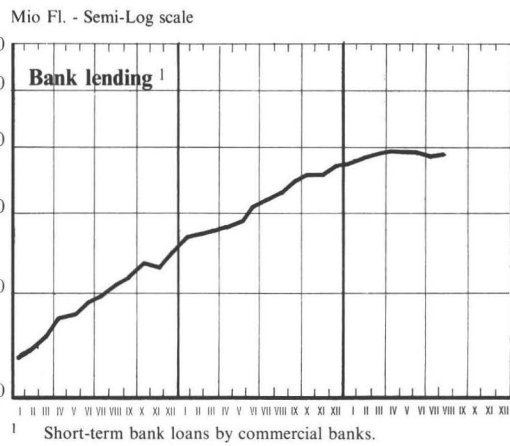
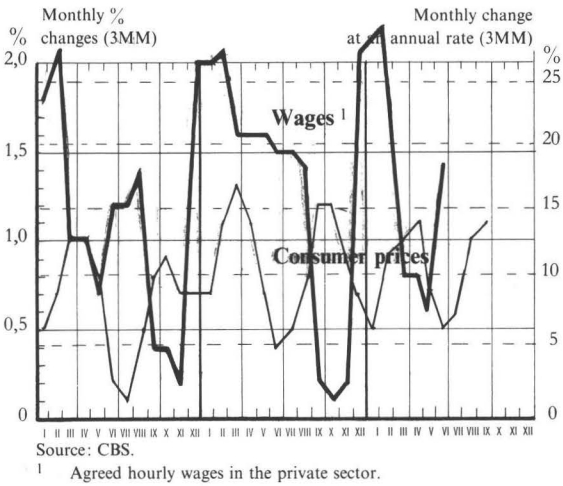
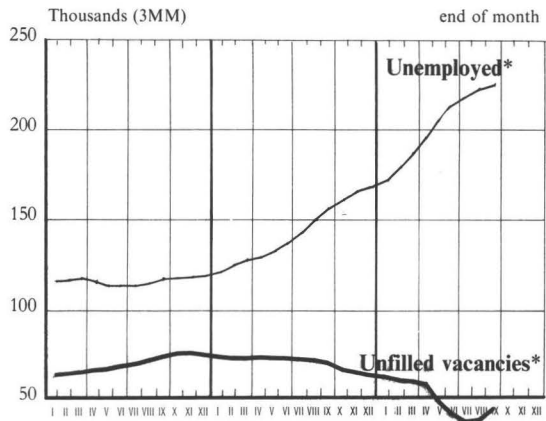
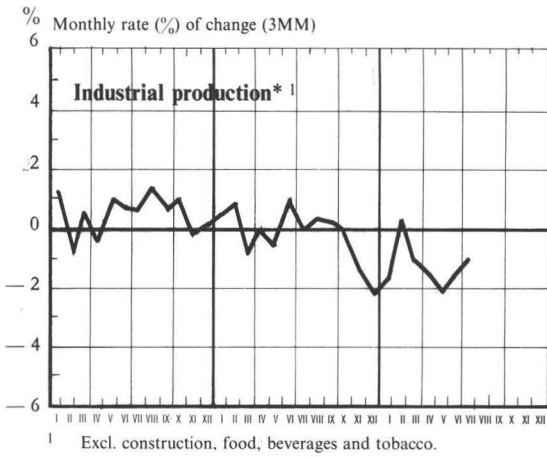
1. Recent developments

The decline of economic activity apparently came to a halt in the course of the third quarter. The most important economic indicators in general already point to a slight improvement.

First and foremost, *merchandise exports* seem to have levelled off following a decline in volume terms during the first half-year. Nevertheless, the export volume (excl. BLEU) in the third quarter stood some 10% below the level of the same period of the previous year. Due to the weakness of demand, the under utilization of productive capacity and the harder climate of competition, export prices for manufactured products have fallen somewhat. Despite a substantial price increase for natural gas, export prices in the third quarter were on average at the same level of a year earlier.

The drop in total *domestic demand* has continued in recent months. This is, in particular, a result of the development of *investment*, notably business fixed capital formation, which, due to extremely low capacity utilization, has seen a further decline. Public sector building activity, on the other hand, seems to have expanded strongly following various expansionary measures. Investment in dwellings and public works has increased somewhat. The level of stocks—notably stocks of raw materials and semifinished products—seems to have been reduced appreciably in the third quarter.

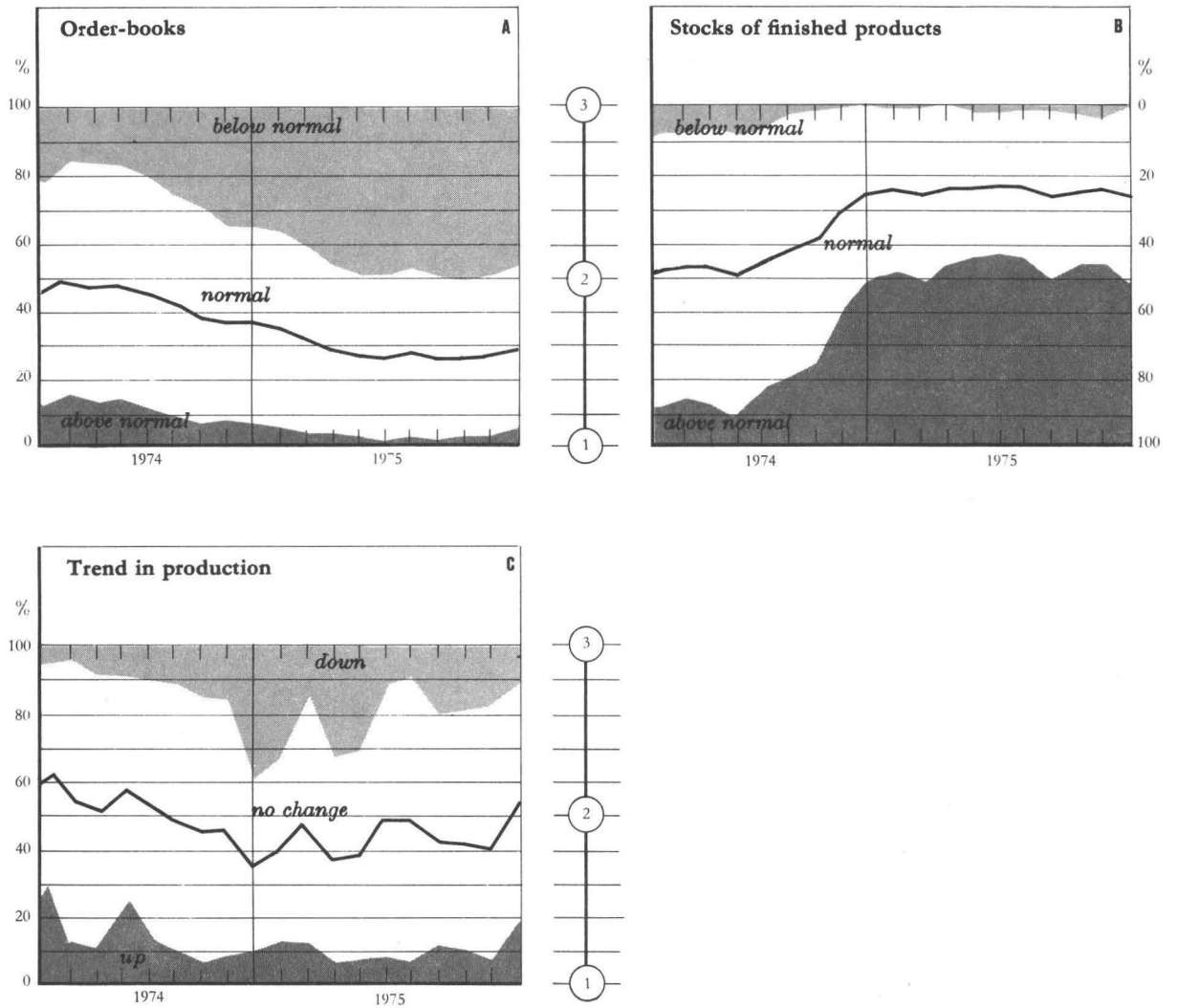
Following a substantial rise in disposable incomes, *private consumption* probably again experienced a marked upturn in the third quarter, showing a rise over the same period of last year of some 13% in value and 2% in volume terms. Both wages and salaries and transfer incomes rose by some 4½% at the beginning of July, as a



* = Seasonally adjusted figures.
 3MM = Three month moving average.
 Source: SOEC except where otherwise indicated.

Netherlands

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".

result of the half-yearly compensation for consumer price increases. At the end of October the weekly and monthly contractual rates reached a level 12.1% higher than a year earlier.

Industrial production, according to preliminary estimates, rose by some 6.5% between July and October. Nevertheless, in the latter month it was in total 5.5% and in manufacturing 5.9% below the level of 12 months earlier. Production in building and construction rose markedly over the previous quarter. For the year 1975 the decline in real gross domestic product is estimated at 2 (1974: +2.8%).

Employment in the enterprise sector has declined further. From mid-year to September the number of unemployed rose—according to the series adjusted for seasonal fluctuations by the Statistical Office of the European Communities—by almost 16 000 to 225 500 persons or 4.7% of the active population. In September-November the rising trend in unemployment was broken. This was at least partly due to a lengthening of the statutory duration of education. The proportion of young people (below 19 years of age) in total unemployment was thus virtually the same as in September 1974, and amounted, at the end of September 1975 to 9.5% for males and 24.8% for females. Unemployment among construction workers has undergone a marked decline since April.

The tendency towards a slower rise in import and wholesale *prices* seen in the spring was followed by a new acceleration in the third quarter. As a result of sharp wage increases and the weak trend in productivity, unit labour costs have also risen markedly. The upsurge of consumer prices has slowed down a little. In October the price index for private consumption expenditure (employees' households) stood 9.4% over the level of a year earlier.

Imports in volume were down sharply in the third quarter as a result, mainly, of the fall of industrial production and investment. In comparison with the same period of last year the decline amounted to 10% exl. BLEU). Following slower development in the previous quarter, import prices have accelerated and in the third quarter, an average, stood some 1½% above the level of a year earlier.

The surplus on the *current account of the balance of payments* (transactions basis) in the third quarter amounted to some Fl 1 100 mill. (1975-II: Fl. +1 100 mill.). The balance of trade and the balance of factor incomes has improved, whereas that for services has deteriorated. The terms of trade, which had been improving since the third quarter of 1974, deteriorated in the third quarter of 1975. This was probably at least partly due to the rise in the exchange rate of the US dollar in the latter period.

TABLE 1: Key-indicators

Netherlands	Unit	1968-72 average 4	1973	1974	1975 ⁵
Gross domestic product, volume	change in %	5.7	4.3	3.3	- 2.1
of which: Industry ¹		8.2	5.6	2.8	- 6.5
Gross domestic product in volume per person in employment	change in %	5.0	4.1	3.4	- 0.8
Total employment (number of persons) ²	change in %	0.7	0.2	- 0.1	- 1.3
—Enterprises		0.5	0.1	- 0.3	- 1.8
—General Government		2.3	1.0	1.6	2.1
Unemployment	in % of labour force	1.6	2.4	3.0	4.3
Compensation of employees per wage and salary earner	change in %	12.1	14.6	15.8	13.5
Price index of private consumption ³	change in %	6.0	8.8	10.0	10.9
Balance of payments: current account	gld. '000 million	0.4	5.6	4.5	4.0

¹ Excluding construction.

² Domestic concept.

³ National accounts concept.

⁴ Change in %: geometric mean on annual basis of the change from 1967 to 1972; unemployment and balance of current transactions: arithmetic mean over the five years.

⁵ Estimates.

The slowdown of the expansion of the domestic *money supply* (including quasi-money) has continued. At the end of September the level was 5.1% higher than a year earlier. Money market interest rates rose markedly in October; long-term rates have now risen slightly above the low points reached in February 1975.

2. Outlook

Economic activity in the Netherlands should strengthen somewhat in the course of the coming months. The rate of growth may, however, turn out to be rather lower than in previous conjunctural upswings. The upturn in

external demand is expected to remain relatively moderate; also domestic demand may expand only slowly. A further—although less marked—rise in unemployment seems likely. The upsurge in domestic prices will be slower than the year before.

Given a rather modest expansion of external demand, *merchandise exports* may experience only a moderate increase. The rise in export prices may, however, accelerate as a consequence of more lively demand and persistently strong cost pressures. The export prices for natural gas should, in any case, see some further increase.

TABLE 2: Demand for and supply of goods and services

Netherlands	1973 ²	1974 ²			1975 ³			1976 ³
	At curr. prices ('000 mill. fl)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	92.25	2.6	10.0	12.9	2.6	10.9	13.8	2½
Public consumption	27.42	0.5	15.8	16.4	4.0	12.9	17.5	1½
Gross fixed asset formation	38.71	- 5.0	12.4	6.8	- 7.7	11.4	2.8	- 3½
—Enterprises	21.76	- 1.1	11.1	9.8	- 8	11.5	2.5	- 7
—Dwellings	10.61	-13.7	14.0	- 0.5	- 8	10	1	- 1
—General Government	6.34	- 5.2	14.0	8.1	3.5	10	14	1
Domestic final uses (excluding change in stocks)	158.38	0.4	11.6	12.0	0.5	11.4	11.9	1
Domestic final uses (including change in stocks)	160.68	1.2	11.8	13.1	- 3.0	11.4	8.2	2½
Exports ¹	83.09	2.2	25.6	28.2	- 4.5	4.7	- 0.1	6
Imports ¹	78.39	- 1.3	32.2	30.5	- 6.2	4.2	- 2.2	6
GDP at market prices	165.38	2.8	9.4	12.5	- 2.1	11.5	9.1	2½
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	158.38	0.4		11.5	0.5		11.9	1.0
Change in stocks	2.30	0.7		1.2	- 3.3		- 3.4	1.5
Balance of exports and imports ¹	4.70	1.7		- 0.2	0.8		1.2	0.3

¹ Goods and services.

² Source: "Nationale Rekeningen", 1974; CBS.

³ Estimates.

As is the case for external demand, a rather modest expansion is foreseen for *domestic demand* in the coming months. Thus there are no signs of a revival of business *investment*. Housebuilding may also develop rather sluggishly; central government investments are already on a high level and can hardly be expected to contribute further to economic growth; on institutional grounds as well as for reasons of budget policy there are now rather narrow limits for a further expansion of public works.

Following a reduction of stocks in 1975 a certain restocking—in particular of raw materials—is to be expected for 1976. Stocks of finished products, however, remain too high in numerous industrial branches; hence, inventory formation is unlikely to become a dynamic growth-element in 1976.

Following a slight decline between the third and fourth quarters *private consumption* should in the early months of 1976 see a renewed increase in real terms, notably as a result of a further compensatory adjustment of wages, salaries and transfer incomes. Later in the year the trend of consumption may, on the other hand, prove to be rather sluggish and the rise may for the year as a whole be in the region of 2½%.

Although activity in export industries should strengthen markedly in the course of the coming months, total *production* is to be expected to see no more than a rather modest expansion. Stocks of finished products remain relatively high in the consumer goods industries and a strengthening of demand may be reflected only with some delay in an upturn of production. Building and the service sectors should, however, experience a somewhat higher level of activity. Overall, the real gross domestic product may rise by some 2½% in 1976.

The growth of output will be accompanied by an increase of productivity. A further decline of *employment* in the enterprise sector is, therefore, hardly avoidable. Given that the active population is likely to grow a little, a further (although slower) rise in unemployment is to be expected.

Together with a foreseeable slackening in the upsurge of domestic cost factors, the increase in consumer prices in 1976 will be smaller than in 1975. But acceleration of import price rises is not to be excluded; moreover, the planned increase of the rate of value added tax (from 16 to 18%) as from 1st October 1976 will contribute to the rise in prices.

Assisted by the rise in production, stockbuilding of raw materials and acceleration of price increases for various products, merchandise *imports*—which were edging downwards in 1976—will again be on a rising trend. Given a marked improvement of the balance of factor incomes, the current account of the *balance of payments* should again in 1976 be in substantial surplus.

The most important problems facing Dutch economic policy are: a marked cost inflation and the deterioration of the short- and the medium- term prospects for

employment. Due to the price rise for natural gas the external balance has remained strong in value terms. In volume terms, however, external transactions are providing weaker growth and employment impulses than before. In the short-term an expansionary budget policy has helped to stabilize activity. In the longer run, however, only a slowdown of cost increases and an improvement of the profitability of enterprises can lead to an upturn in investment and, hence, also in employment.

Major economic policy measures

April 1975

— Publication of a regulation on subsidies for maintenance work on owner-occupied housing.

— Publication of an amendment to the 1975 price regulation for goods and services, specifying that, in view of the lower figure now put on productivity growth, industrialists may pass on two-thirds (instead of half) of this year's increase in wages and salaries, but not more than 8.5% (instead of 6.5%) of total wages and salaries paid last year.

May:

— Publication of a regulation granting investment premiums to encourage industrial and major service undertakings to set up or extend their operations in the regions.

June:

— Publication of a new regulation on financial incentives for the construction of owner-occupied housing.

— Publication of an amendment to the regulation on rent subsidies to private individuals.

— Publication of a regulation on financial assistance for the elderly in the event of house removal in 1975 and for individuals carrying out home-improvement work or moving away from slum areas in 1975.

— The Minister of Finance announced to the First Chamber that central government finance for regional and local authorities would be discontinued with effect from 4 June 1975.

July:

— The statutory minimum wage was raised by 5.4%.

— Benefits under the general old-age insurance scheme and under the general survivor's insurance scheme were increased by 3.7%.

— All other social security benefits were raised.

— Publication of amendments to two regulations concerning unemployed persons for whom jobs cannot easily be found.

— The subsidy paid to employers employing a young person who has to attend school two days a week, was raised from Fl 20 to Fl 45 a week with effect from the school year beginning 1 August 1975.

August:

— The discount rate was cut from 6% to 5½% with effect from 15 August.

September:

— Publication of a regulation on premiums to promote the development of Lelystad.

— On 15 September, the discount rate was lowered from 5½% to 4½%.

— Under the central government budget for the financial year 1976, which was presented to the Second Chamber on 16 September, central government expenditure in 1976 will amount to about Fl 76 500 million, an increase of 17.9% on the expected outturn for 1975 and of 23.8% on the 1975 budget. On the same comparison, revenue is to increase by 7.9% and 11.7% respectively. The net borrowing requirement is expected to be Fl 13 700 million in 1976, equal to 6.25% of national income at market prices (expected outturn in 1975: 2.75%). The 1976 budget provides for an additional Fl 3 000 million inflationary programme, divided almost equally between increases in expenditure and cuts in taxation.

December:

New measures were taken to counter unemployment and inflation:
— the increase in wages covered by collective agreements, in respect of the half-year beginning 1 January 1976 is to be limited to the rise in consumer prices (4.5%);

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	115.6	117.6	113.2	117.3	116.3	117.1	119.8	118.5	122.0	121.9	122.2	121.4
	1974	122.8	123.2	124.3	119.8	123.5	122.1	123.2	123.5	123.2	123.9	123.2	117.3
	1975	116.0	117.1	118.5	112.1	111.6	111.1	106.7	107.9	112.1	:	:	:
Unemployed (1 000)	1973	116.1	119.5	119.4	117.8	114.4	115.1	116.3	117.8	117.4	118.2	117.1	119.0
	1974	123.7	124.4	129.8	130.9	133.4	137.6	145.0	151.1	154.1	158.9	163.3	169.0
	1975	170.1	178.1	187.7	199.1	202.6	209.7	218.2	224.2	225.5	224.6	:	:
Permits for residential construction (1 000)	1973	13.6	13.6	11.2	15.2	11.7	12.1	13.0	10.6	11.8	11.5	10.6	10.2
	1974	10.3	11.0	11.9	8.9	10.8	9.6	11.7	7.5	8.3	9.3	9.2	10.5
	1975	11.5	8.3	9.2	10.1	9.7	11.1	8.6	12.8	6.4	9.0	:	:
Retail turnover (1970 = 100)	1973	124.4	127.4	131.1	125.2	130.8	136.2	127.0	134.7	131.7	136.4	140.9	127.0
	1974	140.6	144.4	143.2	146.2	152.2	148.2	152.5	158.6	148.8	157.0	161.5	154.6
	1975	158.4	158.2	162.2	163.2	173.0	160.2	164.5	166.6	:	:	:	:
Consumer prices (1970 = 100)	1973	121.0	121.5	122.7	124.6	125.4	125.7	125.5	126.0	127.5	128.6	129.5	130.1
	1974	131.1	132.3	134.4	136.3	136.8	137.3	137.7	138.7	140.8	142.6	143.7	144.4
	1975	145.2	145.5	147.7	149.7	150.6	151.0	151.7	153.1	155.1	156.3	:	:
Visible imports (million Eur)	1973	1 538	1 526	1 594	1 481	1 658	1 463	1 617	1 651	1 704	1 799	1 832	1 642
	1974	1 940	1 949	2 155	2 204	2 332	2 133	2 439	2 267	2 346	2 411	2 230	2 156
	1975	2 259	2 177	2 091	2 209	2 099	2 061	2 032	1 934	2 341	:	:	:
Visible exports (million Eur)	1973	1 627	1 612	1 502	1 432	1 730	1 476	1 565	1 592	1 509	1 724	1 836	1 620
	1974	1 940	1 971	2 099	2 194	2 336	2 096	2 358	2 071	2 224	2 297	1 841	2 173
	1975	2 272	2 006	1 996	2 334	2 039	2 127	2 000	1 850	2 160	:	:	:
Balance of trade (million Eur)	1973	+ 88	+ 86	- 93	- 48	+ 72	+ 13	- 52	- 59	- 195	- 75	+ 5	- 22
	1974	0	+ 21	- 56	- 16	+ 4	- 37	- 81	- 195	- 122	- 114	- 389	+ 17
	1975	+ 13	- 171	- 75	+ 125	- 61	+ 66	- 31	- 89	- 181	:	:	:
Official foreign exchange reserves (million Eur)	1973	2 489	2 709	3 195	3 140	2 953	2 801	2 528	2 465	2 494	3 136	3 229	3 568
	1974	3 093	3 151	2 995	2 715	2 760	2 589	2 675	2 957	3 540	3 743	3 780	3 544
	1975	3 584	3 527	3 452	3 448	3 321	3 215	3 458	3 688	3 760	3 869	:	:
Money supply (million Eur)	1973	10 425	10 505	10 786	10 887	10 627	10 547	10 270	10 180	10 759	10 610	10 798	10 689
	1974	10 715	10 982	10 901	10 930	11 205	11 225	11 188	11 375	11 471	11 576	11 752	12 063
	1975	12 097	12 204	12 261	12 512	13 494	13 405	13 948	14 148	:	:	:	:

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

Conversion into Eur (1 Eur = 0.888671 g of fine gold).

- Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco.
- Unemployed: end-of-month figures, adjusted for seasonal variations.
- Seasonally adjusted number of dwellings authorized.
- Seasonally adjusted index of retail turnover.
- Imports cif, exports fob; adjusted for seasonal variations.
- Balance of trade: difference between the seasonally adjusted figures of imports and exports.
- Official foreign exchange reserves: gross reserves of 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.
- : Not available.

— the Government proposed the introduction of a limit of 8.5% to 9% on average growth of gross average earnings between 1975 and 1976 with regard to the increase, from 1. January, of 7.16% in the legal minimum subsidy payment will be obtainable by those firms which employ a relatively high number of persons paid at the minimum

rate. The total cost of this subsidy is estimated to be 100 million florins and is approximately equivalent to 2½% of the total bill for wages paid on this basis by firms able to benefit from the measure; — the restrictive stance of price policy is to be maintained.

G. Belgo-Luxembourg economic union

Economic activity continued to lose momentum throughout the summer months and into the early autumn. Demand has been very sluggish. With production contracting, the situation on the labour market has continued to deteriorate, but there has been hardly any slackening in the pace of price increases. The few signs of an improvement abroad offer little hope of a sharp upturn in Belgium, they suggest no more than a moderate recovery in early 1976.

1. Recent developments

With no recovery in export demand and no stimulus from private consumption, economic activity is still on a downward path, the expansion in public spending not having been sufficient to make up for the drop in demand from the private sector. However, the business survey suggests that the economic climate began to improve a little in September-October.

Export demand has fallen sharply because activity on export markets has slackened and because many firms have been finding it difficult to maintain their competitiveness. The fall in the value of merchandise exports has hardly slowed down at all during the year. In the third quarter, exports from the BLEU were running 13.1% below the corresponding 1974 level. In real terms, the deterioration is even more marked.

Domestic demand considered as a whole, weakened a little during 1975, mainly as a result of the contraction in companies' fixed investment brought about by the uncertainty with which they view future trends in activity and profit margins and by the extent of unused production capacity. Private residential construction has remained reasonably vigorous. Measures to promote public works and low-cost housing programmes have not as yet exerted an appreciable impact on public investment. In addition, most industrial firms, which, in first half of the year, held large stocks of finished products and raw materials, have run these down, thus limiting further the volume of imports and industrial production.

The slowdown in real private consumers' expenditure, which began in the fourth quarter of 1974, has persisted. In June-August, the volume of retail sales showed a drop of 1% from its level a year earlier; in September-October, however, sales of new private cars were 17.4% higher than in the corresponding period last year. Although the growth in average gross hourly earnings slackened in the second quarter, the index for September was still 17.4% higher than in September 1974. Nonetheless, the

expansion in real private disposable income seems to have come to a halt, as increased welfare payments to the unemployed have not matched the drop in wages and salaries due to the smaller number of hours worked. In addition, some households are building up precautionary savings.

Following a break in May-June, industrial production has resumed its downward trend. In the third quarter, the index was 14.9% lower than in the corresponding period of 1974. This is partly because factories in some industries closed for longer than usual in the summer. However, overall activity in building and construction has not lost ground.

The situation on the labour market is still depressed. Unemployment, which began to rise in March 1974, has continued to grow until October. In October, the number of unemployed rose sharply, mainly because the market had to accommodate the annual wave of school- and university-leavers. At the end of November, the number of job-seekers¹ was 261 100 as against 156 000 the previous year. The under-25s accounted for 107 700 of these (41.2%). The unemployment rate reached 6%. Short-time working is still very widespread; in July, the average monthly figure for those on short time was about 37 300 compared with 15 600 in July 1974. Although still very small, the number of unfilled vacancies has risen slightly since last June.

The BLEU's merchandise imports have contracted very rapidly in money terms. In the third quarter, they were 11.7% lower than in the corresponding period in 1974: in real terms, to fall was even more marked.

In spite of the price freeze which has been in force since May, the pace of consumer price increases has not eased in recent months. Inflation has been fuelled by increases

¹ Wholly unemployed receiving benefit, other compulsorily registered job-seekers, unemployed persons taken on by the public authorities, unemployed applicants for vacancies.

TABLE 1: Key-indicators

Belgium	Unit	1968-72 average 4	1973	1974	1975 ⁵
Gross domestic product, volume	change in %	5.4	6.3	3.9	- 2.7
of which: Industry ¹		8.1	7.1	4.3	- 8.5
Gross domestic product in volume per person in employment	change in %	4.6	5.5	2.8	- 0.8
Total employment (number of persons) ²	change in %	0.8	0.9	0.6	- 1.9
—Enterprises		0.3	0.7	0.3	- 2.5
—General Government		1.7	2.1	2.2	2.0
Unemployment	in % of labour force	2.3	2.6	2.7	4.8
Compensation of employees per wage and salary earner	change in %	10.0	13.4	18.4	17.6
Price index of private consumption ³	change in %	3.5	6.3	12.3	12.4
Balance of payments: current account	Fb '000 million	30.4	44.1	32.2	34.2

¹ Excluding construction.

² Domestic concept.

³ National accounts.

⁴ Change in %: geometric mean of the change from 1967 to 1972; unemployment and balance of current transactions: arithmetic average over the five years.

⁵ Estimates.

in food prices, the indexation of certain public service charges, professional fees and rents, and the rise in wage costs per unit of output. In November, the consumer price index was 11.2% higher than a year earlier; this figure implies, however, a slowdown in the year-to-year rate of increase, which had been running at 15.6% at the beginning of the year.

The BLEU overall balance of payments in the first nine months of the year showed a surplus of Bfrs. 17 300 million as against Bfrs. 39 000 million for the corresponding period in 1974. This figure is made up of a surplus on current account totalling Bfrs. 27 200 million compared with Bfrs. 21 900 million for the period January-September 1974 and a deficit on capital account of Bfrs. 12 600 million compared with a surplus of Bfrs. 2 200 million in the corresponding period in 1974.

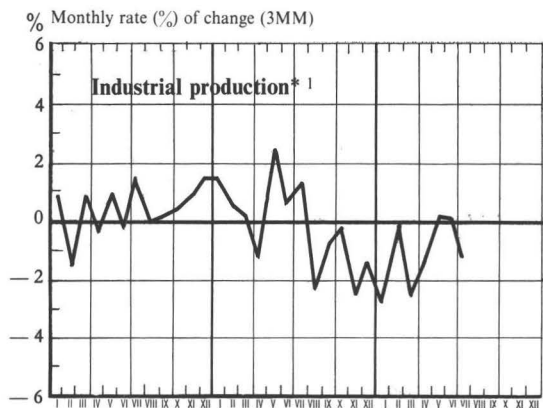
In spite of the relatively abundant supply of liquidity, the downward drift of money market interest rates has not continued in recent months. On the capital markets, the financial intermediaries have noted a contraction in the demand for credit from firms. The weighted average yield from bonds rose from 8.09% at the beginning of June (turningpoint in the downward trend) to 8.50% at the beginning of November.

2. Outlook

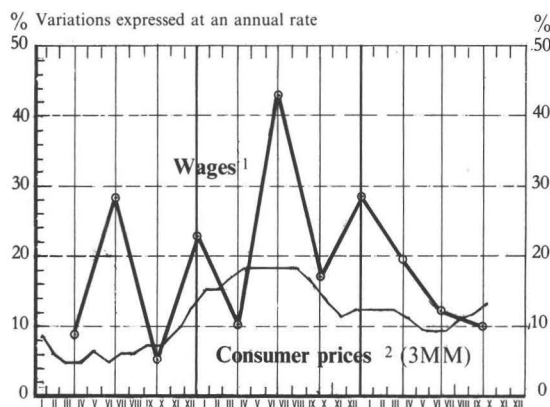
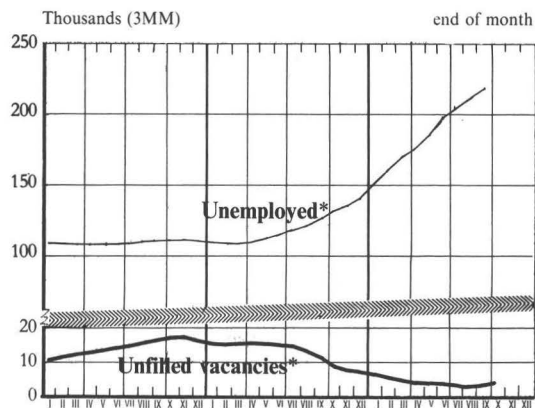
The few signs that demand is picking up on major export markets hold out a hope that the recession will come to an end during the winter. As of the beginning of 1976, exports and public investment are the demand components that will be contributing most to a slow upturn in economic activity.

In view of the normal time-lag between a recovery on export markets and a resulting strengthening in the demand for Belgian exports, it will no doubt be several months before any substantial revival of exports occurs. As a number of firms are probably now having difficulty in quoting competitive prices, the growth in exports could well prove slower than in previous periods of economic upswing.

There is nothing to suggest a fresh surge in company investment before the end of 1976. The building and construction industry should make a substantial contribution to general activity: the measures in favour of social dwellings could help to sustain the present level of investment in residential construction. Public investment will expand significantly as a result of the decisions taken in 1975. It is also likely that firms will be building up stocks—particularly of raw material—once again, as the present level of stocks in a number of



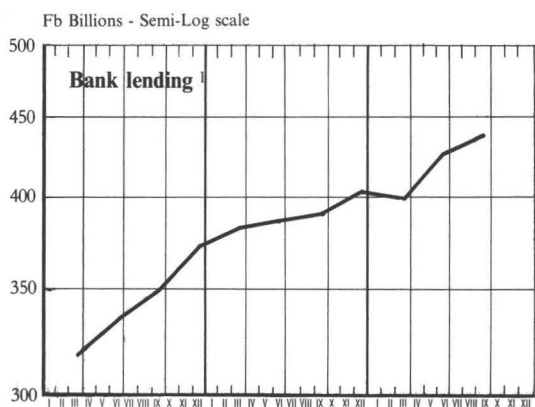
1 Excl. construction, food, beverages and tobacco.



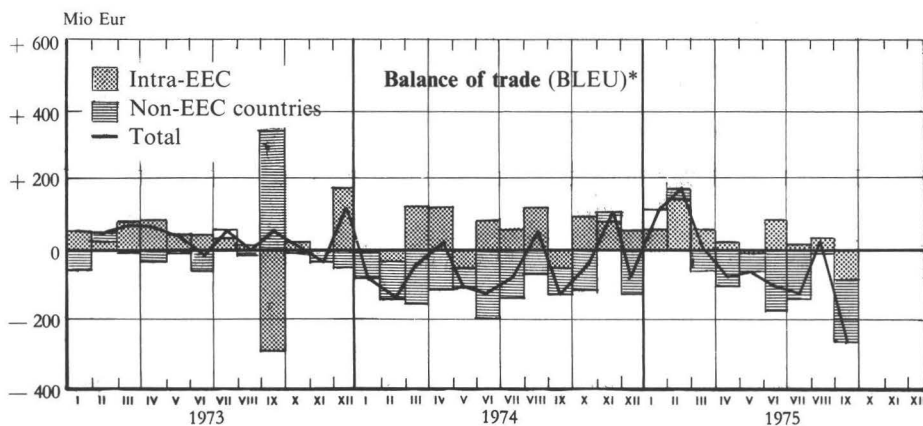
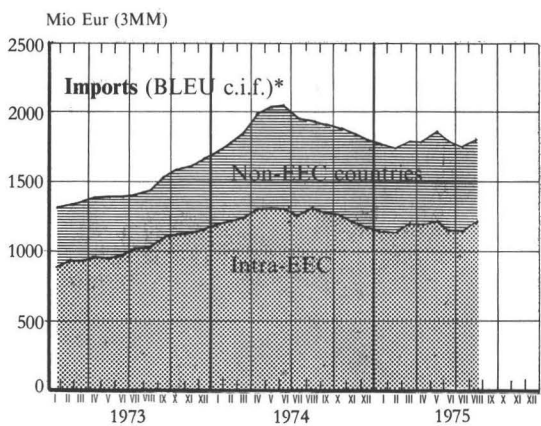
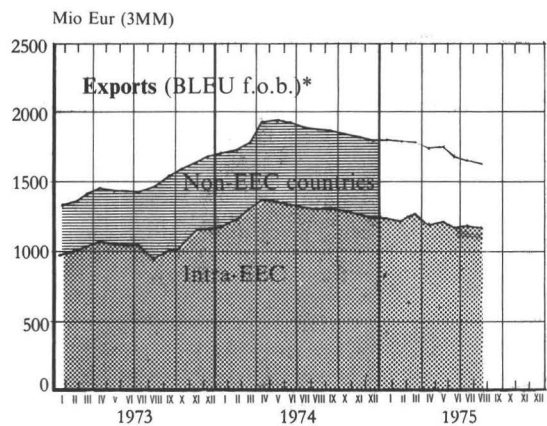
Source: Min. des Affaires économiques et B.N.B.

1 Average gross hourly earnings in industry.

2 Three month moving average.



1 Advances by the banking institutions.



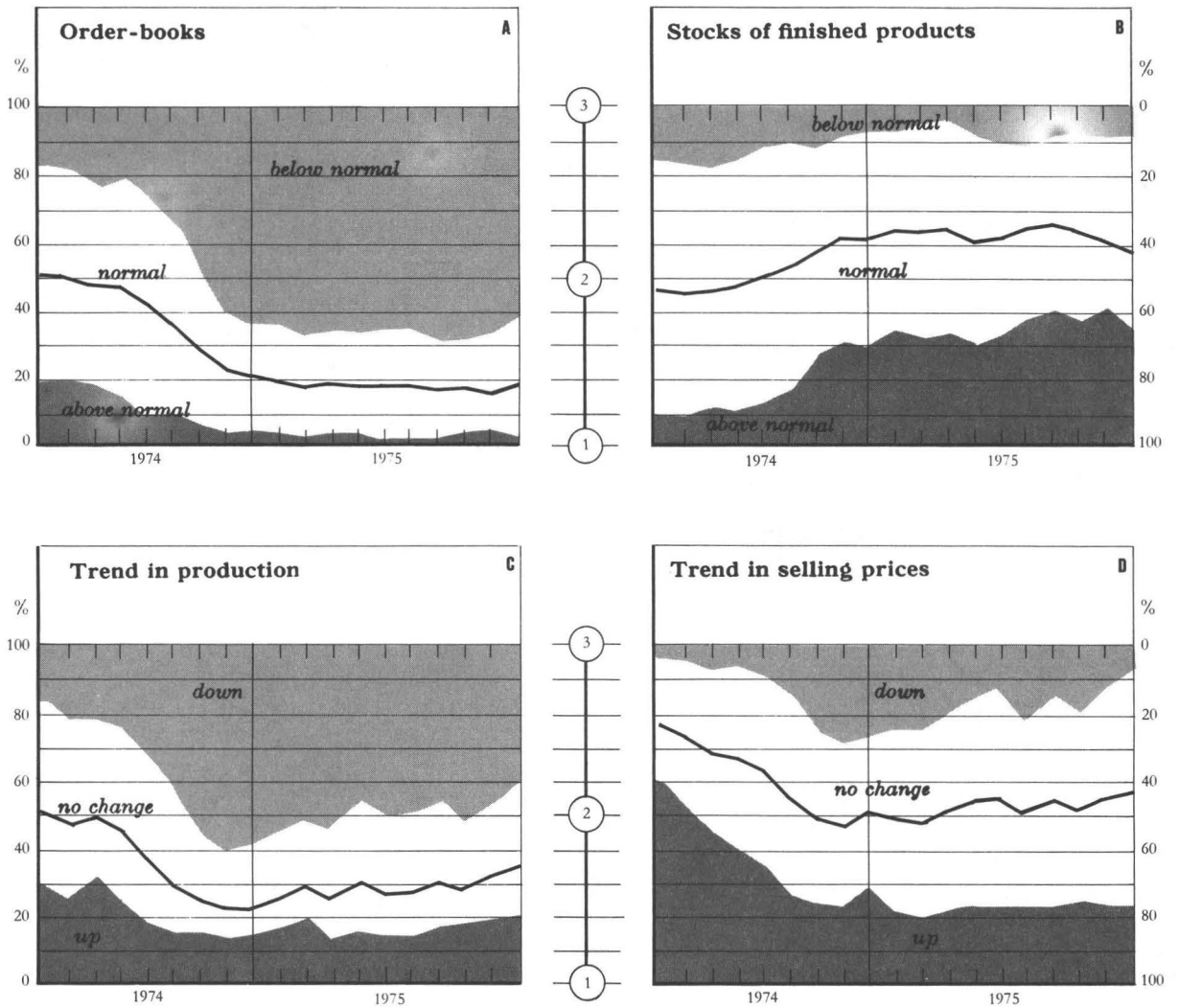
* = Seasonally adjusted figures.

3MM = Three month moving average.

Source: SOEC except where otherwise indicated.

Belgium

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".

industries is too low to allow normal operation. A relevant point here is that firms cannot now expect prices of import items to fall any further.

The rate of growth in the volume of *private consumers* expenditure is likely to remain modest in coming months. In spite of increases in certain welfare payments, real private disposable income could well stagnate as a result of a considerable slowdown in the growth in hourly earnings, a deterioration in the employment situation and a reduction, for certain categories of the unemployed, in unemployment benefits and other benefits under the rules governing long-term unemployment. The

expansion in public consumption will remain quite buoyant.

Industrial *production* should pick up again in early 1976. A recovery would seem likely in the consumer goods sector, and the intermediate goods sector is also expected to show an improvement. Nonetheless, in real terms, gross domestic product as a whole will probably expand by only 1-2% in 1976.

There are no reliable signs of an early improvement on the *labour* market. The number of wholly unemployed could, therefore, be even higher in mid-1976 than at the

TABLE 2: Demand for and supply of goods and services

Belgium	1973 ²	1974 ²			1975 ³			1976 ³
	At curr. prices ('000 mill. Fb)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	1 075.2	2.7	12.3	15.3	1.0	12.4	13.5	1.5
Public consumption	263.7	2.7	16.0	19.1	2.5	16.6	19.5	2.9
Gross fixed asset formation	377.0	6.1	16.2	23.3	- 4.0	12.5	8.0	0.1
—Enterprises	220.2	6.8	14.4	22.1	- 8.2	11.7	2.5	- 3.2
—Dwellings	97.6	10.7	19.4	32.2	3.0	14.0	17.4	2.0
—General Government	59.2	- 4.0	17.8	13.0	0.8	13.0	12.1	8.1
Domestic final uses (excluding change in stocks)	1 715.9	3.4	13.7	17.6	0.1	13.1	13.1	1.4
Domestic final uses (including change in stocks)	1 742.2	3.9	13.9	18.4	- 2.2	13.1	10.6	2.0
Exports ¹	846.5	8.1	23.7	33.7	- 10.0	6.7	- 4.0	4.8
Imports ¹	810.7	8.5	26.5	37.3	- 9.2	6.0	- 3.8	4.5
GDP at market prices	1 778.0	3.9	12.7	17.0	- 2.7	3.4	10.3	2.0
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	1 715.9	3.4	:	17.0	0.1	:	12.8	1.4
Change in stocks	26.3	0.6	:	1.0	- 2.3	:	- 2.3	0.5
Balance of exports and imports ¹	35.8	0	:	- 0.9	- 0.5	:	- 0.1	0.2

¹ Goods and services.

² Source: Institut national de Statistique.

³ Estimates.

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	112.2	114.6	114.3	115.2	113.6	117.4	114.5	118.6	117.2	115.0	117.3	120.5
	1974	120.4	122.8	122.3	120.6	118.4	130.7	121.3	122.1	121.8	118.7	121.6	112.7
	1975	112.7	111.8	112.6	104.3	107.1	112.9	102.4	102.4	103.5	:	:	:
Unemployed (1 000)	1973	104.7	104.9	104.4	104.2	105.3	105.7	106.5	106.5	107.8	109.4	107.3	107.2
	1974	107.1	106.6	106.0	107.1	109.8	113.2	116.6	119.6	126.4	133.0	137.2	142.9
	1975	150.5	157.9	167.7	177.0	188.9	200.5	203.1	210.1	219.0	233.4	234.2	:
Permits for residential construction	1973	5 809	7 172	7 502	6 698	8 189	6 628	6 341	6 446	7 635	6 577	6 827	4 527
	1974	7 970	7 338	7 528	8 203	9 773	7 388	9 765	6 770	7 296	5 299	6 426	4 538
	1975	6 440	6 192	6 034	5 812	5 683	6 474	5 292	:	:	:	:	:
Retail turnover (1970 = 100)	1973	130.0	129.2	137.1	133.1	137.5	139.7	130.0	135.3	137.1	145.5	143.1	143.1
	1974	149.4	148.2	150.5	157.2	160.8	157.0	159.2	159.8	160.2	164.8	160.2	168.3
	1975	177.3	171.4	176.8	183.6	181.5	177.6	175.1	177.5	:	:	:	:
Consumer prices (1970 = 100)	1973	114.6	115.3	115.5	116.2	116.6	117.2	117.7	118.3	118.8	119.6	120.4	121.9
	1974	123.3	124.9	126.4	128.2	130.1	132.0	133.8	135.6	137.4	138.6	140.0	141.0
	1975	142.5	144.1	145.1	146.7	147.9	148.5	149.9	151.0	152.3	154.1	155.7	:
Visible imports (million Eur)	1973	1 340	1 320	1 354	1 365	1 465	1 351	1 382	1 522	1 446	1 660	1 597	1 533
	1974	1 833	1 792	1 831	1 987	2 178	1 948	2 051	1 889	1 928	1 995	1 778	1 826
	1975	1 775	1 732	1 711	1 936	1 735	1 848	1 755	1 618	1 970	:	:	:
Visible exports (million Eur)	1973	1 277	1 377	1 451	1 436	1 514	1 334	1 433	1 520	1 494	1 669	1 574	1 662
	1974	1 755	1 697	1 804	2 064	2 075	1 830	1 923	1 917	1 821	2 008	1 879	1 771
	1975	1 875	1 897	1 713	1 858	1 685	1 742	1 619	1 635	1 701	:	:	:
Balance of trade (million Eur)	1973	- 63	+ 56	+ 97	+ 71	+ 49	- 17	+ 51	- 2	+ 48	+ 9	- 23	+128
	1974	- 78	-134	- 27	+ 17	-102	-114	- 64	+ 27	-108	+ 14	+101	- 56
	1975	+100	+166	+ 2	- 78	- 49	-106	-137	+ 17	-269	:	:	:
Official foreign exchange reserves (million Eur)	1973	2 369	2 650	2 776	2 850	2 955	2 930	2 903	2 819	2 792	2 852	2 840	2 692
	1974	2 486	2 484	2 496	2 451	2 338	2 363	2 562	2 614	2 774	2 932	3 018	2 928
	1975	3 004	3 122	3 159	3 193	3 282	3 348	3 389	3 432	3 352	3 384	:	:
Money supply (million Eur)	1973	10 736	11 010	11 182	11 230	11 254	11 411	11 396	11 526	11 591	11 722	11 881	11 717
	1974	11 874	11 880	12 243	12 227	12 552	12 265	12 133	12 404	12 680	12 580	12 841	12 770
	1975	12 852	12 975	13 210	13 456	13 660	13 845	13 873	14 060	14 337	:	:	:

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

Conversion into Eur (1 Eur = 0.888671 g of fine gold).

- 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, adjusted for seasonal variations.
- Private consumers' expenditure: seasonally adjusted value index of retail 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 foreign exchange reserves: gross reserves of 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.

: Not available.

end of this year but could well fall slowly during the second half of the year.

Imports should expand once more as a result of the recovery in production in a number of industries and the replenishing of depleted stocks of raw materials and intermediate goods.

The rate of increase in *prices* can be expected to ease. Productivity gains made possible by more extensive utilization of production capacity, combined with rather lower wage and salary increases, should help to curtail the growth of costs per unit of output. But, taking the average for the year, the rise in the consumer price index for 1976, given the level reached by the end of 1975, is likely to be only slightly lower than that recorded for 1975.

The deterioration in the employment situation and the persisting inflation pose serious problems for those responsible for *economic policy*. The revival in export demand should ease somewhat the difficulties facing a number of exporting industries. However, a lasting improvement can be achieved only if the recent tendency for the rate of growth in wage and salary costs to ease downwards continues in the short and medium term. The implementation of the measures recently adopted as part of the recovery programme will certainly help, but the policy is unlikely to succeed unless unions and managements fully accept its implications.

Major economic policy measures

May 1975:

— A memorandum from the Minister of Finance fixed the slice of the investment programme released for the period from January to August at 60% for the basic programme and 80% for the selective programme.

June:

— The financial institutions decided to cut interest rates paid on time accounts and medium-term rates by 0.50% and interest on savings book deposits by 0.25%. These reductions were passed on to interest rates charged on mortgage loans and investment credit.

July:

— A law was published making temporary tax adjustments with a view to encouraging additional investment.

The price freeze was extended from 7 July to 30 September 1975. The Minister for Economic Affairs may grant exemptions during this period, when prices will have to be held to 30 April levels.

August:

— A new collective wage agreement came into force, guaranteeing workers a minimum gross average income of Bfrs 15 500 per month (at 1 January 1975).

— Hire purchase terms and personal loan terms were eased.

— With effect from 21 August, the Banque Nationale lowered its discount and interest rates uniformly from 6.5% to 6%.

— A grant will be payable up to 31 December 1976 to help finance the improvements in the thermal insulation of dwellings and their installations.

Luxembourg

In Luxembourg, production is well down mainly because of a sharp drop in exports and lower investment. The upward movement of prices is still vigorous and there is some unemployment.

However, the situation could well show a modest improvement in the near future, both on the export side and as regards domestic demand. But it will take some time to achieve a more favourable employment trend and before the price movement slackens.

— The building premium and the modernization premium were increased by varying amounts, depending on the region.

September:

— A fourteenth month of family allowances was granted in September, in both the private and the public sector.

October:

— The credit institutions lowered the interest rate charged on cash credits from 9% to 8.50% and the interest rate on mortgage loans from 10.25% to 10%. In the public sector, the base rate was set at 9.75%. Financial institutions lowered the interest rates on certain types of time deposit.

— The Government tabled a draft outline law in Parliament incorporating measures separate from those of the reflationary programme. The draft was in three parts: the first dealt with taxation changes, the second with legislative changes relating to the financing of certain institutions (e.g. the universities) and the third with social measures.

— The Government presented a reflationary programme to the Committee for Economic Expansion and to Parliament. Measures to implement certain points were taken immediately, while for other points draft laws would be tabled. In this context the following measures were introduced:

The selective price freeze was extended until 31 December 1975. The prices of products for which no individual exemption had been granted remained frozen at their 30 April level.

Hire purchase and instalment credit terms were eased. Monthly instalments were cut by 5%, the down payment was reduced to the minimum required by law (15%) and the repayment periods for certain products were extended.

— With effect from 1 January 1976, automatic index-linking is to be suspended for a number of services such as water, gas, electricity and motor insurance.

— With effect from 1 January 1976 the retirement age is to be lowered from 65 to 64 years for men with 45 years' work to their credit.

— The Joint Committees were given instruction concerning the ban on overtime for a year from 1 January 1976.

— Grants were made towards the cost of replacing deficient heating installations and insulating dwellings.

— The penalties were increased for the illegal employment of foreign labour.

— On 7 October the Government tabled the draft revenue and expenditure budget for 1976 in the Chamber of Representatives. Net expenditure amounts to Bfrs 851 000 millions 18% up on the original budget and 11.7% up on the adjusted budget. Total revenue is to reach Bfrs 726 000 million, 12.8% up on the original budget and 13.8% up on the adjusted budget. The net borrowing requirement in 1976 is to total Bfrs 125 000 million as against Bfrs 124 000 million in the 1975 adjusted budget.

December:

— The Government presented a draft law concerning measures for reflation which included, in particular:

— Measures designed to promote employment by the organisation of training for young people and by the introduction of an early retirement scheme;

— The moderation of the growth of incomes and wages, in particular of dividends, bonuses, etc., professional incomes and rents. Thus, the Government is proposing the extension of the existing collective agreements, but if increases are agreed, these will serve in part to increase the funds needed to finance the early retirement scheme;

— Proposed changes to the legislation on economic expansion:

The prohibition of all types of indexation of industrial and commercial prices and tariffs.

1. Recent developments

In the absence of any stimulus from exports or corporate investment, the depression has persisted during the past few months. Private consumers' expenditure and public expenditure on goods and services and on investment are the only demand components which have continued to gain ground and thus underpinned economic activity.

Exports have continued to fall, both in year-to-year terms and in relation to previous quarters. In the context of the world recession, international markets remained very subdued. For the first nine months of the year, new orders for rolled steel products were over a third down on those for the corresponding period of 1974. But the other export industries also suffered from a major decline in export demand.

Consequently, corporate investment has been weak, both in respect of plant and of buildings, and managements have often preferred to repair old machinery rather than replace it. Demand for residential construction is still tending to fall, although the liberalization of credit has led to a spate of permit applications, in particular from apartment block builders. Thus, the only element of *gross fixed asset formation* to have been at all buoyant has been public investment expenditure, the growth of which was strengthened by the supplementary appropriations earmarked for that purpose in the central government budget.

Although certain private demand components, in particular car purchases, have tended to expand, private consumers' expenditure as a whole has risen only slightly. The growth in wages has slowed down, because few wage agreements have been renewed, and also because of the cutback in production and in employment in industry (short-time working, the disappearance of certain grants, etc.).

A programme of maintenance work intended to promote employment was responsible for the distinct acceleration in the growth of public expenditure on goods and services.

The various elements supporting domestic demand have had, however, little effect in curbing the fall in industrial production, which is primarily geared to exports. The seasonally adjusted index of industrial production compiled by STATEC (Service central de la statistique et des études économiques) shows, for the first ten months of the year, a 23.8% drop on the corresponding period of 1974. Crude steel production fell by 28.6% for the first eleven months of the year. The slowdown in building and construction proved less marked. For 1975 as a whole real gross domestic product should fall by some 7½%.

For the period from January to September, the number of workers employed in industry was almost 2% down on a year earlier; for the steel sector alone the cutback was some 5%. A more serious deterioration in industrial employment was avoided only by the use of selective

TABLE 1: Key-indicators

Luxembourg	Unit	1968-72 average 4	1973	1974	1975 ⁵
Gross domestic product, volume	change in %	4.3	7.5	4.4	- 7.7
of which: Industry ¹		4.4	12	3.5	- 20
Gross domestic product in volume per person in employment	change in %	2.7	5.3	1.8	- 6.1
Total employment (number of persons) ²	change in %	1.6	2.1	2.5	- 1.7
—Enterprises		:	2.1	2.6	- 2
—General Government		:	2.2	1.5	1.4
Unemployment	in % of labour force	0	0	0	0.7
Compensation of employees per wage and salary earner	change in %	8.4	11.1	21	14.5
Price index of private consumption ³	change in %	4	6.1	9.5	10.7
Balance of payments: current account	Lfrs '000 million	2.7	4.7	5.4	- 5.9

¹ Excluding construction, Statec-index up to and including 1974.

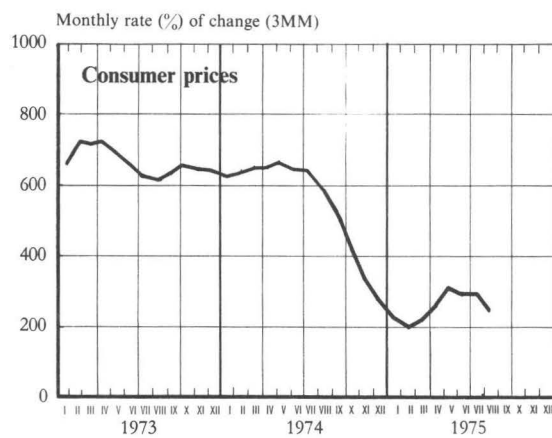
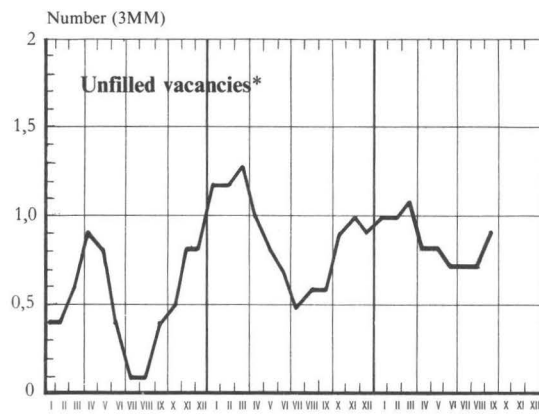
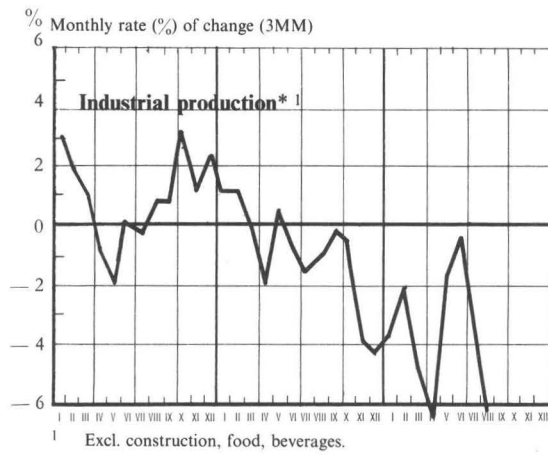
² Domestic concept.

³ National accounts concept.

⁴ Change in %: geometric mean on annual basis of the change from 1967 to 1972; unemployment and balance of current transactions: arithmetic mean over the five years.

⁵ Estimates.

: Not available.

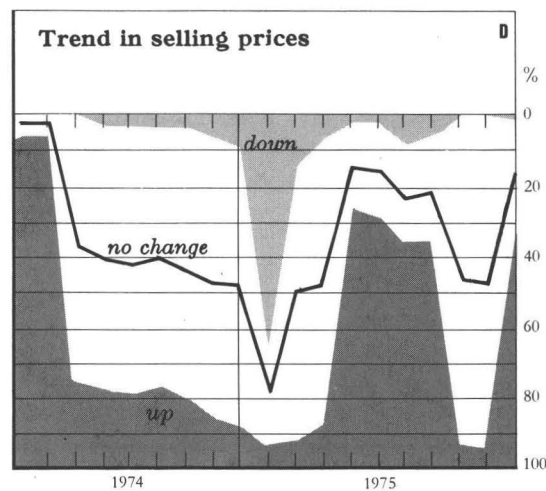
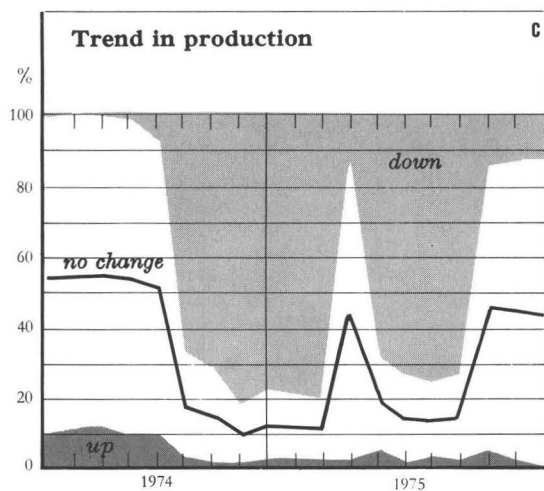
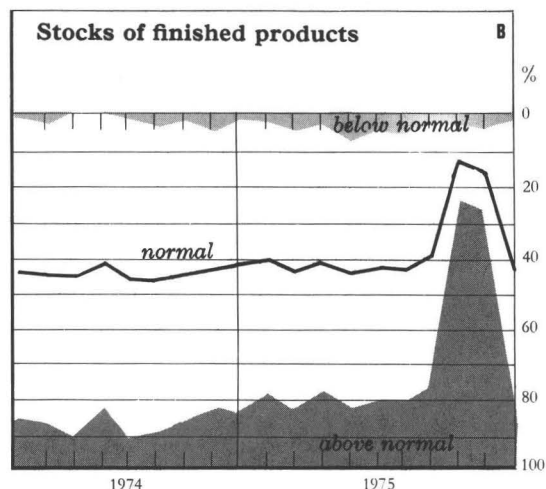
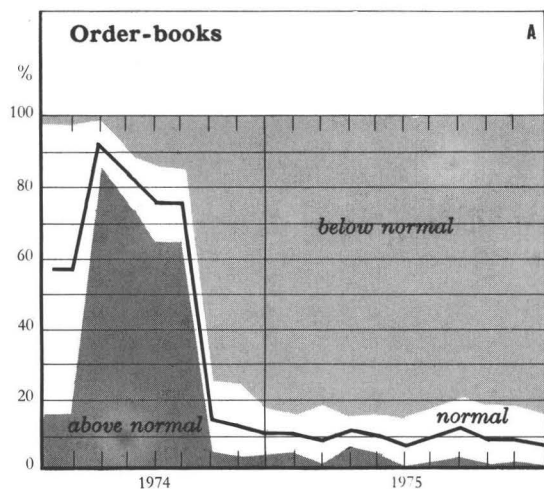


Source: STATEC.

* = Seasonally adjusted figures.
 3MM = Three month moving average.
 Source: SOEC except where otherwise indicated.

Luxembourg

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".

measures such as short-time working or assigning manual workers in private firms to work on the government's account. However, the number of office workers was still tending to increase.

The rate of increase of per capita *wages* remained high in money terms. However, it seems that real growth may well have slowed down slightly.

At the beginning of November, the rise in consumer *prices* reached the annual rate of 11.1%. The year-on-year increase for the full year should be close on 10.7%.

With regard to *external transactions*, the trade balance, which moved into deficit in the first half of the year, then continued to deteriorate. However, activity was lively on

the capital market. The total balancesheets of Luxembourg banking institutions show an increase of some 30% for the first nine months of the year. However, the trend of assets and liabilities denominated in Lfrs tended to become rather more stable.

2. Outlook

Although a sharp reversal in the trend cannot be foreseen in the months ahead, there are signs that the recession has now "bottomed out".

A number of factors could well help to revive *export demand*. Apart from the seemingly firm indications of recovery in the United States and Japan, the stocks of the

TABLE 2: Demand for and supply of goods and services

Luxembourg	1973 ²	1974 ²			1975 ³			1976 ³
	At curr. prices (mill. Lfrs)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	37 810	7.5	9	17	2.2	10.7	13.2	1.7
Public consumption	8 085	2.5	21	24	3.1	16.7	20.4	1.4
Gross fixed asset formation	20 037	- 6.5	12.5	5.4	- 7.6	13.2	4.7	1.5
—Enterprises	11 659	:	:	- 7.5	-13.2	11.8	- 3	3.9
—Dwellings	4 328	:	:	20.1	-10	15	3.5	2
—General Government	4 050	:	:	26.8	6.8	14.2	21.9	0.5
Domestic final uses (excluding change in stocks)	65 932	2.6	11.5	14.3	- 0.4	12.2	11.8	1.6
Domestic final uses (including change in stocks)	66 157	4.5	11.5	16.2	- 2	12.1	9.9	1.7
Exports ¹	60 382	6.6	21	29	-18	- 4.4	-21.7	6.2
Imports ¹	55 439	6.9	21.4	30	-12.8	6	- 7.4	3.7
GDP at market prices	71 100	4.4	11.5	16.5	- 7.7	- 2.8	- 4.8	3.2
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	65.932	2.4		13.3	- 0.3	:	10.7	1.7
Change in stocks	255	1.8	:	1.8	- 1.5	:	- 1.5	0.1
Balance of exports and imports ¹	4.943	0.2	:	1.4	- 5.8	:	-14	1.4

¹ Goods and services.

² Source: Statec.

³ Estimates.

Not available.

main client industries in Europe are beginning to fall, which suggests that rebuilding of stocks should soon get under way. Even now, order-books are tending to lengthen in certain industries. In the steel industry, deliveries could well begin to pick up again as early as in the first half of 1976.

In general, some time must pass before the various components of *gross fixed asset formation* come into line with the general trend. Thus industrial demand for plant and machinery will show only a slight improvement. A substantial increase in non-residential construction is even less likely. Nor can an early recovery in demand be foreseen in the housing sector, for there are already too many unsold luxury dwellings on the market. Only public investment, administered selectively to serve best the public interest and in the light of its impact on the economy, will remain vigorous.

Private consumers' expenditure will probably continue to expand at a slower rate, as a result of the negative net effect of two conflicting factors: the slower growth of total wages and salaries due to the decline in employment, and the increase in transfer income. Public expenditure on goods and services will show little growth over the 1974 level, which was already high.

In the months ahead, the rate of increase in *production* will therefore still be fairly slow, both in exporting industries and in those serving mainly the Luxembourg market. For 1976, the increase in industrial production should average about 6% and the increase in gross domestic product some 3%. Taking into account the present very low rate of capacity utilization in industry, an increase in numbers employed (mainly manual workers) cannot be expected in the short term.

The upward movement of *prices* should slow down

slightly, but the level reached at the end of 1975 will be such that the average annual increase for 1976 will probably still be substantial.

The main problem facing those responsible for *economic policy* seems to lie in the difficulty of reconciling the continuance of specific and selective measures intended to sustain employment and activity with the attainment of the medium-term objectives of budgetary policy. The more vigorous the recovery, the less difficult this task will be.

Major economic policy measures

May 1975:

— The index link was extended to all wages and salaries.

June:

— The law granting a cost of living allowance to retired people with low incomes was adopted.

— The Regulation of 13 June laid down maximum trading margins for the wholesale and retail sale of domestic mechanical and electrical appliances, radio and television sets, aerials, accessories and spare parts, lighting and electrical fittings.

September:

— The draft central government budget for 1976 was tabled in parliament. Calculated according to Community rules, total expenditure is to go up by 21.3% if compared with the 1975 draft budget and by 13.2% if compared with appropriations voted so far for the current financial year; on the same comparison, the increase in revenue is 14.4% and 11.4% respectively. The difference in the rates of increase stems mainly from the ordinary budget, where expenditure is up by 22.5% or 13% and revenue by 14.8% or 11.8% depending on whether the basis of comparison is the previous draft or the present budget. The main factors responsible for the increase in ordinary expenditure include indexing, welfare spending, grants to the railways and the local authorities' share in the tax yield. About Lfrs 1 000 million will be borrowed. The net borrowing requirement including transactions not financed from the budget, is to rise from Lfrs 1 100 million in the present 1975 budget to Lfrs 2 200 million in the 1976 draft budget.

— The Minister of Finance decided to abolish the remaining restrictions on mortgage lending. The minimum interest rate for new loans was abolished with effect from 1 October 1975. The ceiling on outstanding consumer credit was raised, the rate of growth up to 31 March 1976 being fixed at 7.5% of the volume outstanding on 31 October 1974.

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	Jul	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	104.2	115.6	117.8	112.1	113.8	111.4	112.5	113.0	114.0	115.2	124.3	117.3
	1974	122.7	128.7	121.1	122.0	121.0	122.7	119.4	115.6	119.8	118.7	113.3	106.2
	1975	104.1	101.3	99.7	89.0	82.6	93.4	86.3	60.5	94.1	:	:	
Unfilled vacancies	1973	730	657	775	703	675	693	598	588	664	652	649	615
	1974	662	600	676	711	599	666	656	594	507	401	327	318
	1975	231	149	215	242	284	349	230	290	218	167	:	
Consumer prices	1973	113.6	114.2	114.6	115.7	117.1	117.2	117.1	117.3	117.5	118.3	119.1	120.2
	1974	121.3	123.6	124.4	126.0	127.2	127.5	128.9	129.2	129.9	131.2	132.7	133.7
	1975	134.6	136.6	137.5	139.2	140.1	141.1	142.3	142.9	144.0	146.2	147.4	

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

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

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

— Consumer prices: not adjusted for seasonal variations.

: Not available.

H. United Kingdom

There was a marked weakening of almost all components of demand in 1975 with only public authorities' consumption and certain areas of public investment providing some positive stimulus to economic activity. The consequent sharp fall in output caused unemployment to reach record post-war levels. A substantial improvement in the balance of payments current account was recorded. There was some further depreciation of sterling. Inflation continued at a high rate, though some deceleration in retail prices became apparent in the second half of the year. Present indications are that economic activity is not likely to recover markedly before the second quarter of 1976. Some further reduction in the rate of price increases is expected. Little change is foreseen in the level of the current account deficit.

1. Recent Developments¹

In 1975, the United Kingdom economy moved into a recession, the effects of which were felt later than in most other member countries, and which is proving to be deeper and more persistent than originally envisaged. The sharp fall in demand and output, and the rise in unemployment was accompanied by an unprecedentedly high rate of inflation, which has only shown signs of slackening in recent months.

The Government, trade unions and consumers have all reacted sharply to these signs of deepening recession and continuing inflation. Policies for reducing the rapid rate or price rate of price increase have now been given absolute priority by the authorities. The most important of these, a voluntary but stringent incomes policy, (which came into force on the 1st of August) has been widely accepted both in principle and practice by the trade union movement. The Government is also planning to introduce more effective controls in order to contain the growth of public expenditure within budgeted levels.

The prebudget boom in consumers' expenditure has now given way to a period of caution during which personal savings have now given way to a period of caution during which personal savings have remained at high levels. In addition, as far as the overseas sector is concerned, the reduced surpluses of the oil exporting countries and their policy of reserve diversification has affected the rate of accumulation of sterling liabilities, thus changing significantly the pattern of borrowing needed to finance the deficit on the current balance of payments.

The marked weakening of demand during 1975 was concentrated in the private sector. Once the backlog of orders had been eliminated in the early months of the year, and as the effects of the depressed level of world trade felt, *exports* declined in real terms. In the three months to November export volume was 1.4% lower than a year earlier, despite a rise of 5.2% over the preceding three months.

As the rise in export prices between the same three month periods continued at a high level (+4%) the total value

of exports for the first eleven months of the year was still 17.8% above the corresponding period of 1974. This suggests that the UK has at least maintained its overall share of world trade.

Recent provisional data shows that the volume of *consumers' expenditure* in the third quarter of 1975 fell further (-0.8%) compared to the previous quarter.

Despite some slowing down in the rate of price inflation, real personal disposable income continued to contract. However, personal savings, as a proportion of disposable income, remained at an exceptionally high level.

The downward trend in total *fixed capital formation* continued into the third quarter of the year as a result of a substantial fall in investment in the manufacturing and shipping industries, partly offset by the buoyancy of investment in dwellings, in nationalised industries and in capital expenditure related to North Sea oil operation. The high rate of *destocking* recorded in the first half of the year (£470 million at 1970 prices) was maintained in the third quarter.

The *output* measure of GDP, which fell by 2.7% in the second quarter, is estimated to have fallen by a further 0.4% in the third quarter to a level 3.4% below the average for 1974. The index of industrial production, after falling substantially in the second quarter of the year, recorded only a further slight fall of 0.5% in the third quarter, to reach a level 6.4% below the average of 1974.

Unemployment has continued to increase steadily in the last few months although no longer at the high rate observed during the early part of the year. The total number of wholly unemployed, (i.e, excluding school leavers and adult students), increased from 708 400 in January to 1 125 300 (4.8% of all employees) in November. Between January and March in average monthly rise was 22 800 but between April and July, when the fall in industrial production was particularly sharp, this rise more than doubled, only to fall again from August to 37 200 per month.

The number of unemployed school leavers (not seasonally adjusted), has recently shown substantial month to month variation. In August 1975, it reached a

¹ Unless otherwise stated, this analysis is based on seasonally-adjusted data.

peak of 165 600 and was almost three times as high as a year earlier. By November the number had fallen again to 44 000 but still remained much higher than that observed for November 1974 (9 600).

The rise in the number of unemployed school-leavers led the Government to introduce special unemployment measures on the 24th of September.

On a regional analysis, the data indicate that the rate of increase of unemployment in recent months has been highest in the Midlands and the South of England but lowest in Scotland and the North of England. The low figure for Scotland undoubtedly reflects the stimulus given to employment by North Sea oil activities.

An industrial analysis shows that the unemployment rate for the construction industry reached 11% in the third quarter of 1975. The corresponding figure for both manufacturing industry, and for the combined grouping "transport and services", was only 3½%. The rate of unemployment in the construction industry is now well above the highest value recorded for the previous recession of 1971/72; in manufacturing industry and transport and services the rates are only just reaching these levels. To some extent these figures reflect corresponding movements in the output indices. Construction industry output has been declining slowly but steadily since the beginning of 1973 whereas manufacturing output only started to fall sharply in the third quarter of 1974.

The rate of increase of wholesale output prices has been slowing down during the second half of 1975; nevertheless the index in November was still 20.5% above the level of a year earlier. Following a period of relative stability during the first half of the year, wholesale prices of basic materials and fuels purchased by manufacturing industry started to accelerate again in the second half of the year, partly reflecting the strengthening of the dollar and, in November 1975, the index was 14.3% above the level of twelve months earlier. After the very steep increases of the second quarter caused largely by the tax measures announced in the April Budget, the rate of increase of retail prices slowed down considerably in the third quarter, influenced partly by a favourable trend in seasonal food prices. By November 1975, however, the all-items index (not seasonally adjusted) had risen by 25.2% over the previous twelve months.

After a marked decline in the first half of the year, due to falling output and in particular to destocking, the value of imports in the three months to November rose by 3% over the level of the previous three months but was still only 2.4% higher than in the corresponding period of 1974. In volume terms, imports in the three months to November were still some 6% below the level of a year earlier, despite a rise of 1.5% over the figure for the previous three months, caused partly by increased oil shipments and the arrival of oil rigs for the North Sea. The trend towards a marked reduction in the visible trade

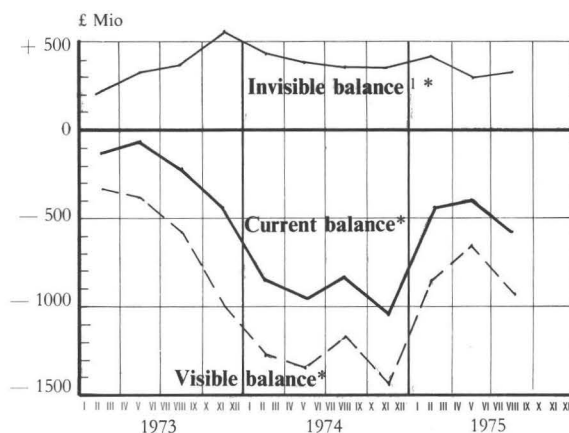
deficit, which became apparent in the first half of the year, was sharply reversed in the third quarter although there was a further small improvement in the terms of trade. The total trade deficit for the period January to November amounted to £3 018 million compared to £4 771 million for the corresponding period of 1974.

The traditional surplus on invisible trade was running some 3% below last year's level and served to offset a large part of the visible trade deficit, and the estimated current account deficit for the first ten months of the year totalled £1 702 million (compared to £3 333 million for the same period in 1974).

Despite the improvement in the current balance of payments, the financing of the deficit became more difficult, in particular during the second quarter of 1975. As a result, sterling's exchange rate came under pressure several times during the year, and the effective depreciation of sterling from Smithsonian parities widened from 21.7% in January 1975 to 30.1% by end-November.

Official reserves fell by \$1 227 million during the first ten months of 1975 to reach a level of \$5 606 million after inclusion of public sector borrowing of \$795 million, and drawing of the remaining \$1 000 million on the \$2 500 million euro-dollar loan announced in the March 1974 Budget.

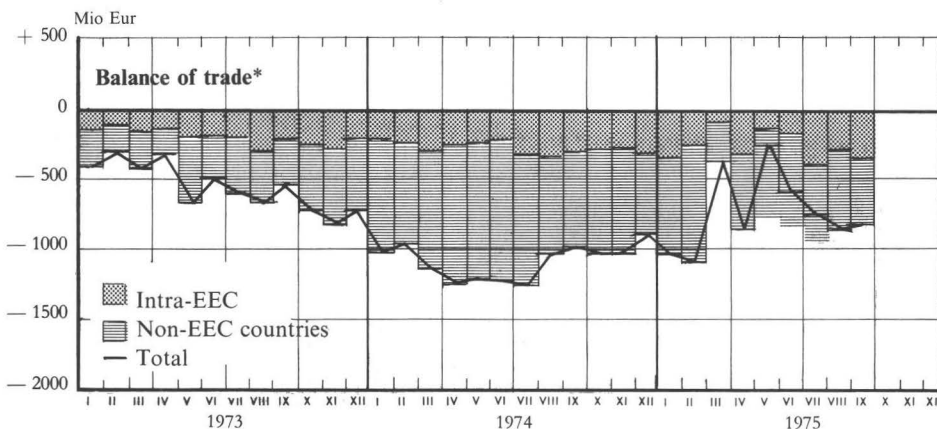
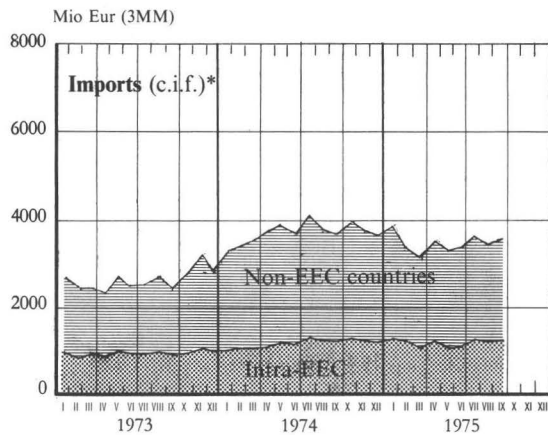
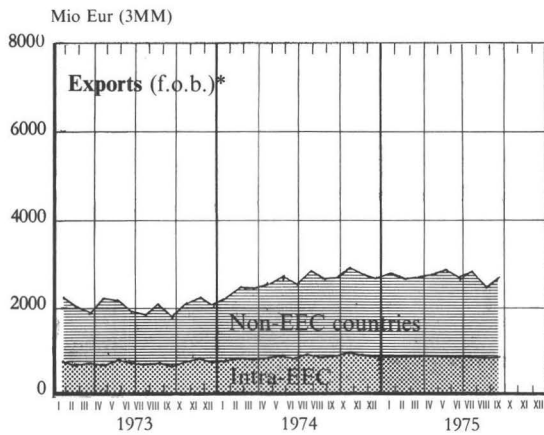
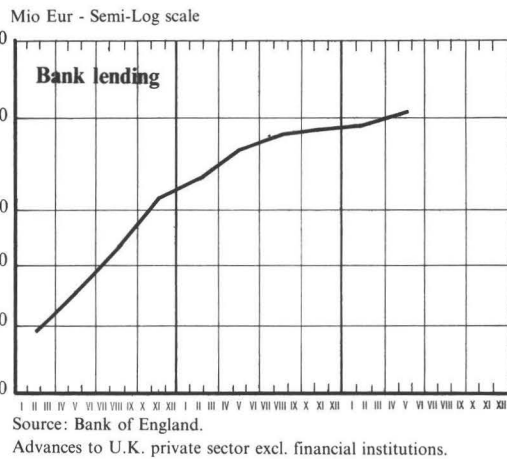
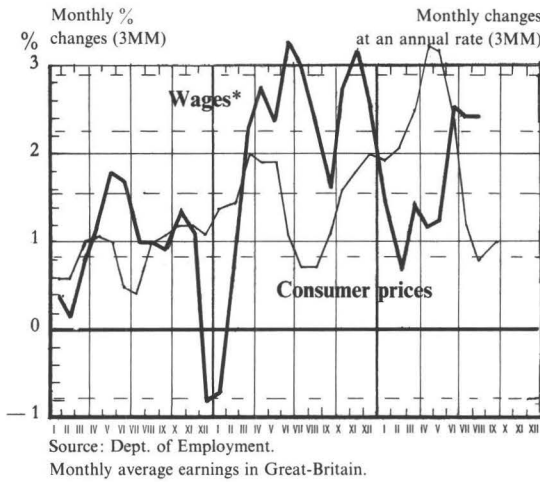
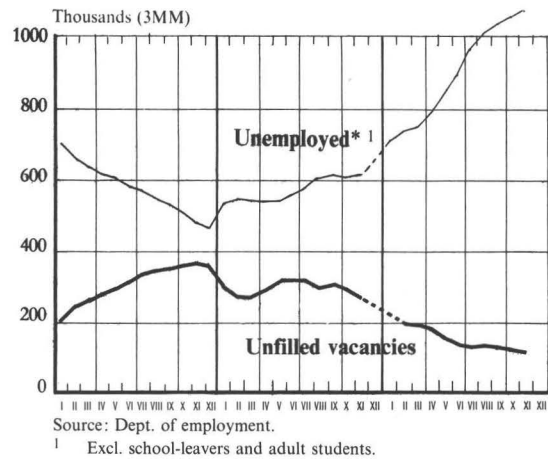
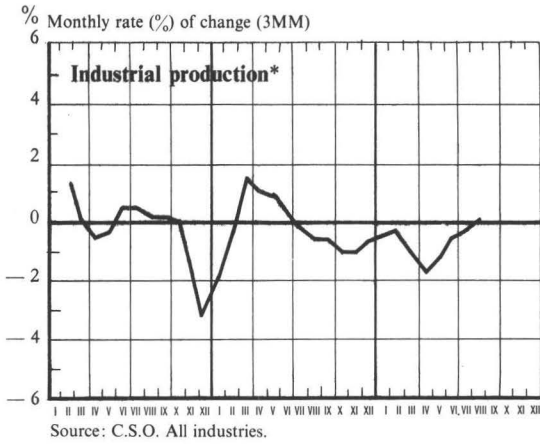
The rate of growth of the principal monetary aggregates has remained well below the rate of inflation in 1975 despite the substantial increase in the public sector borrowing requirement. The downward trend in interest rates of the early months of the year came to a halt in the summer. The Bank of England's minimum lending rate was raised twice (by one percentage point each time) in July and in October, partly in response to increased pressure on sterling although downward adjustments to 11½ per cent occurred during November.



Source: C.S.O. and Dept. of Trade and Industry.

¹ Includes services, factor incomes and current transfers.

* = Seasonally adjusted figures.



* = Seasonally adjusted figures.
 3MM = Three month moving average.
 Source: SOEC except where otherwise indicated.

TABLE 1: Key indicators

United Kingdom	Unit	1968-72 average 4	1973	1974	1975 5
Gross domestic product, volume	change in %	2.0	5.5	0.7	- 0.7
of which: Industry 1		1.6	8.8	- 2.7	- 5.5
Gross domestic product in volume per person in employment	change in %	2.8	3.4	0.5	1.4
Total employment (number of persons) 2	change in %	- 0.5	2.1	0.2	- 2.0
-Enterprises		- 1.0	2.6	- 0.2	:
-General Government		1.3	1.8	2.2	:
Unemployment	in % of labour force	2.9	2.6	2.6	4.0
Compensation of employees per wage and salary earner	change in %	10.2	12.7	20.3	26.4
Price index of private consumption 3	change in %	6.3	8.7	15.2	21.5
Balance of payments: current account	£ '000 million	0.4	- 0.8	- 3.7	- 1.8

1 Excluding construction.

2 Domestic concept.

3 National accounts concept.

4 Change in %: geometric mean on annual basis of the change from 1967 to 1972; unemployment and balance of current transactions: arithmetic mean over the five years.

5 Estimates.

: Not available.

2. Outlook

After a further marked weakening of output and expenditure during the second half of 1975, the decline in gross domestic product in volume terms is expected to be halved during the first half of 1976, mainly as a result of an expansion in exports and a reduction in the rate of destocking.

The outlook for *exports* is for a small increase in volume reflecting the first effects of the expected upswing in world trade. At the same time, export prices are likely to continue rising at a rather high rate, though decelerating somewhat during the outlook period.

Private consumption is likely to contract further in the first half of 1976, although at a much lower rate than that experienced in the previous half-year. Under the impact of the voluntary limitation on pay increases, the rise in average earnings is expected to slow down further in the first half of 1976. The rate of inflation should continue to slow down in 1976. In particular, in the first half of the year, the increase in retail prices, expressed at an annual rate is expected to fall to about 15%, still slightly above the rise in earnings. This factor, together with the effect of fiscal drag, should lead to a further slight fall in real disposable income. Whether this squeeze on real

personal disposable income will affect consumers' expenditure depends upon the behaviour of the savings ratio, and in particular on the extent to which the present high level of personal savings is maintained into 1976.

The prospects for fixed *investment* in the first half of 1976 remain discouraging. Some stimulus is to be expected from the strengthening demand for dwellings in the private sector as mortgage funds continue to be in good supply and the increase in house prices has been well below the general rate of inflation. However, there is likely to be a further fall, but at a somewhat lower rate, in other private sector investment. The scheme to assist industrial investment introduced in 1975 could help to halt the downward trend of manufacturing investment as the year progresses. In the public sector, the volume of both housing and other investment is not expected to change much from present levels.

Industrial production is unlikely to show any marked recovery before the second quarter of 1976. Any increase in activity at that time will be triggered by autonomous stockbuilding in reaction to the recent substantial run-down of stocks, together with the response of UK exports to an expansion of world trade. The gradual turn-round in industrial production is not expected to cause a fall in unemployment during the first half of 1976. The effects on employment will only come some

months after output has started to expand at a vigorous rate. Consequently, the number of wholly unemployed is expected to continue to rise throughout the outlook period.

Despite some possible restocking, the low level of domestic activity is expected to ensure that the volume of imports rises only slightly between the second half of 1975 and the first half of 1976. Nonetheless some measure of depreciation of sterling, coupled with a less favourable trend in commodity prices is expected to lead

to some acceleration in the rise of import prices. As this rise is still likely to be less than that in export prices, a modest improvement in the terms of trade is foreseen for the first half of 1976, although this trend may not continue for the remainder of the year. The combined effect of these price and volume movements implies that for the first half of 1976 the deficit on *current account* of the balance of payments, expressed at an annual rate, is not expected to be very different from the likely out-turn for 1975, that is in the region of £1.9 billion, equivalent to 1.9% of GDP at market prices.

TABLE 2: Demand for and supply of goods and services

United Kingdom	1973 ²	1974 ²			1975 ³			1976 ³
	At current prices (£ mill.)	% change on preceding year						
		Volume	Price	Value	Volume	Price	Value	Volume
Private consumption	45 141	- 0.6	15.2	14.5	- 1.3	21.5	19.9	1½
Public consumption	13 340	3.2	20.8	24.7	4.5	34.0	40.0	2
Gross fixed asset formation	13 815	- 2.0	20.0	17.6	- 2.5	20.0	17.0	- 3
—Enterprises	8 477	:	:	25.5	:	:	:	:
—Dwellings	2 710	- 4.8	21.3	15.5	- 0.5	22.0	21.4	½
—General Government	2 628	:	:	19.4	:	:	:	:
Domestic final uses (excluding change in stocks)	72 296	- 0.2	17.4	17.2	- 0.4	24.3	23.8	- 1
Domestic final uses (including change in stocks)	73 263	- 0.8	17.9	16.9	- 2.3	23.8	20.9	0
Exports ¹	16 818	6.8	23.7	32.0	- 3.5	20.3	16.1	4½
Imports ¹	18 598	0.3	43.8	44.2	- 7.0	12.8	4.9	4
GDP at market prices	71 483	0.7	12.6	13.4	- 0.7	26.2	25.4	0
		Contribution to change in GDP						
Domestic final uses (excluding change in stocks)	72 296	- 0.2	—	17.2	- 0.4	—	24.3	- 1
Change in stocks	967	- 0.7	—	0.2	- 2.1	—	- 2.3	1
Balance of exports and imports ¹	-1 780	1.5	—	- 4.0	1.8	—	3.3	0

Goods and services.

Source: "National Income and Expenditure 1964-1974", HMSO.

Estimates.

Not available.

The present situation in the United Kingdom is one in which there is a very high rate of inflation, a stagnation in total domestic output, a high and rising level of unemployment, combined with a substantial deficit on the current account of the balance of payments. Despite some recent slowdown in the rate of inflation, keeping price rises at much lower levels than experienced in the recent past must still remain the primary objective of Government policy. This leaves no room for general reflationary measures.

To avoid a deepening of the recession, the attack on inflation must continue to be made via a policy of monetary and fiscal restraint accompanied by a prices and incomes policy. To ensure their acceptability to all sections of society, a steady level of domestic output must be maintained. Consequently, the economy must continue to be allowed to run a relatively large deficit on the current account of the balance of payments. Foreign borrowing to finance these deficits is called for, rather than restrictive trade measures to reduce it, since the latter would have an adverse affect on the rate of inflation and might jeopardize both the timing of the expected up-turn in world trade and the benefits to be gained by the UK from it.

Vigorous efforts must be made to control the level of public expenditure, both in real and cash terms so that the impact of future government borrowing on private sector saving and the money supply does not restrict the rise in capital formation or counteract the overall anti-inflationary strategy.

Major economic policy measures and decisions

May 1975:

On 27 May changes to the Price Code came into effect which were designed to improve company liquidity and to assist investment. These included:

- permitted profit margins were increased to enable firms to recoup 20% of investment expenditure (previously 17.5%);
- Allowable departure from the Price Code where the UK balance of payments might be adversely affected.

June:

— The first index-linked national savings bonds (for retirement pensioners) were on sale as from 2 June.

July:

- Electricity tariffs were increased by 6% on 1 July.
- On 1 July the Chancellor proposed measures aimed at reducing the rate of inflation to 10% by the end of the next wage round and to single figures by the end of 1976. The proposals included:
 - pay and dividend increases not to exceed 10%;
 - cash limits to be introduced immediately for public sector wage bills and extended to other areas of expenditure in 1976/77;
 - private employers to be encouraged to comply through Price Code.
- Further to the announcement of 1 July the Government published a White Paper "The Attack on Inflation" on 11 July setting out the following measures:

- pay increases limited to £6 per week maximum with no rise for persons earning over £8 500 per annum.
- the Government to have reserve powers to make it illegal for an employer to exceed the pay limit.
- Price Code to be continued after March 1976 and price restraint on selected products of special importance in family expenditure.
- food subsidies to be increased by £70 million in 1976-77.
- extensive use of cash limits in 1976-77 to curb public expenditure at central and local levels.
- On 26 July the Bank of England raised its minimum lending rate by 1% to 11%.

August:

- On 5 August the Government announced the introduction of a temporary employment subsidy of £10 per week per employee retained on the payroll (subject to certain conditions).
- On 7 August amendments to the Price Code were announced disallowing the full cost of any pay settlements in excess of £6 from being passed on to prices.

September

- On 24 September the Chancellor announced further measures aimed at limiting the rise in unemployment. The gross cost over the next 18 months is estimated at £175 million (£40 million in fiscal 1975/76).

The measures included:

- an extension of the temporary employment subsidy to cover the whole country.
- a £30 million grant to the Manpower Services Commission to create 15 000 new jobs particularly for young people;
- a £5 per week recruitment subsidy (for 26 weeks) for companies engaging school-leavers;
- an expansion of the training programmes of the Training Services Agency;
- a further £80 million to be made available for industrial investment;
- an additional £20 million to be spent on the construction of advance factories.

October:

- On 3 October the Bank of England raised its minimum lending rate from 11% to 12%.
- At a meeting of the Council of Agricultural Ministers of the European Community it was decided that the "Green Pound" would be devalued by 5.8% as from October 27.
- On 15 October the Dept. of Industry announced details of a £20 million scheme to encourage re-organisation and restructuring of the clothing industry.

November:

- A further extension of the scheme (announced in the April 1975 budget) to stimulate private investment was announced on 5 November. The qualifying cost for projects was lowered from £1m to £0.5m, work covered now includes modernisation plans as well as new projects and the time limit for commencement of work was extended from March to September 1976.
- On 7 November the Treasury announced that the United Kingdom had applied to the International Monetary Fund for loans totalling 1 700 million SDR's (£975m).
- On 11 November the Government published details of increases in allowances and grants made to unemployed persons prepared to move to areas where employment is available.
- The minimum lending rate was reduced to 11 3/4% on 14 November.
- It was announced on 25 November that the subsidy on bread would be reduced (with effect from 1 December). This cut, which is the first in the Government's food subsidy programme, will save about £5½ million in this financial year.
- The Bank of England reduced its minimum lending rate by 1 4% to 11 1/2% on 28 November.

TABLE 3: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1973	108.6	110.2	110.6	109.2	109.0	110.0	110.9	110.5	110.8	111.4	110.4	106.6
	1974	102.2	103.8	105.9	107.6	107.6	108.6	109.0	108.9	107.3	106.2	105.8	103.8
	1975	105.0	105.0	103.2	101.5	99.5	99.5	100.0	99.0	99.8	:	:	:
Unemployment (000)	1973	735.4	696.7	668.0	648.0	636.9	624.3	611.2	592.8	570.1	539.1	512.4	496.4
	1974	565.1	579.3	574.2	573.0	574.9	590.4	605.5	625.4	632.8	636.8	643.5	419
	1975	708.4	736.7	754.1	794.2	853.5	901.4	976.5	1 008.8	1 040.1	1 088.5	1 125.3	:
Construction: Housing starts (000)	1973	30.2	33.4	30.8	28.9	26.1	27.4	25.3	26.1	28.8	23.4	24.1	23.2
	1974	21.7	23.3	24.8	21.8	21.7	21.5	18.0	21.1	20.1	19.7	19.5	18.6
	1975	26.0	28.0	24.8	22.5	25.7	25.0	27.2	27.9	27.0	:	:	:
Private consumers' expenditure: value of retail sales (1971 = 100)	1973	119.7	123.1	126.8	119.6	120.9	124.9	126.2	127.5	129.3	132.4	134.1	135.7
	1974	134.7	137.0	138.4	138.9	138.7	143.5	146.6	150.5	154.0	156.4	160.3	158.8
	1975	165.8	166.7	166.3	184.4	165.9	172.1	174.4	175.8	179.3	:	:	:
Retail prices (Jan. 1962 = 100)	1973	171.3	172.4	173.4	176.7	178.0	178.9	179.7	180.2	181.8	185.4	186.8	188.2
	1974	191.8	195.1	196.8	203.5	206.4	208.5	210.4	210.6	212.9	217.1	221.0	224.2
	1975	230.0	233.8	238.4	247.6	258.0	263.0	265.6	267.2	269.5	273.3	:	:
Exports (million Eur)	1973	1 812	1 807	1 772	1 934	1 770	1 901	1 781	1 837	1 917	1 800	1 969	1 967
	1974	2 023	2 303	2 594	2 464	2 449	2 594	2 541	2 651	2 757	2 591	2 420	2 571
	1975	2 769	2 550	2 653	2 349	2 696	2 445	2 588	2 482	2 656	2 852	:	:
Imports (million Eur)	1973	1 958	1 948	2 205	1 967	2 255	2 174	2 120	2 258	2 273	2 522	2 472	2 599
	1974	2 773	3 129	3 282	3 268	3 333	3 414	3 384	3 323	3 494	3 458	3 471	3 252
	1975	3 318	3 114	2 826	2 971	2 831	2 848	3 172	3 102	3 000	3 190	:	:
Balance of trade (million Eur)	1973	-146	-141	-433	-33	-486	-274	-339	-422	-357	-724	-524	-633
	1974	-751	-827	-689	-674	-884	-821	-844	-673	-738	-867	-1 052	-682
	1975	-570	-565	-173	-623	-136	-403	-585	-621	-344	-339	:	:
Official foreign exchange reserves (million Eur)	1973	4 000	3 610	3 562	3 701	4 150	4 180	3 663	3 642	3 483	3 695	3 776	3 706
	1974	3 670	3 494	3 678	3 986	3 881	3 768	3 748	3 859	4 094	4 269	4 333	3 615
	1975	3 554	3 679	3 698	3 713	3 237	3 023	3 073	2 952	2 883	2 733	2 668	:
Money supply (million Eur)	1973	45 248	55 104	53 876	55 811	56 420	55 287	53 352	55 337	55 413	56 284	59 336	61 132
	1974	63 594	63 839	63 966	63 745	63 035	63 240	65 000	66 154	66 415	65 584	64 575	63 316
	1975	62 526	62 948	63 316	63 546	62 659	61 529	62 301	64 107	65 030	64 066	:	:

Conversions into Eur (1 Eur = 0,888671 g of fine gold) £ 1 = 2.40 Eur.
Seasonally adjusted unless otherwise stated.

Key to sources: (a) Central Statistical Office.
(b) Department of Employment.
(c) Bank of England.
(d) Ministry of Health and Social Services (Northern Ireland).
(e) Department of Trade and Industry.
(f) Department of the Environment.

- Index of industrial production (all industries) (1970 = 100) (a).
- Unemployment: wholly unemployed, excluding school-leavers and adult students (b + d).
- Construction: private and public housing starts in Great Britain (f).
- Retail sales: index numbers of the value of sales at current prices (1971 = 100) (e).
- Retail price index (all items) (not seasonally adjusted) (January 1962 = 100) (v).
- Exports (fob) and imports (fib) of goods on a balance of payment basis (a).
- Balance of trade: difference between the seasonally adjusted figures of imports and exports.
- Official foreign exchange reserves: end-month figures (not seasonally adjusted) comprising gold, IMF Special Drawing Rights, convertible currencies and, from July 1972, the UK's reserve position at the IMF. Before conversion into Eur, values have been converted into sterling at prevailing middle rates. For these reason, a break in the series occurs in February 1973 (c).
- Money supply: M3 (including interest-bearing deposits). A break in the series occurs in April 1973 (c).
- Not available.

