



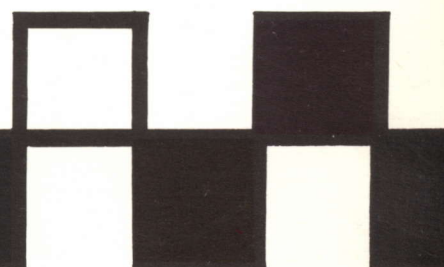
**European
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**Directorate-
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**The economic situation
in the Community**

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1967



Quarterly survey

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

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The Economic Situation in the Community

SEPTEMBER 1967

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Note :

This survey was completed around mid-September 1967. As regards the most recent developments and where it has not been possible to take them into account because of the pace at which national statistics are prepared and the time it takes to publish the survey in five languages, the latest issue of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

In the second quarter of 1967 economic expansion in the Community was moderate, mainly because the rise in internal demand flattened out somewhat further. As the summer advanced, however, the tendencies that were contributing to this loss of momentum may have diminished in strength.

External demand proved to be quite dynamic, with the value of visible exports (as shown in the foreign trade statistics) exceeding the figure of a year before by 9 %.

The lack of vigour in the trend of internal demand was particularly apparent in gross fixed asset formation. Expenditure on construction even declined from the first to the second quarter, despite the quite expansionary trend registered in France and even more in Italy. Investment in plant and machinery does not appear to have made any great progress in the Community as a whole; this was mainly due to the restraining influence of a further decrease in this form of expenditure in Germany. Total expenditure on consumption, however, may well have risen further—though at a slower pace—in the second quarter. In all member countries there was a more or less distinct slowdown in the growth of private consumers' expenditure, due no doubt in large measure to a slackening of the pace at which the disposable income of households has been expanding.

Supplies from within the Community continued to rise, but only at a slow pace. Industrial production (as reflected in the index of the Statistical Office of the European Communities, adjusted for seasonal and fortuitous variations) showed no essential change; only with the advent of summer may there have been some slight rise. The slowdown of expansion in the services sector seems on the other hand to have been less marked than before, and agricultural production even registered a very appreciable advance.

While on the labour markets of most member countries there was still a tendency for pressures to ease, there are various signs in Germany and in the Netherlands that during the summer the rise in the number of unemployed may virtually have come to a halt.

As in previous months, the level of visible imports to the Community was affected by the weakness of economic activity in several member countries; customs returns show that in the second quarter their value was much the same as a year earlier; towards the end of the spring, however, there were signs of a certain revival.

At 264 million u.a.¹ the surplus on visible trade with non-member countries was rather high; the tendency to improve seems, however, to have faded almost completely as the quarter advanced. The overall surplus on current account showed a similar tendency. Information so far available on capital movements points to considerable net outflows. The gross official gold and foreign exchange reserves of the member countries nevertheless increased by 500 million u.a. between the end of March and the end of June — in part no doubt as a result of redemption of debts by the United Kingdom.

Visible trade between the member countries showed little tendency to expand—its value (on a import basis) was 6% up on the corresponding quarter of 1966—but at least there is no further tendency for it to slow down now that purchases by Germany are no longer declining.

In the spring and early summer the underlying upward movement of prices was in general still fairly weak, while particularly good harvests in a number of crop products exerted a downward pressure. Despite the upward pressures caused by special factors (increase in petroleum prices due to the Middle East crisis) by increases in indirect taxes and controlled rents and by the upward adjustment of public service rates, the rise in the level of consumer prices was therefore in most member countries considerably less steep than in the corresponding period of the previous year.

The outlook for the rest of 1967 points to a slight recovery of the expansion of overall demand in the Community.

With stimulating and inhibiting factors probably almost in balance, there may well be no change in the pace at which demand from abroad is growing—and that, after all, is fairly high; internal demand, however, can be expected to expand somewhat more distinctly, especially in the field of gross fixed asset formation, where there should be some recovery in expenditure on construction and—in lesser measure—on purchases of equipment goods. A further, though at first still moderate, expansion of expenditure on consumption can also be expected.

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

In response to these probable developments in overall demand, supply in the Community is likely to grow again somewhat more distinctly in the remaining part of 1967, with the decisive contribution probably coming from the upswing that is expected to occur in industrial production. In the circumstances, imports from non-member countries can also be expected to show an increasingly firm trend.

Till the end of the year prices will probably remain rather quiet in almost all member countries. The disappearance of seasonal reductions, which have this year had a particularly strong effect on prices, is, however, likely to let the upward pressure on prices that still obtains in some member countries come once again to the fore. In some sectors the repercussions of the rise in import prices for petroleum products could still make themselves felt. Lastly, public utility and transport rates must be expected to increase further in several member countries.

Economic developments in the first half of 1967, and in lesser measure the outlook for the rest of the year, call for a slight correction of the quantitative forecasts given in the last Quarterly Survey for the full year 1967. The real gross Community product in 1967 will probably be 2.5 to 3 % higher than it was in 1966.

It is becoming increasingly likely that in 1968 the economic trend in the Community will be distinctly more lively. External demand, which will follow the general trend for business activity in the world, should show hardly any change in its rate of growth. Internal demand, however, is likely to improve appreciably on its modest expansion in 1967. Investment in construction and the trend of stock-building can be expected to provide particularly vigorous stimuli, while investment in plant and machinery by enterprises may also, on balance, rise somewhat faster than it did from 1966 to 1967. Lastly, the acceleration of expenditure on consumption is likely to become more and more distinct as the year advances.

In view of these prospects for the development of demand, the probable growth of the gross Community product from 1967 to 1968 can be put at some 4.5 %.

There will probably be in 1968 an appreciable increase in imports, leading in the course of the year to a tendency for the balance of visible trade to deteriorate.

The upward movement of prices in the Benelux countries can be expected to lose further in strength; in Germany prices will, at least initially, show a considerable degree of stability, while in Italy and France they are likely to continue rising at about the same pace as at present, if not faster. The price trend will, however, be influenced by special factors like the introduction in Germany of the tax on value added and the extension of this tax to retail trade in France, as well as by the "autonomous" price rises which have now become a recurrent factor making for price increases; it is hardly possible to forecast as yet just what the influence of this last factor will be. In most member countries, therefore, the rise in price levels may not be essentially slower than from 1966 to 1967.

The forecast of the economic trend given above rests in part on the assumption that an appropriate economic policy will be pursued. In accordance with the recommendation of the Council of the European Communities of 11 July 1967, the main aim of such a policy would be to support the elements of recovery discernible on the horizon, yet to avoid, by a correct mix and a sufficiently vigorous drive to place budgets structurally on a sounder footing, the risk that new inflationary pressures might emerge towards the end of 1968 or in 1969.

A. Recent developments

1. Demand

Aggregate demand in the Community was in the second quarter, and presumably also in the subsequent months, only a little higher than in the first quarter, mainly because internal demand was still losing something of its momentum.

The trend of external demand (in terms of actual exports of goods and services to non-member countries) continued to be on the whole rather buoyant. The weakness that was apparent in visible exports during the winter was gradually overcome in the course of the second quarter, when their value, as shown by the foreign trade statistics, was 9 % higher than a year earlier.

United States purchases in the Community rose at an appreciably reduced rate in the second quarter; this was evidently the result (with the usual time-lag) of the quieter situation in the United States of America. Since the spring, however, there have been distinct signs that economic expansion in that country has been recovering. Expenditure by the public authorities continued to provide very strong stimuli; there was an appreciable revival of private consumption, especially in the form of demand for motor cars and other consumer durables; and outlay on residential construction has in addition increased at a faster pace. Although stockbuilding policy remained cautious—in some fields stocks were even further depleted—and investment spending by enterprises tended to be hesitant, the stagnation of the real gross national product was gradually overcome in the course of the second quarter. All in all, the seasonally adjusted gross national product showed a growth rate of 0.6 % over the first quarter.

In the summer months these expansionary tendencies in the United States have probably gathered strength. At the same time the downward adjustment of stocks may have slowed down appreciably or come to a full stop. With production expanding more rapidly, imports of goods and services will no doubt also have begun to rise somewhat more vigorously than in the spring. As a result, the recovery in the

trade surplus observed since the beginning of 1967 may already have come to an end; it was in any case insufficient to prevent the overall balance of payments for the first half of 1967 from deteriorating considerably.

Deliveries from the Community to the United Kingdom grew with unexpected vigour in the period under review, one reason probably being that reticence over placing import orders before the removal of the import surcharge in November 1966 had been greater than assumed. This trend may also, however, be in part a reflection of the still precarious competitive situation (in the broadest sense of the word); at any rate, the latest economic trends in Great Britain scarcely seem to be the explanation of this phenomenon. For one thing, investment spending on capital goods by enterprises may well have continued to decline; the expansion of private consumers' expenditure has lacked assurance, much of the more rapid increase in disposable incomes since wage restraint was relaxed at the beginning of 1967, having, it seems, been converted into savings; nor did demand for residential construction register any notable increase; it was only expenditure by the public authorities, which continued to rise rapidly, and to a lesser extent some (probably speculative) stockbuilding that provided some stimulus to expansion. In the circumstances, industrial production, and probably the real gross national product as a whole, declined somewhat from the first to the second quarter. In the summer months, however, a slight improvement may have set in; there were, in particular, signs that the expansion of demand by private consumers was reviving. In spite of what was, on the whole, a very subdued trend on the home market, and despite the resultant rise in idle factors of production, the adjusted figures for British exports were lower in the second quarter than in the first.

In the other industrial countries economic growth—and in most cases, therefore, the trend of imports as well—appears to have continued by and large along the previous lines. In Scandinavia, for instance, expansion apparently continued at much the same rates, with Sweden the only country where it did not lead to a

corresponding rise in imports. In Switzerland the pace of business activity became increasingly quiet, and in Austria economic stagnation persisted. In Canada the general slowdown was confirmed, while in Japan there still was no change in the very fast tempo of growth.

The rise in Community exports to the developing countries showed signs of some levelling off in the second quarter; this tendency was, however, almost exclusively due to a particularly marked decline in deliveries to Asia in June, and may therefore reflect the first repercussions of the Middle East crisis (espe-

cially the closure of the Suez Canal). The trend of exports to the associated overseas countries and territories, however, continued to be rather dynamic.

Lastly, special mention must be made of the appreciable expansion of exports to the countries of the eastern bloc; this was probably a result of the higher trade quotas opened some time ago and of the more extensive credits made available.

Internal demand in money terms was again marked by a fairly distinct slowdown of expansion from the first to the second quarter.

Visible exports to non-member countries

(Values and % changes on preceding year)

Exports to	1966						1967	
	million u.a. ¹	%	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
All non-member countries	29 412	+ 8.5	+ 7.5	+ 10.5	+ 8	+ 8	+ 11	+ 9
of which :								
Industrial countries ²	19 127	+ 8.5	+ 9	+ 10.5	+ 7	+ 8	+ 9.5	+ 8
including :								
United States	4 098	+ 19.5	+ 22	+ 18.5	+ 18.5	+ 20	+ 12.5	+ 6
EFTA : total	9 999	+ 4	+ 5.5	+ 6.5	+ 3	+ 2	+ 4.5	+ 6
United Kingdom	2 541	+ 7.5	+ 18	+ 12.5	+ 6	- 4.5	+ 5	+ 12.5
Developing countries ³	7 955	+ 6	+ 0.5	+ 8.5	+ 8	+ 7	+ 9.5	+ 5.5
including :								
Associated overseas countries and territories	1 707	- 1.5	- 3	- 3	- 1	+ 0.5	+ 8	+ 11
Others ⁴	2 330	+ 18.5	+ 20	+ 20.5	+ 20.5	+ 13	+ 27.5	+ 33

Source : Statistical Office of the European Communities.

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

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of EEC countries.

³ Class 2 *ibid.*

⁴ Class 3 *ibid.* and other destinations.

Seasonally adjusted, gross fixed asset formation may even have been somewhat lower than in the previous quarter, at any rate as far as actual expenditure on investment in construction by enterprises, including residential construction, is concerned; expenditure in this field had been relatively high in the first quarter as a result of favourable weather. In Germany the decline was again quite appreciable, and in the Netherlands, too, the seasonally adjusted figures—particularly for spending on residential construction—were below the very high level registered in the first quarter. In Belgium and Luxembourg, finally, the downward trend, particularly in residential construction seems to have persisted. In Italy, however, the expansion of overall investment in construction gathered momentum, and in France residential construction showed the beginnings of a fairly distinct improvement. Apparently, however, the trend in these two countries was not sufficiently strong to offset completely the impact which the downward tendencies in the other countries had on the aggregate figures for the Community.

Public expenditure on construction in the Community as a whole, however, continued to expand. Most member countries registered vigorous increases. But as in Germany expenditure by the *Länder* and, even more, by the local authorities probably continued to decline during much of the second quarter, expansion for the Community as a whole was rather modest.

Adjusted for seasonal variations, overall investment in plant and machinery appears to have remained almost unchanged. In Germany, despite some improvement towards the end of the second quarter, the flow of orders was again lower than in the previous quarter. In the Benelux countries the trend of expenditure on plant and equipment, already rather sluggish in the early months of the year, deteriorated somewhat further as the propensity to invest of domestic enterprises weakened and (in Belgium) investment expenditure by certain foreign enterprises declined. In France, on the other hand, execution of the fairly expansionary investment projects of managements, most of which had been drawn up under the influence of the satisfactory business situation and of the tax incentives of the past year, continued to

make substantial progress, and in Italy, too, this class of investment continued to expand.

During the greater part of the second quarter stockbuilding—particularly stocks of most raw materials and semi-manufactures—was, like investment in plant and machinery, not a very expansionary element of demand. As the summer advanced, however, there may have been a certain change in the trend, particularly in Germany. On the other hand, the Middle East crisis led to some reduction of petroleum stocks from June onwards. Particularly in Germany, where the tax on value added will be levied from 1 January 1968, and in France, where this tax is to be extended to retail traders on the same date, there was for a time a very great readiness to deplete stocks of finished goods; the situation may have improved following the announcement by the authorities of satisfactory if not indeed advantageous measures which will reduce the burden on stocks held by enterprises when the new tax arrangements come into force.

Aggregate expenditure on consumption is likely to have expanded less appreciably from the first to the second quarter of 1967 than it did from the last quarter of 1966 to the first of 1967. In several member countries, particularly in Belgium, Italy and Germany, the previously vigorous growth of public current expenditure on goods and services appears, after all, to have slackened somewhat. In addition there has been a further slowdown in the expansionary trend of private consumers' expenditure in the Community as a whole. In Germany, this item has probably tended to decline in the second quarter; on a year-to-year comparison, at any rate, retail trade turnover was even slightly lower than in the corresponding period of the previous year; in the Netherlands it had expanded fairly vigorously in the first quarter, but then slowed down distinctly and in terms of volume has even been marking time. In France, too, the trend of private consumers' expenditure was hesitant, but in Italy it has probably continued to rise at a fast—or at best slightly reduced—pace.

One of the reasons for the more modest pace at which private consumers' expenditure has been expanding in the Community is the slower growth of the disposable incomes. In Germany,

for instance, net wages and salaries for the second quarter were even slightly below the corresponding figure of the previous year, the total number of man-hours worked having continued to decline while hourly wages rose at a considerably slower pace. In the other member countries the rise in the wages and salaries bill flattened out more or less distinctly. This was in part due to a slower rise in the total number of hours worked, but particularly in Belgium the more moderate increase in hourly earnings was a further factor.

In most member countries and particularly in Germany, disposable incomes were however supported by a vigorous expansion of transfer incomes.

The easing of the upward trend of prices, of which more will be said below, also helped to support consumption in terms of volume. As meat prices and (thanks to good weather) the prices of various crop products showed a quite favourable trend, the volume of food consumed expanded even quite vigorously. Sales of consumer durables were relatively quiet, but picked up somewhat towards the middle of the year. The number of new passenger cars and estate cars registered in the second quarter was some 8 % higher than a year before; here, however, it should be noted that in June 1966 the officials concerned with registration had been on strike in Italy.

2. Production

In the second quarter of 1967 supplies of Community origin rose only very modestly; it seems likely, however, that since the beginning of summer the rate of expansion has picked up slightly.

Agricultural production at any rate expanded appreciably. Except for Italy, where crops of some products suffered from the flood catastrophe last autumn, crops in the Community—particularly cereals crops—were considerably better than in 1966. The supply of livestock products, too, appears to have risen distinctly.

Industrial production, however, appears to have remained much the same. After adjustment for

seasonal and fortuitous factors, the index of the Statistical Office of the European Communities (which excludes construction, food, beverages and tobacco) again failed to rise above the level of the preceding quarter; the monthly average of the unadjusted index did not even rise above the level of the corresponding period in 1966. Here it must however be recalled that in construction and the food, beverages and tobacco industries—which, as pointed out, are not included in the index—there was nevertheless a year-to-year growth of production which in the last-mentioned branch was even considerable. Even more important, however, was the fact that in April-May 1967 industrial production in France was affected by factors not inherent in the economic trend (strikes).

Despite further advances of productivity, particularly in chemicals, the petroleum processing industry and (to a lesser extent) in iron and steel, the production figure for the basic materials, mining and quarrying group continued to decline in relation to the first quarter, mainly because the output in mining and quarrying fell for primarily structural reasons. In the first seven months of 1967 coal output was more than 10 % and iron ore output almost 15 % lower than a year earlier. Production of building materials as a whole was inhibited by the slower expansion of investment in construction, but the execution of public works projects and the faster flow of new orders continued to provide stimuli to several products.

In the majority of consumer goods industries the expansion of production fell off distinctly, not only because of the slackening of final demand but also because there were spells when stocks were being reduced by dealers. Output in the textile and the leather industries, for instance, was 9 %, and in the motor vehicle industry 7 % below the level of the second quarter of the previous year. Production in the food, beverages and tobacco industries, on the other hand, expanded appreciably — as has been pointed out already.

In the capital goods industry of the Community as a whole production showed a rather distinct upward trend: its vigorous rise in France and Italy persisted, while in Germany its decline tended to flatten out. Largely as a result of the more extensive rationalization efforts being

made by enterprises, the level of production went up distinctly, with the electrical engineering industry setting the pace.

So much for the figures for the second quarter as a whole. Within the quarter and, to judge by the information so far available, in July and August also, there have after all been signs that industrial production in the Community is tending to move up again now that the downward trend of production in Germany appears at least to have come to a halt and that in France, following the strikes, there has again been a more distinct advance, while in Italy expansion has continued to be brisk.

In the services sector the slowdown of expansion was less pronounced. Activity was none the less relatively quiet in most branches close to the production level and in some close to the consumer; in year-to-year terms, total spending on travel and tourism appears to have grown less dynamically than in the preceding years.

Tendencies on the labour markets of the member countries were much the same in the second quarter as in the first. The total numbers in paid employment for the Community as a whole may have been slightly lower, mainly because of a persistent decline in the industrial sector (including construction). It was only in Italy that the numbers in paid industrial employment rose again.

Although in Germany short-time working fell rather steeply, the total number of man-hours worked in industry in the Community probably continued, after seasonal adjustment, to decline slightly, the actual length of the working week having declined in France and ceased rising in Italy.

As a result of these developments in the employment situation which were by no means due to the state of business activity alone but also to structural weaknesses and other factors (expansion of labour force, including immigration), the seasonally adjusted number of unemployed in the Community again rose slightly in the second quarter, though in the course of the quarter the rise lost momentum. In the Federal Republic of Germany, particularly, the weakening of the tendency for this figure to rise had been observed at the

end of the first quarter, appears to have continued, and in the course of the second quarter the curve seems to have flattened out completely. The assumption that the worsening of the situation on the German labour market has ceased is confirmed by the fact that the number of unfilled vacancies was hardly any lower and that the number of workers on short time dropped appreciably. In the Netherlands, too, the tendency for unemployment to rise appears to have been considerably weaker, largely thanks to the measures to deal with regional unemployment, and it appears that in June-July the rise ceased completely. By contrast, the numbers seeking employment increased in Belgium and France at much the same pace as before; in the summer, however, the rise may have slowed down in these countries too. Although in Italy the lower number of openings for Italian workers abroad still inhibited the tendency for the number of unemployed to fall, this tendency was again quite distinctly visible towards the middle of the year.

3. The balance of the markets

Trends in the imports of goods and services from non-member countries appear to have been rather hesitant from the first quarter to the second without, however, losing further ground. The value of visible imports as shown in the customs returns was in the second quarter much the same as in the corresponding period of the previous year, following a year-to-year decrease of 1 % in the first quarter. Towards the end of the spring there even was a slight recovery—despite delays in the arrival of goods due to the Middle East conflict—in which a somewhat firmer trend of stockbuilding in Germany, and perhaps also in the Benelux countries, was an important factor. The figures for July, it may be added, do not confirm the upward movement in these countries. In addition, purchases by France showed distinct signs of weakness as spring advanced. It is, however, just the foreign trade figures for July which appear to have been most strongly influenced by the above-mentioned and other special factors.

In the second quarter the Community's visible imports from the other industrial countries

rose, though only slightly, above the corresponding 1966 figure, contrasting with a fall in the first quarter of 3.5 %; particular buoyancy was shown by the figures for deliveries by the United States to the member countries. Towards the end of the quarter purchases from the developing countries were appreciably inhibited by the Middle East conflict and other factors; for the full quarter their level was lower than a year earlier. There was in particular a sharp decline in imports from Africa, especially from the petroleum producing countries, while imports from Latin America were higher than in the previous months.

The spring of 1967 saw the end of the tendency for the expansion of visible trade between member countries to slow down or even to stagnate, a tendency that had been observed since the middle of 1966. Intra-Community trade appears in fact to have been recovering some measure of buoyancy. If in the second quarter it was only 6 % (import statistics, value) higher than a year earlier—following a year-to-year growth of 7 % in the first quarter—this is a reflection of the fact that the increase from the first to the second quarter of 1966 had been very rapid. Of particular importance was the fact that German purchases from other

Visible imports from non-member countries

(Values and % change on preceding year)

Imports from	1966						1967	
	million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
All non-member countries	30 735	+ 7.5	+ 13.5	+ 8.5	+ 6	+ 3	- 1	+ 0
of which :								
Industrial countries ²	17 315	+ 6.5	+ 15	+ 7	+ 4.5	+ 1.5	- 3.5	+ 1
including :								
United States	6 021	+ 6	+ 20	+ 2	+ 4	- 0.5	+ 55.	+ 6
EFTA : total	7 242	+ 5	+ 9	+ 7	+ 4	+ 1	- 2.5	+ 0
United Kingdom	2 782	+ 7	+ 9.5	+ 5	+ 5	+ 7	- 1	+ 2.5
Developing countries ³	11 312	+ 7.5	+ 10	+ 9	+ 6.5	+ 4	+ 1.5	- 2
including :								
Associated overseas countries and territories	2 282	+ 11.5	+ 9	+ 12.5	+ 18.5	+ 6.5	+ 3.5	- 6
Central and South America	2 731	+ 4.5	+ 4.5	+ 7.5	0	+ 6	+ 1.5	+ 5
Others ⁴	2 107	+ 16	+ 24.5	+ 21.5	+ 11	+ 7.5	+ 4	+ 6.5

Source : Statistical Office of the European Communities.

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

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC countries.

³ Class 2 *ibid.*

⁴ Class 3 *ibid.* and other sources.

member countries ceased to decline, even if no very distinct recovery was to be seen. In addition, imports by the Netherlands from the other Community countries showed some degree of buoyancy. At the same time imports into France continued to slow down as a result of the slackening of economic growth in this country. Purchases by Italy, too, showed a more hesitant upward movement, mainly under the influence of special factors (like fluctuations in meat imports), but partly also because of greater caution over stocks.

On the export side, deliveries by Germany, after declining in the early months of the year, picked up again, mainly as a result of a sharp increase in demand from Italy and the Netherlands. French exports to the other Community countries, however, were marked by persistent stagnation (this did, however, give way to a revival towards the end of the quarter and in July), while exports from Italy even tended to decline slightly. The trend of exports by France and Italy was mainly a reflection of the distinct slowdown in the growth of their mutual purchases—particularly of imports by France. Lastly, the trend of intra-Community exports by the Benelux countries could hardly be described as very dynamic.

As a consequence of these developments the surplus on Germany's trade account with the other member countries rose again from the first to the second quarter. The trade balances of Italy and the Netherlands, however, tended to deteriorate. The trade balances of France and of the Belgo-Luxembourg Economic Union with the other Community countries showed no notable change over the first quarter.

As regards the price trend, wholesale prices in most member countries generally remained much the same or even eased slightly from the first to the second quarter. Replenishment of stocks and higher import prices for petroleum and petroleum products consequent upon the Middle East crisis did, however, lead to an upward pressure on prices from June onwards; it appears, however, that this pressure has been of a more or less limited incidence. Moreover, the dampening of the increase in costs, particularly in unit costs, the slackening of the after-effects of previous cost rises on sales prices, the persistent downward trend of raw material

prices, an only moderate expansion of internal demand and, lastly, the stiffening of international competition have had an unmistakably steadying influence on industrial producer prices.

In addition, as a result of favourable weather, good or even very good crops led in most member countries to a distinct decline in the prices of a various crop products, this decline being sharper than the usual seasonal dip. Moreover, as a result of the cyclical movements typical of certain livestock products, pigmeat prices showed a distinct downward trend, while beef and veal prices levelled off.

Prices for services, on the other hand, continued to move upwards, even when the rates charged by public utility undertakings are left out of account; the rise was, however, generally less rapid than before.

There was in addition the influence of "autonomous" factors making for price rises—like an increase in indirect taxes in Belgium and the Netherlands, an upward revision of controlled rents in most member countries, an increase in the rates charged by public utility undertakings in France, the dismantling of subsidies in Luxembourg—as well as the indirect effects of these rises.

The impact of all these factors on consumer prices led to a further rise, from the first to the second quarter, in the monthly average of the relevant indices in most member countries, this rise being particularly steep in the Netherlands, considerable in Belgium and very weak in Germany. In general, however, the rise was smaller than from the first to the second quarter of 1966, and far less than between the corresponding quarters of 1965. Between the beginning and the end of the second quarter, the upward movement of prices was very weak—but here allowance must be made for the temporary effect of the seasonal price declines for various foodstuffs, which in most member countries (except Italy) were exceptionally marked and which, incidentally, still influenced the overall indices in July and August, making them decline in some cases even in absolute terms. In July the national indices of consumer prices (retail prices, cost of living) had risen 3.6 % in Italy, 3.2 % in Luxembourg, 3.1 % in the Netherlands, 2.8 % in Belgium, 2.4 %

in France and 1.6 % in Germany above the level of July 1966.

According to the foreign trade statistics, the surplus on the Community's balance of visible trade with non-member countries amounted to 264 million u.a. in the second quarter, against 47 million u.a. in the previous quarter. Compared with the corresponding period of the previous year there was an improvement of some 650 million u.a., following a good 800 million u.a. in the first quarter. The tendency for the Community's balance of trade to improve practically came to a halt as the second quarter advanced.

Like the balance of trade, all elements of the current account appear to have shown a seasonal improvement. Information so far available in capital movements, on the other hand, points to an appreciable net outflow, notably as a result of the vigorous upward movement of interest rates in the United States and on the Euro-dollar market. The fact that the official gross gold and foreign exchange reserves of the member countries have nevertheless risen by nearly 500 million u.a. from the end of March to the end of June may in part be attributed to redemption of debts by the United Kingdom. In some countries, on the other hand, there was a deterioration in the net foreign exchange position of the commercial banks.

It appears that, when the Community is taken as a whole, transactions with abroad contributed little to the expansion of internal liquidity. Of the individual member countries only France, Belgium and Italy registered an inflow of capital, part of which may however have come from other member countries. In Germany and the Netherlands transactions with abroad had a restrictive effect on domestic liquidity.

The cash operations of the public authorities led, on the other hand, to an increase in liquidity throughout the Community, the extent of the increase varying from one member country to another. The increase was particularly marked in Germany, where in the second quarter the tax receipts of the Federal Government and of the Länder were in absolute terms again lower than a year earlier, while expenditure continued to rise appreciably. The Federal Government financed about two thirds

of its cash deficit of DM 1 300 million by recourse to the money market. In the Netherlands, too, despite a vigorous rise in receipts from taxation, the budget showed a considerable cash deficit part of which was financed by short-term borrowing; the situation in Belgium was similar. In France, too, the transactions of the Treasury led to the creation of additional liquidity, and the same applies to Italy, but here the cash deficit of the Government was a little heavier than before.

Except in the Federal Republic of Germany, bank advances to business and private customers were the strongest factor making for an expansion of liquidity. In Germany, the trend of demand for credit was still hesitant in the second quarter, although it appears to have gathered some momentum again from June onwards; in France and Italy, where the vigorous demand for capital goods was sustained, the volume of credit expanded faster than before; and in Belgium and the Netherlands, finally, the rate of credit expansion was remarkably high. In most member countries the decline of interest rates on the money markets came more or less to a halt, despite what continued to be an expansionary or at least flexible central bank policy; this was probably due in the main to the growing gap between interest rates in the Community and those obtaining elsewhere.

On the bond markets, interest rates showed little change or even rose again slightly. This at least was the tendency observed up to the end of June. Here too interest differentials will certainly have played a major role; another important factor, however, was that in most Member States the public authorities made heavy calls on the capital market. Lastly, the readiness to take up bonds may lately have suffered somewhat from the boom conditions prevailing on the equity markets.

The attraction of the share markets has indeed grown appreciably. While in the second quarter share prices were still rising slowly if at all, they moved up with varying degrees of vigour in almost all member countries from July onwards. This was probably not only due to the recovery of business activity in the United States and to the trend on the New York stock exchange, but may also have reflected the

reaction of many investors to signs that the business situation was better secured and that costs were likely to be more stable. In France it was not till August that the recovery really got under way, as till then there had been

uncertainty about the effects workers' participation in company profits might have on the financial situation of enterprises; this uncertainty was removed once the relevant regulation was published.

B. Outlook

Till the end of 1967, there is likely to be a slight recovery in the pace at which aggregate demand—particularly internal demand—is expanding in the Community as a whole.

The stimulating and inhibiting influences on external demand (in terms of the goods and services actually exported to non-member countries) may roughly cancel each other out, so that on balance expansion may be at much the same rate as in the first half of the year.

Purchases by the United States in the Community will probably rise slightly faster than before, as the more vigorous expansion of domestic demand of which there are already signs in that country may, despite the high initial elasticity of domestic supply, provide some measure of stimulus for imports. Public expenditure in particular will continue to expand very vigorously. In addition, a wave of wage increases (combined with some improvements in social benefits) will certainly provide an appreciable further stimulus to private consumers' expenditure. The latest trend in building permits and housing starts also suggests that residential construction will rise further; the recent advances in interest rates do not yet appear to have met with an appreciable negative reaction. Lastly, movement of stocks may in the foreseeable future again start to contribute to expansion.

In view of the appreciable increase in the budget deficit that is expected for the 1967/68 fiscal year, which would lead to an excessive resort to credit by the public authorities unless action were taken to step up revenue, and also with a view to forestalling a renewal of overheating in the domestic economy, the Government has proposed to Congress that, apart from other measures, income tax should be increased as from 1 October and corporation tax even retroactively as from 1 July 1967, the increase being 10 % in both cases. If Congress should adopt these measures (with anything like the rates and dates proposed), their effects may in part offset those of the tax incentives to investment that were reintroduced only recently; the very announcement of these measures may already have had a not very happy influence on the propensity to invest of

entrepreneurs, which had in any case not yet recovered perceptibly. All in all, however, there is no doubt that in the second half of the year the expansionary forces will prevail in the economy of the United States; for the full year 1967 the real gross national product may thus rise by a good 3 %.

As for purchases by the United Kingdom, it is however hardly conceivable that in the period up to the end of 1967 the inflow of imports should continue at the rate observed in the first half of the year. True, there are factors in the business situation which suggest that imports will be relatively vigorous: demand by private consumers will probably pick up as a result of numerous wage increases pressed through at the end of the period of severe restraint despite the unfavourable situation on the labour market, of the impending increases in social transfers and, lastly, of the steps taken in the summer to relax the restrictions on consumer credit; in addition, there may be a further replenishment of stocks; public current expenditure will continue to expand vigorously and exports may again show somewhat less tendency to stagnate. This may more than compensate the weakness of investment by enterprises that will, no doubt, persist. In the months ahead the real gross national product is therefore likely to gather speed, if only slightly, and imports may show a rather vigorous upward trend due in part to further substitution of foreign products for wares produced at home. The impact of the pent-up demand released by the removal of the import surcharge, will, however, continue to lose in strength.

Information so far available on the other major industrial countries provides no reason for any notable modification of the earlier forecasts concerning the development of their economic activity and their exports. In the past few months some of these countries have, it is true, experienced a rather unexpected flattening out of the rise in their economic activity; this was however mainly due to external factors and is now likely to be offset in large measure by the revival of American demand for imports.

By the end of 1967 there will undoubtedly be a further rise in Community sales to the

developing countries. The pace of growth may however be slower; for one thing, further after-effects of the Middle East crisis (delays in deliveries, curb on demand) must be expected to affect—though hardly very strongly—the export figures of the Community; greater importance may well attach to the persistent depression of world market prices caused by the excess supplies available on several major raw material markets (apart from petroleum) and also—with demand inclined to be weak even in terms of quantity—of the amount of foreign exchange earned by the developing countries. Experience suggests that the moment is approaching when these countries will exercise greater caution in placing import orders, especially as the foreign exchange reserves of the petroleum producing countries have probably ceased rising as well as those of the others.

Lastly, the forecasts for Community exports are based on the assumption that the appreciable growth rate of purchases by the countries of the Eastern bloc will be maintained.

All in all, the Commission takes the view that visible exports to non-member countries will expand so vigorously in the next few months that—taking into account the figures already available for the first half of the year—their value for the full year 1967 could be some 8.5 % higher than in 1966.

The expansion of internal demand in the Community will probably show a slight recovery by the end of the year.

Expenditure on construction is likely to be one source, indeed the major source, of improvement in gross fixed asset formation. Investment in residential construction will certainly advance as a result of continued expansion in Italy and France and of the first effects of the measures taken in Germany to assist the building sector. As implementation of the public works programmes in Germany will gather speed, while there will hardly be any change in the rising trends already registered in the other member countries, public expenditure on construction in the Community as a whole will undoubtedly also rise somewhat faster than before. In the field of industrial building, however, it may be some time before there is any change in the hesitant mood that prevails at present.

In investment in plant and machinery, too, there should be some recovery by the end of the year. For Germany, it would be premature—even if there were an early and appreciable improvement in the propensity to invest—to predict a distinct revival of actual spending on investment, since the treatment of existing investment projects, as reflected in the way orders have recently been placed, is not yet such as to justify this prediction. The trend will nevertheless be more favourable than it was in the second quarter. In Italy and France, on the other hand, investment in plant and machinery by enterprises will continue to rise vigorously. It is in fact improbable that in the latter country the weakening of the propensity to invest as reflected in the order books of the capital goods industry will affect actual spending before the end of the year. When the Community is taken as a whole, it seems that investment in plant and machinery will register at least a slight upward trend, particularly as the expected decline of this class of expenditure in the Benelux countries is unlikely to be on a considerable scale.

Overall expenditure on consumption, particularly private consumers' expenditure, cannot be expected to show any very distinct acceleration during the remaining months of 1967. Now that the uncertainty about the underlying trend of business activity in the Community is diminishing, the savings ratio of households, which is already comparatively high, will probably not rise further; in most member countries, however, disposable incomes are likely to show only a fairly modest expansion.

Except in Italy, the total number of hours worked will not yet provide any appreciable stimulus to incomes. In addition it must be expected that in several member countries, particularly the Benelux countries, the rise in wages will slacken further, and in Germany the low rate of increase in mass income (particularly in gross hourly earnings) is likely to continue for some time. In Italy, on the other hand, income from paid employment as well as the other types of income will probably continue to expand quite appreciably. France holds an intermediate position; here, income from paid employment is expected to show a modest or at best a slightly more lively growth than in the first half of the year. Transfer incomes,

however, are in general likely to go on rising vigorously—particularly in Germany and Luxembourg, where they will do so at a much faster pace than the other types of income. In the Netherlands, the second stage of the income tax cut which became operative on 1 July 1967 will certainly have a stimulating influence.

In keeping with the expected trend of overall demand, the growth of supply from within the Community will probably gather some momentum until the end of 1967. The information so far available on this year's harvest suggests that agricultural production will certainly also contribute to this development; the decisive influence, however, will probably come from the expected recovery of the expansion of industrial production (including construction). The contribution of the services sector as a whole will also rise somewhat more rapidly than in the past.

Despite the slightly better outlook for the trend of production, it is hardly likely that the numbers in paid employment in the Community will start rising just yet; experience shows that in this phase of the economic cycle a recovery in the pace at which supply expands is at first reflected mainly in a more rapid advance of productivity.

Imports from non-member countries, too, can probably be expected to show a firmer tendency, but their rise is sure to be rather slow. While it can be assumed that investment in stocks will pick up again and that, more particularly, stocks of petroleum products will be replenished, there is, in view of the good harvests, little prospect of any appreciable rise in imports of agricultural products.

The price trend will probably be rather quiet till about the end of the year. The moderating influence exerted by the cooling down of the economic climate on the trend of wages per unit of output may continue to be felt in almost all member countries, and the slight recovery or acceleration of aggregate demand cannot, in view of the margin of production factors available, give rise so soon to new and general imbalances. Nevertheless, the rise in import prices for petroleum products may continue to affect certain sectors, and in several member countries the repercussions of the earlier

demand-pull and cost-push inflation may well make themselves felt in the shape of increases in the rates charged by public utility and transport enterprises, of rises in controlled prices and rents, and so on.

The forecasts for the full year 1967, as published in the Quarterly Survey 2/1967, need some slight modification—less in view of the prospective development until the end of 1967 outlined above than because production and private consumers' expenditure were both somewhat lower in the first half of the year than had been assumed. The growth of the real gross Community product from 1966 to 1967 will probably be about 2.5 %.

It appears increasingly likely that after the turn of the year economic activity will be distinctly more vigorous, with internal demand—backed by economic developments in Germany—probably providing most of the stimulus.

External demand (in terms of goods and services actually exported) may continue to expand at much the same rate. It can certainly be expected that stronger stimuli will come from the United States, where economic growth—at least when the year is taken as a whole, and on the assumption that the war in Vietnam continues—is likely to pick up slightly. One pointer in this direction is the probability that the budget will again have highly expansionary effects—even if the tax increases proposed by the administration are adopted; it is in addition probable that the new upswing of investment in stocks will be confirmed; lastly, expenditure on residential construction is expected to rise further, even though here a persistent rise in interest rates may have an inhibiting effect as the year advances. It is difficult to forecast the trend of fixed investment by enterprises; this component of demand will probably not have much effect on the level of economic activity. Mainly because of the intended appreciable increase in income tax (if it actually comes) private consumers' expenditure, too, may expand somewhat more slowly than could till recently have been expected in the light of the current wave of wage increases. By and large, however, the upward trend of aggregate demand should be sufficient to raise the real gross national product by at least 4 % from 1967 to 1968; at the same time, prices may go up even more than from 1966 to 1967.

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ¹		1967 ²	
	At current prices in '000 million u.a. ¹	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Gross fixed asset formation	65.7	+ 3.5	+ 6.3	+ 3.5	+ 6.0	+ 0.5	+ 1.5
Public current expenditure on goods and services	39.6	+ 5.4	+ 10.3	+ 2.5	+ 7.8	+ 4	+ 8
Private consumers' expenditure	169.1	+ 4.4	+ 7.8	+ 4.2	+ 7.8	+ 3	+ 5.5
Gross Community product	279.4	+ 4.5	+ 7.9	+ 4.0	+ 7.3	+ 2.5	+ 5
Balance exports ⁴ less imports ⁴ (at current prices, in '000 million units of account)	+ 1.4		+ 2.8		+ 3.5		+ 5.5

¹ Source: Statistical Office of the European Communities: General Statistical Bulletin —No. 7-8, 1967

² Commission forecasts. Community aggregates based on the official exchange rates.

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

⁴ Goods, services and factor income.

Note:

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

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

In the United Kingdom the gradual revival in the expansion of demand will probably continue at about the same slow pace as can already be expected for the second half of 1967, with the main stimulus coming from private consumption and public expenditure. Any faster expansion could be expected to weigh heavily on the balance of payments, which has in any case been suffering from the consequences of the Middle East crisis—especially when one recalls the problems involved in paying back the debt contracted during the last balance of payments crisis. It does not therefore seem possible to contemplate further easing of the restrictions imposed last year—for just the same balance of payments reasons—although this would seem

to be necessary if there is to be a more rapid improvement in the level of business activity. It does at any rate not seem advisable to make too optimistic an assessment of the trend of imports into the United Kingdom; the pace at which they have been expanding should, if anything, be expected to decline slightly.

The stimulus provided by demand from the other major industrial countries may on balance be slightly stronger in 1968; here the most important factor could be the expected rise in purchases by Austria, Switzerland and probably Sweden, while purchases by Norway, Denmark and Japan are likely to expand less than from 1966 to 1967.

The slight economic revival that can, by and large, be expected to occur in the industrial countries, and will lead among other things to a greater readiness to build up stocks of raw materials and semi-manufactures, should also improve the export prospects of the developing countries for 1968. Nevertheless the trend of imports into this group of countries will probably continue to be inhibited throughout most of the year by the earlier drop in earnings from exports. For the full year, therefore, the growth rate of exports from the Community to these countries may be lower than in 1967.

The outstanding feature of 1968 will probably be that internal demand will grow appreciably faster than in 1967, when the rate of expansion was only modest.

This applies in particular to gross fixed asset formation. Information so far available on the trend of building permits and housing starts suggests that residential construction will expand vigorously in Italy and France, while in Belgium and Germany it may recover as the year advances. In the latter countries it can be expected that industrial building activity, too, will pick up more or less distinctly. In the public works sector, at any rate, the information at present available on the 1968 budgets and the prospects opened up by implementation of the "second programme to promote economic activity" in Germany promise for next year a very vigorous increase in all member countries.

Although it is particularly difficult to forecast the trend of investment in plant and machinery by enterprises, particularly because no one can be sure how much it will rise in Germany, this sector can be expected to show a distinct expansion for the Community as a whole. It can reasonably be assumed that investment in plant and machinery in Germany, after stagnating in 1966 and declining appreciably in 1967, will at least recover slightly in 1968. This change would probably affect the figures of the Community much more than the slowdown in the expansion of these investments which is foreshadowed in France, and possibly also in Italy, by recent figures on the flow of orders.

The information at present available on the current consumption expenditure budgeted for

by the public authorities does not afford a sufficiently clear picture of what their trend may be in 1968. In addition it is in most member countries just this budget item which usually undergoes the greatest changes (more often than not upwards) in the course of the year. Nevertheless it is probably reasonable to assume that in the Benelux countries the rise in public current expenditure will be somewhat weaker than from 1966 to 1967—reflecting the effect that the more modest upward trend of prices and costs in general will have on this expenditure and also the result of certain efforts to check its expansion, which has obviously been too fast so far—and that in the other member countries it will be at least the same.

In 1968 the expansion of private consumers' expenditure in the Community will most probably be quite distinctly faster than in 1967, and in terms of volume may again be about 4 %, the average attained in the years before 1967. If this figure is attained, it would be mainly because consumption has again started to expand in Germany.

Private consumption can in fact be expected—apart from seasonal variations—to pick up again in Germany towards the end of 1967, and this upward tendency will undoubtedly continue in the course of next year, gradually gaining in strength; the pace at which private consumers' expenditure grows will depend not only on the trend of incomes but also on how the propensity to save develops during the economic upswing. In the other member countries, the growth of private consumers' expenditure for the full year can be expected to change less distinctly than in Germany. The trend of employment is unlikely to have an inhibiting influence on disposable incomes for much longer, but the rise in wages will presumably continue to be moderate for some time yet. Once again Italy will probably register the steepest increase in consumption, followed by France, where there may be a slight acceleration. In the Benelux countries the slacken trend in private consumption which made itself felt in 1966 and 1967 will probably not continue.

In the last Quarterly Survey a growth rate of somewhere between 4 and 5 % was mentioned as a first tentative estimate for the gross Community product in 1968. A more precise estimate is now about 4.5 %.

This development will in all probability go hand in hand with an appreciable increase in trade between Community countries and in imports from non-member countries. The expected expansion of Community imports will, however, be moderated by the effect on agricultural imports of the good harvests which most member countries have experienced in 1967. This is the main reason why—with exports expected to expand as well—the 1968 surplus on the Community's balance of trade (foreign trade statistics) will probably be now lower than in 1967. Within the year however, the trend can probably be expected, after seasonal adjustment, to point downwards from about spring onwards.

The forecasts for supply and demand do not suggest that, in 1968 as a whole price increases will be any faster than in 1967 — except perhaps in Italy, where the pace could after all prove to be slightly faster; they rather suggest that the increases will be further moderated, at any rate in Germany and in the Benelux countries. Other pointers in this direction are the prospective trend of costs and the fact that a period when economic activity has been slowing down is usually followed by a period when the rise in productivity tends to be rather strong. It seems that in Germany the

trend of prices, as far as these reflect developments in the business situation, will at best justify use of the expression “more or less satisfactory stability”, and even such limited stability does not appear to be secure for all periods throughout the year, particularly the final months. In the other member countries it will still not be possible to claim that there has been an adequate reduction in the pace at which prices are rising.

In addition to what are in the main cost-induced upward tendencies, prices will in 1968 again be affected by “autonomous” factors : increases in controlled rents and in the prices of certain products, higher charges by public utility and transport enterprises, fiscal measures, particularly the introduction of the tax on value added (at a percentage rate which is higher than that of the previous system) in Germany and its extension to retail trade in France. The effects of these fiscal measures, in particular, are difficult to forecast with any certainty; but it will at any rate be an advantage that at the time when these fiscal measures come into force business activity will doubtless still be relatively quiet : the upward pressure on prices will on balance be smaller than it would have been in a boom period.

C. Short-term economic policy

The prospects outlined above show that the increase in production and income in the Community is likely now once again to become gradually more and more rapid. This change should become discernible during the second half of 1967—towards the end of the year—but expansion will still be relatively slow at first. The impetus will come from the business situation in Germany, which should show a slight improvement until the end of 1967, followed by a marked upsurge from the spring of 1968 onwards. This will not only spread to the Benelux countries but also stimulate business in France, where the slackening in activity so far is due—to a considerable extent at least—to the weakness of German imports. Lastly, the upswing in Italy should gain from the new trend in the rest of the Community and should gather further momentum.

Thus the business situation may well be fairly uniform throughout the Community during 1968, although the vigour of the upswing will still show some variation from one member country to another. To begin with, the main forces behind expansion will be investment in stocks and public investment—particularly the increase in public investment made for economic policy reasons, and the direct and secondary effects of this increase; subsequently, however, the development of private consumers' expenditure will again become firmer; finally, industrial investment, too, will begin to move upwards again or rise more rapidly.

This forecast is based, among other things, on the assumption that an appropriate economic policy will be applied. The Council of the European Communities, acting on a proposal from the Commission, addressed to the Member States on 11 July 1967 a new recommendation on the guidelines to be followed in their economic policies during the second half of 1967 and in the first decisions to be taken for 1968. (A translation of the text of this recommendation is annexed to this chapter.) Before discussing the proposed recommendation, the Council consulted the Monetary Committee and the Short-term Economic Policy Committee—which examined the preliminary economic

budgets for the coming year, as it always does, at the beginning of July.

In general, the Council recommended that all Member States except Italy should pursue a policy that would go further than before to sustain or promote economic growth. To this end, they should not attempt to force into balance budgets in deficit because of the slow-down in economic activity and should finance them by means involving the creation of money; they should carry out additional public investment as an adjunct to economic policy and encourage investment in stocks by offering tax incentives (in Germany); selective measures already decided upon with a view to promoting economic expansion and regional conversion should be implemented more rapidly and, where appropriate, more should be done to stimulate investments designed to increase the productivity of existing enterprises (in Belgium); in France, measures might be taken (particularly as regards residential construction) that go beyond what has already been done; in all member countries, the rise in public expenditure on consumption should be slowed down and—in the countries where the present level of business activity is low—public capital expenditure should be increased by a corresponding additional increment and industrial investment incentives should be improved; an “easy” monetary and credit policy should be pursued in order to bring interest rates down in all the member countries running payments surpluses. In general, more emphasis should be laid on expanding investment rather than consumption.

The Council has not laid down quantitative criteria concerning measures to sustain or revive economic activity—for example, as regards deficits, additional investment programmes, etc.—but left it to the national authorities in the Member States to fix these. It has, however, set limits within which economic policy measures should be kept.

It has done this, firstly, by pointing out that the greater emphasis now to be laid generally—with the exception of Italy, where economic activity is already expanding fairly strongly—on growth does not of course mean that the aim of stabilizing prices and unit costs should be

ignored. This also explains the reserve shown by the Council in the case of the Netherlands—despite the fairly appreciable rise in unemployment that has occurred in that country, too, since last year; in view of the continuing tendencies towards higher costs and prices, a definitely expansionary policy would in fact only be feasible in that country if the aim of stabilizing prices and unit costs were ignored. For the Netherlands as for the other countries, however, the Council recommendation also envisages the possibility of structurally selective measures and additional budget deficits, where such deficits are due to the slowdown in business activity.

Secondly, the Council explicitly advises that wherever measures are taken to promote expansion they should be so designed as not to undermine the tendencies towards price stabilization nor lead to further price increases, whether in the near future or later. In this connection, it is particularly important to notice that the Council is not thinking only of the short term; in the recovery that follows a decline in economic activity during which considerable reserves of production have accumulated, the dangers of prices rising in the short term are in any case not great, even when too much credit has been injected into the economy. But the Council was also considering the longer-term development—in this particular case, the business situation towards the end of 1968 and in 1969. This is, moreover, one reason why Section 10 of the recommendation recalled the need to put the structure of the budgets on a sound footing, a point which had already been made in its previous recommendation (of 22 December 1966); the Council urges that more should be done to reduce structural deficits (i.e. deficits not due to the current business situation)—above all, by taking steps to check the increase in public expenditure on consumption. Obviously, such structural improvements would not only produce better conditions for the growth of the economy as a whole but would also provide a better framework within which the authorities could implement an effective anticyclical public budget policy during the economic upswing.

In Section 3—a section of special importance—the Council urges that, when framing their short-term economic policies, the Member

States should make due allowance for the effects of the forces leading spontaneously to economic recovery and for the steps which were already being taken at the time when the recommendation was issued. Of course, the authorities in each country must allow not only for the forces already at work and the measures already taken at home but also for the tendencies expected and the measures adopted elsewhere in the Community.

In this connection, certain problems may arise if and in so far as the various Member States do not take sufficient account of the expansionary influences they will exert upon one another. Economic interpenetration within the Community has now become so great that there may well be some surprises when a new situation arises in which the same trends run parallel in all the member countries, in contrast to the pattern of the last few years, when the underlying trends in the various countries at any one time were completely different, so that the national trend in any one country was partly counteracted by contrary movements elsewhere. There may then be a cumulative process which would have the effect—should all countries experience an upswing at the same time, as seems likely—of making the common cyclical fluctuation more severe than cyclical fluctuations in the individual countries have been in the last few years.

A similar problem may arise (although one that will be less acute in view of the low level of reciprocal economic influence) at external level, for in 1968 one of the main features of the business situation in North America, and even—although much less strongly—of that in the United Kingdom, should be a quickening or recovery of expansion coinciding with the upswing in the Community. Here, the authorities should bear in mind that prices in the United States have already reverted to a faster rate of increase in 1967 and may rise even more rapidly in 1968.

Lastly, with regard to the expected revival of business activity in the Community, care should be taken not to overestimate the scope for growth. Although this may be considerable where production capacity is concerned, the prospects of finding more manpower are relatively slender. In all the member countries except France, the reserves of labour are smaller

than in 1958.¹ In this connection, an important point is that although unemployment was fairly high at the beginning of the 1959/1960 boom period, signs of inflation nevertheless appeared quite rapidly—from the middle of 1960 onwards in more than one Community country.

It is of course still too early to be able to tell with sufficient certainty how far the economic and financial policies pursued by the Member States are in line with the latest Council recommendation. Some forecasts can, however, be made in the light of the measures already adopted and of known tendencies and intentions; these are given in the chapters of this Survey which deal with the individual countries.

In general, sufficient emphasis has been placed upon the measures to be taken to sustain or revive economic activity in most of the member countries where such measures are called for, and particularly in Germany. But the question also arises as to whether, in the case of Germany, the additional expenditure now decided upon, which will be financed mainly by means involving the creation of money—and which should directly release additional demand amounting to about DM 8 000 million, but should generate a substantially stronger upsurge in demand through the multiplier effect—might nevertheless not prove to be too much of a good thing. Though the order of magnitude appears in the short run not to be out of line or even appropriate, this appreciation would be altered if administrative obstacles should prevent the effects of the greater part of this additional demand from being felt until 1968, by which time it is probable that business activity may well have picked up again in any case.

This question should not of course be considered in isolation but in conjunction with overall budget policy—and particularly with the question as to what will be the outcome of the attempts that are now being made to improve the structure of budgets by slowing down the increase in current expenditure and, where necessary, taking steps to expand current

revenues. It appears, however, that in almost all member countries considerable efforts are in fact being made in this field, but that in some of them their main effect is no more than to prevent the relation between ordinary revenues and expenditure from deteriorating, so that they certainly do not hold out any prospect of a really far-reaching improvement. Moreover, in some cases additional expenditure or tax concessions affecting consumption are only being postponed until a later date.

Certainly, one cannot completely rule out the danger that the Council's specific recommendation on budget structure will be complied with only half-heartedly, whilst the measures taken to stimulate expansion may go further than what was recommended; inefficient implementation of the Council's recommendation in the first field will increase the expansionary effects of the latter measures. The recommendation should of course really be seen as a whole; to implement only certain parts of it without doing enough about the others might prove actually harmful in the rather longer term.

These views are, however, based on information on budget policies that is at present still incomplete and is, above all, still uncertain, because the various Parliaments have either not yet discussed or not yet passed the budget laws. There is therefore a possibility—perhaps indeed a likelihood—that these policies may yet be further adjusted in order to comply with the Council's recommendation (Section 10). The Commission is anxious, however, to emphasize the need for a considerably greater effort. Additional measures to stimulate the expansion of investment would be appropriate if—and to the extent that—the policy of structural improvement impairs business activity.

The monetary and credit policies of all Member States are in line with the Council's recommendation. There appear to be some problems in this field, nevertheless, but these are due to developments that have occurred or action that has been taken not so much within the Community as outside: the monetary authorities in several member countries are encountering difficulties in their attempts to bring about a further reduction in interest rates by increasing domestic liquidity; this is because interest rates

¹ In the second quarter of 1958 the number of unemployed expressed as a percentage of the labour force was 2.2 % in Germany (1.7 % in the second quarter of 1967), 8.7 % in Italy (4.9 %), 2.8 % in Belgium (2.2 %), and 1.7 % in the Netherlands (1.5 %).

outside the Community and on the Euro-dollar markets have not only remained high but have even been rising lately, with the result that large sums have been flowing out of the Community's money and capital markets to abroad. Thus the Community's internal liquidity is either not expanding or not expanding sufficiently, and it is partly for this reason that interest rates are either not falling or not falling sufficiently; at times they have even been rising.

One of the reasons for this might be the nature of the economic policy mix in the United States. A tighter hold appears to be being kept on monetary and credit policy than would be necessary if the emphasis of budget policy had been placed, in good time, more on achieving equilibrium in the balance of payments and maintaining price stability. It is not yet certain that the tax increases proposed by the Administration will be put into effect. Indeed, no change in the American monetary authorities' cautious policy on interest rates is likely before the fiscal measures have been decided upon and begin to take effect. Even then, it is doubtful whether the authorities would adopt a policy deliberately designed to reduce interest rates, because the federal budget deficit is likely to remain quite heavy even after the fiscal measures have been taken. Moreover, the relatively high level of interest has a direct and beneficial effect on one of the "weak spots" of the United States balance of payments—i.e. it helps to reduce the large deficit on capital transactions. To this extent, the policy is fully justified, if kept

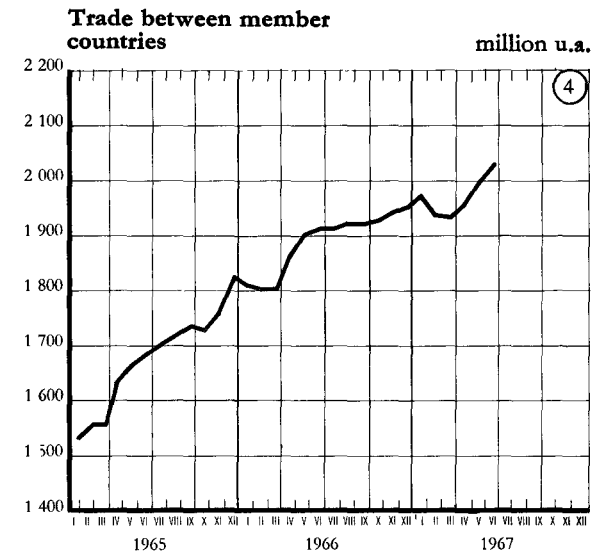
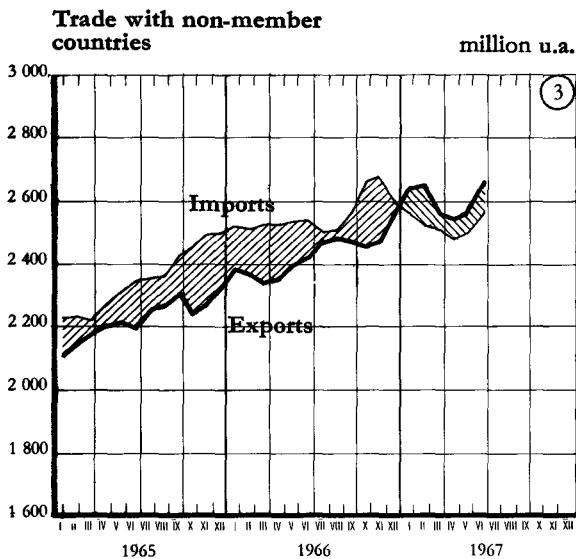
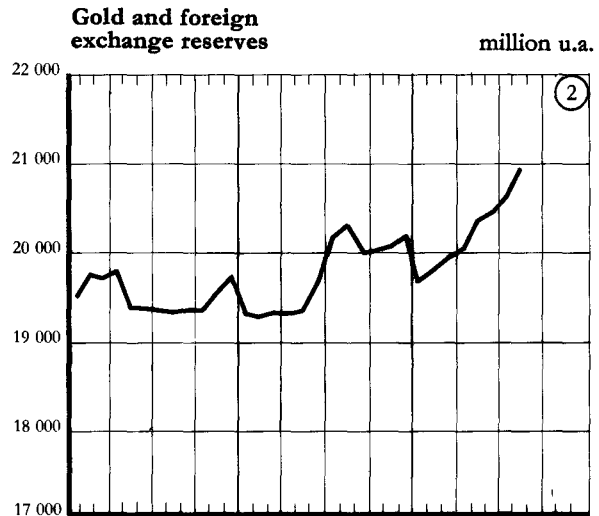
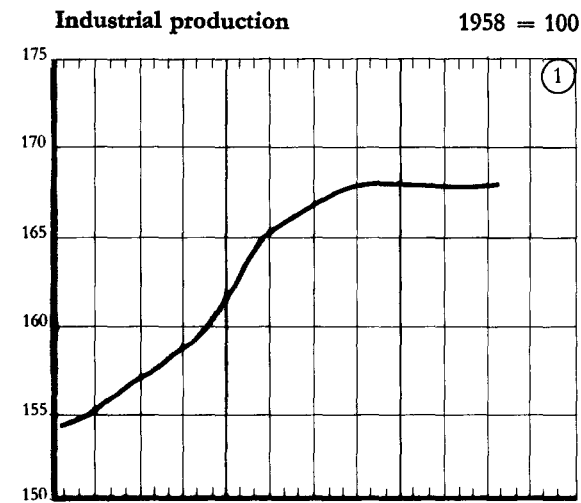
within certain limits, quite apart from considerations as to what is now the right economic policy mix.

It would seem, however, that these limits are being exceeded, because interest rates also have to be kept high in order to counteract the effects of an insufficiently anti-cyclical fiscal policy. There are dangers here not only for business in America, which may in certain circumstances again be curtailed too unevenly, with residential construction and industrial investment suffering most, but also for economic activity in Europe—in so far, that is, as the upswing in the private sector is retarded and hampered by the fact that interest rates have not fallen sufficiently.

If they wish to bring interest rates down all the same, central banks in Europe have no choice but to pursue a generally very expansive policy that will more than offset the outflow of capital; the German Bundesbank, for example, is at present actually intervening directly on the capital market on its own account, through open market operations. But this in turn is creating such a cushion of liquidity¹—especially with the banks—that, if it were necessary to check domestic business activity again, there might be a danger that the "braking distance" of a more restrictive credit policy would be too long—for there is no doubt that portfolio investments abroad would then be repatriated quite rapidly.

¹ Liquidity as a whole, i.e. both domestic liquidity and liquidity held abroad.

ECONOMIC INDICATORS



NOTES :

Source : Statistical Office of the European Communities.

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

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

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

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

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

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	1 167.5
Total population ('000)	183 010
Density of population per sq. km.	157
Numbers in employment ('000)	74 400
Numbers in employment, breakdown by main sector (%):	
— Agriculture	16
— Industry	44
— Services	40

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross Community product	7.7	5.4	5.6	4.4	5.9	4.5	4.0	151	—
Industrial production	12.3	6.7	6.3	5.2	7.0	4.6	5.0	167	—
Visible imports	20.5	5.5	11.2	10.7	7.3	5.1	6.5	197	—
Private consumers' expenditure	6.2	6.2	6.4	6.0	4.4	4.4	4.2	150	61
Gross fixed asset formation	10.3	10.1	7.2	5.6	8.3	3.5	3.5	173	23
Visible exports	11.1	3.2	0.8	3.8	9.6	10.8	8.5	178	—
Intra-Community visible trade	22.0	14.5	13.8	16.2	13.5	11.9	11.0	324	—
Gross product per capita	6.7	4.4	4.3	3.2	4.7	3.4	3.1	139	—

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	154	159	157	163	164	164	147	128	162	167	171	166
	1966	162	166	170	174	173	175	157	134	170	173	178	172
	1967	(165)	(169)	(171)	(174)	(172)	(174)						
Imports from non-member countries (cif, million u.a.)	1965	2 243	2 090	2 422	2 368	2 380	2 352	2 404	2 156	2 388	2 443	2 562	2 757
	1966	2 522	2 375	2 789	2 525	2 563	2 622	2 418	2 308	2 605	2 687	2 631	2 675
	1967	2 607	2 392	2 610	2 515	2 564	2 654						
Exports to non-member countries (fob, million u.a.)	1965	1 940	2 064	2 414	2 172	2 249	2 192	2 348	1 997	2 291	2 380	2 368	2 652
	1966	2 153	2 179	2 567	2 372	2 451	2 502	2 506	2 226	2 460	2 626	2 527	2 849
	1967	2 563	2 413	2 678	2 681	2 595	2 721						
Balance of trade (million u.a.)	1965	- 303	- 26	- 8	- 196	- 131	- 160	- 56	- 159	- 95	- 63	- 194	- 105
	1966	- 369	- 196	- 222	- 153	- 112	- 120	+ 88	- 82	- 145	- 61	- 104	+ 174
	1967	- 44	+ 21	+ 68	+ 166	+ 31	+ 67						
Intra-Community trade (million u.a.)	1965	1 445	1 576	1 801	1 680	1 661	1 691	1 735	1 437	1 734	1 871	1 812	1 933
	1966	1 667	1 790	2 091	1 858	1 902	1 968	1 853	1 686	1 967	2 015	1 977	2 013
	1967	1 925	1 861	2 145	2 002	1 974	2 099						

NOTES

Source : Statistical Office of the European Communities.

Table 1

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

Table 2

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

Table 3

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

The Council

Council Recommendation of 11 July 1967

to the Member States on the guidelines to be followed
in their economic policies during the second half of 1967
and in the first decision to be taken for 1968

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the
European Economic Community, and in parti-
cular Article 103 thereof,

Having regard to the proposal put forward by
the Commission,

Having regard to the Council Recommendation
of 22 December 1966 to the Member States on
the guidelines for short-term economic policies
in 1967, which now needs to be adapted to
the changes which have taken place in the
economic climate,

Recommends to the Member States that, in their
economic policies for the second half of 1967
and in the first decisions which they take for
1968, they should observe these guidelines :

1. In view of the fact that throughout the
Community economic growth has on the whole
slowed down distinctly, that the unemployment
figure in certain Member States has risen beyond
the level which is regarded by Governments
as the criterion of a high level of employment,
and that the tendency for costs and prices to
be steadier has become more distinct, even more
attention must in the near future be paid in
certain countries to ensuring the support and
promotion of economic expansion than to the
equally important task of ensuring stability of

prices and unit costs, a task which has in the
last few years been accorded the highest priority
on account of the inflationary tendencies which
then prevailed.

In the Federal Republic of Germany, given the
present economic situation, the re-establishment
of a suitable rate of growth and of full employ-
ment must have priority.

2. The importance consequently accorded to
the objective of economic growth will not of
course be the same in all Member States. In
Italy, for instance, where economic growth is
already rapid, it is not advisable that new
expansionary measures should be applied at the
present time. In the Netherlands, deficits on
current payments and a relatively high rate of
increase in prices and unit costs still call for
prudence, so that the introduction of measures
aiming at general expansion hardly appears
appropriate. On the other hand, recourse to
measures of support or expansion is more
justifiable in Belgium and France, and even
more in the Federal Republic of Germany. In
the latter country, whose economic development
is of particular importance for the whole of the
Community, total production is no longer
increasing and industrial production has even
declined quite appreciably.

3. The emphasis laid on economic growth does
not of course mean that the need to ensure
stability of prices and unit costs can be

neglected. Care must be taken to ensure that measures to promote expansion neither compromise the existing tendency for the level of prices to settle down nor lead sooner or later to fresh advances. In particular the Member States, when implementing their economic policies, should make due allowance for what can be expected to occur in 1967 and 1968 as a result of spontaneous forces which contribute to recovery and in response to the measures already taken.

4. In all Member States the economic measures to be taken in accordance with the guidelines laid down in Sections 1 to 3 above should place more stress on an appropriate development of investment than on the expansion of consumption. In this connection, any particularly expansionary wages policy intended to stimulate overall demand by acting on consumption must be considered as inadvisable. The detrimental effect which such a policy would have on profit margins would in fact constitute a brake on the expansion of investment where recovery is essential if economic growth and social progress are to be satisfactory both in the short and in the medium term. There can be no justification for any Member State taking measures in the commercial field which might have prejudicial effects on the economic situation in other Member States.

5. In the Federal Republic of Germany, a series of important measures intended to support and stimulate the economy has already been taken at Federal level. It has, however, become apparent that these measures will not suffice to ensure the rapid economic revival which is necessary. In the interest of satisfactory economic development, and in order to prevent the detrimental effects of internal economic weakness from affecting the other Community countries, further measures should be taken in the field of public investment, with the main stress on action by the Länder and the local authorities. If and when other measures are under consideration, it should be borne in mind that demand from the private consumer has slowed down considerably. In addition it seems that, if there is not to be a considerable reduction in stocks, appreciable further tax reliefs will have to be granted on old stocks when, on 1 January 1968, the change-over is made to the added-value tax.

6. In France, where the economy is being given additional stimulus from the public sector, in particular through the Treasury's handling of the budget, the Government may find that, even after the recent support measures, particularly the stimulation of residential construction, it has to take further steps to accelerate economic expansion, by using the margin left by the recent slackening in the growth of economic activity.

7. In Belgium, care must be taken to see that the measures already adopted in 1967 in order to encourage economic re-expansion are implemented quickly and effectively. If they should prove inadequate, the Government could consider giving greater support to those investments of existing enterprises which are intended to improve productivity.

Luxembourg should direct its efforts along the same lines.

8. The public authorities of all Member States are advised, if they have not yet prepared the relevant plans, to have available programmes for additional public investment. These contingency programmes should be on a sufficiently large scale, they should be properly prepared, and suitable means of financing should have been worked out; further programmes should be prepared as soon as existing ones have been implemented.

9. It is recommended that in those Member States which have a balance of payments surplus and a low level of economic activity interest rates should be further lowered as soon as possible. The main requirement here is that Central Banks should follow a flexible monetary policy.

10. In accordance with the Council Recommendation of 22 December 1966 and the requirements of 1968, the aim of putting the structure of the public budgets on a sound footing should not be abandoned; the progressive reduction of deficits will be a major element in the action to be taken. Nevertheless, deficits due to decreases in tax revenue caused by the slowing down of business activity coupled with additional expenditure incurred in order to support that activity, should be accepted, and if necessary should be financed by short-term borrowing. With this exception, rigorous

management of public finances continues to be essential, particularly for 1968, when economic expansion should have accelerated considerably throughout the whole Community as a result of spontaneous economic developments and of the policy followed by the authorities.

All the Member States, and particularly Belgium, Italy and the Netherlands, are therefore recommended to increase the efforts they are making to place their budgets on a sound footing—primarily through action to slow down the expansion of current expenditure that contributes to consumption, but also, if need be, by measures to increase current receipts, including those of public enterprises operating at a loss. The financing of structural deficits, which must be carried out on the capital market, will be possible only if the volume of savings is sufficient. In this connection, the Council refers to Section 13 of its Recommendation of 22 December 1966.

As long, however, as the level of business activity in certain countries remains low, a corresponding rise in the level of their public investment and reinforcement of the measures intended to encourage investment by their industries will be both desirable and, in view of the measures referred to in the preceding paragraph, possible. Should tax increases also be necessary, the trend of economic activity should be taken into account when fixing the date on which they will come into force.

11. Where incomes policy is concerned, Section 14 of the Recommendation of 22 December

1966 is still valid. In view of the economic situation, efforts in the wages sector should still be directed towards linking increases in wages per person employed and increases in output per person employed. Any development which failed to respect this guideline would be a further addition to the upward pressure on prices or to the possibility of a recession.

In Germany care must also be taken to see that demand does not drop still further because of too sharp a slackening in the trend of wages.

12. In connection with incomes policy, particular attention should also be paid to prices policy and competition policy in general, not only as a contribution to price stabilization, but also as a contribution to improvement of the conditions in which there can later be a reasonable measure of economic growth without loss of stability.

13. In applying all the measures of support and reflation referred to in Sections 1 to 12 of this Recommendation, the Member States should take due account of the pressures on the internal economy and foreign trade of the Community that may be exerted by political developments throughout the world.

14. The Council considers that it will be useful to continue a joint examination of economic policies, wherever this proves necessary. The date on which the Council will meet for this purpose will depend on the economic situation, but will not be later than in December 1967.

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Federal Republic of Germany

The course followed by the economy from the first to the second quarter reflected the slackness of business activity, despite some recovery in the expansion of exports and the continued growth of public expenditure on goods and services. Investment declined further, and private consumers' expenditure made no headway, if it did not actually slip back. Industrial production again declined somewhat, and in the other branches of production growth seems to have been relatively small, with the exception of some service industries and, in particular, agriculture, where production made a very definite advance. There was a considerable further steadying of prices and costs.

Towards the end of the second quarter, however, business activity probably levelled off; in June—and in July too—trade and the level of orders and production in manufacturing industry showed the first signs of recovery. The pressure of stocks grew less. There was no further decline in imports; mainly because of this the surpluses on visible trade, adjusted for seasonal variations, have ceased to grow since the early spring and may even have tended to shrink. The labour market showed a considerable, if only seasonal, improvement.

In view of these tendencies the business situation should gradually pick up, especially as the measures taken up to the middle of the year (especially the first investment budget), which doubtless contributed to the steadier tendencies already in evidence, will continue to influence the situation. Provision has already been made for a second programme to stimulate economic activity, and this is in part to be implemented before the year is out; its main impact should be on the upward trend expected in 1968.

1. Recent developments

In the second quarter the growth of exports of goods and services, seasonally adjusted, regained momentum once more after the slowdown experienced in the first quarter. The foreign trade figures show that visible exports were no less than 11.6 % in value and as much as 13.6 % by volume higher than a year previously. Purchases by other Community countries accelerated slightly — with Italy once again in the lead. Exports to the United States were also somewhat more lively than before, while those to the EFTA countries made only a modest advance. In July exports were quite small, but this was probably no more than a temporary dip.

Domestic demand continued to reflect the weakness of business activity. In particular the decline in gross fixed asset formation noted in the first quarter seems to have persisted in the second, although the speed of the decline seems to have been reduced. An improvement in orders received that has been observed for some time indicates that the downswing of investments reached its lowest point towards the end of the period under review. If, however, the second quarter is taken as a whole, investment in plant and machinery was again somewhat down. Investment in building and construction also contracted further because the regional and local authorities as a whole made a distinct reduction in investment expenditure. Though the acceleration of investment by the Federal

authorities and by enterprises worked in the opposite direction, it did not fully offset the hesitant trend of expenditure by the other public authorities.

The course followed by investment in stocks from the first to the second quarter still reflected the reduction in stocks of raw materials and semi-manufactures. According to the results of the EEC Business Survey, most firms still considered their stocks too large, but the pressure exerted by this factor seems to have been easing.

Consumer expenditure in the second quarter as a whole made scarcely any contribution to overall demand: the expansion of public expenditure on goods and services seems to have slowed down temporarily and private consumers' expenditure to have declined somewhat from the level at which it was running in the first quarter. The value of retail sales, at any rate, was 0.4 % lower than in the second quarter of 1966. This applies, however, only to the overall figures for the quarter; in June there was a distinct revival which, though mainly due to purchases of stocks in view of the Middle East crisis, may also have reflected the influence of certain factors of stability inherent in the business situation. It appears, moreover, that as before consumption of services made better progress than that of goods.

The slackness of retail sales in the second quarter, taken as a whole, was particularly marked in clothing, linen and shoes. Demand for consumer durables was also sluggish. Purchases of new passenger cars were again down—by no less than 8.5 %—on the corresponding period in 1966.

The slowdown in private consumers' consumption was the result of a distinct reduction in the expansion of personal incomes, coupled with maintenance of a quite high savings ratio. The total wages bill, which had shown a year-to-year growth rate of 2.6 % in the first quarter, fell to slightly below the corresponding level of the previous year. The considerable expansion again registered in social insurance pensions and benefits offset this trend in part, so that mass incomes as a whole were still 2.6 % higher than in the second quarter of 1966, but in the first

quarter the year-to-year growth rate had been 4 %.

On the labour market the number of unemployed shrank perhaps somewhat more than usual at this time of year, but it must be pointed out that the seasonal adjustment applied up to now may itself need adjustment in view of the fact that unemployment was appreciably heavier than in the preceding years, when there was overemployment. At the end of August the number of persons qualifying for unemployment benefit totalled 360 000. This corresponds to a 1.7 % unemployment rate (percentage of all employed and unemployed workers). From the end of February to the end of August the number of workers on short-time went down from 343 000 to 64 000.

When, however, conclusions are being drawn from these figures, especially the trend of the number of unemployed, it must be remembered that in a number of Länder the end of the school year has been shifted from the spring to the autumn, with the result that appreciably fewer school leavers came on to the labour market. Moreover the number of foreign workers employed went down from March to June by 31 000, but at mid-year they still totalled over one million.

The sluggishness of overall demand had a distinct effect on production, especially industrial production, which according to the Federal Statistical Office's index of production per working day was in the second quarter 6.5 % below the level of a year earlier. It should in this connection be pointed out that building production, which is included in the index, was practically one fifth lower than in the second quarter of 1966. In the capital goods industries the rate of decline was none the less 13.3 %, and in the consumer goods industries 11.4 %; but in the basic products industries there was still a small increase of 0.5 %.

In the course of the second quarter, however, there was a distinct slowing in the pace of the recession in industrial production. In fact the seasonal shrinkage of production in July was smaller than the average established over a number of years, and the year-to-year decrease was down to 2.4 %.

In the other sectors, services especially the growth of production was somewhat slower than before, but was probably still appreciable.

Agricultural production, on the other hand, increased vigorously thanks to the good weather. The cereals crops and supply of vegetables were above average. Livestock production also showed a further appreciable increase.

The decline in the seasonally adjusted figures for imports of goods and services came to a halt in the course of the second quarter. The total value of visible imports was only 4.3 % (according to customs returns) below the level of the corresponding quarter in 1966; owing to lower import prices, the reduction in volume was actually only 1.9 %. Among individual items, imports of iron and steel and of machinery fell more than the average, while purchases of chemicals in particular increased appreciably.

Prices continued to settle down, apart from the special influences arising from the Middle East crisis (price increases for petroleum products from June onwards). At manufacturing level, the prices of capital goods also became distinctly steadier. As a whole the price index of manufactured goods was 1.4 % lower in the second quarter than a year earlier. There were, moreover, price reductions in all branches of the building market. At the same time the price level of agricultural products went down by 7 %. In services there were fewer price increases than hitherto, but expenditure on rent increased again.

For seasonal reasons the cost-of-living index (for the average consumer group) fell from April to August 1967 by 0.1 %; if seasonal items are excluded (food, beverages and tobacco), the slight upward movement in the level of consumer prices persisted. In August the overall index was 1.5 % higher than a year previously.

The tendency for foreign trade surpluses faded away in the course of the period under review and may even have given way to a slight tendency in the opposite direction. The trade surplus (as shown by customs returns) was nevertheless slightly higher for the full period: DM 4 400 million as against DM 4 300 million in the first quarter.

With a mainly seasonal deterioration in services and scarcely any change in transfers, the surplus on current account was, at some DM 2 600 million, rather lower than in the preceding quarter. There were on the other hand bigger changes within the capital movements account, where net capital investments in the Federal Republic by non-residents came almost to a halt, while in the first quarter of the year some DM 500 million of long-term money had flowed into the Federal Republic. This tendency was probably due chiefly to the difference in interest rates caused mainly by the lowering of interest rates at home. The same reasons may have determined the sharp deterioration in the residual item. If the capital account (excluding the change in the net foreign exchange position of the commercial banks) is taken together with the residual item, capital transactions in the second quarter closed with a deficit of DM 2 500 million, after a surplus of DM 716 million in the first quarter. The overall balance of payments therefore showed only a small surplus.

Official gold and foreign exchange reserves actually declined by DM 926 million; this was mainly because the commercial banks improved their net foreign exchange position by DM 980 million. The relatively high interest rates abroad and the limited calls for credit from domestic firms caused banks to build up their short-term holdings abroad.

In the period under review, then, the Federal Republic actually contributed to international liquidity. This trend had, however, the disadvantage that a further reduction in interest rates—desirable from the angle of the business situation—was prevented.

As a result of transactions with abroad, therefore, bank liquidity not only failed to increase, it actually decreased. The Bundesbank reacted by lowering the minimum reserve rates further. Towards the end of the second quarter advances to business and private customers showed a distinct tendency to rise once again, especially in short-term advances. At the same time there was a further vigorous expansion in the advances—as Treasury Bills and in other forms—made to the public authorities by the Bundesbank and other institutions. This enabled the Federal Republic to finance the major part of its cash deficit of some DM 1 300 million in

the second quarter on a short-term basis. The banks continued to buy long-term securities on a large scale; in the second quarter their security holdings went up by DM 2 000 million, or nearly as much as in the preceding quarter.

This gave the securities markets a considerable impetus, especially as institutional and private investors took on larger commitments once again. On the fixed-interest securities market some DM 2 900 million (net) of paper was sold in the second quarter; at the same time the decline in interest rates slowed down appreciably. One reason was that the social insurance institutions had to dispose of securities from their portfolio at the beginning of June owing to increasing expenditure, with which revenue has no longer been keeping abreast for some time, and this led to appreciable falls in prices. In July and August, however, the fixed-interest securities market was influenced by the recovery on the stock market, where in the period under review share prices had picked up sharply. This was due not only to the high degree of liquidity in the banking sector but also in part to developments on the stock exchanges of various other countries. It may also have reflected a certain improvement in the economic climate.

2. Outlook

The forecast of developments up to the end of 1967 suggests with some certainty that the tendencies making for revival will gain in strength and in the end will outweigh any conflicting tendencies. A marked general upswing of the business trend, however, is hardly to be expected before the end of the year.

Stimuli from abroad will continue to promote economic expansion in the Federal Republic; but a further acceleration of exports seems rather improbable, despite the possibility that the expansion of demand in several major importing countries—the United States in particular and perhaps France too—may pick up again.

In the coming months the trend of domestic demand will still be affected by the weakness of gross fixed asset formation. For the time

being it is unlikely that there will be any very distinct revival of investment in plant and machinery. The pressure of costs does seem to have been diminishing perceptibly and profits to have been recovering slightly, but a rapid resumption of the investment boom seems unlikely when the sales expectations of firms are only slightly improved and their capacity reserves are relatively large. The recovery could accelerate somewhat if public investment is increased substantially during this year, thus making an appreciable additional contribution to overall demand. Building investment can probably be expected to pick up partly in view of the second programme to stimulate economic activity.

The additional tax concessions to be made on old stocks when the present turnover tax is converted into value-added tax on 1 January 1968 might still lead this year to some replenishing of the severely depleted stocks.

Public expenditure on goods and services will probably expand somewhat more slowly but will still show a comparatively appreciable growth.

The expansion of private consumers' expenditure in the short term, that is by the end of 1967, will probably be no more than fairly modest. Employment is likely to remain sluggish for a time and will at best increase slightly. Likewise income from entrepreneurship and property will scarcely help to increase the available income of households; only the growing transfers of income are having a distinctly expansionary influence. Nevertheless the savings ratio may—should the recent stability of the labour market prove to be lasting—tend to diminish and thus support the trend of consumption, even though it will certainly remain relatively high. Lastly, the quiet trend of prices will help consumption in terms of volume.

It can be expected that this gradual strengthening of overall demand will in the coming months be reflected in production figures. Some indicators—e.g. the seasonally adjusted trend of new orders—suggests that towards the end of the year industrial production may begin to move up again more permanently.

There should also be a marked increase in certain imports, mainly as a result of action to

replenish stocks of raw materials and semi-manufactures. Imports as a whole, however, are likely to be affected in the other direction by the above-average crops in Germany, which will mean smaller purchases of foodstuffs abroad.

The stabilization of prices will gain further ground in the coming months. The prospects for demand, for production and for the prices of imports and of the domestic elements in costs point to a very quiet price climate.

While the forecast on economic growth for the second half of the year can be maintained, developments in the first six months call for a slight scaling down of the growth rate for the

full year 1967 forecast in the last Quarterly Survey. In particular the figures for gross fixed asset formation must be marked down because the decline in building investment in the first half of the year was sharper than foreseen. The other corrections, mainly for private consumers' expenditure and exports, are by comparison of less significance. All told, this means that the Commission's earlier estimate of 1 % for the growth of real GNP has been revised to - 0.5 %.

The prospects for 1968 suggest a gradual strengthening and generalization of the tendencies contributing to buoyancy. By the spring a substantial business upswing may be

Demand for and supply of goods and services

	1964 ¹	1965 ²		1966 ¹		1967 ²	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume ⁴	Value
Exports ³	83.5	+ 6.6	+ 9.1	+ 10.5	+ 12.7	+ 8.5	+ 8
Gross fixed asset formation	109.2	+ 6.9	+ 9.1	+ 0.5	+ 2.8	- 9	- 10
Public current expenditure on goods and services	61.7	+ 6.6	+ 12.7	+ 0.6	+ 7.9	+ 3.5	+ 7
Private consumers' expenditure	232.9	+ 6.0	+ 9.5	+ 3.1	+ 7.0	+ 0	+ 2
Gross national product	413.8	+ 4.9	+ 8.7	+ 2.6	+ 6.3	- 0.5	+ 0.5
Imports ³	78.2	+ 14.3	+ 17.5	+ 2.1	+ 4.7	- 0.5	- 1.5

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 3/1967.

² Commission forecasts.

³ Goods, services and factor income.

⁴ At preceding year's prices.

Notes:

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

under way. Apart from the factors of recovery inherent in the business situation, of which the first evidence will become apparent mainly in the replenishment of stocks, the most considerable stimulus should be provided by the public authorities' budget policy, which aims at creating demand directly. A higher rate of public investment would be sure to affect private consumers' expenditure and investment by enterprises. Demand from abroad should also continue to promote overall demand appreciably next year. At present the Commission expects the real gross national product for 1968 to be about 3.5 - 4 % higher than this year. This means that there will have to be quite a vigorous acceleration of business activity in the course of the year, especially as the rate of growth at the turn of the year will be relatively small.

As part of its short-term economic policy the Federal Government has, as already mentioned, decided on a second programme to promote economic activity with at least a further DM 5 300 million to invest. This time most of the investment projects to be implemented will emanate from the Länder and the local authorities; to finance them the Federal Government plans to make available DM 2 800 million, most of which is to be raised by short-term borrowing. A corresponding contribution totalling DM 2 500 million is expected from the Länder and local authorities. As many orders as possible are to be placed by October 1967. The Federal Government will also take a decision on further tax reliefs for old stocks, as a result of which there would, before the year was out, i.e. before transition to the value-added tax, be an improvement in the conditions for replenishing stocks. At the time of drafting this Survey all these proposals are at the parliamentary stage.

In the sphere of money and credit policy the Bundesbank pursued its policy of greater liquidity in August and September by twice reducing minimum reserves, on each occasion by DM 900 million. Further, in order to encourage the tendency for interest rates to decrease, export of money was made more difficult by raising the spot price of the dollar and broadening intervention margins.

Parallel to the short-term economic measures, the Federal Government evolved in the summer

months a programme of medium-term finance planning to prevent an unbounded increase in the "structural" deficits of the Federal Republic; it provides for limits to the growth of non-investment expenditure and measures to increase revenue. The relevant Bills have been submitted to the legislative bodies, and some have already been passed.

If for 1968 an increase of 4 % in real terms and 6.5 % in value is assumed for the gross national product, there would still be, according to the medium-term finance planning for the coming year, Federal expenditure of DM 7 300 million to carry over, despite additional revenue totalling DM 1 500 million from increased taxation (value-added tax, raising of a supplementary levy, application of corporation tax to savings banks and credit co-operatives). This deficit is in turn to be financed chiefly by short-term means, and it would be even larger if the growth of the national product in 1968 fell short of 6.5 % in money terms.

The latest decisions of the authorities responsible for short-term economic policy in the Federal Republic correspond by and large to the recommendation on the guidelines for short-term economic policy made by the Council of the European Communities on 11 July 1967. This stated that the reflationary measures taken so far in the Federal Republic "will not be sufficient to ensure the rapid economic revival which is necessary". The Council recommended further measures in the field of public investment, with most of the spending to be done by the Länder and the local authorities. Measures on these lines have now been taken.

It is, however, possible to foresee problems of scale—a point on which the Council has expressed no opinion—of financing and of timing. It seems more or less certain that demand will be directly and indirectly increased by several times the sum of DM 5 300 million: in addition to the multiplication effect of the investments involved and the amounts to be used as interest rate subsidies, certain of the Länder are putting through their own programmes in addition to the contributions they are making to the second contingency programme.

It is highly probable that the effects of the second programme, including its multiplication

effect, will be felt mainly in 1968—and perhaps not before the second half of the year. The ordinary Federal budget for 1968 is also likely to be decidedly expansionary.

It is also perfectly possible that undue stimulation of economic activity in a form which takes effect only after a certain time-lag could cause the expected upswing to be so sharp that it would result in further price and cost increases, although probably not until late 1968 or even only in 1969. The Council in a recommendation adopted on 11 July 1967 urged that care should be taken to ensure that “measures to promote expansion neither compromise the existing tendency for the level of prices to settle down nor lead sooner or later to fresh advances”. This means that the Member States’ short-term economic policies should make due allowance for what can be expected to occur in 1967 and 1968 both as a result of spontaneous forces of recovery and also in response to the measures already taken.

As part of medium-term finance planning in the Federal Republic, measures are again being prepared to increase revenue. Business activity in the private sector may be slowed down by these measures, particularly by the surcharge on income tax, the impact of which may be relatively sharpest on private saving and the propensity to invest, especially as it will fall on the middle and high income ranges, while the lower levels are exempt.

As activity is particularly slack in investment by private industry, the Council has in this connection recommended that, should any tax increases prove necessary as part of the drive towards putting the whole system of public budgets on a sounder footing—and action to this end has also been urgently recommended by the Council—account should be taken of the economic trend prevailing at the time these tax increases come into force. It may be asked whether this has been done in connection with the Federal Government’s intended measures, if there is also to be a big drive to stimulate economic activity by stepping up public spending.

All this gives the impression that the expansion of public expenditure is being vigorously encouraged for short-term economic policy

reasons, whereas direct action affecting investment by firms—at any rate when seen in isolation—appears if anything to be working in the opposite direction.

If, however, the less pessimistic initial forecasts on the trend of business activity are taken as a basis, and if allowance is made for time-lags that may occur in implementation of the second, decentralized programme, the expansionary impact to be expected from the budgets themselves, coupled with the methods proposed for financing the deficits, may on balance prove to be not just sharp, but too sharp. One reason for these fears is that medium-term finance planning certainly does not include a sufficiently vigorous drive to restrain expenditure contributing directly or indirectly to consumer expenditure; but according to the Council recommendation, improvement of the budget situation was to be achieved mainly through action to curb this type of expenditure—and only if need be by heavier taxation as well. Be this as it may, the deficits shown in estimates for 1968 and the following years as part of medium-term budgetary planning seem, as they do not cover special measures to promote short-term economic expansion,¹ to be rather heavy.

The authorities responsible for short-term economic policy have, however, better opportunities than hitherto, as a result of the recently adopted enabling law, to take action if there is a threat of excessive stimulation of economic activity, and they have declared their readiness to take this action if need be. It may nevertheless, be advisable :

- i) To implement at first only that part of the second programme to promote economic activity which can be put into effect really quickly, the rest being implemented as and when required by economic developments, and stopped in good time if this should prove necessary;

¹ In the figures and other material relating to medium-term budgetary planning, fluctuations in the level of business activity are consciously ignored and a growth rate of 4 % in GNP is assumed; consequently there is of course no question of any special support measures.

- ii) To postpone, until private investment is clearly recovering, the entry into force of measures which, though their purpose is to increase current public revenue, are liable to act as a brake on private investment activity;
- iii) To step up efforts to improve the structure of the budgetary system by more intensive restraint of current expenditure;
- iv) To keep within reasonable limits the short-term financing of deficits and above all to provide guarantees against a subsequent monetization of the financing instruments concerned, thereby ensuring that the "braking distance" of credit controls will not be further extended;
- v) To intensify still further action taken by the Central Bank on the foreign exchange markets in order to render the export of money more difficult.

3. The economic situation in West Berlin

In Berlin, too, the growth of business activity from the first to the second quarter was still weak, although deliveries to the rest of the Federal area, which in the first quarter had only just reached the level of a year previously, were in the second quarter 7.4 % higher than in the corresponding period of 1966.

The expansion of visible exports, abroad, on the other hand, slowed down distinctly. Exports were 4 % higher in value than in the second quarter of 1966, after a year-to-year growth rate of 19 % in the first quarter. In particular deliveries to the EEC countries fell off sharply and were 4 % below the level of the second quarter of 1966. It must be remembered, however, that in 1966 these markets, where sales rose by 31 %, had been particularly receptive to exports from Berlin.

The underlying trend of expenditure on gross fixed asset formation seems to have declined slightly, but this was probably confined to investment in plant and machinery, while invest-

ment in construction continued to expand, though less fast. In the latter sector, then, the trend in Berlin was still relatively brisk.

Mainly because the slight downturn in the seasonally adjusted figures for employment and in the trend of wages flattened out, there was an appreciable slackening of private consumers' expenditure. Retail turnovers in the second quarter were even a shade lower than a year previously.

The employment situation was still depressed. In industry (including building and construction), at any rate, nearly 9 % fewer workers were employed than a year before. The number of unemployed, however, diminished considerably in the summer months, and in July the unemployment rate was only 1.4 %. The Berlin labour market was therefore, by comparison with developments in the rest of the Federal area, relatively little affected by the rise in unemployment.

Industrial production declined somewhat faster from the first to the second quarter, and was about 8 % below the level for the corresponding period in 1966. The clothing industry in particular was compelled to restrict production as a result of the rather hesitant demand for textiles and clothing in the rest of the Federal area. In electrical engineering there was also a further drop in production.

Visible trade with the rest of the Federal area again showed a surplus, but from DM 21 million in the first quarter it declined to DM 15.4 million in the second.

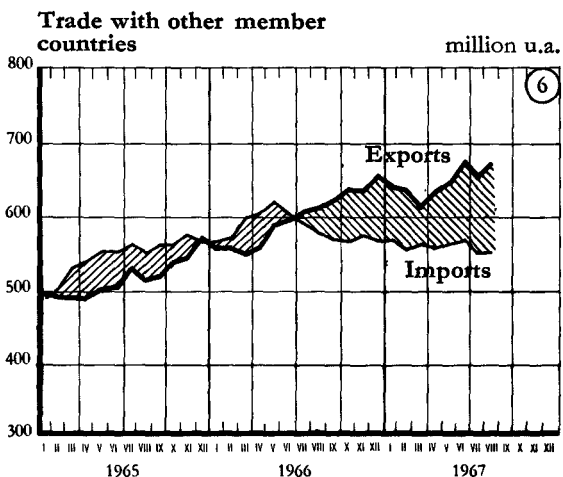
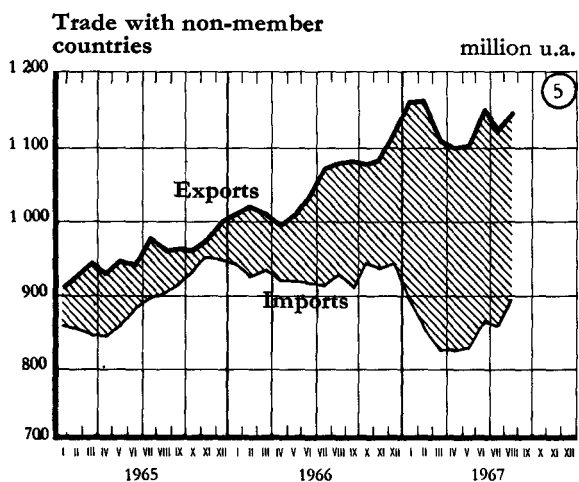
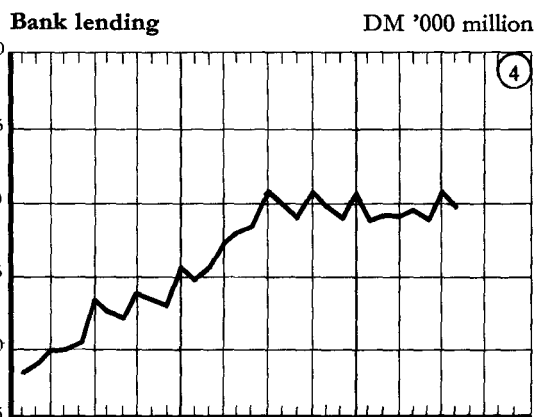
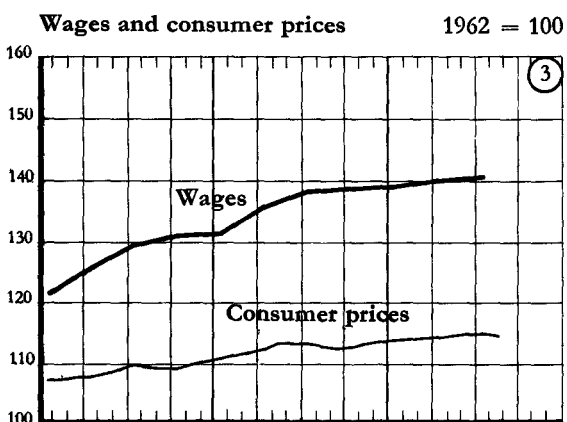
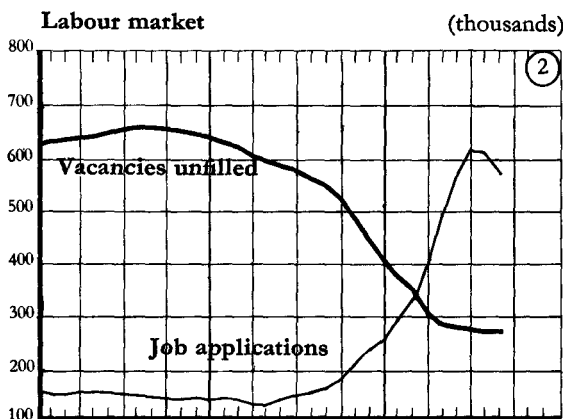
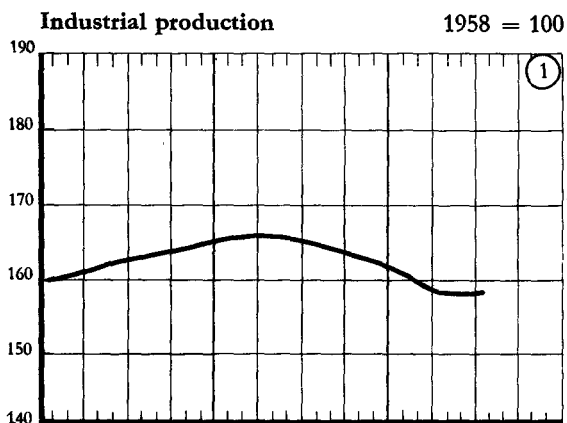
The outlook for the coming months still suggests a slackening in business activity. There are however perceptible signs of a tendency to recover which may lead to a steadying of the economic climate towards the end of the year. Since the spring the public authorities have—in connection with the Federal Government's measures of reflation—stepped up orders from Berlin, and in general the flow of orders from the rest of the Federal area seems to have tended to expand somewhat.

As before, labour market problems continued to be of great economic significance for Berlin. A comparison of the number of unfilled

vacancies with that of unemployed persons shows, despite the slackening in business activity, that there are distinctly more vacancies than unemployed. Behind this ratio there is

of course the question of the quality of the manpower available; the problem calls for further intensification of the steps that have been taken to deal with it.

ECONOMIC INDICATORS



NOTES :

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

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

Graph 2: Trends, based on series adjusted for seasonal variations.

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

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

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

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

Federal Republic of Germany

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	248.5
Total population ('000)	59 638
Density of population per sq. km.	240
Numbers in employment ('000)	27 082
Numbers in employment, breakdown by main sector (%)	
— Agriculture	10.6
— Industry	48.4
of which : Construction	8.1
— Services	41.0
Percentage share of gross domestic product	
— Agriculture	5.4
— Industry	50.7
of which: Construction	7.9
— Services	43.9
Gross product per capita (DM)	8 013

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966		
Gross national product	8.8	5.4	4.2	3.4	6.6	4.9	2.6	152	—
Industrial production	10.7	6.3	4.5	2.7	8.5	6.3	2.3	161	—
Total imports	16.9	8.1	11.4	8.0	10.7	14.3	2.1	230	20.1
Private consumers' expenditure	6.9	6.8	5.9	2.9	5.3	6.0	3.1	151	57.1
Public current expenditure on goods and services	7.6	7.8	11.5	7.5	-0.5	6.6	0.6	161	15.7
Gross fixed asset formation	11.3	9.4	5.9	2.9	12.0	6.9	0.5	180	25.6
Total exports	13.0	3.5	3.9	9.0	9.6	6.6	10.5	193	21.5
Gross national product per capita	7.7	4.0	2.8	2.2	5.3	3.6	1.5	138	—
Gross national product per person gainfully employed	7.0	4.0	3.4	3.0	6.2	4.2	2.8	143	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.s.	% of the total
	1960	1961	1962	1963	1964	1965	1966	1966	1966	1966
Visible exports										
Total	16.4	11.1	4.5	10.2	10.9	10.3	12.5	229	20 134	100
Intra-EEC	23.3	19.6	20.9	20.8	8.4	6.7	16.0	304	7 818	36.3
To non-EEC countries	13.8	7.6	1.0	4.7	12.5	12.4	10.6	200	12 816	63.7
Exports of food, beverages and tobacco										
Total	9.3	4.3	7.3	16.0	20.5	25.0	- 2.0	233	426	2.1
Intra-EEC	10.2	1.0	8.1	23.9	22.1	22.6	6.6	270	177	0.9
To non-EEC countries	8.8	6.3	6.9	11.5	19.5	26.6	- 7.3	212	249	1.2
Exports of raw materials and manufactures										
Total	16.6	11.3	4.5	10.1	10.8	10.0	12.9	229	19 708	97.9
Intra-EEC	23.6	20.1	12.2	20.8	8.1	6.3	16.3	305	7 141	35.5
To non-EEC countries	13.9	7.6	0.9	4.6	12.3	12.1	11.0	200	12 567	62.4
Visible imports										
Total	19.2	8.3	12.2	6.0	12.2	19.6	3.2	245	18 024	100
Intra-EEC	22.9	13.3	16.6	8.7	17.4	30.7	4.2	366	6 939	38.5
From non-EEC countries	17.7	6.1	10.3	4.7	9.7	13.6	2.5	203	11 085	61.5
Imports of food, beverages and tobacco										
Total	4.1	7.9	20.1	- 8.3	8.3	21.6	2.4	192	3 741	20.7
Intra-EEC	13.9	15.8	15.9	- 0.0	9.3	28.0	6.8	286	1 441	8.0
From non-EEC countries	0.3	4.4	22.2	- 12.2	7.8	18.1	0.1	160	2 299	12.7
Imports of raw materials and manufactures										
Total	24.6	8.4	9.9	10.7	13.3	19.0	3.3	264	14 283	79.3
Intra-EEC	26.0	12.5	16.8	11.5	19.7	31.3	3.5	395	5 498	30.5
From non-EEC countries	24.0	6.7	6.8	10.3	10.2	12.5	3.2	218	8 786	48.7

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
Industrial production (1958 = 100)	1965	150	152	152	163	164	162	147	143	162	167	171	159	
	1966	151	156	162	168	167	168	153	142	162	166	169	156	
	1967	144	149	153	158	158	157	149	138					
Unemployed (1000)	1965	286	291	201	127	107	95	89	86	85	92	119	178	
	1966	269	236	141	121	108	101	102	106	113	146	216	372	
	1967	621	674	576	501	458	401	377	359	341				
New orders received (1958 = 100)	1965	166	173	193	190	188	182	180	165	197	200	106	188	
	1966	173	178	216	193	193	188	176	170	192	192	183	169	
	1967	160	162	187	176	179	190	171	171					
of which:														
	home orders	1965	161	167	193	188	185	178	176	164	196	198	192	177
		1966	163	170	208	186	185	178	169	161	184	181	169	150
1967		144	145	171	163	165	171	159	159					
foreign orders	1965	187	195	222	199	201	200	198	173	206	210	214	233	
	1966	211	213	250	227	230	234	207	208	232	243	248	255	
	1967	229	239	260	237	243	277	227	227					
Construction: permits issued (DM '000 million)	1965	2.68	2.61	3.25	3.61	4.04	3.85	4.45	4.39	4.27	4.17	3.81	3.77	
	1966	2.95	2.97	4.00	3.75	3.85	4.03	4.15	4.03	4.04	4.13	3.33	3.47	
	1967	2.76	2.68	3.11	3.50	3.32	3.69	3.78						
Private consumers' expenditure: Retail turnover, value (1958 = 100)	1965	136	134	159	173	161	157	173	151	161	179	190	239	
	1966	147	147	179	179	176	165	177	162	163	182	194	242	
	1967	155	148	181	171	174	172	174	165					
Total visible imports (million u.s.)	1965	1 331	1 247	1 492	1 396	1 479	1 484	1 509	1 375	1 542	1 566	1 584	1 606	
	1966	1 446	1 397	1 685	1 476	1 541	1 544	1 478	1 449	1 432	1 607	1 530	1 533	
	1967	1 392	1 276	1 442	1 406	1 403	1 557	1 401	1 409					
Total visible exports (million u.s.)	1965	1 364	1 353	1 627	1 397	1 544	1 407	1 535	1 297	1 481	1 533	1 557	1 768	
	1966	1 492	1 490	1 757	1 559	1 701	1 645	1 708	1 537	1 727	1 809	1 719	2 012	
	1967	1 750	1 629	1 816	1 867	1 724	1 884	1 726	1 655					
Balance of trade (million u.s.)	1965	+ 33	+ 106	+ 135	+ 1	+ 65	- 77	+ 26	- 77	- 62	+ 17	- 27	+ 162	
	1966	+ 46	+ 93	+ 72	+ 83	+ 160	+ 101	+ 230	+ 88	+ 246	+ 201	+ 139	+ 479	
	1967	+ 357	+ 353	+ 374	+ 461	+ 321	+ 327	+ 325	+ 246					
Official gold and foreign exchange reserves (million u.s.)	1965	6 604	6 702	6 860	6 825	6 436	6 393	6 295	6 211	6 303	6 335	6 354	6 352	
	1966	6 190	6 139	6 150	6 072	5 974	6 193	6 441	6 433	6 454	6 616	6 652	6 771	
	1967	6 490	6 684	6 759	6 723	6 759	6 702	6 639	6 690					
Money supply (DM '000 million)	1965	69.4	70.4	70.1	71.4	73.3	74.0	74.1	74.2	74.2	75.1	77.5	78.4	
	1966	74.0	74.5	74.2	75.9	76.9	77.7	77.7	77.3	76.7	76.5	79.3	79.5	
	1967	74.4	76.3	75.6	77.0	77.6	78.7	79.3						

Federal Republic of Germany

NOTES

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

Table 1

- Total population. Average for year (estimate).
- Numbers in employment. Average for year (estimate). Source : Statistisches Bundesamt.
- Origin of gross domestic product at factor cost, by industries (1965); industry including small businesses. Source: Statistisches Bundesamt.
- Gross national product at market prices.

Table 2

- Source: Statistisches Bundesamt, Wirtschaft und Statistik.
- GNP at 1958 prices.
- Industrial production: value added at market prices (incl. small businesses).
- Total exports and imports: goods, services and factor income.

Table 3

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

Table 4

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

B. France

There was hardly any distinct economic growth during the spring months and the early part of the summer. Although demand from abroad again made a somewhat more vigorous contribution, the various components of domestic demand continued to develop along divergent lines: strong expansion of gross fixed asset formation and public current expenditure, only moderate growth of private consumers' expenditure and a cautious stock-building policy on the part of dealers. In the circumstances, industrial production showed hardly any growth and imports actually declined a little. The general price level went up only slightly in the course of the second quarter, and the visible trade balance showed a distinct improvement.

It can, however, be expected that in the months ahead overall economic growth will gradually gather momentum again. Not only will exports expand appreciably as suggested by the current sales expectations but the internal forces of expansion will again assert themselves more vigorously — particularly as economic policy has for some time been making a strong contribution by action through the budgets.

The prospects for 1968 point to the progressive expansion of production, employment and incomes. At this stage the outlook is, however, still very uncertain because major structural reforms are due to come into force and their direct or indirect effects on the economic trend are not easy to assess.

1. Recent developments

The slight improvement discernible in the trend of demand from abroad at the beginning of spring, has continued during the past few months: the trend of visible exports has begun to climb again a little more distinctly. The key to this change has been a sharp increase in sales to non-member countries, particularly to the EFTA countries and the countries of the franc area. But exports to the other Community countries, which had still been declining in the early months of the year, rallied a little towards the end of the second quarter, chiefly because the business trend in Germany was gradually steadying. Despite this more favourable development over the past few months, year-to-year growth of total exports has still remained rather

slow, and foreign trade statistics show that from April to July the value of visible exports was only 2.5 % higher than the corresponding 1966 figures.

The components of domestic demand continued to develop along somewhat divergent lines: gross fixed asset formation and public current expenditure expanded sharply, the growth of private consumers' expenditure was only moderate, and dealers were being careful not to overstock.

Gross fixed asset formation may even have gathered a little further momentum once again during the past few months. Although firms have been running appreciably below capacity and although profit expectations in general have

a good deal to be desired, private managements seem nevertheless to be going ahead with a greater proportion than expected of investment programmes whose statuts had originally been only "conditional". According to INSEE's June survey of investment intentions, private industry is likely to spend about 8-10 % more on construction and equipment in 1967 than in 1966—the mains emphasis probably being markedly on investment for rationalization purposes, given the selective tax reliefs and growing competition from abroad. Moreover, public enterprises and public administrations speeded up the implementation and extension of their investment programmes after the Government recommended as early as at the beginning of the year that for reasons of economic policy more orders should be placed. Lastly, residential construction has staged a recovery as expected: not only building permits but also housing starts again show an upward trend, particularly for publicly-assisted housing.

Investment in stocks as a whole, however, has not yet made any expansionary contribution to the general trend of the economy during the past few months. On the contrary it appears, at least at dealers' level, that a tendency to keep stocks as low as possible persisted—partly because sales had not moved up as much as expected and partly because of the switch to the TVA system due on 1 January 1968, although the regulations granting tax relief for "old stocks" had been published at the end of April.

Expenditure on consumption has on the whole continued expanding, but the rise has been relatively moderate and the underlying trend has been varying increasingly from one sector to another. While public current expenditure on goods and services increased vigorously and, if anything, at a faster pace, the expansion of private consumers' expenditure has once again slowed down a little. Sales figures for those items in retail trade covered by statistics—running probably only 5% ahead of the same 1966 figure—again suggest considerable consumer reticence, particularly in respect of non-durables. Adjusted for seasonal variations, the number of newly registered motor-cars has risen only marginally in the past few months. It may well be, however, that turnover in services expanded more than the average.

The key to what has on the whole been only moderate growth in private consumers' expenditure was probably the rather slower expansion of disposable incomes. In the second quarter, hourly wage rates actually rose slightly more than previously, it is true, and on 1 July the statutory minimum wages were also raised; but the total number of hours worked showed virtually no change—extra hours paid at overtime rates in industry fell—and this curbed the growth of incomes. In addition, with strain on the labour market easing rapidly in recent months the propensity to save of consumers appears to have strengthened.

The lack of vigour behind private consumers' expenditure and the persistently cautious stock-building policy of manufacturers and dealers have manifestly strongly influenced in the past few months the trend of supply: although the remaining components of overall demand expanded—some of them very sharply—the seasonally adjusted growth of domestic production was probably only very weak and imports again tended to decline. Industrial production in particular had practically ceased rising altogether by the second quarter. The continued expansion of production in the capital goods industries and in some basic materials industries was just sufficient to offset the slackening of output in industries near or at the consumer stage such as textiles and private motor-cars. In June, following the quite appreciable loss of production caused by strikes in the two preceding months, the seasonally adjusted INSEE index for industrial production reached only the level of March. The year-to-year growth rate was only 2%. The year-to-year growth rate for building production too—at any rate for those parts of the industry covered by the INSEE index—has declined during the past few months. In the second quarter it was 3%—compared with 5.5% in the January-March period, when, however, the weather had been unusually good.

Agricultural production, on the other hand, appears to be running well ahead of the figures for last year. According to the data available so far, crop production and more particularly cereal production are likely to be much better. The figures for livestock production have also continued to rise appreciably.

The relatively weak rate of production in trade and industry affected both productivity gains, which were appreciably more modest, and the (adjusted) number of hours worked, which, as calculated from Ministry of Labour statistics, showed little change from 1 April to 1 July. In view of the appreciable growth of the working population, this signifies a small increase in unemployment over the past few months. Adjusted for seasonal variations, the numbers seeking employment reached 205 900 on 1 August, compared with not quite 158 000 at the beginning of this year and 148 300 on 1 August 1966. The number of registered unfilled vacancies, however, which was still tending to decline in the second quarter, appears to have stabilized after the middle of the year.

The subdued demand for consumer goods and the efforts of managements in industry to run down stocks of raw materials was bound to affect imports. In the course of the second quarter and in July visible imports appear to have declined not only as a result of the Middle East crisis (delay of deliveries from areas east of Suez) but also for reasons connected with the general economic situation. The decline concerned almost exclusively deliveries from non-member countries: purchases from the other EEC countries, including a high percentage of capital goods, were hardly less than before. For the months April to July the year-to-year increment in the volume of total visible imports—as calculated according to the foreign trade statistics—averaged only 2%.

In the second quarter, the upward movement of the general price level was curbed by the restraining influence of stable or declining raw material, fuel and food prices. The index of wholesale prices, which gives special weighting to these products, actually dropped appreciably; in July it was close on 1.5% lower than a year earlier. The index of consumer prices, which rose by 1% from March to July 1966 had slowed to 0.5% for the same period of this year; the year-to-year increase declined from 2.8% in March to 2.4% in July. Nevertheless there has hardly been any weakening of the genuinely economic forces making for an upward thrust of prices. The prices of consumer manufactures continued to drift slowly upward

and services charges were rising appreciably—one of the main reasons being that at the middle of the year various public service charges were raised substantially.

As a result of the somewhat more favourable trend of exports, the trade balance, with imports declining, showed a marked improvement. According to the foreign trade statistics, the deficit fell from some FF 810 million, representing the monthly average of the first quarter, to an average of FF 310 million for the months April-July. As a consequence the deficit on current account probably shrank to very small proportions. Since at the same time the net inflow of long-term capital—relatively small though it was—continued, and as the net foreign exchange receipts of the other franc-area countries remained substantial, the overall balance of payments has been back in surplus in the last few months, and that surplus has been growing.

The official gold and foreign exchange reserves, which had been declining steadily since the summer of 1966, rose from March to June 1967 by FF 335 million and in July-August by an additional FF 256 million. There was also a distinct deterioration in the net position with the IMF, but the commercial banks' net foreign exchange holdings improved appreciably.

On balance there has been a modest inflow of liquidity from abroad, at any rate during the last few months. Treasury transactions have also started to exert an increasingly expansionary effect on domestic liquidity. For one thing, budget implementation led to a growing deficit, appreciably heavier than at the same time of the previous year, since expenditure rose at a sharply increased rate for economic policy reasons and because of the increase in official contributions to the social insurance system while receipts were expanding more slowly partly owing to the current state of business activity. Secondly, the Caisse des Dépôts et Consignations mobilized building bills with the Banque de France, and this also had an expansionary effect on liquidity. Lastly, bank lending to business and private customers again increased at a somewhat faster pace. At the end of July the volume of loans outstanding was more than 18% higher than a year earlier.

On the money market the tendency for strain to ease became increasingly obvious. Call money rates fell appreciably—to a level well below that of a year earlier. On the capital market, however, interest rates remained relatively high. The volume of new issues by companies, particularly of new shares, was comparatively small. Once again the public authorities and the public savings institutions accounted for the bulk of new issues.

Equity prices on the Paris Bourse, which had settled at a very low level in the spring, drifted further downwards thereafter. It was not until August/September—after the major decisions taken in connection with the economic and financial structural reforms became known—that some prices rallied quite strongly.

2. Outlook

In the course of the first half of the year economic growth had shown some tendency to slow down and this affected the general economic climate more than had been anticipated; nevertheless the outlook for the development of demand at home and on the world market gives no reason—if short-term economic policy objectives are also taken into account—to modify to any substantial extent the prediction in the last Quarterly Survey that the second half of 1967 will see a gradual recovery of the expansion of production, employment and incomes.

According to several of the latest indicators, moderate optimism appears well justified. For example, exports have shown a slight tendency to improve. As stressed in the last Quarterly Survey, the extent of any further gains will very largely depend on the economic trend in Germany, but the latest information in this connection confirms that consolidation has progressed and that the German economy is beginning to stage a recovery. In addition, the prospects for an increase in sales to other countries, particularly to the United States and to some EFTA countries, are good. It is moreover likely that the extension of export credit arrangements, which have recently been improved, will spur on exports, particularly to the developing countries. Lastly, the fact that

crops have been ample will mean an appreciable increase in exports of farm produce, especially cereals.

In any case, gross fixed asset formation can be expected to continue expanding at a rate hardly less vigorous than in the past few months. Even if private industry had already completed in the first half of the year a relatively large part of the investment programme planned for 1967 and, following the execution of the spate of orders placed before 31 December 1966 for tax reasons, the flow of new orders was somewhat hesitant—as is plainly the case—a further increase in public investment activity in the months ahead and an increase in the expansion of residential construction should go far to maintain this demand component. Finance facilities have already been extended accordingly, particularly for regional and local authorities, and additional funds from appropriations have been made available for publicly assisted residential construction.

The trend of investment in stocks, however, cannot be foreseen with the same certainty. None the less there is a good deal of evidence that dealers, at any rate, will once again build up their stocks of finished goods, which they have endeavoured to run down to a minimum during the past few months, at the first signs of normal autumn and winter business—particularly if the transitional arrangements introduced in the meantime have dispelled their apprehensions as to the effects of the turnover tax reform.

The prediction that the expansion of private consumers' expenditure will revive a little is mainly founded on the probable trend of the incomes of households. Wages and salaries, the increase in which had slowed down slightly in the first half of the year, are likely to rise again more distinctly as a result of an expansion in the volume of employment, accompanied by a rise in hourly wage rates at least as strong as before—quite apart from the fact that the salaries of civil servants too were raised on 1 September, the increase being slightly more than had been originally intended. Transfer incomes may even go up quite appreciably as a result of several measures taken recently (including an increase in family allowances from 1 August, an extension of an increase in employment benefits

from 1 October, and an improvement in supplementary old age pensions). Lastly, the incomes of the self-employed (particularly farmers) can also be expected to develop along more favourable lines. Although the increase in contributions to the social insurance system will, as from November, inhibit the overall growth to be expected for income of households, it can be assumed that on the other hand the tax burden will be perceptibly lighter as a result of delays in tax assessment and above all because of the recent decision to lower income tax through a rebate of up to FF 100 on the taxes due in 1967. All in all, disposable incomes are therefore likely to rise again somewhat more distinctly than they have done so far. Moreover, it may well be that in case of a general improvement of the economic situation the savings ratio of households will decline slightly.

In general, it may be assumed with some degree of certainty that in the months ahead overall demand will again expand more distinctly than hitherto and that this will suffice to induce a resumption of the expansion of production—although for the time being the expectations of manufacturers, as reflected in the latest monthly EEC surveys, do not point in this direction.

Imports, too, are likely to rise again, particularly as a more favourable trend of turnover may force industry to build up its stocks of raw materials again. In view of the prospective trend of exports, the improvement in the balance of visible trade noted in the past few months will nevertheless continue.

The upward trend of prices will probably become more marked once again in the second half of the year, particularly because certain factors which in the second quarter had a restraining influence on the general price level are losing some of their effect. The price trend for manufacturers could well become somewhat firmer than hitherto as a result of certain cost increases and an upswing of demand, and the recent increase in numerous public service charges is also a relevant factor. In the circumstances the rise in the level of consumer prices will in the months ahead probably reach a rate of 3% for the year as a whole.

Although the forecast of a gradual recovery of economic growth given in the last Quarterly

Survey therefore remains generally valid, the development observed in the second quarter nevertheless suggests a slight adjustment to the quantitative forecasts given at that time for the full year 1967: the growth of the real gross national product will probably not exceed 4%. Yet if agricultural production turns out to be even better than is assumed already, the figure of 4.5% originally forecast could still be reached.

Since the publication of the last Quarterly Survey new data affecting the forecast of the economic trend in 1968 have been few in number. The timing and the intensity of the expected economic upswing in the Federal Republic of Germany will be all-important for developments in France. As the consolidation of the recovery of expansion proceeds in Germany, there will undoubtedly be a substantial improvement not only in the psychological climate but also, through the development of exports, in the concrete conditions governing a more buoyant expansion of demand in France. The investment intentions of private firms in particular, whose plans for 1968 are at the moment still rather vague, may then be expected to improve again gradually. According to the INSEE investment survey of June 1967 the increase in investment spending planned by industry for 1968 will lie somewhere between 2 and 6% compared with 1967.

The investment intentions of public enterprises and of central government can, however, be assessed with a fair degree of accuracy. They are based on the maintenance, if not acceleration, of what is at present already a rapid rate of expansion. Moreover, there is hardly any doubt that investment in residential construction will recover further. In the circumstances, employment and incomes of households may develop along increasingly favourable lines, which should also set the stage for the return of private consumers' expenditure to a more vigorous rate of expansion.

All in all, the original assumption that from 1967 to 1968 real gross national product will expand by some 5% can probably be maintained.

A fairly appreciable rate of growth is all the more likely in view of the fact that since the

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ¹		1967 ²	
	At current prices in FF '000 million	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	62.7	+ 11.4	+ 11.7	+ 6.9	+ 8.2	+ 4	+ 4
Gross fixed asset formation	92.3	+ 5.7	+ 9.0	+ 6.2	+ 8.4	+ 7.5	+ 10
Public current expenditure on goods and services	58.8	+ 5.9	+ 6.2	+ 3.4	+ 6.8	+ 5	+ 8.5
Private consumer's expenditure	278.1	+ 3.8	+ 6.3	+ 4.9	+ 7.8	+ 4	+ 7
Gross national product	435.2	+ 4.5	+ 6.8	+ 4.9	+ 7.7	+ 4	+ 7
Imports ³	63.1	+ 3.6	+ 3.7	+ 11.1	+ 13.2	+ 6.5	+ 6

¹ Statistical Office of the European Communities: General Statistical Bulletin, No 7-8, 1967.

² Commission forecasts.

³ Goods, services and factor income.

Note:

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

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

early months of 1967 the authorities have increasingly pursued a policy aimed not only at supporting but directly promoting the development of demand. The danger that this would give rise to fresh inflationary strain could be considered as being small since many industries have been running well below capacity and since the "policy mix" so far has been carefully balanced. As far as they are foreseeable at the moment, the operations planned under the 1968 budget also appear to leave sufficient scope for rapid adjustment to spontaneous economic developments, which, as indicated above, will almost certainly be more expansive.

Short-term economic policy should thus be largely in line with the latest recommendation of the Council of the European Communities of

11 July 1967 on economic policy guidelines for the second half of 1967 and for the first decisions concerning 1968. This recommendation includes the suggestion that France should "take further steps to accelerate economic expansion" if necessary, but it also calls upon all Member States to ensure "that measures to promote expansion neither compromise the existing tendency for the level of prices to settle down nor lead sooner or later to fresh advances". Official measures in the course of the first half of the year—discussed in detail in the last Quarterly Survey—and the additional measures taken in mid-July (notably the raising of expenditure on public investment and publicly-assisted residential construction, additional loans for investment by private industry tax reliefs for certain building projects and/or the purchase of equipment

goods) meet these requirements: they are carefully balanced and their main emphasis is on investment. The incidence of the measures taken in favour of consumption (easier hire purchase terms, rebate of up to FF 100 on income tax due for 1967) is limited. In addition, these measures largely represent no more than compensation for the restrictive effects of certain structural reforms on the real disposable incomes of households.

The expansionary policy is based almost exclusively on budgetary measures. While the Finance Law for 1967 adopted by Parliament towards the end of last year still provided for a strict equilibrium between overall expenditure and overall revenue of central government, the Government asked as early as at the beginning of June for the approval of additional expenditure totalling FF 4 250 million under a supplementary budget. Another supplementary budget for 1967, calling for further additional expenditure totalling FF 3 000 million, is expected.

Since the beginning of the year the execution of the budget has led to a steadily growing deficit, with expenditure rising much faster (in the first seven months it was probably some 15 % higher than a year earlier) and the increase in revenue relatively weak because of the slack business situation. It must be expected that for the full year there will be a deficit of some FF 6 000 million (excluding debt redemption) which—in addition to the government loan of FF 1 250 million already floated at the end of May—will probably be financed by the Treasury through short-term borrowing and in part also by recourse to the money market—i.e. by borrowing from the banking system. The year 1966 had closed with a deficit of only FF 2 000 million.

The 1968 Finance Law, the draft of which was submitted to Parliament in mid-September, reflects not only considerations of short-term economic policy but also the large number of reforms which will take effect next year in the fields of taxation, social insurance, subsidies and aids. On the one hand, this will lead to a very appreciable loss of revenue chiefly benefiting firms in the form of direct or indirect investment incentives. Compared with the Finance

Law for 1967, the rise envisaged in overall central government revenue is fixed at 7.7 % only. On the other hand there will be a considerable increase in expenditure, mainly for investment in the civil sector, publicly assisted residential construction and loans to the Economic and Social Development Fund. Expenditure is intended to rise by a total 9.3 %. The result is, therefore, that for the first time for years, the principle that the budget should bring overall expenditure and overall revenue into balance is abandoned even at estimate stage: the authorities are in fact already budgeting for a deficit of FF 2 000 million. In addition it must be expected with a fair degree of certainty that in the course of the year additional expenditure will become necessary (presumably including FF 2 000 million for investment loans: the sum needed is to be raised by a special loan) so that in the course of 1968 the cash deficit may in the final analysis reach an order of magnitude similar to that for 1967.

The handling of the budget for 1967—involving heavy deficit spending—was unobjectionable from the angle of cost and price stability and was in fact correct as a means of supporting and promoting economic growth and full employment, but this will probably no longer apply to the same extent for the year 1968. It can, of course, not be ruled out completely that the recovery of economic activity which in the present circumstances is to be expected for the second half of 1967 will make relatively slow progress only and that as a consequence overall demand will still require support from budgetary policy in the early months of next year, particularly because of the delay that may then occur in the implementation of private investment projects. But by the middle of 1968 at the latest the rise in domestic demand and the internal forces of expansion will probably, were it only because of the multiplying effect of the expansionary measures taken in the course of 1968, be strong enough to guarantee and adequate rate of growth. A further massive contribution to demand by the public authorities would in this case be bound to give rise—sooner or later—to new dangers for internal equilibrium.

The case for flexible budget administration in 1968, adjusting to the changing business situa-

tion without undue delay, is moreover all the stronger as in the past few months major structural reforms have been decided upon whose direct and above all indirect effects on economic life in 1968 can by no means be assessed completely at this stage. These reforms consist of a large number of specific measures which the Government had adopted by decree under the powers conferred upon it by Parliament in mid-June and which continue a policy that has for years aimed at modernizing the structure of the economy (particularly in the monetary and financial fields) and changing the behaviour of transactors so as to encourage steady and balanced growth in the longer term (particularly by encouraging savings and investment).

Of the measures taken some time ago which will continue to be effective or which will enter into force for the first time in 1968, those of special interest are the reform of the taxation of dividends, the elimination of exchange control and the extensive liberalization of capital movements, but above all the reform of indirect taxation. The extension of the TVA system to retail trade, due on 1 January 1968, will have far-reaching consequences for the business situation. In the first place, for the Treasury it will mean an appreciable loss of revenue (about FF 3 000 million) and for firms a corresponding lightening of their tax burden. By modifying the price structure it is also likely to some extent to shift demand from consumption to investment—in that, simply on the basis of the arithmetic of the system, prices for private consumers will go up while prices for intermediate and capital goods will fall. It is impossible to foresee the psychological factors which may prevail over the purely arithmetical price effects and may therefore lead to a steeper rise in overall price level in 1968 than is expected at the moment.

According to their objectives, the latest reform measures can be divided into four groups: improvement of the employment situation, reform of the social insurance system, workers' participation in company profits, and strengthening of the competitiveness of the French economy. The impact on the economic situation differs of course from measure to measure. The regulations on employment (establishment

of a national employment agency, raising of vocational training grants, etc., extension of the unemployment insurance system, guaranteed redundancy payments) may in the long term help improve the mobility of labour and consequently the productivity of industry and moderate the cyclical fluctuations of the trend of incomes, but in the short term they will probably not have any perceptible effects. The regulations on the adjustment of enterprises to foreign competition are necessarily also designed for the long term. They include a wide range of measures in numerous fields, the aims being to decentralize industry, promote industrial combination, convert declining industries to new operations, create new jobs, assist regions which are underdeveloped or suffer from structural disadvantages, modernize certain credit channels and lending arrangements, bring more business to the stock exchange and encourage saving. It can however be expected that in 1968 these regulations will probably already produce certain effects which will stimulate economic expansion. The proposed tax reliefs alone will mean a loss of budget revenue of some FF 360 to 450 million.

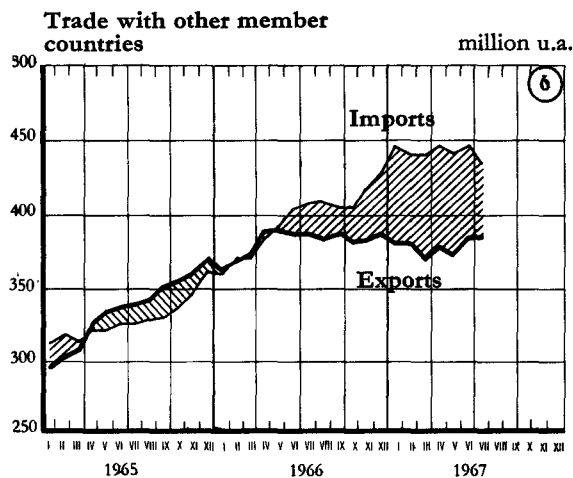
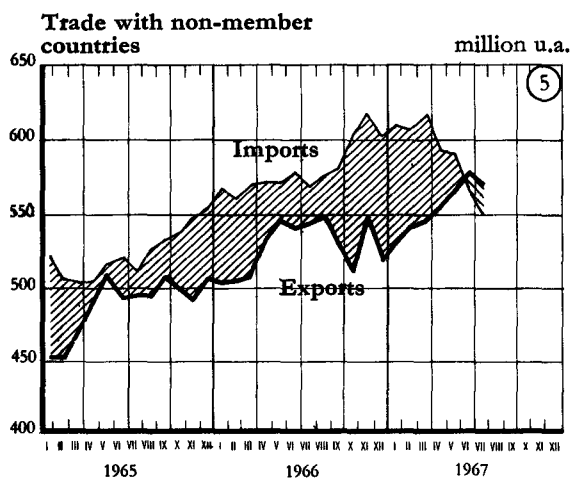
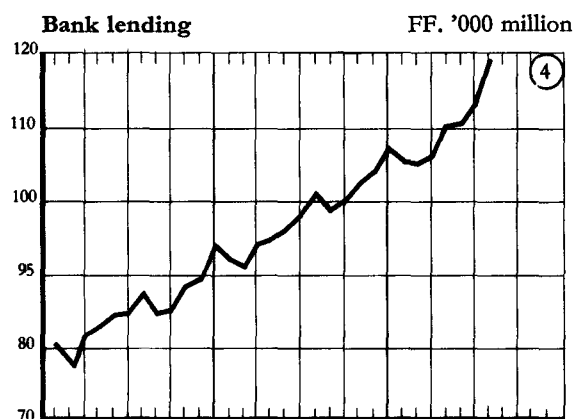
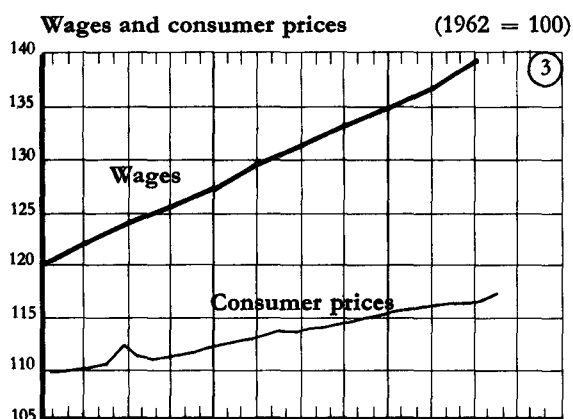
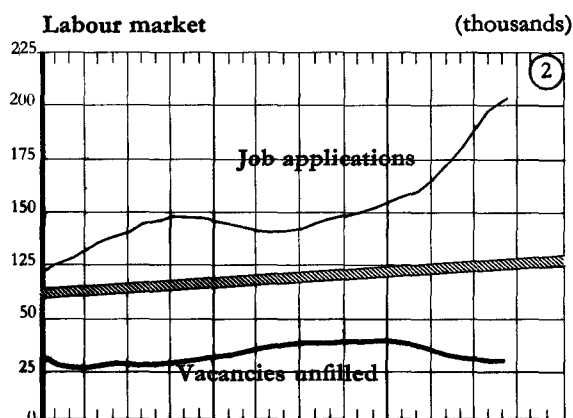
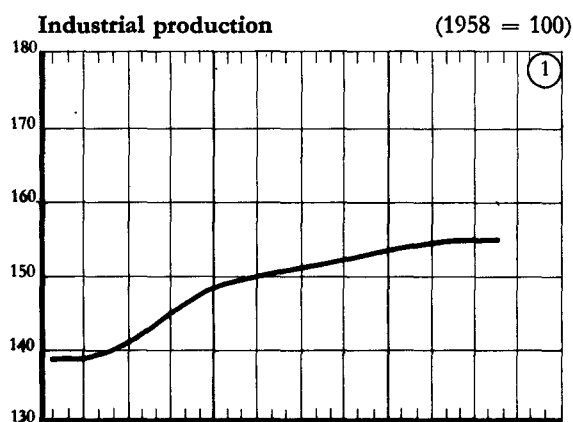
The reform of the social insurance system, on the other hand, which is also the subject of a comprehensive set of regulations, lends itself more easily to a quantitative assessment. About half of the social insurance deficit (which is likely to increase to almost FF 4 000 million in 1967) will, according to official estimates, be accounted for by heavier contributions from employers (FF 800 million) and employees (FF 1 200 million); a quarter by the increase in the employees' share of the cost of medical treatment, and the balance by the arrangement under which in future the Government takes over part of the administrative costs of social insurance and also finances certain benefits directly. Admittedly these reforms constitute an appreciable burden for enterprises and households and may thus engender a rise in costs and curtail a little consumer spending and/or the propensity to save. At the same time, however, they mean an appreciable reduction of the pressure on the budget, thus increasing the scope for measures of structural or short-term economic policy aimed at an expansion of the productive capacity of the economy as a whole. It is precisely the need to make more resources available for productive investment which has

led the Council of the European Communities to stress repeatedly in its economic policy recommendations, notably in December last year, the desirability of reforming social insurance systems running a deficit.

Although the ordonnances on workers' participation in company profits enter into force on 1 January 1968, they will not affect the actual distribution of profits before 1969. It may however well be that the tax reliefs for industry linked with the profit-sharing scheme (profits going to employees will be fully deductible and firms will also be allowed to constitute a tax-free investment reserve equal in size to the amount of profits distributed in this way) and the fact that the profits distributed to employees will be frozen for at least five years and will, during this period, remain directly or indirectly at the disposal of the companies, will influence the investment decisions of managements in advance, leading to an increase in orders for construction and equipment in 1968.

The main features important from the angle of short-term economic policy and common to the four structural reforms briefly sketched above are as follows: except for the reform of the social insurance system, they will all entail a reduction of tax revenue which—though at the moment difficult to quantify—appears to be appreciable and will therefore undoubtedly make it that much more difficult to balance the budget in the years to come. They do, however, provide an appreciable incentive for saving and for industrial investment. On the other hand, they are likely to curb the upward trend of real household incomes available for consumption. Such an economic policy, which, in line with the Fifth Plan, aims at an increase in the proportion of national resources devoted to investment and a relatively moderate rise in consumption, can only be successful if exports expand rapidly. The markets of the other member countries are probably those offering the best prospects of increased sales abroad for France.

ECONOMIC INDICATORS



NOTES :

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

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

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

Graph 3. Source : INSEE. National index of consumer prices (259 items). Index of hourly wage rate, all activities, all regions.

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

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

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

France

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	551.2
Total population ('000)	49 275
Density of population per sq. km.	89
Numbers in employment ('000)	19 675
Numbers in employment, breakdown by main sector (%):	
— Agriculture	16.7
— Industry	39.9
of which : Construction	9.6
— Services	43.4
Percentage share of gross domestic product :	
— Agriculture	7
— Industry	46
of which: Construction	9
— Services	47
Gross product per capita (FF)	10 132

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966		
Gross national product	+ 7.4	+ 4.4	+ 7.1	+ 4.8	+ 6.0	+ 4.5	+ 4.9	151	—
Industrial production	+ 7.6	+ 5.5	+ 6.7	+ 5.8	+ 7.4	+ (3.9)	+ (5.9)	155	—
Total imports	+16.5	+ 7.0	+ 8.7	+12.2	+12.2	+ 3.6	+11.1	193	14.8
Private consumers' expendi- ture	+ 5.6	+ 5.9	+ 6.9	+ 6.8	+ 4.7	+ 3.8	+ 4.9	148	63.7
Public current expenditure on goods and services	+ 2.7	+ 3.4	+ 4.3	+ 1.2	+ 4.9	+ 5.9	+ 3.4	137	13.3
Gross fixed asset formation	+ 6.8	+10.5	+ 7.9	+ 7.5	+11.7	+ 5.7	+ 6.2	175	21.8
Total exports	+17.2	+ 5.5	+ 3.1	+ 7.9	+ 7.7	+11.4	+ 6.9	198	15.1
Gross national product per capita	+ 6.3	+ 3.3	+ 5.1	+ 3.0	+ 4.7	+ 3.4	+ 3.8	136	—
Gross national product per person gainfully employed	+ 7.3	+ 4.4	+ 6.8	+ 3.5	+ 4.7	+ 4.5	+ 4.8	148	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966	1966	1966	1966
Visible exports										
Total	+22.5	+ 5.2	+ 2.0	+ 9.8	+11.3	+11.8	+ 8.4	212	10 897	100
Intra-EEC	+33.9	+18.8	+11.9	+14.2	+12.8	+18.0	+12.0	406	4 608	42.3
To non-EEC countries	+18.2	- 0.5	- 3.0	+ 7.2	+10.3	+ 7.8	+ 6.0	158	6 289	57.7
Exports of food, beverages and tobacco										
Total	+36.2	+17.4	- 2.9	+22.0	+14.4	+11.5	- 7.6	259	1 721	15.8
Intra-EEC	+54.6	+26.2	+ 1.4	+34.5	+16.6	+26.5	+19.5	688	840	7.7
To non-EEC countries	+29.3	+13.6	- 5.1	+15.4	+13.0	+ 2.0	- 1.7	162	881	8.1
Exports of raw materials and manufactures										
Total	+20.2	+ 3.3	+ 3.0	+ 7.8	+10.7	+11.8	+ 8.6	206	9 176	84.2
Intra-EEC	+31.1	+17.5	+13.9	+10.9	+12.1	+16.4	+10.4	372	3 768	34.6
To non-EEC countries	+16.2	- 2.7	- 2.6	+ 6.0	+ 9.8	+ 8.9	+ 7.4	157	5 408	49.6
Visible imports										
Total	+23.3	+ 6.3	+12.8	+15.9	+15.4	+ 2.7	+14.9	212	11 875	100
Intra-EEC	+36.3	+13.6	+20.0	+24.3	+20.3	+ 6.7	+20.9	395	4 853	40.9
From non-EEC countries	+19.0	+ 3.3	+ 9.2	+12.3	+12.4	+ 0.3	+11.1	160	7 022	59.1
Imports of food, beverages and tobacco										
Total	+ 6.2	- 2.3	+19.8	+ 5.1	+14.9	- 0.6	+ 8.4	136	1 920	16.2
Intra-EEC	+16.7	-12.3	+37.6	+37.4	+26.2	+ 8.9	+ 1.3	415	382	3.2
From non-EEC countries	+ 4.7	- 0.8	+17.4	0	+12.5	- 2.8	+10.3	116	1 538	13.0
Imports of raw materials and manufactures										
Total	+28.7	+ 8.5	+10.9	+18.8	+15.5	+ 3.4	+16.2	237	9 955	83.8
Intra-EEC	+37.9	+16.3	+18.7	+22.7	+19.8	+ 6.5	+22.9	394	4 471	37.7
From non-EEC countries	+24.5	+ 4.5	+ 6.6	+16.3	+12.6	+ 1.2	+11.3	179	5 484	46.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	141	145	145	148	148	151	129	91	142	153	157	160
	1966	150	156	157	158	158	161	142	95	153	160	167	167
	1967	160	161	163	161	150	165						
Unemployed ('000)	1965	156.3	158.5	153.0	141.8	133.4	122.3	118.8	122.6	136.2	147.3	155.7	159.5
	1966	171.3	167.3	155.7	145.6	134.0	122.7	121.1	124.4	138.2	153.7	165.7	173.5
	1967	193.8	194.4	189.2	188.7	179.0	168.3	168.3	174.4				
Construction: permits issued ('000)	1965	38.8	44.7	45.9	43.8	44.6	50.5	41.8	44.4	49.6	53.2	57.6	83.0
	1966	41.3	36.3	42.1	48.0	36.6	49.4	44.2	40.5	38.2	42.1	44.2	47.2
	1967	31.6	36.2	41.1	37.7	42.2							
Private consumers' expenditure: turnover of department stores (1958 = 100)	1965	119	103	115	127	122	125	127	106	142	135	135	209
	1966	121	107	126	127	124	135	129	114	141	140	143	222
	1967	127	110	137	129	132							
Total visible imports (million u.a.)	1965	816	799	934	900	872	866	827	679	813	890	926	1 021
	1966	897	935	1 098	994	1 002	1 061	929	779	993	1 030	1 054	1 104
	1967	1 067	1 039	1 175	1 047	1 061	1 021	928	772				
Total visible exports (million u.a.)	1965	688	782	896	839	853	823	857	671	826	916	896	1 006
	1966	774	874	1 023	947	916	960	952	729	843	950	920	1 014
	1967	883	904	1 000	968	909	1 027	964	701				
Balance of trade (million u.a.)	1965	- 128	- 17	- 33	- 61	- 19	- 43	+ 30	- 8	+ 13	+ 26	- 30	- 15
	1966	- 123	- 61	- 75	- 47	- 86	- 101	+ 23	- 50	- 150	- 80	- 134	- 90
	1967	- 184	- 135	- 175	- 79	- 152	+ 6	+ 36	- 71				
Official gold and foreign exchange reserves (gross, million u.a.)	1965	5 172	5 254	5 316	5 367	5 341	5 350	5 336	5 346	5 381	5 381	5 449	5 459
	1966	5 468	5 503	5 571	5 649	5 724	5 821	5 967	5 963	5 893	5 856	5 798	5 744
	1967	5 710	5 716	5 705	5 722	5 748	5 772	5 814	5 824	5 835			
Money supply (FF '000 million)	1965	159.3	157.9	159.9	161.9	162.6	166.1	170.1	169.2	170.2	171.6	169.9	177.2
	1966	174.5	173.5	175.6	177.3	177.7	182.1	186.3	184.0	184.7	185.0	182.7	190.7
	1967	187.8	185.6	188.3	191.7	189.6	194.6	197.1					

France

NOTES

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

Table 1

- Total population at mid-year.
- Numbers in employment at mid-year.
- Breakdown of gross domestic product for 1962 at factor cost.
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry. (1965 and 1966, provisional figures)
- Total exports and imports: goods, services and factor income.

Table 3

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

Table 4

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

C. Italy

In the second quarter, economic activity again expanded perceptibly, although the tendency for exports to rise more slowly became more pronounced and spread to services as well, and although investment in stocks is hardly likely to have provided any additional impetus either. These tendencies were more than offset by an increase in the other components of demand—particularly expenditure on fixed assets, including residential construction, which should have continued to rise.

For this reason, industrial production and building activity continued to expand fairly strongly. But agricultural output reflected the very bad weather of November 1966. Owing to fortuitous factors, imports slowed down a little, though only for a time.

Employment may well have risen further, and recently this will probably have caused a more noticeable decrease in the number of unemployment than hitherto.

According to the available data, the upward price movement remained relatively moderate in the second quarter.

Expansion prospects remain on the whole quite favourable, although there might be some changes in the relative importance of certain components of demand. Some factors suggest, however, that a somewhat faster increase in prices cannot be ruled out.

In view of the way the economic situation is tending to develop, the Italian Government has not adopted any special economic policy measures. Its drive to improve the structure of the budget is being energetically pursued, but even greater efforts will certainly be needed if this aim is to be achieved to an adequate extent.

1. Recent developments

Exports of goods and services went up more slowly in the second quarter than in the first; in the case of visible exports, this was because of the disappearance of the fortuitous factors—mostly of a statistical nature—which influenced the figures in the first few months of the year, but no doubt reductions in the export prices of certain products also contributed to this. As defined for customs purposes, visible exports in the second quarter were some 8 % higher than in the same period last year—following a year-to-year growth rate of 12.4 % in the first quarter.

Exports of textiles and clothing again fell, while exports of products of the metal-processing industry again expanded fairly strongly. Deliveries of food products gathered momentum. As for the pattern of exports according to receiving country, the growth of exports to non-member countries—especially the eastern European countries and also the United Kingdom—was faster again, having slackened for a time, while the hesitancy of sales within the Community spread in the second quarter to nearly all the five countries.

Exports of services also rose slowly. In the second quarter the receipts from tourism were

actually 1.2 % down on the same period of last year; this was no doubt mainly due to the slowdown in economic activity in some European countries and the United States, and to the restrictive effect of the United Kingdom's foreign travel allowance.

With regard to gross fixed asset formation, expenditure on building and construction may well have gone on rising at much the same rate as before. At all events, the survey carried out by ISTAT at the end of April shows that employment in this sector rose much more than is usual for the time of year. The EEC Business Surveys, too, revealed a gradual rise in demand in the building materials industry until the end of June. Lastly, the figures at present available on domestic sales of building materials indicate an increase in demand at least until the middle of the spring. The recent upsurge in activity in the building sector appears to be mainly due to a more favourable underlying trend in residential construction.

The level of expenditure on capital goods is usually estimated from relevant statistics relating to production and external trade; these statistics—admittedly still incomplete—suggest that this type of expenditure went up substantially more slowly than before. But even when they are complete, they give only rather crude information; it is therefore perfectly possible that expenditure on capital goods may again have increased perceptibly in the second quarter—a supposition which is supported, among other things, by the results of the EEC Business Survey in respect of the capital goods industry.

Investment in stocks, on the other hand, does not appear to have done very much to promote business activity. At any rate, to judge from the EEC Business Surveys, manufacturer's stocks of finished goods have shown very little change, and managements have if anything grown a little more cautious in their purchases of raw materials and semi-finished goods.

Expenditure on consumption again went up appreciably. According to the incomplete information available, public current expenditure does not appear to have risen very much, but private consumer's spending showed a perceptible increase, although this was certainly rather slower than for the first quarter. The

rise in these demand components—at least until June—is confirmed by the figures for the output of consumer goods and, in particular, for domestic sales of cars. According to ISTAT, production in this sector—per working day, but not seasonally adjusted—in April-June went up more sharply, compared with the first quarter, than in the second quarter of 1966 compared with the first (7 % as against 6.4 %). ISCO estimates put the figure for the (adjusted) increase in new car registrations in April-June at about 3 % higher than in the first quarter, in which they had already risen quite sharply (seasonally adjusted, almost 7 % up on the first quarter of 1966).

Certainly, the EEC Business Surveys show that orders on hand for consumer goods declined somewhat in the months up to and including June. This trend may, however, reflect seasonal factors which are gaining in importance from year to year as the pattern of private expenditure shifts towards services and away from certain goods. Nevertheless the underlying growth of consumption is on the whole probably tending to slow down slightly.

The key to this development appears to have been the fact that the very vigorous rise in employment in the first quarter probably did not continue at the same pace. In addition, the development of agricultural incomes lacked assurance. These factors somewhat checked the rate of increase of overall household incomes. Minimum agreed wages—including family allowances and cost-of-living bonuses—rose, it is true, somewhat more slowly than hitherto, by an average of 0.7 % in the second quarter as against an average of 1.1 % in the first. These figures are, however, not entirely typical of the development of actual wages, which was probably somewhat brisker.

According to the ISTAT sample survey of April, the number of persons employed (self-employed and persons in paid employment) continued to rise at any rate until that month, but in contrast to the period from October 1966 to January 1967 its development was no longer favoured by exceptionally good weather. For the number of wage- and salary-earners, the ISTAT survey showed an increase of 2.9 % compared with April 1966, i.e. a year-to-year increase of the same order as in January

(3.1 %), when it was however somewhat inflated because of an unusually low level of employment in January 1966. Moreover, employment again improved qualitatively in the period under review, with an underlying increase in industry and a heavier decline in the services sector than is usual for the time of the year.

According to the ISTAT surveys, the number of persons unemployed in April was, at 628 000, 5.6 % less than a year earlier. But in the course of the second quarter, it tended (apart from variations) to decline only slightly or even to remain stationary. This was not only because of a decrease in net emigration but also to the fact that in 1967 some factors which reduce the supply of manpower (e.g. education, retirement) proved weaker than in previous years.

On the supply side, the trend in agricultural production was largely unfavourable, because some autumn sowings were prevented by the very bad weather at the beginning of November 1966, so that others, for later harvesting, were sown later. At all events, the wheat harvest will probably be almost 3.5 % less than in 1966. Harvests of some kinds of spring and summer fruit were also poor. On the other hand, some kinds of vegetables did very well, as did also livestock production as a whole.

The new ISTAT index of industrial production—too recent to permit of seasonal adjustment, but corrected by ISCO for the number of working days—rose by 5.3 % in the second quarter compared with the first, as against an increase of 7.6 % in the same period of 1966. In making this comparison, one must however bear in mind that the underlying advance in production in the second quarter of 1966 was unusually strong. Moreover, the individual series for industrial production seasonally adjusted by ISCO, which comprise most of the ISTAT series, also show no more than a slight underlying slackening of industrial production for the period from April to June. The increase in production compared with the first quarter amounted to (approximately 2.0 %) and was thus almost as great as in the first quarter compared with the last quarter of 1966 (2.7 %). According to the ISTAT unadjusted index, industrial production in the second

quarter was 9.2 % up on its (very high) level of the corresponding period of last year (corresponding first-quarter figure : 11.5 %). In July, nevertheless, the year-to-year growth rate sank to 7.6 %.

In the second quarter, too, the output of the metal and automobile industries accounted for a large part of the rise in industrial production. In textiles and—less noticeably—in chemicals, on the other hand, trends were somewhat hesitant.

In the building industry, too, output was probably rising—apart from variations—at least as fast as in the previous quarter. Lastly, the figure for value added in the services sector will probably prove to have been very high.

The growth of imports appears to have slowed down slightly in the second quarter compared with the first, as imports of certain goods were hampered by exceptional factors. According to customs returns, imports of goods in the second quarter were 15 % higher in value than at the same time last year. In July the year-to-year growth rate reached 20 %, partly because importers were making up for the exceptional hesitation previously shown.

For the second quarter, one should mention first and foremost a slowdown in the growth of imports from the Netherlands due to a decline in beef purchases; this was however largely offset by a faster rise in imports from the Federal Republic of Germany. Where non-member countries are concerned, imports from the United States recovered, and imports from the East bloc countries, and—to a lesser extent—the EFTA countries, went up more rapidly. The rise in imports from the developing countries, on the other hand, remained weak, partly as a result of special factors (the Middle East crisis).

Prices showed no substantial changes compared with the tendencies observed in the first quarter. Wholesale prices fell by 0.6 % between the end of March and the end of July. The price index for agricultural products in June-July fell, for seasonal reasons, after having continued to rise in the previous month. Consumer prices again showed a fairly moderate upward movement; from the end of March to the end of July, this amounted to 0.9 % (unadjusted)—

slightly more than the increase recorded in the same period of last year. In July, wholesale prices were 0.4 % lower and consumer prices 3.6 % higher than in July 1966. Comparisons with the previous year can, however, be no more than indicative, because the composition of the index was changed with effect from 1 January 1967; the upward trend is, nevertheless, unmistakable.

In the second quarter, the visible trade balance, based on external trade statistics, closed with a deficit of Lit. 129 000 million—as against deficits of Lit. 161 000 million in the previous quarter but only Lit. 37 000 million in the first quarter of 1966.

On the basis of foreign exchange transactions, the deficit was Lit. 198 000 million for the second quarter of 1967. Net receipts from services remained high, but tended to fall somewhat compared with the first quarter. The current account as a whole earned a surplus of Lit. 176 300 million. As before, capital movements (excluding the change in the banks' net foreign exchange position) produced a deficit, but a smaller one. The overall balance of payments therefore closed with a surplus of Lit. 42 000 million for the second quarter—following a shortfall of Lit. 180 000 million in the first.

The official net gold and foreign exchange reserves increased more strongly than before, however—by Lit. 116 000 million—mainly because the commercial banks' net foreign exchange position deteriorated as a result of the repatriation of short-term foreign investments. In July, too, and probably also in August, the official reserves continued to rise.

In contrast to the first quarter, transactions with abroad therefore did perceptibly more to expand overall domestic liquidity. Treasury transactions had the same effect, although less strongly, while the overall contribution of the Bank of Italy towards increasing domestic liquidity was only slight. Lastly, the expansion of bank lending—still very rapid—added to domestic liquidity.

The restrictive effect on the domestic liquidity of the banks of the (seasonal) increase in the amount of notes and coin in circulation was

approximately offset by an inflow of funds generated by transactions with abroad and Treasury and Central Bank operations. With credit continuing to expand rapidly, this is possibly one reason why the banks' purchases of securities slowed down—perhaps only temporarily. At all events, the ratio between bank advances and sums deposited had gone up to 68 % by the end of June (66.5 % at the end of March).

The main factors that influenced the market in securities were, however, psychological. Bond prices rallied after a fall at the beginning of April.¹ Uncertainty about a possible coupon tax for fixed-interest securities as well was countered by an official statement that this tax would be applied only to new issues floated after the relevant law is passed; at present it has not got beyond the stage of a preliminary draft. Between the middle of April and the beginning of July, activity on the stock markets was not very brisk, but subsequently there was a slight improvement.

2. Outlook

In the remaining months of 1967 economic activity should continue to expand fairly vigorously.

For a short time yet, the development of demand from abroad, as expressed by actual exports of goods and services, may well continue to suffer from the effects of the slowdown or actual decline in business activity, before and during the spring of 1967, in some countries normally importing heavily from Italy, such as the Federal Republic of Germany, France, the United States and the United Kingdom. In view of the results of the EEC Business Surveys, some caution seems called for in assessing the short-term development of visible exports; according to these Surveys, orders on hand from abroad have fallen in the last few months—despite a slower rise in actual export. A similar conclusion can be drawn from the "Forum" surveys carried out by "Mondo Economico": a substan-

¹ The fall in bond prices and its causes were dealt with in Quarterly Survey No. 2/1967.

tial majority of the managements questioned were expecting exports to rise further in the second half of the year, but by June optimism had already become less widespread than in the four previous surveys—although the beneficial effect on exports of various changes, such as the further reduction in intra-Community customs duties (which took place on 1 July 1967) and the measures taken by the Italian authorities with regard to export credit (which entered into force on 17 July), were certainly taken into account in the replies, if perhaps not sufficiently.

There appears, however, to be no reason for pessimism as regards the development of exports in the rather longer term. The competitive position of the Italian economy has remained strong, and the elasticity of supply is still high. Moreover, short-term economic prospects, particularly for the United States and probably also for the Federal Republic of Germany, have improved; in France, economic growth is expected to pick up somewhat in the second half of the year, and in the United Kingdom the authorities have begun to ease the restrictions on domestic business activity. It is therefore reasonable to predict that Italian exports will definitely be rising more rapidly again before the end of the year, after an interim slowdown period.

With regard to the probable development of gross fixed asset formation, there is no need to make any substantial change in what was said in the last Quarterly Survey. It is of course possible that, in view of the hesitant development of exports, managements will become somewhat more cautious as regards capital expenditure for purposes of expansion; but rationalization is once again gaining in importance, because productivity reserves have obviously contracted considerably, as is indicated by the larger number of persons employed. Another fact which supports the view that enterprises will continue to increase their investment appreciably is that this kind of investment has not yet regained the level at which it stood before the 1964-65 decline. Public investment will probably also expand further and, in particular, the recent recovery in investment in residential construction should continue; the favourable outlook for this kind of investment is confirmed by the sample surveys carried out

by ISCO and "Mondo Economico". The optimistic replies to the EEC Business Surveys returned by building material manufacturers also point to an upward movement in overall investment in building and construction.

Investment in stocks, on the other hand, will probably continue to make only a limited contribution to domestic business activity.

Expenditure on consumption will continue to rise—both public current expenditure, where the increase will be a moderate one, and private consumers' spending. The view that the latter will increase is based on the likelihood that incomes will continue to rise. This belief is, in turn, supported by the expectation of a further increase in employment, reinforced by the recent upward tendency in building and construction. Hourly wage rates, which will in themselves probably show only a fairly moderate advance, should in the second half of 1967 be affected again by the sliding wage scales—and a little more than in the first half of the year; the cost-of-living bonuses were in fact raised by one point on 1 August, for the first time since February. Lastly, disposable household incomes should go up as a result of higher transfer payments by the State: at the beginning of July, the Italian Parliament passed a law under which family allowances will be paid, as from 1 January 1967, to a large proportion of self-employed farmers not previously qualifying.

In view of these prospects for the development of overall demand, production—i.e. industrial production and, above all, building and construction—can be expected to expand vigorously.

This means that the number of persons at work, particularly wage- and salary-earners in industry and in building and construction, will probably increase further; the total number of hours worked—having risen again generally to a normal level—can hardly be raised further by lengthening working hours. This being so, there might be a further slight drop in unemployment, provided that the opportunities for the employment of Italian workers abroad do not further deteriorate—which is now unlikely.

It also appears perfectly possible that the expansion of imports may recover a little in the

remainder of the year. As a result, the tendency for the balance of trade to deteriorate will become more marked once again.

If overall demand and overall supply develop as expected, there should be no substantial change in short-term price trends. But some autonomous factors—higher charges for public transport and utilities, new taxes on consumption, increases in State-controlled prices and in some rents—may well force up prices at a more rapid rate.

In view of the development of the economy in the first half of the year, and the outlook for the second half as described above, there seems to be no need to make any substantial changes in the quantitative forecasts given in the last Quarterly Survey for the full year 1967.

Only in the case of gross fixed asset formation and of imports and exports are corrections required, and these are minimal. An increase of 5.5-6 % in the real gross national product for 1967 compared with 1966 is well within the bounds of possibility.

The outlook for 1968, too, remains broadly the same: where the trend is concerned, and in general, the development of the economy should not be very different from in 1967, although some shifts of emphasis are quite possible—a return to a faster rise in exports, a perhaps somewhat slower increase in industrial investment and, therefore, a demand for residential construction and public construction which will rise vigorously throughout the year. At all events, it still seems reasonable to assume that

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ¹		1967 ²	
	At current prices (in Lit. '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	5 486	+ 20.8	+ 20.3	+ 12.5	+ 12.0	+ 7	+ 7
Gross fixed asset formation	7 201	— 8.4	— 6.8	+ 3.7	+ 5.3	+ 11	+ 12.5
Public current expenditure on goods and services	4 608	+ 3.6	+ 12.8	+ 3.6	+ 6.9	+ 4	+ 8
Private consumers' expenditure	20 869	+ 2.2	+ 6.5	+ 5.7	+ 8.9	+ 6	+ 9.5
Gross national product	33 077	+ 3.5	+ 7.6	+ 5.5	+ 7.9	+ 6	+ 8.5
Imports ³	5 293	+ 1.9	+ 2.7	+ 13.4	+ 16.0	+ 11	+ 13

¹ "Relazione generale sulla situazione economica del paese (1966)"

² Commission forecasts, rounded to full or half percentage points.

³ Goods, services and factor income.

Notes:

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

the gross national product will increase at almost the same rate for 1968 as for 1967. The rise in prices due to genuine economic factors might gather a little more momentum.

Since the last Quarterly Survey, the Italian authorities have not taken any measures predominantly motivated by economic policy considerations. But some other new measures which will affect business activity have been taken or announced.

At the end of June, for example, draft laws¹ were tabled in Parliament to postpone the removal of the ban on rent increases until the end of 1967 or even later—but certain rent increases for commercial or professional premises were nevertheless authorized during this period (5 % in the second half of 1967, 10 % as of 1 January 1968).

At the end of July, the Government decided to introduce a bill under which local authorities will be authorized to impose consumer taxes on certain consumer durables (such as television sets, cameras and tape-recorders) and on some consumer goods (edible oils, soaps, detergents, tea). These new taxes should yield additional revenue of approximately Lit. 60 000 million per year.

In August, post office and telegraph charges were raised (by 25-30 %) as was also the State-controlled price of daily papers (by 20 %). The possibility of an appreciable increase in railway fares is also being considered at the time of writing.

Compared with the draft budget for 1967, that for 1968 shows a marked slackening of the growth of current expenditure and a very marked increase in expenditure on investment and redemption of loans. According to this

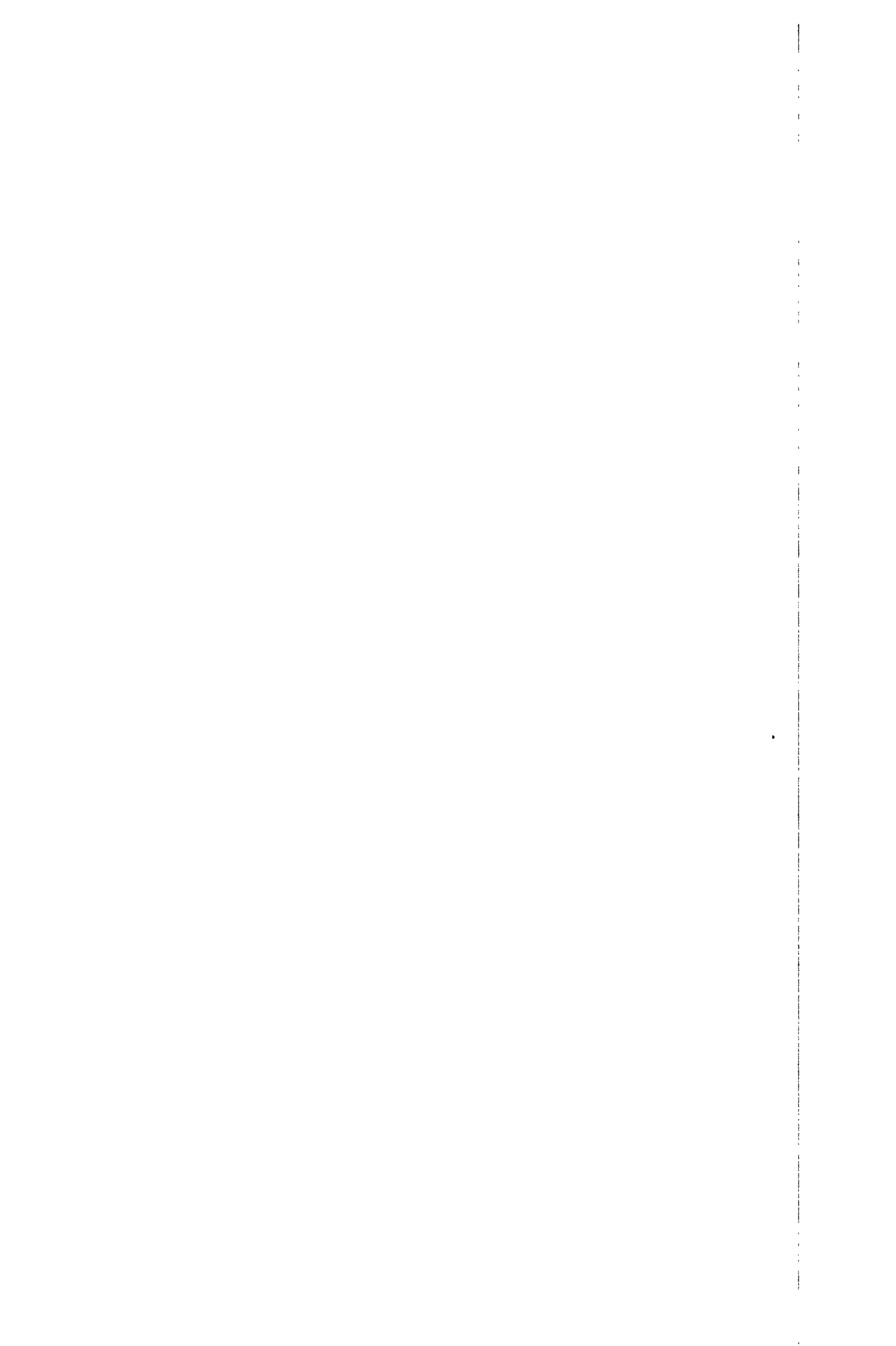
draft, central government expenditure would rise by 9.6 % overall, i.e. less than was planned for 1967 (11.7 %). Revenues would, however, increase more vigorously—by 11.2 % as against the 9.6 % planned in the budget for 1967. The actual budget deficit should therefore show no appreciable change. On the other hand, the overall deficit on Treasury transactions—which also includes extra-budgetary operations that have to be financed by recourse to the capital market—would fall from Lit. 2 186 000 million in the 1967 budget to Lit. 2 007 000 million in 1968.

The changes envisaged in the budget as regards local finances and charges for public transport and utilities are in line with the economic-policy recommendation addressed by the Council to the Member States on 11 July 1967. They also reflect the effort to improve the structure of the budget under the Italian five-year plan, which aims at an increase in public saving.

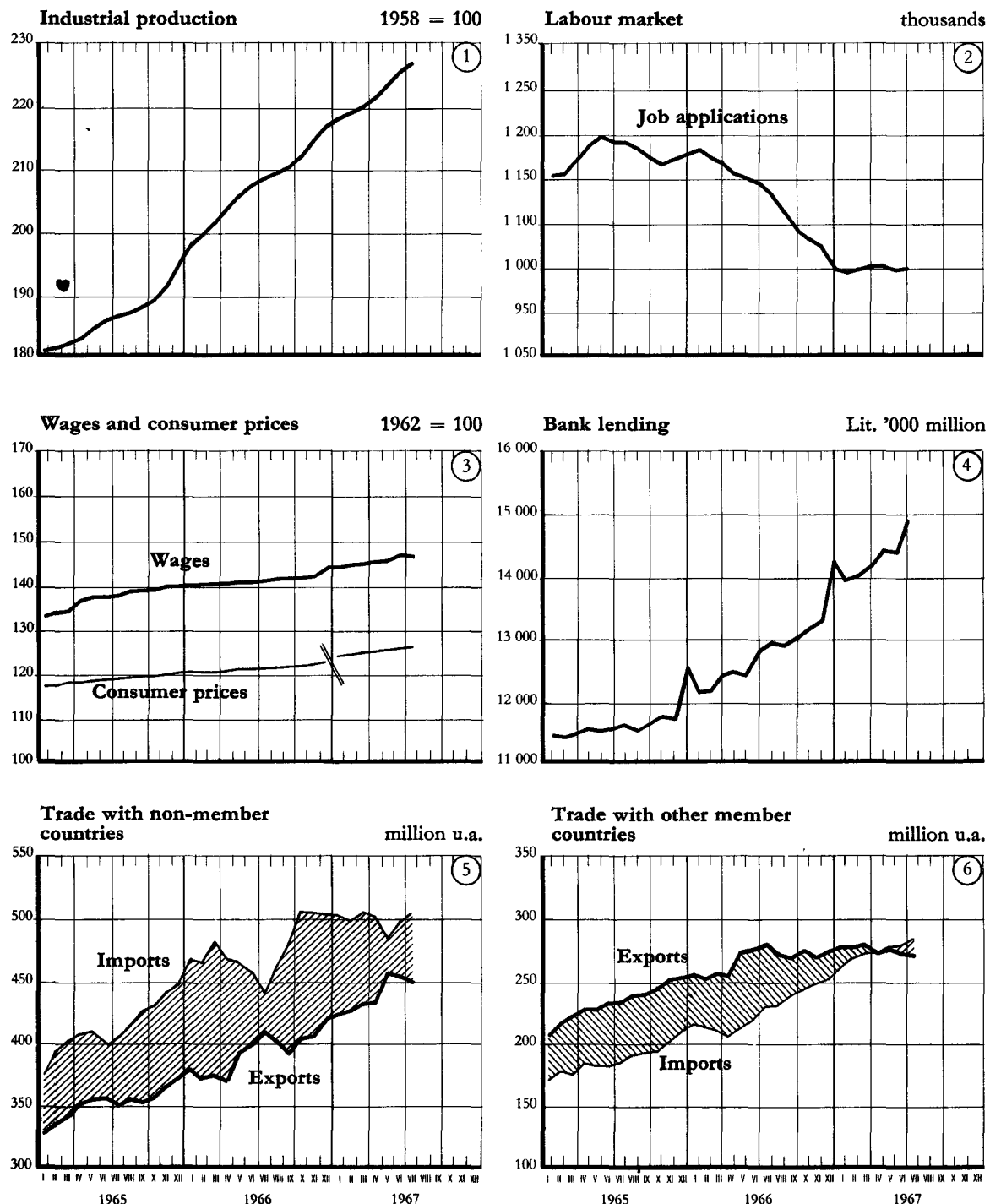
For Italy, the Council's recommendation does not of course advocate any policy to revive economic activity, but, all the more for that very reason, does call for a greater effort to improve the structure of the public budgets. It is however doubtful whether what has so far been done—as shown in the aforementioned measures and in the draft budget—is sufficient. This is also important from the point of view of making the budget more flexible so that it can be deployed at short notice to counter undesirable cyclical trends.

The Italian authorities are also fully aware of the need to improve the instruments of short-term economic policy, even if the present situation does not require this. Thus the Government is planning to arrange for measures concerning hire purchase to be taken by simple administrative decisions, instead of still having to go through the formal procedure of an Act of Parliament. But it is clear that more fundamental changes are needed if the requirements of short-term economic policy are to be satisfactorily met at all times.

¹ See Quarterly Surveys No. 4/1966, p. 95, and No. 1/1967, p. 61.



ECONOMIC INDICATORS



NOTES :

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

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

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

Graph 3 : Source : ISTAT. Agreed minimum wages in industry. Consumer prices : new index as of January 1967 not fully comparable with preceding series.

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

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

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

Italy

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	301.2
Total population ('000)	51 927
Density of population per sq. km.	172
Numbers in employment ('000)	18 884
Numbers in employment, breakdown by main sector (%):	
— Agriculture	24.7
— Industry	40.3
of which : Construction	10.0
— Services	35.0
Percentage share of gross domestic product :	
— Agriculture	12.5
of which: Construction	40.1
— Industry	8.0
— Services	47.4
Gross product per capita (Lit.)	740 000

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966		
Gross national product	6.3	8.2	6.3	5.8	3.0	3.5	5.5	153.5	—
Industrial production	11.1	9.3	8.8	7.9	2.0	3.1	8.0	174.8	—
Total imports	37.8	14.8	16.4	22.6	- 5.4	1.9	13.4	274.9	16
Private consumers' expendi- ture	6.2	7.3	6.7	10.0	2.0	2.2	5.7	151.8	63
Public current expenditure on goods and services	4.0	4.8	5.4	5.1	4.1	3.6	3.6	139.8	14
Gross fixed asset formation	13.4	11.8	10.0	9.2	- 7.3	- 8.4	3.7	144.9	18
Total exports	18.2	16.5	12.2	7.0	12.0	20.8	12.5	298.2	19
Gross national product per capita	5.7	7.7	5.6	5.0	2.1	3.0	4.8	144.5	—
Gross national product per person gainfully employed	6.5	8.0	7.5	7.6	3.3	3.8	7.0	162.9	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.s.	% of the total
	1960	1961	1962	1963	1964	1965	1966			
Visible exports										
Total	26.1	14.7	11.4	8.2	18.0	20.7	11.7	316.7	8 031.9	100
Intra-EEC	36.0	21.8	23.7	10.3	26.4	27.6	12.8	537.9	3 261.7	40.6
To non-EEC countries	22.3	11.8	5.8	7.0	18.4	16.4	11.0	247.2	4 770.2	59.4
Exports of food, beverages and tobacco										
Total	5.6	10.6	14.5	- 3.4	2.4	20.5	1.5	168.9	862.1	10.7
Intra-EEC	12.5	14.7	23.4	- 8.7	8.8	31.4	0.4	246.5	467.2	5.8
To non-EEC countries	0.4	7.4	6.5	2.1	- 3.3	9.5	2.8	123.1	394.9	4.9
Exports of raw materials and manufactures										
Total	30.7	15.5	10.9	10.2	20.5	20.7	13.1	353.9	7 169.8	89.3
Intra-EEC	45.4	23.9	23.9	15.6	30.4	26.9	15.2	670.3	2 794.5	34.8
To non-EEC countries	26.0	13.7	4.5	7.7	15.5	17.2	11.8	271.9	4 375.3	54.5
Visible imports										
Total	41.0	10.6	15.9	24.5	- 4.1	1.6	16.7	271.7	8 571.3	100
Intra-EEC	45.7	17.2	22.9	31.1	- 4.5	- 3.1	21.6	407.7	2 787.2	32.5
From non-EEC countries	38.4	8.1	13.0	21.5	- 3.9	3.9	14.4	234.1	5 784.1	67.5
Imports of food, beverages and tobacco										
Total	33.5	5.3	7.3	57.5	2.4	18.9	9.7	323.4	1 766.4	20.6
Intra-EEC	42.6	- 1.3	10.0	73.1	15.7	20.6	13.5	489.3	380.7	4.4
From non-EEC countries	31.8	6.6	6.8	54.4	- 0.6	18.4	8.7	295.8	1 385.7	16.2
Imports of raw materials and manufactures										
Total	42.4	11.6	17.5	19.2	- 5.5	- 2.4	18.6	260.9	6 804.9	79.4
Intra-EEC	46.0	19.2	24.1	27.8	- 6.6	- 6.3	23.0	397.2	2 406.5	28.1
From non-EEC countries	41.0	8.4	14.4	14.8	- 4.8	- 0.2	16.3	219.7	4 398.4	51.3

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1966 = 100)	1966	90.7	91.8	105.1	97.5	106.6	99.2	105.6	78.0	108.5	107.8	103.8	105.4
	1967	103.1	103.1	114.6	109.9	112.9	111.1						
Unemployed ('000)	1966	1 012	.	.	665	.	.	719	.	.	681	.	.
	1967	878	.	.	628	.	.	584
Building: domestic turnover of building materials (1964 = 100)	1965	88.0	74.9	95.2	88.0	91.3	107.5	105.6	100.4	101.1	101.6	101.6	98.7
	1966	78.2	70.8	97.2	100.2	106.8	103.3	110.5	111.1	94.2	111.6	105.4	103.7
	1967	93.7	86.9	109.6	108.0								
Private consumers' expenditure: turnover of department stores (1958 = 100)	1965	270	215	249	308	284	318	296	241	330	354	319	542
	1966	313	231	275	313	319	338	306	267	330	377	355	586
	1967	302	245	(329)	303								
Total visible imports (million u.s.)	1965	536.3	582.9	621.6	587.1	607.2	565.9	622.6	634.1	608.3	634.4	673.1	666.5
	1966	710.5	659.0	720.2	652.9	704.3	693.1	693.1	713.8	799.8	787.2	739.2	693.9
	1967	812.9	744.8	779.3	794.2	770.1	809.5						
Total visible exports (million u.s.)	1965	546.4	560.4	596.3	589.3	571.8	611.8	576.3	600.6	613.1	599.0	650.0	620.7
	1966	632.2	598.8	670.6	612.5	722.8	700.0	657.4	667.9	681.6	712.9	678.7	686.0
	1967	753.5	690.3	725.9	715.3	768.5	707.8						
Balance of trade (million u.s.)	1965	- 84.9	- 32.0	+ 13.1	- 6.5	- 43.8	+ 37.5	- 2.1	- 9.3	- 1.1	- 3.2	- 28.4	- 25.0
	1966	- 144.3	- 64.2	- 14.9	- 55.8	+ 4.8	- 8.2	+ 16.3	+ 34.6	- 135.7	- 43.0	- 77.9	- 20.1
	1967	- 165.9	- 71.0	- 20.1	- 91.8	- 12.3	- 102.6						
Official gold and foreign exchange reserves (net, million u.s.)	1965	3 797.8	3 873.9	3 755.8	3 811.5	3 895.5	4 032.3	4 250.4	4 390.7	4 323.0	4 270.2	4 303.4	4 566.2
	1966	4 425.9	4 386.4	4 337.6	4 404.2	4 433.8	4 537.3	4 772.8	4 995.8	4 758.2	4 672.6	4 642.4	4 679.4
	1967	4 514.2	4 473.1	4 535.5	4 647.4	4 708.2	4 721.0	4 876.2					
Money supply (Lit. '000 million)	1965	11 934	11 861	12 077	12 225	12 522	12 637	12 885	12 808	13 108	13 227	13 420	14 495
	1966	14 029	13 933	14 046	14 118	14 321	14 598	14 850	14 744	15 003	15 182	15 274	16 373
	1967	15 840	15 662	15 981	16 157	16 417							

() Provisional figure.

Italy

NOTES

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

Table 1

- Present-in-area population (resident population less persons temporarily abroad). Average for year. Source: Istituto Centrale di Statistica.
- Numbers in employment. Average for year. Source: Istituto Centrale di Statistica, "Rilevazione nazionale delle forze di lavoro—5 ottobre 1966".
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

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

Table 3

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

Table 4

- Industrial production. Source: Istituto Centrale di Statistica.
- Unemployed. Source: Istituto Centrale di Statistica.
- Construction. Internal trade in building materials, calculated from turnover taxes. Source: Istituto per lo Studio della Congiuntura.
- Private consumers' expenditure. Retail sales of department stores, based on the turnover of 5 department stores and 2 "single-price" stores. Not very typical of the trend in private consumption as a whole.
- Exports fob, imports cif. Conversion at official exchange rate.
- Official gold and foreign exchange reserves. Source: Ufficio Italiano dei Cambi.
- Money supply. Notes and coin in circulation excluding cash holdings of the Treasury. Sight deposits of non-banks with registered credit institutions; banks drafts in circulation (whether vaglia or assegni) issued by the Central Bank and other banks and credit institutions.

D. The Netherlands

Growth, which had been losing momentum since the summer of last year, continued to slow down in the second quarter. Export gains were a little weaker and domestic demand made only a modest contribution to strengthening economic activity. The advance in domestic production again slackened perceptibly. Imports, on the other hand, picked up, mainly owing to larger purchases of raw materials.

Until June at least, seasonally-adjusted unemployment was still rising and the number of unfilled vacancies continued to decline. At that time, however, the slowdown in business activity was not being adequately reflected in price trends. The tendency for consumer prices to rise became even stronger—though this was mainly as a result of “autonomous” price increases. The tendency towards a recovery in the current payments balance also appears to have been quite weak.

Between now and the end of 1967 business trends may improve a little—although probably only very slightly. An improvement is particularly to be expected if demand from abroad becomes firmer. Nevertheless, short-term economic policy must still be implemented with great caution in view of the continuing, although diminished, pressure of prices and costs, the imbalance of the public finances, and the unfavourable current account.

1. Recent developments

The increase (adjusted) in exports of goods and services, which had proved quite strong in the first quarter of 1967 compared with the last quarter of 1966, declined a little in the second quarter. This decline was particularly noticeable where visible exports were concerned; according to customs returns, in the second quarter they were only 5.3 % up in value and 6.6 % up by volume over the figures for the same period of last year. In the first quarter, the year-to-year growth rate had been 12.9 % in value and 13.2 % by volume, but this was partly because exports had been at an exceptionally low level in the first three months of 1966 owing to special factors which had curbed exports of agricultural produce.

In July/August visible exports (value) were running only 8.9 % ahead of the corresponding figures for 1966.

By the second quarter, exports to non-member countries were marking time, largely because of a slackening in the growth of sales to the United States. Another reason for the slower growth of total visible exports was, however, that the other member countries' purchases slowed down, mainly because German imports remained sluggish and Italian purchases abroad also slackened.

The expansion of domestic demand, too, appears to have declined further, at least until into the spring.

In the second quarter, gross fixed asset formation made hardly any substantial additional contribution to the economy. However, purchases of vehicles—which had contracted sharply in the first quarter—picked up again. But, for the private sector as a whole, this improvement probably only just offset the impact on actual spending of the decline in the propensity to

invest discernible in several industries. Industrial expenditure on building and construction, which was still favourably affected by the growing elasticity of supply in the building industry, was lower than in the first quarter—when the level had, however, been unusually high. Expenditure on residential construction was also down, although the number of dwellings completed in the second quarter was still 7.5 % more than in the same period last year. The trend in public investment, on the other hand, certainly continued upwards—mainly because considerably more building orders were placed by central government.

Investment in stocks continued to suffer from the considerable caution shown by many managements in their plans concerning stocks of finished goods. Stocks of raw materials and semi-finished products, on the other hand, appear in general to have been built up further, chiefly as the result of an unmistakable increase in speculative stock accumulation.

Expenditure on consumption went up noticeably more slowly on the whole, although public current expenditure probably continued to make quite a strong contribution to the total. Household spending on consumption, which was still growing fairly vigorously in the first few months of the year, apparently did not rise further in the second quarter; certainly the *volume* of consumption did not, prices having begun to rise faster once again.

Nevertheless, private expenditure on consumption in the second quarter was 6.9 % higher than in the same period of last year (volume : 4.1 %) following year-to-year growth rates of 10.8 % and 7.9 % respectively for the first quarter; in this connection, it should be noted that the growth rates for the first quarter of this year were inflated because of the exceptionally low level of consumer spending in the first few months of 1966.

The slower growth of private consumer spending was due, firstly, to the stabilization of economic activity and, secondly, to the fact that the increase in agreed wages and salaries became slower. The relevant index for the economy as a whole, which had risen by 1.6 % from March to June 1966, showed a 0.7 % increase in agreed wages and salaries during the

same period of 1967. In addition, the propensity to save among individuals appears to have been just as strong or even stronger, owing to the uncertain condition of the labour market.

Since the middle of the year household incomes probably rose further, as a result of higher wages (1.5 % in the case of short-term and 2.5 % in the case of long-term collective wage agreements, plus an increase in minimum wages for workers over 25). In addition, the second part of the reduction in wages tax and income tax came into force on 1 July. In the case of wages, however, the impact of this measure on disposable incomes was partly offset by increased social security contributions. It should also be noted that this fresh cut in direct taxation, unlike the first, mainly benefits taxpayers in the middle income brackets, whose propensity to save is higher than that of taxpayers with low incomes. Lastly, increases in indirect taxation—which also took effect at the middle of the year—have been forcing prices up, so that the volume of consumption has naturally been expanding less than actual expenditure on consumption.

Domestic production of goods and services has clearly not been unaffected by slower expansion of overall demand. It looks as if industrial production ceased growing altogether in the course of the second quarter; according to the CBS index per working day, it was by the second quarter only 3 % higher than in the same period of 1966 (the year-to-year increment for the first quarter was 5 %). Apart from seasonal variations, building production failed to maintain the level—admittedly a particularly high one—reached in the first quarter; it was however still perceptibly higher than a year before.

The weather was relatively good this year and agricultural production rose sharply in comparison with 1966.

The hesitant business situation was partly responsible for the fact that the relationship between manpower supply and demand continued to shift, with supply increasing. The number unemployed (seasonally adjusted) showed a further slight increase in the second quarter compared with the first; in June the

unadjusted figure was 67 200 (as against 27 700 in June 1966). In June, the unemployment rate (expressed as a percentage of unemployed in the total civilian labour force, seasonally adjusted) stood at 2 %.

The spread of unemployment was most marked in the eastern provinces, where the special factors already mentioned in the last Quarterly Survey were still at work. The building trades were hardest hit. However, the upward trend appears to have come virtually to a halt in July/August; among other things, this is probably due to the fact that the agreed cuts in weekly working hours took effect at the middle of the year, and that some big firms completed the staff reductions they had put in hand. But the government measures to combat unemployment should also have produced their first effects.

After stagnating in the first quarter, imports of goods again rose. Visible imports, according to customs returns for the second quarter, were 5.3 % higher in both value and volume than in the same period of 1966. Raw materials, semi-finished products and vehicles accounted for most of the increase; deliveries from member countries increased more than those from non-member countries. In July/August visible imports (value) were running only 2.3 % ahead of the corresponding figures for 1966.

Despite the effect of the slowdown in business activity on industrial producer prices, the price level has been rising more sharply since the winter. The wholesale price index, which had shown no change since the third quarter of 1966, resumed its upward movement in March, but this was partly because of the higher food prices due to seasonal factors. The rise in the cost-of-living index was more obviously due to the underlying trend: the increase from March to June was almost 3.8 %, as against 1.6 % for the previous three-month period, the effect of higher food prices being reinforced by continued increases in the prices of services. In July, rents and turnover tax were both put up; the additional rise in the index caused by these changes was, however, at first more than offset by a sharp seasonal drop in potato prices. In June, the cost-of-living index was therefore only 3.1 % higher than at the same time last year.

The tendency towards an improvement in the visible trade balance, which had been discernible since the third quarter of 1966, did not continue in the second quarter of 1967, although there was no further deterioration in the terms of trade. In the second quarter, the deficit as shown by customs returns amounted to over Fl. 1 100 million. As the balance on services (including factor income) showed only a very slight improvement, there was a deficit on current account of Fl. 340 million (transactions) and Fl. 167 million (cash).

As capital movements also produced a deficit, the overall payments gap totalled about Fl. 230 million for the second quarter, compared with some Fl. 180 million for the first. But as the banks allowed their net foreign exchange position to deteriorate sharply, the official net gold and foreign exchange reserves actually rose—by approximately Fl. 200 million from March to June.

The restrictive effects of transactions with abroad on internal liquidity served to exacerbate somewhat strain already present. This partly explains why the banks' short-term lending to the private sector probably expanded a little more briskly even than before. But the effects of speculative purchases of stocks before the increase in turnover tax and the withdrawal of the quantitative restrictions on the expansion of bank lending may well also have had something to do with this. In addition, public borrowing again increased perceptibly.

The increase in strain was particularly noticeable on the market for fixed-interest securities. Until April, average returns on this market declined, but since then they have been rising again, mainly owing to further substantial official borrowing. In the first seven months of this year, the public sector accounted for 90 % of all new issues offered to the public, compared with a shade less than 54 % in the corresponding period of 1966.

On the other hand, share prices went up quite appreciably, after a temporary fall in June; the rise was probably mainly due to the favourable climate on stock exchanges in many parts of the world and to the optimistic outlook for industrial turnover in the fairly long term.

2. Outlook

The outlook for the development of the Dutch economy until the end of 1967 remains largely the same as that described in the last Quarterly Survey.

The growth of exports of goods and services is likely to be rather subdued for some time, though a rather livelier tendency might well develop. The CBS business surveys suggest that in the second quarter managements were taking a slightly more optimistic view of the trend in orders from abroad: the increase in available productive capacity at home will probably continue to help exports during the coming months, and the economic prospects for a number of important customer countries are now less unfavourable, or are more expansive, than they were in the months into the spring.

As for domestic demand, it is extremely difficult to discern the future trend of gross fixed asset formation, in view of the large number of factors that may influence this demand component (some of them in the opposite direction to what was previously indicated). In coming months the investment climate in industry will probably remain rather uncertain. At all events, according to the CBS survey published in July, industrial investment might actually drop appreciably below the 1966 figures. Profit margins, which have narrowed in recent years, are still not very satisfactory, and the scope for obtaining funds from outside sources—despite the withdrawal of restrictions on the expansion of bank lending—is limited, owing particularly to the public authorities' heavy demand for capital, which will certainly continue. However, the importance of certain positive factors should not be underestimated: building arrears being made good now that the elasticity of supply in the building industry has increased following years during which expenditure on building by firms was kept down by the restrictive policy applied to this industry; the aids that primarily benefit the areas hardest hit by unemployment; the effects of the measures to improve access to the port of Rotterdam. A last point is that for commercial building the tax incentives to investment withdrawn in January 1964 have been re-introduced, to take effect from 19 September 1967.

Despite the substantial deficit expected this year on the central budget, public capital expenditure will probably continue to rise during the coming months. New measures to stimulate residential construction (a drive for more publicly-assisted housing, relaxation of the regulations for the private sector, partial decontrol of rents from October) will probably also limit the tendency for investment to decline in this sector.

Investment in stocks is unlikely to make any great contribution to economic activity, as both manufacturers and dealers can be expected to go on running down stocks of finished goods to normal levels.

Despite the efforts taken to limit the undue expansion of central government spending, the growth of public current expenditure is unlikely to slacken to any substantial extent in the next few months. Private expenditure on consumption should again show a tendency to rise in the second half of the year, but probably only fairly modestly. The effects of the increase in wages and the reduction in income tax since the middle of the year on the development of consumption in money terms should not affect the volume of consumption very noticeably, in view of the continuing upward movement of prices.

The demand situation described above suggests that the underlying trend of production will be rising though only slowly. This applies especially to industry, where the available data on new orders provide additional evidence to suggest that output will increase. But industrial production can hardly be expected to be showing any very sharp upward trend again before the end of 1967.

The modest advance in output will hardly have any very positive influence on the level of employment. The cut in weekly working hours, agreed in several large industries towards the middle of the year, may however stimulate demand for manpower, although only moderately. Apart from seasonal and fortuitous variations, the unemployment figure is unlikely to change in the coming months.

Although demand is developing relatively slowly, imports of goods and services (adjusted) could once again increase slightly; this would mainly be due to increased purchases of certain

raw materials, fuels and semi-finished goods. The import prices of these products will probably be higher than in the first half of the year. Under the circumstances, there could hardly be more than a slight improvement, at most, in the trade balance (seasonally adjusted).

Despite a sharp rise in agricultural production and greater elasticity of supply in the industrial sector, prices will continue to rise. For one thing, unit costs are still rising unduly; secondly, the autonomous factors already mentioned will still be at work in the coming months. Once again, the rise in prices—particularly consumer prices—could in fact be quite sharp.

With regard to figures for the full year 1967, most of the forecasts given in the last Quarterly

Survey probably still hold good. However, the building industry's output in the first quarter turned out to be quite exceptionally high, and agricultural production has also been very good. For this reason—and also because the national accounts published by the CBS for the year 1966 show extensive corrections to the previous estimates—some of the rates forecast for the various demand components need to be changed. GNP growth for 1967 is accordingly now put at 3.5 %, instead of 3 % as forecast in the last Quarterly Survey.

As far as it is possible to judge at present, the forecast made in the last Quarterly Survey with regard to the development of the Dutch economy in 1968 also still holds good. Nevertheless it must be pointed out that the latest estimates

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ¹		1967 ²	
	At current prices (in Fl. '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	30.22	+ 8.7	+ 10.4	+ 7.0	+ 6.2	+ 6.5	+ 6.5
Gross fixed asset formation	15.48	+ 5.6	+ 10.0	+ 6.2	+ 12.2	+ 1.5	+ 9.5
Public current expenditure on goods and services	9.73	— 0.6	+ 10.4	+ 2.9	+ 11.8	+ 2	+ 9.5
Private consumers' expenditure	35.65	+ 7.8	+ 11.8	+ 2.6	+ 9.0	+ 4	+ 7.5
Gross national product	62.15	+ 5.3	+ 11.0	+ 2.8	+ 8.9	+ 3.5	+ 8.5
Imports ³	30.78	+ 7.2	+ 7.6	+ 7.8	+ 8.4	+ 3.5	+ 4

¹ Statistical Office of the European Communities: General Statistical Bulletin No. 7-8, 1967

² Commission forecasts.

³ Goods, services and factor income.

Note:

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

for pattern of growth in 1967 reduce the margin which it was hitherto assumed would be available for "carrying over" for allocation to 1968 growth rate. This being so, the forecast that the advance in the real gross national product will be 3.5 %, as now forecast for 1967 too, rests on the assumption that business will become noticeably brisker in 1968. This could in fact well be the case, in view of the expected improvement in the world economic situation, particularly in view of the prospects for exports to the Federal Republic of Germany, and because of a corresponding rise—a little later—in domestic demand, particularly consumption.

The authorities have so far not materially altered the economic policy described in the last Quarterly Survey. The restriction on the increase in bank lending to businesses was, however, completely abolished in June. Furthermore, public spending on publicly-assisted housing and public works has been stepped up further in order to combat the spread of regional unemployment. A further Fl. 100 million was added in July to the sum of Fl. 300 million earmarked for this purpose in the first half-year. In addition, special structural measures have been taken to help important industries (textiles, coalmining, shipbuilding). The Government will also give selective support to private building activity, notably by increasing rapidly the number of building licences granted and by gradually relaxing controls. Lastly, the restrictive regulations on hire-purchase lending and bank lending to private individuals lapsed in September.

In view of the business situation and the way it is tending to develop, especially in respect of prices, costs and the current account, this policy should be entirely appropriate; it does of course remove the brakes on expansion that formerly existed, particularly as regards credit and building controls, but in addition to this it involves only selective measures to promote business activity. The slowdown in economic activity has so far proved only relatively moderate; moreover, it is far from general and has varied widely in scale from sector to sector and region to region. Though the *rate* of increase has dropped a little, costs are still rising too fast in many industries. This is mainly due to medium-term wage agreements—which raise problems that are becoming increas-

ingly obvious—and to various social security reforms. Prices are still rising too rapidly, and it is still by no means certain that the current account will show an adequate surplus, even if the external business situation recovers. For these reasons, the Council, in a recent recommendation to the Member States on economic policy guidelines (11 July 1967), found that the case for overall measures to stimulate business activity was not strong in the Netherlands. To this extent, Dutch economic policy seems in line with the Council's recommendation.

However, the handling of the budgets, particularly the central government budget, is less in line with another part (Sec. 10) of the recommendation. There the Council—deliberately leaving aside the deficits due to factors dependent purely on the current business situation and to economic policy—urged that fresh efforts be made to improve the structure of the budgets, i.e. to scale down the deficits progressively, chiefly by checking the growth of expenditure on consumption. So far, however, there are hardly any signs that the growth of this type of expenditure is slowing down sufficiently or is even certain to do so in future. On the contrary, the central government budget deficit for 1967 will be appreciably heavier than what the business situation and support measures would warrant.

A preliminary study of the draft budget for 1968¹ suggests that there will be no substantial reduction in the structural deficit in 1968 either—a year in respect of which the Council of Ministers had particularly urged that efforts be made to place the structure of the public finances on a sounder basis.

The authorities originally budgeted for a deficit of Fl. 1 200 million for 1967, but the latest official Dutch estimates suggest that the actual shortfall will total Fl. 2 900 million; in their draft the authorities are, however, already budgeting for a deficit of Fl. 2 800 million for 1968.

¹ The "Miljoenennota" (government white paper laid before Parliament, detailing proposed budget expenditures) became available only very shortly before this Survey went to press.

Compared with the budget for 1967, the draft for 1968 provides for an increase of 12.8 % in the relevant central government expenditures—whereas the corresponding increase in the budget for 1967 as compared with the 1966 budget was 12.5 %. The sums for the same items appropriated in the 1968 budget exceed, however, by only 7.6 % the estimated actual outturn for these items for 1967. But the experience of recent years suggests that caution is necessary: the sums actually disbursed have regularly been far greater than those earmarked in the budget, and the items affected have been the dangerous ones—consumption items. Under the budget, central government direct expenditure on consumption in 1968 is to be only 3.5 % higher than actual disbursements on the same items for 1967 (as now estimated). The corresponding figure for 1967 as compared with 1966 was 15.5 % (comparison of actual disbursements for both years). Given the wide disparity between the figures, it seems unlikely that such a slowdown will really be achieved in 1968. It would, of course, be very desirable and in fact a number of measures have been taken or are being studied by the authorities with a view to cutting back growth rates for those types of expenditure.

The draft budget for 1968 compared with estimated actual disbursements for 1967 indicates that the increase in capital expenditure is also to be reduced (to 12.8 %); for 1967 compared with 1966, the increment amounted to 23.1 % (comparison of actual disbursements for both years). The limitation of expansion is here less severe than in the case of direct expenditure on consumption—always provided that the latter reduction is in fact achieved. There is a good case for distinguishing between items of expenditure according to their nature in this way; but the growth of the other types of central government expenditure which do not constitute investment should also be curbed to roughly the same extent as is planned for direct central government expenditure on consumption. The opposite appears, however, to be the case: for transfer expenditure equivalent to consumption expenditure, the growth rate envisaged is actually higher.

Thus, despite the reduction in the growth rates for direct expenditure on consumption and investment expenditure, and despite fresh

increases in taxation (mainly indirect) and the upsurge in current revenues accruing to central government from sources other than taxation, the overall deficit should contract only slightly from 1967 to 1968. This prediction is based on a comparison of the draft budget for 1968 with the estimated actual disbursements for 1967; as has already been pointed out this is not a completely satisfactory basis of comparison.

Part of the difference between the deficit budgeted for and the estimated actual outturn in 1967 can be explained by the slowdown in economic activity; this part of the deficit is acceptable, according to the recommendations of the EEC Council or Council of the European Communities, and can where necessary be financed by recourse to the money market—which is in fact what appears to be happening. But the increase in the deficit beyond the figure given in the preliminary estimate is certainly more than can be explained solely by the business situation, and is due to fresh expenditure which is really additional to what was budgeted for. According to the Council's express recommendation of 22 December 1966, however, the actual deficit for 1967 ought not to exceed the figure budgeted for in the preliminary estimate. This would have meant a substantial reduction on the actual deficit for 1966 (Fl. 2 200 million). This recommendation was amended by the new Council recommendation of 11 July 1967 only in respect of deficits due to the business situation.

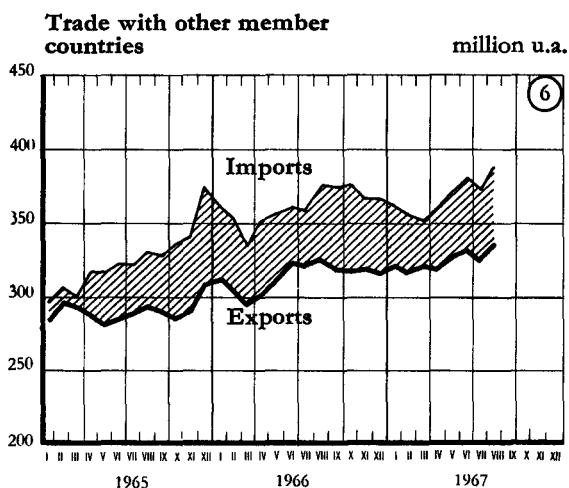
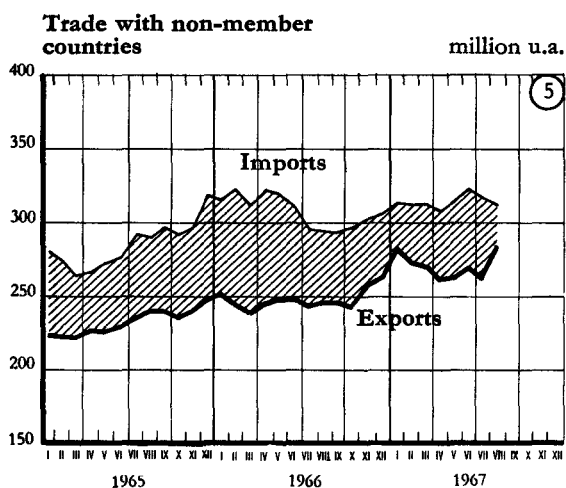
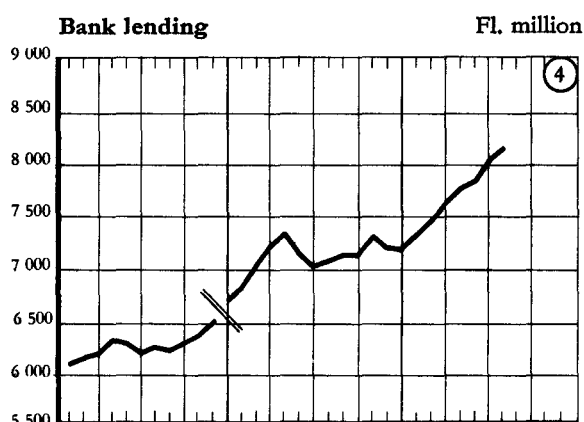
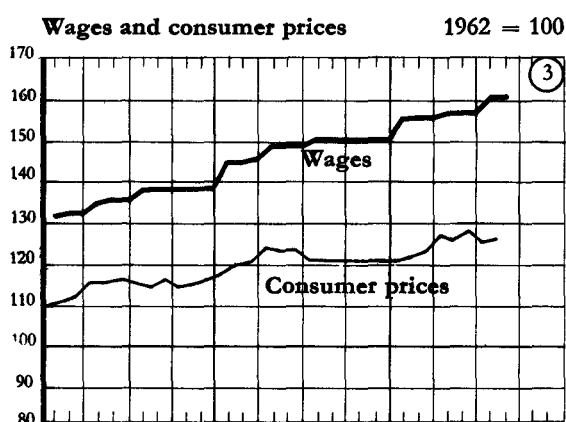
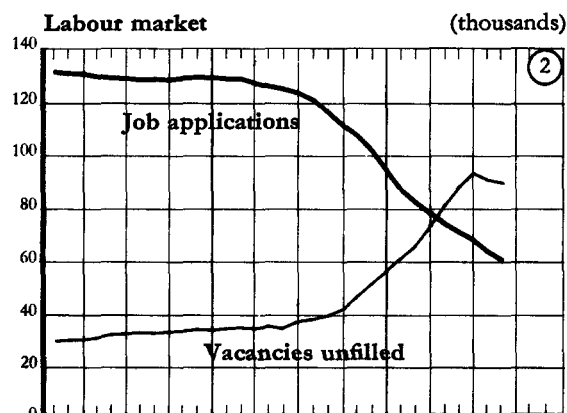
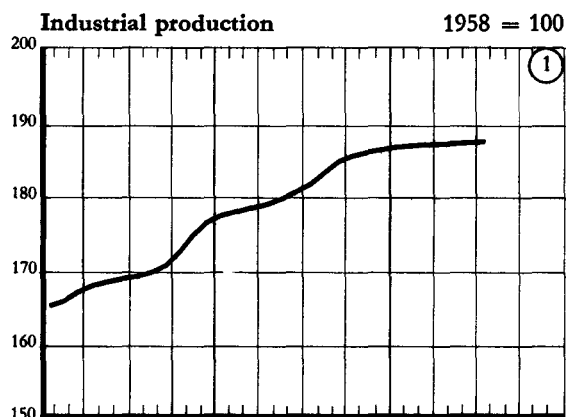
It is, however, now clear that the deficit planned in the 1967 budget was deliberately fixed far too low. However, if the actual shortfall that is likely to occur in 1967, less the part of the 1967 deficit caused by the business situation, is compared with the actual deficit for 1966, some reduction—however small—seems likely.

It seems unlikely that this reduction in the structural deficit will continue in 1968, though—as the Dutch authorities apparently foresee—the 1968 deficit attributable to current economic trends will probably be on much the same scale as this year. Perhaps, therefore, the authorities should pursue their efforts so as to bring about a further—and appreciable—reduction in the structural deficit, and above

all to do this by limiting the increase in such expenditures as have the impact of consumption expenditure, as recommended by the Council. This is now clearly the main problem in the Netherlands, where transfer payments are rising too fast.

Should such action threaten to curb business activity too sharply, the growth rate for capital expenditure would have to be raised accordingly; this was explicitly recommended for this case by the Council of the Community, as a temporary measure to promote economic activity.

ECONOMIC INDICATORS



NOTES :

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

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

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

Graph 3. Index of consumer prices—general index. Source : CBS. Wages—index of gross hourly earnings in industry (excluding mining, quarrying and construction). Index of negotiated wages.

Graph 4. Short-term bank advances. Revised series as from December 1965.

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

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

Netherlands

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	33.5
Total population ('000)	12 456
Density of population per sq. km.	372
Numbers in employment ('000)	4 548
Numbers in employment, breakdown by main sector (%):	
— Agriculture	8.2
— Industry	41.6
of which: Construction	10.4
— Services	50.2
Percentage share of gross domestic product:	
— Agriculture	7.5
— Industry	41.4
of which: Construction	(7)
— Services	51.1
Gross product per capita (Fl.)	6 033

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966		
Gross national product	+ 8.9	+ 3.5	+ 3.8	+ 3.7	+ 9.4	+ 5.3	+ 2.8	151	—
Industrial production	+10.1	+ 4.2	+ 4.8	+ 5.4	+10.2	+ 6.5	+ 5.6	171	—
Total imports	+17.3	+ 5.8	+ 7.5	+ 9.5	+14.4	+ 7.2	+ 7.8	220	47.8
Private consumers' expendi- ture	+ 6.4	+ 5.8	+ 6.5	+ 7.7	+ 6.3	+ 7.8	+ 2.6	159	57.8
Public current expenditure on goods and services	+ 6.6	+ 4.4	+ 5.1	+ 7.8	+ 1.9	- 0.6	+ 2.9	130	16.0
Gross fixed asset formation	+11.6	+ 6.7	+ 4.4	+ 2.1	+17.6	+ 5.6	+ 6.2	188	25.4
Total exports	+13.3	+ 3.0	+ 6.2	+ 6.2	+11.6	+ 8.7	+ 7.0	190	47.2
Gross national product per capita	+ 7.6	+ 2.2	+ 2.4	+ 2.2	+ 7.9	+ 3.8	+ 1.4	136	—
Gross national product per person gainfully employed	+ 6.9	+ 2.1	+ 1.7	+ 2.3	+ 7.0	+ 3.9	+ 1.6	134	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966			
Visible exports										
Total	+11.7	+ 6.9	+ 6.5	+ 8.2	+17.0	+10.1	+ 5.6	210	6 751	100
Intra-EEC	+15.8	+10.9	+10.0	+17.3	+22.1	+10.2	+ 5.3	280	3 750	55.5
To non-EEC countries	+ 8.4	+ 3.6	+ 3.2	- 0.6	+11.2	+10.0	+ 6.0	160	3 001	44.5
Exports of food, beverages and tobacco										
Total	+ 5.3	+ 0.8	+ 6.9	+ 9.3	+ 9.5	+13.0	+ 0.3	176	1 572	23.3
Intra-EEC	+ 6.1	+ 3.1	+10.0	+12.1	+12.8	+19.7	- 0.2	230	969	14.4
To non-EEC countries	+ 4.4	- 1.8	+ 3.3	+ 5.8	+ 5.1	+ 3.6	+ 1.0	127	603	8.9
Exports of raw materials and manufactures										
Total	+14.2	+ 9.2	+ 6.3	+ 7.9	+19.6	+ 9.2	+ 7.3	223	5 179	76.7
Intra-EEC	+20.7	+14.3	+10.0	+19.4	+25.6	+ 7.1	+ 7.4	304	2 782	41.2
To non-EEC countries	+ 9.6	+ 5.2	+ 3.2	- 2.4	+13.1	+11.9	+ 7.3	170	2 398	35.5
Visible imports										
Total	+15.0	+12.8	+ 4.6	+11.6	+18.2	+ 5.9	+ 7.5	221	8 018	100
Intra-EEC	+18.6	+21.1	+ 6.7	+14.9	+19.0	+ 8.7	+ 8.7	285	4 332	54.0
From non-EEC countries	+12.2	+ 5.3	+ 2.5	+ 8.3	+17.4	+ 2.9	+ 6.0	175	3 686	46.0
Imports of food, beverages and tobacco										
Total	+ 3.4	+ 5.9	+ 6.3	+15.5	+16.2	+ 3.5	+ 3.9	184	1 027	12.8
Intra-EEC	+16.4	+41.5	- 7.0	+11.8	+22.0	+13.1	+ 8.8	308	246	3.1
From non-EEC countries	+ 1.2	- 1.0	+10.0	+16.3	+14.9	- 1.2	+ 2.5	163	781	9.7
Imports of raw materials and manufactures										
Total	+17.2	+14.0	+ 4.3	+11.0	+18.6	+ 6.3	+ 8.0	228	6 991	87.2
Intra-EEC	+18.8	+20.0	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	284	4 086	51.0
From non-EEC countries	+15.6	+ 7.7	+ 0.7	+ 6.1	+18.0	+ 4.2	+ 7.0	178	2 905	36.2

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	156	159	158	162	166	164	145	147	165	177	178	174
	1966	164	167	173	177	175	175	148	162	176	187	189	185
	1967	173	177	179	184	177	182	155					
Construction (Fl. million)	1965			1 488			1 744			1 928			1 806
	1966			1 554			2 029			2 204			2 122
	1967			2 036			2 364						
Unemployed (,000)	1965	47.4	48.8	33.8	27.9	24.0	21.9	28.1	26.7	26.6	27.9	35.3	48.1
	1966	54.8	55.3	34.5	30.7	25.6	26.3	32.1	32.6	35.7	41.7	58.5	86.7
	1967	104.7	101.8	87.4	78.2	67.2	64.7	74.4	71.4				
Investment (Fl. million)	1965			3 756			4 345			4 297			4 031
	1966			4 128			4 937			4 924			5 108
	1967			4 740									
Private consumers' expenditure (1958 = 100)	1965	177	158	175	186	189	182	207	176	187	199	201	232
	1966	192	170	194	209	206	204	222	198	203	211	219	237
	1967	211	187	218	215	222	225						
Total visible imports (million u.a.)	1965	554	564	630	614	577	617	665	537	620	676	625	793
	1966	625	626	759	701	630	684	652	620	696	670	669	688
	1967	680	639	719	690	694	737	650	652				
Total visible exports (million u.a.)	1965	477	489	532	506	501	554	543	438	596	594	557	611
	1966	500	470	572	570	544	612	549	498	632	597	615	593
	1967	601	532	606	582	592	642	536	605				
Balance of trade (million u.a.)	1965	- 77	- 75	- 99	- 108	- 76	- 63	- 121	- 98	- 24	- 83	- 68	- 181
	1966	- 125	- 156	- 188	- 131	- 86	- 71	- 103	- 122	- 64	- 72	- 53	- 95
	1967	- 80	- 107	- 113	- 108	- 102	- 95	- 115	- 46				
Official gold and foreign exchange reserves (million u.a.)	1965	2 075	2 094	2 069	2 083	2 036	2 010	2 042	2 053	2 065	2 038	2 120	2 053
	1966	1 970	1 972	1 997	1 943	1 953	1 913	2 012	2 010	1 996	2 006	2 033	2 036
	1967	1 970	1 995	1 998	1 995	2 065	2 094	2 104	2 064				
Money supply (Fl. '000 million)	1965	15.53	15.56	15.67	16.05	16.62	16.81	17.01	17.04	16.89	16.89	16.97	17.15
	1966	17.09	17.07	17.04	17.50	18.10	18.58	18.43	18.04	17.93	17.77	18.03	18.34
	1967	17.89	17.97	18.27	1 874	1 931	1 998						

Netherlands

NOTES

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

Table 1

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

Table 2

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

Table 3

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

Table 4

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

E. Belgo-Luxembourg Economic Union

Belgium

Economic growth was fairly sluggish from the first quarter to the second. Exports stagnated, the expansion of outlay on gross fixed asset formation slackened further and private consumers' expenditure showed a very moderate increase only. As a result, the expansion of production was low — except in agriculture, where growth was quite satisfactory. The downward trend of imports seems to have been arrested, however, and the surplus on the current account fell slightly in the second quarter. Consumer prices continued to move upward at roughly the same rate as in the early part of the year, though more slowly than in the corresponding period of 1966.

The trend in the months ahead should not show much change on that observed in the first six months of the year. There could, however, be a revival of exports, and domestic demand too may well prove to be less hesitant. For this reason a slightly higher rate of economic growth may well be expected in 1968. This could help to counteract the tendency still noticeable in 1967 for unemployment to rise.

Efforts to put the budget on a sound footing in line with the Council's latest recommendation on economic policy have been pursued; they should not be relaxed in 1968.

1. Recent developments

There has been hardly any increase in exports of goods and services since the first quarter of 1967. Visible exports—to Community and other countries—marked time in the second quarter. According to customs returns the year-to-year growth rate in terms of value was a mere 2 %, compared with 8.5 % in the previous quarter.

This trend seems to be due to a slowdown in the expansion of demand from abroad, rather than to a deterioration in the competitive position of Belgian exports; the share of Belgian products in purchases by the major importing countries has remained virtually constant over the last twelve months.

There was again only a moderate increase in domestic demand. The slowdown in the

growth rate of expenditure on gross fixed asset formation already observed early in the year was confirmed in the months that followed. The main reason for this trend was a fall in the rate of expansion of industrial investment—reflecting the effects of reduced profits, the decline in the production capacity utilization rate which has been evident for some months past, and the gradual weakening of the stimulus provided by foreign investment. The downward trend in residential construction may well have continued, but public investment—by both central and local government—is likely to have gone up sharply again.

Movements of stocks are unlikely to have had a very expansionary influence on the growth of overall demand. There was, however, little if any further reduction in stocks of raw

materials. Stocks of finished goods seem to have shown no further increase.

According to the incomplete figures now available, the vigorous expansion of public current expenditure on goods and services does not appear to have slackened very much, but the rise in private consumers' expenditure was again no more than moderate. For several months past the growth of the wages and salaries bill has kept in check by a slight tendency for the total number of hours worked to fall, this being attributable to a drop in the numbers employed and a shorter working week. But, even more important, it now looks as if the increase in wage rates has slowed down substantially as well. This is true of industry at least, where the year-to-year growth rate for hourly wage rates stood at 10 % in the first quarter but fell back to 5.6 % in the second quarter. Lastly, households' propensity to save probably remained at the same relatively high level.

As a result of these trends for overall demand, the growth of domestic supply remained moderate, with the exception of agricultural production, which, mainly because of good weather, probably showed substantial gains. The expansion of industrial production was very weak at best: according to the unadjusted INS index (including building) it was only 1.4 % higher in the second quarter than in the corresponding period of the previous year (following a year-to-year rise of 1.8 % for the first quarter). Output in the building industry as a whole may have increased slightly more briskly than production in other industries, thanks to the stimulus provided by public investment.

On the other hand, the downward trend of goods and services seems to have been arrested at least; according to customs returns, the value of visible imports was 2.5 % higher in the second quarter than a year earlier. Imports from outside the Community in particular showed a relatively vigorous upward trend—probably due to the effect of policy changes with regard to stocks of raw materials and certain semi-manufactures.

Since the growth of domestic production was rather modest on the whole, the labour market situation eased still further. The number of

unemployed tended to rise again; the unadjusted unemployment rate¹ stood at 1.8 % in the second quarter, compared with 1.2 % a year earlier. The number of registered vacancies was relatively low. Although less strained overall, the manpower situation still varied from one region to the next and was most noticeable in industries which are structurally weak; it did, however, affect other industries too.

Prices (seasonally adjusted) continued to move upwards at the same rate as in the early months of 1967, though somewhat less vigorously than in the corresponding period of 1966. Although the price of imports fell and producer prices remained steady for a range of finished goods, this was not enough to counteract the factors tending to send consumer prices up. Paramount among these was an increase in certain indirect taxes and a further rise in the price of services. The year-to-year increase in the retail price index was 2.3 % in the second quarter and 2.9 % in July-August.

It looks as if the trend towards an improved trade balance has not been maintained. According to customs returns, the second quarter figures showed a deficit of approximately Bfrs. 2 700 million (it is quite likely that seasonal and fortuitous factors contributed to this), following a surplus of approximately Bfrs. 1 000 million in the first quarter. It was chiefly for this reason that the surplus on current account, which stood at Bfrs. 4 300 million in the first quarter, fell back to Bfrs. 2 500 million in the second quarter. And since net private inflows of capital were not completely offset by outflows of public capital, the overall balance of payments for the second quarter closed with a surplus of approximately Bfrs. 2 000 million, following a surplus of Bfrs. 3 200 million in the first quarter. The net gold and foreign exchange reserves of the monetary authorities rose by Bfrs. 5 300 million; the net foreign exchange position of the credit and financial institutions deteriorated.

Domestic liquidity expanded particularly vigorously in the second quarter. This was partly

¹ The percentage of fully or partially employable persons in receipt of unemployment benefit, and seeking employment in the civilian labour force.

due to the stimulus which transactions with abroad continued to provide, but the most important contributing factor here was short-term borrowing to meet part of the public authorities' deficits, coupled with the continued brisk expansion of bank lending to business and private customers (at a year-to-year rate of roughly 20 %).

While pressure on the money market eased, if anything, the bond market continued to be subject to considerable strain as a result of the steady calls made by the public administrations. Medium- and long-term interest rates showed an upward trend again in June-July, though in August-September certain signs of easing did reappear on the capital market. Prices on the stock market improved appreciably; this may well have been due, *inter alia*, to trends on the principal foreign exchanges.

2. Outlook

The trend of the Belgian economy during the remaining months of the year is unlikely to differ essentially from that recorded in the first six months of 1967.

It looks as if the doubts expressed in the last Quarterly Survey with regard to the possibility of any very substantial increase in exports of goods and services may still hold good. Although external demand may well be expected to revive somewhat, this is unlikely to be translated into actual exports before the end of the year. However, the extension of production capacity, the export incentives recently introduced and the fact that Belgian exporters are likely to retain their present competitive position are major factors which will help stimulate exports.

Expenditure on gross fixed asset formation, seen as a whole, will in all probability show a modest increase only, because of a continued decline in residential construction and investment by industry. As regards investment by industry, no appreciable increase in production capacity utilization rate can be expected since the expansion of production is likely to be moderate;

this is not conducive to an early improvement in the propensity to invest. Furthermore, the decline in foreign capital expenditure will be felt by industry for some time to come. These two factors will, admittedly, be counteracted by the expansionary effects of the Government's proposed measures for investment in development areas and by the improved prospects for a slackening of the upward movement of costs and the consequent betterment of the profits situation. These factors are hardly likely, however, to have much effect in the current year. On the other hand, the contribution made by public investment will doubtless continue to be substantial.

There is little likelihood of investment in stocks making much of a contribution to the growth of overall demand; according to the EEC business survey, managements still consider their stocks of finished goods too high in relation to final demand.

A considerable increase in public current expenditure on goods and services again seems probable, but the increase in private consumers' expenditure is unlikely to be more than moderate. There is a possibility that households' propensity to consume may be attenuated by the continuing slight decline in the total number of hours worked; moreover, the rise in wage rates may well show a further tendency to slow down.

In view of this outlook for overall demand, the trend of production will not be very vigorous in the months ahead either. Although production in certain industries—such as iron and steel, chemicals and some metal-using manufactures—could forge ahead, industrial production on the whole is hardly likely to expand, on monthly average, much more quickly than in the first six months of the year.

For most of the remainder of the year, imports of goods and services are unlikely to show any substantial upward movement. The rise in freight charges does, however, seem to have interrupted the downward trend of import prices.

The number of unemployed (seasonally adjusted) could begin to grow again in the months ahead in view of the relatively moderate

expansion of production. The rate of increase is, however, likely to slacken — even if only because the number of young people entering the labour market for the first time will be relatively low.

Under these circumstances, it is to be expected that there will be a further slowdown in the rate at which prices are rising. The generally rather restrained expansion of demand and the slower climb in wage costs over the next few months should help to make the price curve (apart from variations) flatten out further, though it is by no means certain that this will not be partially offset by higher prices for imported goods and services. Furthermore, the possibility of public service charges soon having to be increased—a necessary consequence of earlier cost inflation—cannot be ruled out.

The information now to hand regarding prospects for external demand does not suggest that there will be any very marked speed-up in exports of goods and services between now and the end of the year. Mainly because of this, it is now to be expected that real GNP for the full year 1967 will only increase by 2.5 %. This would be in line with the minimum forecast contained in the last two Quarterly Surveys. The repercussions on business activity of the slower growth of exports, combined with the somewhat less vigorous increase in the total wages and salaries bill, suggest that there might be a slight contraction in the growth rate of private consumers' expenditure. Lastly, it has been necessary to adjust the growth rate forecast for imports downwards, which means that the external balance could close with a slight surplus.

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ¹		1967 ²	
	At current prices (in Bfrs '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	295.0	+ 8.1	+ 10.8	+ 3.7	+ 7.2	+ 4.0	+ 6.0
Gross fixed asset formation	165.1	+ 3.6	+ 7.7	+ 5.9	+ 9.2	+ 3.0	+ 6.0
Public current expenditure on goods and services	98.0	+ 6.9	+ 11.4	+ 6.5	+ 10.8	+ 5.0	+ 11.0
Private consumers' expenditure	504.4	+ 4.1	+ 8.9	+ 2.9	+ 7.1	+ 2.5	+ 5.5
Gross national product	779.2	+ 3.6	+ 8.8	+ 2.8	+ 7.0	+ 2.5	+ 6.5
Imports ³	295.0	+ 7.6	+ 8.5	+ 7.8	+ 11.0	+ 2.5	+ 4.0

¹ Statistical Office of the European Communities: General Statistical Bulletin No. 7-8, 1967.

² Commission estimates.

³ Goods, services and factor income.

Note:

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

Nevertheless, the forecast made in the last Quarterly Survey that the rate of economic growth would be slightly faster in 1968 as a whole still holds good. The increase in GNP on 1967 could amount to more than 3 %. External demand is likely to provide additional stimulus for the expansion of overall demand, in view of the more buoyant outlook for economic activity in most of the other Community countries and in some important non-member countries. This is bound to provide fresh impetus for the expansion of domestic demand, which should also be reinforced by measures to promote investment by industry in development areas and by measures recently adopted to encourage residential construction. The combined effect of these factors could be strong enough to make business activity show a rather more appreciable upswing again and to arrest the present trend on the labour market. It is admittedly open to question whether the propensity to consume will again increase sharply enough for its influence on the trend of private consumers' expenditure to compensate for any braking effect that might result from what will probably be a slower rate of increase of wages and salaries than that recorded in 1967. However, the growth of consumption will doubtless be favoured by steadier prices.

The economic policy measures introduced since the last Quarterly Survey was published were again chiefly concerned with promoting balanced economic growth, particularly in the financial field and in respect of the regions.

A number of important structural and economic measures followed the Royal Decrees already issued pursuant to the law of 31 March 1967; they are contained in two further Royal Decrees which were published in the *Moniteur Belge* on 30 June and 29 July. A fund to promote economic expansion and industrial conversion in certain regions was set up with effect from 1 July 1967; certain additional tax receipts are to be allocated to this fund. Measures were also adopted to increase lending by private savings banks in favour of productive investments. In the social sector, mention must be made of measures benefiting certain persons in receipt of family allowances, the integration of redundant miners into the public service, the improvement of social security arrangements for

the self-employed and the publication of implementing regulations made under the law of 24 March 1967, which provides for increased aid for publicly assisted housing.

The restrictions applied to instalment sales credit and loans for residential construction were lifted in June.

With regard to budget policy, the Government has reaffirmed its intention of balancing its ordinary budget in 1967. The expansion of ordinary expenditure—with a year-to-year rate of 16 % in the first quarter—has lost some of its momentum, but an increase of some 10 % may nevertheless be expected for the full year 1967. With a view to putting the budget on a sounder structural basis—partly by cutting down on recruitment—various measures were adopted to increase the mobility of public service staffs and members of the armed forces. The tax on cigarettes was increased with effect from 1 July 1967, and a supplementary tax of 10 % (of the tax already charged) is to be levied on personal incomes in excess of Bfrs. 500 000 a year, beginning in 1968.

Appropriations under the 1967 extraordinary budget were cut back because of financing difficulties, but these credits should nevertheless be 15 % higher in 1967 than in the 1966 budget.

Preliminary forecasts for 1968 indicate ordinary budget expenditure totalling Bfrs. 240 500 million—an increase of 9 % on the estimated figures for 1967. Taking into account the tax increases introduced in 1967 and the progressively heavier incidence of taxation, the ordinary budget should balance provided GNP in money terms increases by some 6 % and provided expenditure does not again exceed the estimates—as is likely to have happened in 1967.

Formulating budget policy with a view to curbing the expansion of actual ordinary expenditure means that there is now a better chance of the estimates being adhered to. However, the increase in ordinary expenditure will still be quite vigorous, while the expansion of public expenditure on investment—which is going up sharply in 1967—will doubtless slacken appreciably. Thus the improvement noted in the

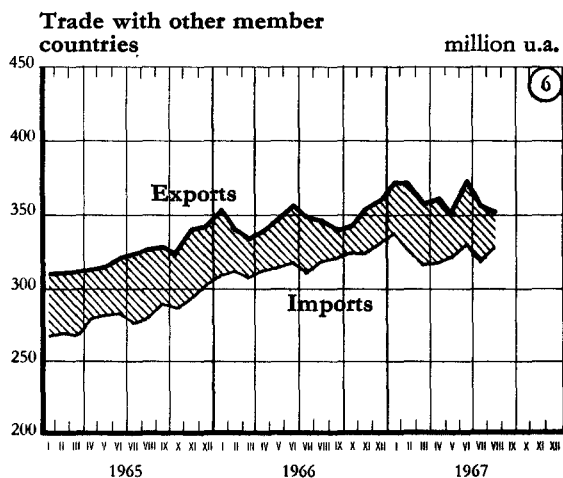
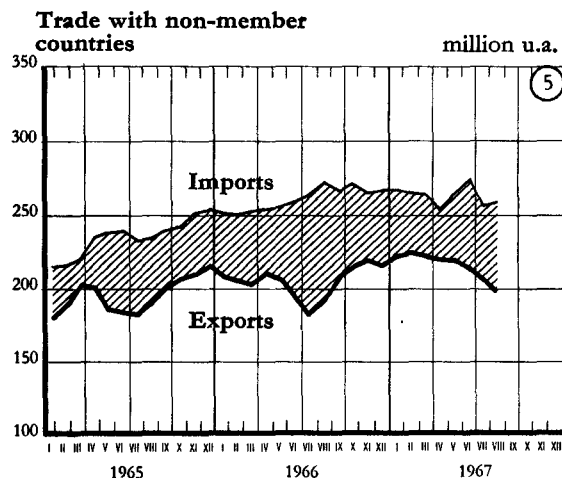
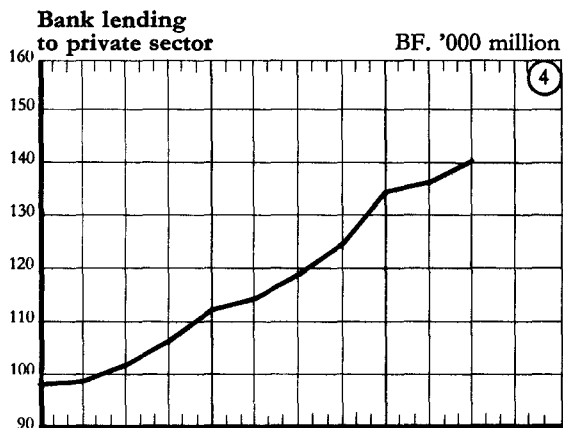
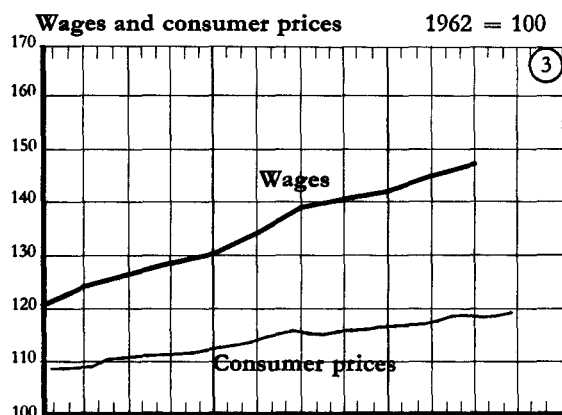
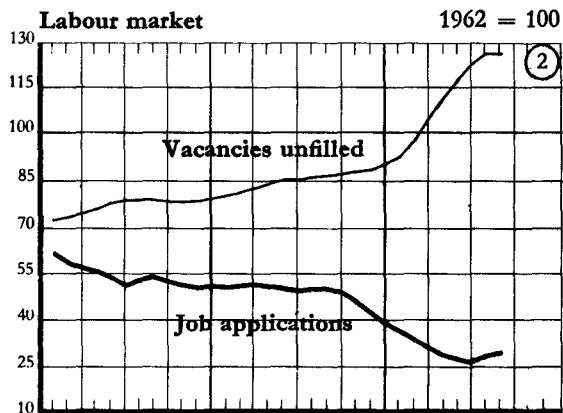
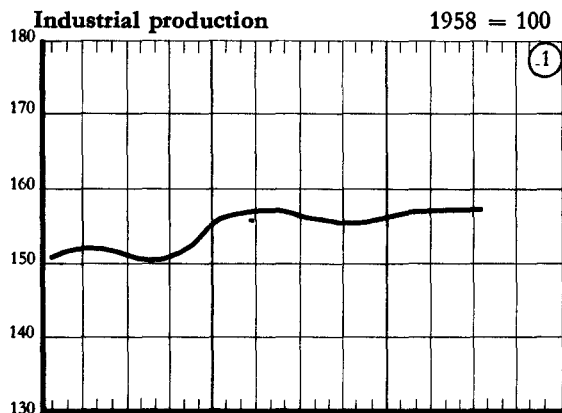
pattern of government expenditure in 1967 (more outlay on investment) will not be as marked in 1968.

However, it seems that the structural reform of public finances—an objective on which the Council of the European Communities put so much emphasis in its latest recommendation of 11 July 1967, especially in respect of Belgium—is still the basic aim of budget policy. Any additional efforts made in this direction would make more funds available for infrastructure projects, and the intensification of this type of investment is not only desirable for economic and manpower policy reasons but is also indispensable for satisfactory economic

growth in the medium term. The financing difficulties which have prevented part of the recession appropriation for public investment approved in the 1967 budget being spent would certainly be lessened by a further increase in public saving.

It would therefore be advisable if, in the final formulation of budget policy for 1968, still greater consideration were to be given to the guidelines recommended by the Council. Increased efforts should also be made to ensure the adequate financing of infrastructure investments. It seems that the possibility of employing new means of financing certain types of public investment is now being considered.

ECONOMIC INDICATORS



NOTES :

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

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

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

Graph 3. General index of retail prices. Source: Ministère des Affaires Economiques. Agreed wages for operatives, all branches. Source: Ministère du Travail et de l'Emploi.

Graph 4. Short-term loans made by monetary institutions.

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

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

Belgium

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	30.5
Total population ('000)	9 528
Density of population per sq. km.	312
Numbers in employment ('000)	3 705
Numbers in employment, breakdown by main sector (%):	
— Agriculture	6.0
— Industry	45.3
of which : Construction	(7.5)
— Services	48.7
Percentage share of gross domestic product :	
— Agriculture	5.8
— Industry	41.2
of which : Construction	6.9
— Services	53.0
Gross product per capita (Bfrs)	95 100

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966		
Gross national product	+ 5.4	+ 4.7	+ 5.9	+ 4.5	+ 6.9	+ 3.6	+ 2.8	143	—
Industrial production	+ 8.5	+ 4.7	+ 7.5	+ 4.9	+10.5	+ 3	+ 3	156	—
Total imports	+12.2	+ 7.2	+ 4.8	+ 7.7	+10.7	+ 7.6	+ 7.8	196	39.2
Private consumers' ex- penditure	+ 5.7	+ 2.2	+ 4.4	+ 4.8	+ 3.5	+ 4.1	+ 2.9	133	64.9
Public current expenditure on goods and services	+ 5.3	+ 1.6	+ 8.8	+11.5	+ 4.1	+ 6.9	+ 6.5	162	13.3
Gross fixed asset formation	+12.8	+10.9	+ 5.8	+ 0.2	+11.8	+ 3.6	+ 5.9	178	21.4
Total exports	+ 9.5	+ 8.3	+ 7.7	+ 7.2	+11.2	+ 8.1	+ 3.7	183	38.7
Gross national product per capita	+ 5.1	+ 4.2	+ 4.8	+ 3.7	+ 5.8	+ 2.7	+ 2.1	135	—
Gross national product per person gainfully employed	+ 5.1	+ 3.5	+ 3.7	+ 3.6	+ 5.7	+ 2.6	(+2.5)	(134)	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966			
Visible exports										
Total	+14.7	+ 3.9	+10.2	+11.9	+15.5	+14.2	+ 5.2	220	6 717	100
Intra-EEC	+25.2	+ 9.7	+17.7	+19.6	+19.0	+12.8	+ 6.1	304	4 188	62.3
To non-EEC countries	+ 5.3	- 1.7	+ 1.9	+ 1.6	+10.3	+16.5	+ 3.9	151	2 529	37.7
Exports of food, beverages and tobacco										
Total	+ 6.3	+15.6	+29.6	+29.6	+ 3.2	+31.5	+ 8.4	305	466	6.9
Intra-EEC	+11.8	+18.7	+31.2	+30.7	+ 5.2	+31.6	+ 5.4	331	335	5.0
To non-EEC countries	- 4.4	+ 3.7	+25.7	+26.8	- 2.1	+31.3	+17.1	203	132	1.9
Exports of raw materials and manufactures										
Total	+14.9	+ 3.4	+ 9.2	+10.9	+16.4	+13.1	+ 5.0	216	6 251	93.1
Intra-EEC	+26.1	+ 8.9	+16.7	+18.8	+20.1	+11.4	+ 6.2	299	3 853	57.4
To non-EEC countries	+ 5.6	- 2.0	+ 0.9	+ 0.7	+10.8	+15.8	+ 3.2	149	2 397	35.7
Visible imports										
Total	+15.0	+ 6.6	+ 8.0	+12.2	+15.9	+ 7.6	+12.6	229	7 174	100
Intra-EEC	+16.8	+12.7	+ 8.9	+15.5	+17.5	+10.1	+15.4	274	4 009	55.9
From non-EEC countries	+13.3	+ 1.0	+ 7.1	+ 8.8	+14.0	+ 4.8	+ 9.1	189	3 165	44.1
Imports of food, beverages and tobacco										
Total	+ 1.6	+ 0.1	+11.0	+ 9.0	+16.8	+15.2	+ 8.1	191	892.7	12.4
Intra-EEC	+ 4.2	+ 7.4	+ 3.2	+17.2	+16.3	+22.5	+10.6	240	375.1	5.2
From non-EEC countries	+ 0.1	- 4.0	+15.9	+ 4.8	+17.2	+10.6	+ 6.4	166	517.6	7.2
Imports of raw materials and manufactures										
Total	+17.1	+ 7.6	+ 7.6	+12.7	+15.7	+ 6.6	+13.2	235	6 281	87.6
Intra-EEC	+18.4	+13.3	+ 9.4	+15.4	+17.6	+ 8.9	+16.0	273	3 634	50.7
From non-EEC countries	+15.9	+ 1.9	+ 5.6	+ 9.6	+13.4	+ 3.7	+ 9.7	194	2 648	36.9

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	141	140	156	151	145	149	124	140	156	160	154	158
	1966	144	145	164	153	147	159	121	147	162	156	152	159
	1967	150	147	160	155	146	161	113					
Construction (1962 = 100)	1965	86.3	82.1	107.0	117.5	111.4	121.4	79.9	116.8	121.4	120.5	96.9	102.3
	1966	68.1	97.3	117.6	108.8	106.9	118.9	71.1	117.8	122.6	112.7	109.8	100.7
	1967	84.6	94.1	117.0	110.3	113.7	121.1						
Unemployed ('000)	1965	62.9	62.1	57.4	54.2	52.1	50.0	51.1	49.7	50.7	52.7	57.2	64.5
	1966	69.7	68.2	63.3	61.1	57.5	53.3	55.7	54.9	56.0	58.4	65.0	74.9
	1967	82.5	85.7	84.4	83.8	81.9	77.9	79.1					
Investment (1961 = 100)	1965	116.7	121.4	135.9	156.6	155.0	159.7	113.2	144.6	146.7	152.1	139.6	154.9
	1966	106.7	141.0	154.7	155.1	165.8	170.0	117.8	153.9	160.2	155.9	165.1	156.1
	1967	134.6	151.1	167.0									
Private consumers' expenditure (1961 = 100)	1965	126.1	126.4	131.2	134.3	137.0	135.3	134.9	133.0	133.0	135.8	136.8	141.8
	1966	134.5	136.2	139.7	146.0	142.4	146.3	143.2	144.6	148.0	140.3	140.3	149.5
	1967	144.4	145.4	146.4	147.9	146.6							
Total visible imports (million u.a.)	1965	455	477	547	552	514	518	505	454	553	561	578	614
	1966	519	554	618	556	537	611	520	593	601	609	616	641
	1967	581	550	630	574	610	655	465	598				
Total visible exports (million u.a.)	1965	482	519	571	507	484	551	513	432	586	552	576	612
	1966	493	528	620	560	534	604	514	475	606	575	594	621
	1967	574	594	609	604	581	597	525	460				
Balance of trade (million u.a.)	1965	+ 27	+ 43	+ 24	- 45	- 31	+ 34	+ 8	- 21	+ 33	- 9	+ 5	+ 3
	1966	- 26	- 27	+ 7	+ 3	- 53	- 6	- 6	- 119	+ 6	- 34	- 22	- 20
	1967	- 7	+ 44	- 22	+ 30	- 29	- 58	+ 60	- 138				
Official gold and foreign exchange reserves (million u.a.)	1965	2 000	2 006	2 002	2 026	2 010	2 000	2 010	2 023	2 018	2 010	2 010	1 996
	1966	1 968	1 946	1 956	1 954	1 950	1 950	1 964	1 956	1 926	1 960	1 956	1 952
	1967	1 970	1 939	1 951	1 972	2 044	2 118	2 154	2 188				
Money supply	1965	289.2	289.3	292.9	299.0	301.1	309.5	304.9	301.9	306.4	307.4	308.8	318.6
	1966	310.2	307.0	314.6	319.8	323.2	329.3	329.6	324.3	322.4	324.0	327.4	339.7
	1967	325.0	320.5	326.5	333.9	335.2	347.6	339.5	337.5				

() Provisional figures.

Belgium

NOTES

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

Table 1

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

Table 2

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

Table 3

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

Table 4

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

Grand Duchy of Luxembourg

The pace of economic growth in Luxembourg remained slow in the second quarter; although external demand continued to expand, the increase in domestic demand proved sluggish on the whole.

While external trade and the labour market both tended towards a more balanced situation, prices rose more quickly — mainly because of certain autonomous factors.

The outlook for 1968 seems to indicate a somewhat higher rate of growth than in 1967, due particularly to the trend of economic activity within the Community.

1. Recent developments

Exports of goods and services continued to make gains in the second quarter of 1967. Decisive factors in the expansion of visible exports were an increase in deliveries of iron and steel products to member countries and the steady growth of sales by newly established firms.

On the other hand, domestic demand does not seem to have provided much additional stimulus for economic activity. To judge from the incomplete figures available at present, total gross fixed asset formation may even have tended to decline. The slackening was probably most marked in residential construction, but industrial investment too seems to have been affected by a downward trend. As against this, public investment may have continued to expand.

Because of the efforts made to curb the expansion of government spending, public current expenditure on goods and services increased somewhat more slowly than previously. There may well have been only a very slight upward movement in private consumers' expenditure, this being largely due to a rather slow rate of increase in the disposable incomes of households. There seems to have been no more than a moderate increase in the total number of hours worked, and the increase in agreed wage rates

was relatively slight—at least until August, when the sliding wage scale came into play once again.

According to the STATEC index, industrial production in the second quarter was only 0.3 % higher than in the second quarter of 1966, following a year-to-year growth rate of 0.9 % for the first quarter; however, this index does not yet give adequate coverage of production in newly established industries. The slight overall tendency for output in the building industry to slow down continued.

The underlying downward trend of imports is unlikely to have become more marked than in the previous quarter.

There was a further distinct easing of the labour market. It was mainly due to the decline in building activity and to the iron-mine closures about the middle of the year. Moreover, the slight increase in iron and steel production was accompanied by a reduction in the number employed.

According to the general cost-of-living index, the increase in consumer prices has been considerably more rapid since mid-year. This was largely due to a particularly sharp rise in bread prices following the withdrawal of subsidies. In July-September, the index was 3.3 %

up on the corresponding period of 1966, following a year-to-year growth rate of 1.7 % for the second quarter.

2. Outlook

It is unlikely that there will be any marked drop in demand for iron and steel products in the months ahead, particularly from the other member countries : in fact, it might even go up. In view of industry's export drive, a further stepping-up of exports of goods and services may be expected between now and the end of the year.

In contrast to this, the growth of domestic demand is unlikely to be very substantial. For one thing, there is little likelihood of the downward trend of gross fixed asset formation being reversed for the time being. Indeed the number of building permits issued points, if anything, to a further decline in residential construction. Firms' expenditure on investment should, at best, maintain the level reached in the first half of 1967. Lastly, it would appear that the additional stimulus provided by public investment will again be rather weak.

Then again, the contribution made by private consumers' expenditure to the growth of overall demand will only be very limited. Despite the

Demand for and supply of goods and services

	1964 ¹	1965 ²		1966 ²		1967 ²	
	At current prices (in Lfrs million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	25 717	+ 4.5	+ 3	+ 3.5	+ 3	+ 4	+ 5.5
Gross fixed asset formation	11 300	- 18	- 16	- 3.5	0	- 2.5	+ 0.5
Public current expenditure on goods and services	3 521	0	+ 6	+ 2.5	+ 9	+ 2	+ 7.5
Private consumers' expenditure	18 736	+ 3	+ 7	+ 2.5	+ 6	+ 2	+ 5.5
Gross national product	31 596	+ 1.5	+ 3	+ 2	+ 4	+ 2.5	+ 5.5
Imports ³	27 478	- 0.5	+ 0.5	+ 2	+ 4	+ 1.5	+ 4.5

¹ Statistical Office of the European Communities, General Statistical Bulletin, No. 7-8, 1967.

² Commission estimates.

³ Goods, services and factor income.

Note:

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

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

recent increase in certain transfer incomes and increases under the sliding wage scale, the incomes of households should only expand moderately since the rise in agreed wage rates will probably slow down further and employment is likely to run at much the same rate.

Domestic supply may well increase at roughly the same pace as in the first six months of 1967; the tendency for imports to fall may be arrested in the autumn.

The trend so far and the forecast for the remainder of the year confirm by and large the changes forecast in the last Quarterly Survey (2/1967) for the main aggregates in the national accounts for the full year 1967. The 2.5 % increase in the volume of GNP forecast for the year, which seemed rather optimistic a few months ago, now appears to be well within reach.

The 3 % growth rate forecast in the last Quarterly Survey for real GNP in 1968 should also be achieved without any great difficulty, in view of the prospects for an accelerated expansion of demand within the Community and the probably sharper increase in domestic demand, particularly consumption demand.

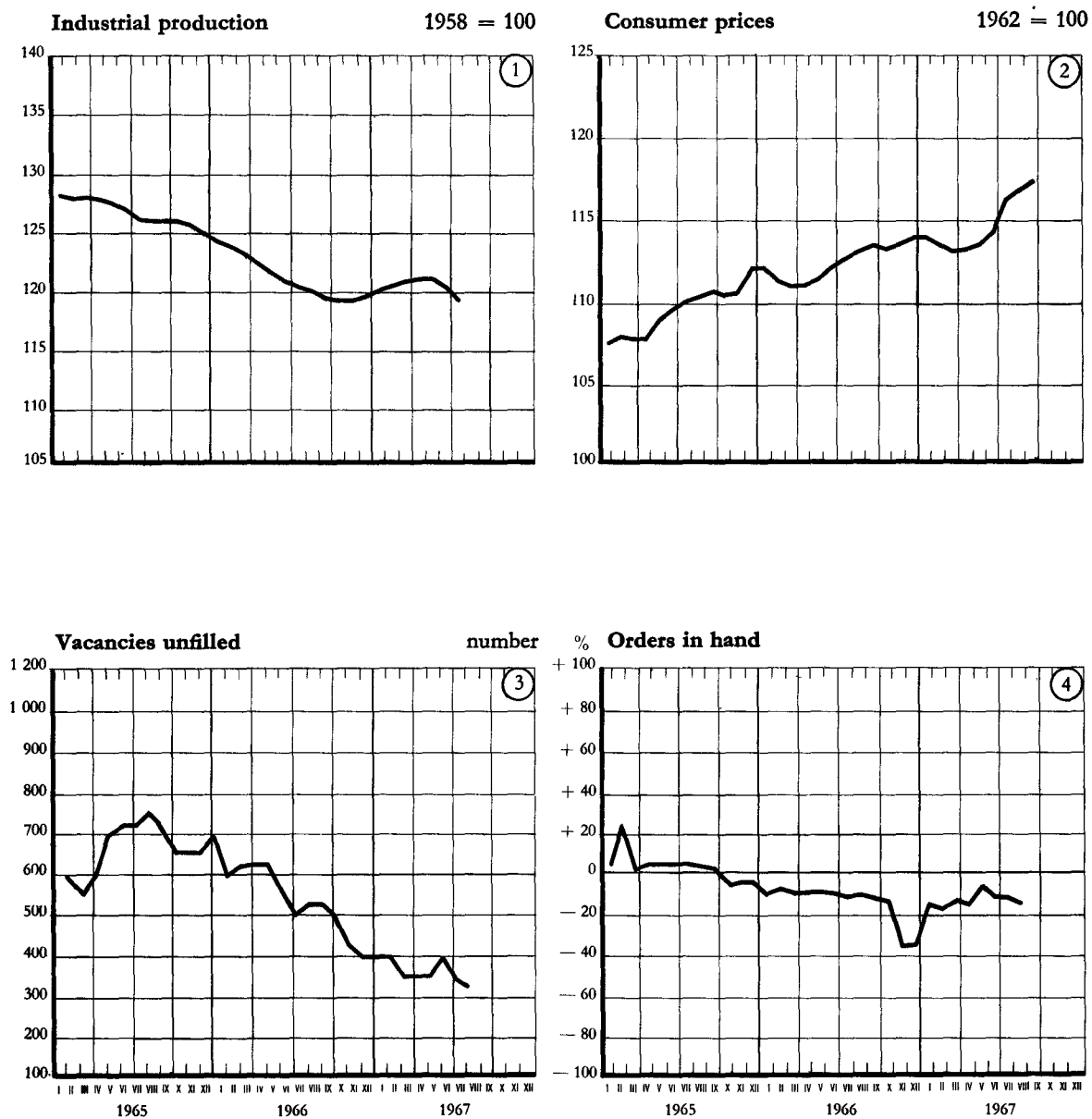
Economic policy requirements have not changed essentially since the last Quarterly Survey was published. Selective action to encourage gross

fixed asset formation is still particularly desirable both in the short term—given the reserve capacity available in the building industry—and from the standpoint of long-term growth, which demands greater differentiation in the structure of industry. Consequently, the recent extension of the outline law on economic expansion and the schemes to set up a national investment corporation should be welcomed, since they will add to the machinery for implementing investment policy.

As far as residential construction is concerned, the State savings bank recently decided on the gradual relaxation of restrictive measures. This cautious change of approach seems to be entirely justified by the present housing situation.

The direction given to budget policy in 1968 nevertheless gives some cause for concern in so far as the bulk of the budgeted increase in government expenditure (4.6 % up on the corrected 1967 estimates) is to result from an even somewhat faster expansion of ordinary expenditure, while public expenditure on investment will remain weak. The Council, in its recommendation of 11 July 1967 to the Member States on the guidelines to be followed in their economic policies, urged with particular reference to 1968 that increases in current expenditure on consumption be checked—which would make a further expansion of public investment possible.

ECONOMIC INDICATORS



NOTES:

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

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

Graph 2. Source: STATEC. General cost-of-living index.

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

Graph 4. Source: EEC business survey.

Grand Duchy of Luxembourg

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	2.6
Total population ('000)	(332)
Density of population per sq. km.	128
Numbers in employment ('000)	140
Numbers in employment, breakdown by main sector (%):	
— Agriculture	13
— Industry	46
— Services	41
Percentage share of gross domestic product in 1964:	
— Agriculture	7.0
— Industry	53.0
— Services	40.0

TABLE 2: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	125	129	121	130	132	129	124	116	125	125	127	121
	1966	120	121	119	122	125	124	119	111	119	121	121	117
	1967	120	121	121	123	124	122	121					
Crude steel production ('000 m.t.)	1965	383	379	388	392	391	377	397	353	395	392	377	372
	1966	369	354	380	367	353	369	368	346	377	383	365	360
	1967	371	360	389	379	372	377	376	356				
Construction (1958 = 100)	1965	48	55	82	103	110	102	105	100	96	93	76	58
	1966	45	53	91	99	101	101	96	95	94	87	73	54
	1967	39	46	69	72	81	78	78					
Workers employed in the iron and steel producing industry and in mining ('000)	1965	24.2	24.1	24.0	24.0	24.0	24.0	24.0	24.0	24.1	24.1	24.1	24.1
	1966	24.0	24.0	23.8	23.8	23.8	23.7	23.7	23.7	23.8	23.7	23.6	23.6
	1967	23.5	23.4	23.4	23.3	23.2	23.1	23.0					
Retail prices (1958 = 100)	1965	110.2	110.5	110.3	110.3	111.6	112.3	112.6	113.0	113.2	112.9	113.1	114.7
	1966	114.7	113.8	113.4	113.6	114.1	114.9	115.2	115.8	116.0	115.8	116.0	116.5
	1967	116.4	116.1	115.5	115.7	115.9	114.4	116.4	116.8	117.4			

NOTES

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

Table 1

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

Table 2

- Industrial production.
- Crude steel production. Source : Service central de la statistique et des études économiques (STATEC).
- Construction. Index based on number of man-hours worked. Source: STATEC.
- Workers employed in the iron and steel producing industry and in mining. Source : STATEC
- Retail prices. General cost-of-living index. Source : STATEC.

