



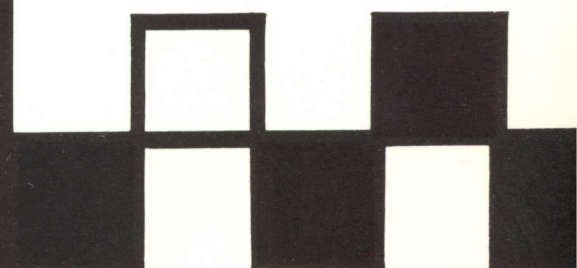
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**Directorate-
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**The economic situation
in the Community**

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Quarterly survey

**Commission of the European Communities
Directorate-General for Economic and Financial Affairs
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EUROPEAN ECONOMIC COMMUNITY

COMMISSION

The Economic Situation in the Community

JUNE 1967

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Note:

This Survey was completed around mid-June 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 No. 7-1967 of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

Economic growth in the Community continued to slow down in the first quarter of 1967 and in those spring months for which data are already available. This was solely because the rise in internal demand was tending to flatten out.

Demand from abroad, however, made a somewhat more vigorous contribution to economic activity than in the preceding months. The value of visible exports in the first quarter outstripped the figure for a year before by as much as 11 %, though this was partly due to special factors.

As for the trend of overall internal demand in money terms, expenditure on gross fixed asset formation weakened appreciably. This was particularly evident in residential construction, but industrial investment also declined slightly, the weak spot being Germany. Since the expansion of the disposable income of households continued to level off and as the savings ratio rose somewhat in some member countries, the expansion of private consumers' expenditure again slackened a little.

In the circumstances, Community supply expanded only slightly in the early months of 1967. Agricultural production and value added by the services sector continued to rise, but industrial production as reflected in the seasonally adjusted index of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco) showed no increase in the comparison between the fourth quarter of 1966 and the first quarter of 1967. The unadjusted index showed an increase of only 1 % for the first quarter over the first quarter of 1966, with the strongest inhibiting influences coming from production in Germany, which continued to decline.

In five Community countries unemployment tended to rise and the number of unfilled vacancies to fall, though the pattern varied from country to country. In Italy, the number of unemployed continued to decrease, although many Italian workers returned from abroad.

Owing to the weak economic trend in several member countries — due mainly to the reluctance of dealers and manufacturers to build up stocks — visible imports from non-member countries declined a little from the fourth quarter of 1966 to the first quarter of 1967. As a consequence the value of goods imported in the first quarter was lower — though only slightly — than the figure for the corresponding period of the previous year.

As a result of the trend of visible trade with non-member countries, the trade balance of the Community closed with a slight surplus in the first quarter, an improvement of a good 800 million u.a.¹ over the corresponding period of the previous year. This is the main reason why the surplus on current account probably continued to rise. Capital movements, however, are likely to have shown a deficit. The gross official gold and foreign exchange reserves of the member countries even declined by some 130 million u.a. from the end of December 1966 to the end of April 1967. The net foreign exchange position of the commercial banks on the other hand improved appreciably, as is usual for this time of year after end-of-year commitments have been met.

In the period under review, internal trade in the Community expanded very slowly. In the first quarter its value (imports) was 7 % up on the corresponding period of the previous year. The slowdown was mainly a direct and indirect result of the weak economic trend in Germany.

If “autonomous” price increases are left out of account, the trend of prices is a fairly accurate reflection of the economic situation in most member countries; it shows a further advance towards price stability in Germany, a moderation in the upward thrust of prices—though impeded by the persistent pressure of costs—in the Benelux countries, an unchanged and not very strong tendency for the price level to go up in France. In Italy, however, the moderate upward trend of consumer prices slowed down further, despite the vigorous rise in economic activity.

In the months ahead up to the end of 1967, economic growth in the Community, though likely to remain very slow in the beginning, will probably gather more momentum as the year advances. Internal demand will provide the main stimulus.

The growth of exports to non-member countries may slow down for some time yet, notably in view of the slackening of import demand in the United States and the relative weakness of import demand in the United Kingdom. Internal demand, on the other hand, will probably expand somewhat more briskly than in the first half of the year, mainly because gross fixed asset formation, particularly in the building sector, and investment in stocks may start to pick up again. Nor must the rise in private consumers' expenditure be expected to flatten out further; it is more likely that the current tempo of growth will be maintained or will even become slightly faster.

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

In view of the expected consolidation of internal demand, Community supply will probably tend to grow again slowly but steadily as the second half of the year advances. Industrial production in particular will probably expand again more distinctly, especially if in Germany the expected improvement in the business situation materializes. Current and estimated trends in the Community suggest—assuming normal harvests—that it should be possible to secure a growth of some 3.5 % of the real gross national product for the full year 1967.

If internal demand develops as indicated, the trend of imports from non-member countries would undoubtedly change as a result. Whether the rate of expansion of imports will be sufficiently strong once again to begin eroding the visible trade balance (exports will probably be rising more slowly) depends largely on the trend of investments in stocks, which is still difficult to forecast at the moment.

The trend of prices is likely to slow down further in the second half of 1967, particularly in Germany, rather less in Belgium and less still in the Netherlands. In Italy, on the other hand, the rise in prices must be expected to gain a little momentum.

Forecasts for 1968, necessarily very tentative, point to a fairly appreciable recovery of economic activity in the Community. This trend will probably depend less on demand from abroad than on the expansion of internal demand, which is likely to be relatively vigorous. With the phases of the business cycle as they are at the moment, 1968 may very well be a year in which the economies in all or almost all the member countries will be on a rising curve, though the pace of expansion will vary from country to country.

“Spontaneous” cyclical forces and economic policy measures to support and spur on economic activity will probably go far by themselves to bring this about. Certain supplementary measures have been decided upon (Belgium) or may be taken (France). Only if after some months economic growth has not started to gather momentum again or has not done so sufficiently should additional measures be taken — particularly in Germany.

At all events, every effort should be made to improve once again the revenue expenditure pattern both with regard to the public authorities (more saving and more investment) and to enterprises, where self-financing and the expansion of investment should be encouraged. Such measures, combined with appropriate economic policy measures—applicable, however, for a limited period only—appear to be one of the necessary prerequisites if the growth situation is to improve again and if it is to be possible for expansion to pick up again without danger of an early revival of inflation.

This report was drafted too early to allow for the Middle East crisis, whose effects may be perceptible for several months to come. Neither the Commission nor the experts of the member countries were in a position to assess with any degree of certainty the economic impact of these events when the report was concluded (mid-June).

A. Recent developments

1. Demand

In the first quarter of 1967 and in the spring months for which data are available, overall demand in the Community expanded less rapidly than in the fourth quarter of 1966, the expansion of internal demand having slowed down further.

Demand from abroad (i.e. goods and services actually exported to non-member countries), on the other hand, made a somewhat more vigorous contribution to trade and industry in the Community than in the preceding months. In particular, visible exports—adjusted for seasonal variations—continued to rise; this was, however, not only a result of the forces inherent in the economic trend but also of fortuitous factors (reaction to the removal of the import surcharge in the United Kingdom, unusually mild winter). Total visible exports in the first quarter were 11 % higher than a year earlier (value, foreign trade statistics).

The Community's deliveries to the United States continued to expand appreciably. Since the beginning of the year, however, the upward curve has flattened out appreciably. This trend reflects above all the slowdown of the expansion of private domestic demand for capital goods and consumer durables in the United States since last autumn. In addition there was a sharp fall in stockbuilding in that country—admittedly from an unduly high level. Industrial production was marking time or even tended slightly downward. In the first quarter of 1967 the real gross national product, seasonally adjusted, merely remained at the level it had reached in the last quarter of 1966.

In the spring, however, economic activity in the United States already appeared to have started gathering some momentum again. Industrial investment remained relatively subdued—profits were only moderate and firms were operating substantially further below capacity than at the end of 1966. Building activity, however, recovered fairly appreciably, and the consumer expenditure of households, following some initial hesitation, showed a rise which was once again somewhat more

marked. In this connection there were also signs that sales of new motor vehicles were recovering a little.

Community exports to the United Kingdom in the early months of 1967 spurted with the release of pent-up demand when the import surcharge was removed. Subsequently they probably settled on lines corresponding to the economic trend in Great Britain, which remained sluggish, though the downward movement appears to have stopped. Although expenditure on private investment continued to decline, consumer spending by households—whose disposable income rose slightly due to the first increases in agreed wages after the six months of absolute wage freeze—picked up somewhat. But the expansion of government spending was the key to the maintenance of economic activity. The decline of domestic production (in particular in the industrial field) has come to a halt. The subdued trend of domestic demand undoubtedly encouraged the tendency for prices to grow more stable, a tendency which before had been enforced mainly by the freeze regulations.

In the period under review, Community exports to the other industrial countries reflected on balance a modest recovery of the overall demand for imports in these countries. However, the first-quarter year-to-year growth rates (some quite high) for exports to the Scandinavian EFTA countries—where the economic upswing continued despite signs of appreciable strain—exaggerated the actual trend because purchases in the first quarter of 1966 had been slowed down by the bad weather.

The high rate of expansion of Community sales to the developing countries in the first quarter is also to a certain extent due to relatively modest exports in the first quarter of 1966. The more recent trend, however, has shown that the demand for imports has remained appreciable in the developing countries, whose total gold and foreign exchange reserves rose somewhat again in the fourth quarter of 1966, following a decline at the beginning of the second half of the year. The imports of the associated overseas coun-

Visible exports to non-member countries

(Values and % changes on preceding year)

Exports to	1966		1966				1967
	million u.a. ¹	%	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	29 412	+ 8.5	+ 7.5	+ 10.5	+ 8	+ 8	+ 11
of which:							
Industrial countries ²	19 127	+ 8.5	+ 9	+ 10.5	+ 7	+ 8	+ 9.5
including :							
United States	4 098	+ 19.5	+ 22	+ 18.5	+ 18.5	+ 20	+ 12.5
EFTA : total	9 999	+ 4	+ 5.5	+ 6.5	+ 3	+ 2	+ 4.5
United Kingdom	2 541	+ 7.5	+ 18	+ 12.5	+ 6	- 4.5	+ 5
Developing countries ³	7 955	+ 6	+ 0.5	+ 8.5	+ 8	+ 7	+ 9.5
including:							
Associated overseas countries and territories	1 707	- 1.5	- 3	- 3	- 1	+ 0.5	+ 8
Others ⁴	2 330	+ 18.5	+ 20	+ 20.5	+ 20.5	+ 13	+ 28

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.

tries and territories from the Community, which until last autumn had tended to be very weak, have now continued to rise at a distinctly faster pace.

The expansion of Community overall internal demand in money terms continued to slow down in the first quarter of 1967 and apparently also in April-May.

The trend of expenditure on gross fixed asset formation in particular was rather weak. There was a decline of actual expenditure (adjusted) on investment in construction, particularly residential construction. This applies to Germany and—to a less marked extent—to Bel-

gium, although in these countries good weather contributed to a comparatively high level of building activity (and consequently of expenditure). In France the signs of increased activity have not yet found strong confirmation—apart from publicly assisted housing, where the number of new building projects started rose sharply. Only in Italy is it possible that the—slow—recovery may have gathered some pace; in the Netherlands the still very high level of activity was solely due to good weather.

If seasonal variations are left out of account, the trend of expenditure on industrial building, which on the whole had been relatively weak, has apparently not changed either. While in

France the upswing is likely to have retained its strength and in Italy has probably actually gained momentum, the downward trend continued in Germany.

The trend in Germany accounted mainly for the fact that public expenditure on building in the Community as a whole showed a tendency to slow down, for the brisk upswing continued in France and Belgium and there was a modest recovery in the Netherlands.

Overall investment in plant and machinery too, probably tended to decline slightly: the weakening propensity to invest, as observed in 1966 particularly in Germany and to a less pronounced extent in the Netherlands, had an impact on actual expenditure on capital goods which varied from country to country, but was appreciable. The decline in these countries was probably not offset completely by the maintenance of a vigorous upswing in Italy and France.

The trend of stock-building also contributed, though probably to an already decreasing extent as spring advanced, to the slowdown of the growth of internal demand. Towards the end of the period under review, stocks of raw materials and semi-manufactures had probably already been run well down. Stocks of finished products evidently did not continue to rise; owing to cuts in production in some member countries they may even have declined. In France and in Germany, special factors (particularly the fear that the transition to the added-value tax—in Germany—and its extension to retail trade—in France—would mean a higher tax burden on old stocks) were for a time a strong added incentive to firms to keep stocks low.

In the aggregate the expansion of expenditure on consumption too continued to lose momentum in the first quarter of 1967. This does not however apply to public current expenditure which, if anything, rose more briskly than in the preceding months. But private consumers' expenditure expanded in the first quarter less strongly than before. The trend continued to vary widely from one member country to the other; it ranged from a distinct increase in Italy to a roughly stable situation in Germany. In France the growth of this demand component appears to have slowed down a little.

Private consumers' expenditure in the Community expanded at a more moderate pace than before because the upward trend of the disposable income of households was relatively weak but probably also because the savings ratio increased a little, presumably owing to the change in the labour situation.

Except for France, mass incomes were to a great extent a reflection of the effects of changes in the total hours worked (numbers of persons in paid employment multiplied by average length of working week) — changes for the better in Italy and for the worse in the remaining member countries, where in some industries reductions of working hours had a great impact. But the expansion of hourly earnings also slowed down—appreciably in Germany, slightly in Belgium and at least a little, compared with the previous year, in the Netherlands. In Italy, on the other hand, expansion gathered a little momentum, and in France, the steady rise was maintained.

Consumer reticence hit consumer durables hardest. Though in the first quarter of 1967 the total sales of passenger and estate cars in the Community were some 2% higher than in the corresponding period of 1966, it must be kept in mind that at that time sales had been relatively low as a result of tax increases in the Benelux countries on 1 January 1966 and of anticipatory pre-tax buying. Purchases of motor cars nevertheless appear to have picked up quite appreciably in the course of spring. In addition the impression prevails that in the past few months a higher proportion of consumers' purchasing power was accounted for in the services sector.

2. Production

As a result of the depressed trend of internal final demand—particularly in the field of gross fixed asset formation—and as a result of efforts to cut back stocks, Community supply expanded only slightly in the early months of the year.

Industrial production to all intents and purposes made no further progress. The index of the Statistical Office of the European Communities,

adjusted for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco) showed that from the fourth quarter of 1966 to the first quarter of 1967 the trend was no longer pointing upwards. The unadjusted index was no more than 1 % ahead of the figure for the first quarter of 1966. Allowance must, however, be made for the fact that in 1967 Easter fell in the first quarter, which depressed the index a little because, though adjusted for the number of working days in any given period, the index cannot of course allow for extra holidays taken or works closures on the occasion of the Easter break.

Owing to the decline of effective demand, particularly for residential construction, in the Community as a whole, the volume of value added by the building and construction industry probably actually fell short of the level of a year earlier. In the food, beverages and tobacco industries, on the other hand, expansion seems to have been maintained.

As regards the trend of industrial production in the individual countries, there was a further downturn of activity in Germany; it was not before spring that conditions began to stabilize in this country. In France the upswing slowed down distinctly and the same applies—though to a less marked extent—to the Netherlands. In Belgium, on the other hand, the trend continued to point—though not steeply—upward, and in Luxembourg the slight recovery was confirmed. In Italy industrial production continued to expand vigorously—the pace being perhaps even a little faster.

In the mining industry, coal output in the first quarter was some 10 % lower than a year previously. The situation in the iron and steel industry, on the other hand, improved under the influence of increased demand from non-member countries and a rise—though partly due to special factors (for instance anticipation of rising prices as a result of the setting up of sales syndicates in Germany) in Community orders. Seasonally adjusted, the growth of production in the chemical industry appears to have remained relatively appreciable, at least in the early months of the year.

In the capital goods industry it is true that expansion in France and especially in Italy con-

tinued; in Germany and—less generally—in the Benelux countries, however, output was still declining in the first quarter. In the aggregate, production of commercial vehicles and non-electrical machines, particularly textile machinery and equipment for the building and construction industry, came under the heaviest pressure, while production of equipment by the electrical engineering industry remained fairly brisk.

Of the consumer goods industries it was the electrical engineering industry which came to feel the influence of the weak trend of demand for some consumer durables. In the textile industry too and—for a time—in the motor industry, aggregate production showed a distinct downward trend. In the first quarter production of passenger and estate cars was 8 % below the level of the corresponding period of the previous year.

In the services sector expansion is likely to have continued, though at a somewhat slower pace. With the relatively good weather, agricultural production expanded in line with the long-term growth trend, if not faster.

In spite of a further increase in the numbers employed in the services sector, the seasonally adjusted trend of the total numbers in paid employment in the Community continued to drift downward—for a time perhaps even somewhat faster. In industry, including building, the numbers employed declined fairly generally; only in Italy did the numbers in paid employment in industry expand again (in the building sector possibly at a faster pace than before). In view of the temporary shut-downs and the reduction of working hours in a fairly large number of firms in Germany and in the Benelux countries, the number of hours worked in industry in the Community as a whole is likely to have fallen somewhat more distinctly than the numbers in paid employment.

Mainly as a result of the trend in numbers employed, but also because of other factors—particularly the fairly appreciable expansion of the labour force in some countries—the seasonal decline of the numbers of unemployed was, well into spring, less marked than in the preceding years. The tendency for unemployment to rise has therefore continued. In France, seasonally

adjusted unemployment seems to have gone up slightly, judging from the changes in the figure for those seeking employment. The same applies to Belgium, particularly as far as the metal-using industries are concerned. In Germany, where the rise in the number of unemployed has been fairly vigorous since the end of summer, there are, however, signs that the upward trend is beginning to level off, and in the Netherlands the pace of growth has definitely stopped gathering momentum, and may even have slowed down. In Italy the number of unemployed continued to decline—though probably somewhat more slowly—despite the return of an appreciable number of workers who had been temporarily employed abroad; this trend is probably mainly due to the upswing in the building sector and to the reversion to normal working hours in industry, now almost universal.

3. The balance of the markets

Imports of goods and services from non-member countries remained high in the first quarter. The value of visible imports as shown in the seasonally adjusted customs returns actually declined a little—by some 2 %—from the fourth quarter of 1966 to the first quarter of 1967. In the first quarter it was therefore slightly lower than a year earlier. It must, however, be borne in mind that the number of days worked in the first quarter of 1967 was lower than in the first quarter of 1966 because this year Easter fell in the first quarter.

The slowdown was in the main a reflection of the weak business trend in some member countries—particularly of the decline in demand in respect of investment in some categories of stocks. Purchases by Germany stopped declining at the end of 1966 but continued to fall in the first three months of 1967. As before, imports into the Benelux countries suffered from the inhibiting influence of slow economic growth in these countries. In addition, in France, where growth has been slowing down a little, the expansion of imports from non-member countries also seems to have lost a little momentum. Even imports into Italy were expanding considerably less than before, though this was probably only a temporary lull.

The slowdown of demand in the Community hit imports from industrial countries hardest; in the first quarter they were actually a little lower than a year previously. Purchases by the United States in particular fell below the level—admittedly unusually high at that time—of the corresponding period in the previous year. Exports by the EFTA countries to the Community too declined slightly. By contrast, imports from the developing countries continued to rise—undoubtedly as a result of the persistent brisk demand for some tropical agricultural products.

Visible trade between the member countries expanded only slightly, at least until spring. In the first quarter its value was 7 % higher than a year earlier. This is, however, still a more favourable trend than that of imports from outside the Community.

The slowdown of the tendency for internal trade to expand is in part due to a decline from the fourth quarter of 1966 to the first quarter of 1967 of purchases by Germany: their downward trend does, however, appear to have come to a halt again by spring. In the Netherlands and in the Belgo-Luxembourg Economic Union, the slowdown of demand also led to a distinct slowdown in the rate at which the purchases of these countries from the other Community countries were expanding. Lastly, French imports—which were soaring some months ago—also appear to have been expanding now at a slower pace under the influence of a business trend which here too has been somewhat sluggish for several months. Only demand from Italy maintained its brisk growth; the purchases by this country in the rest of the Community in the first quarter of 1967 were nearly 30 % higher than a year earlier.

As for intra-Community exports—the counterpart of intra-Community imports—French sales to the other five actually showed a downward trend, despite the continued expansion of trade between France and Italy, in consequence of the weak trend of imports into Germany but also as a result of the slowdown of purchases by the Benelux countries. The slackening of demand from the Benelux countries was also a key factor helping to check the rise in exports by Germany. Sales by the Benelux countries, on the other hand, showed a somewhat more

Visible imports from non-member countries

(Values and % change on preceding year)

Imports from	1966		1966				1967
	million u.a. ¹	%	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	30 735	+ 7.5	+ 13.5	+ 8.5	+ 6	+ 3	— 1
of which:							
Industrial countries ²	17 315	+ 5	+ 15	+ 7	+ 4.5	+ 1.5	— 3.5
including:							
United States	6 021	+ 6	+ 20	+ 2	+ 4	— 0.5	— 5.5
EFTA : total	7 242	+ 5	+ 9	+ 7	+ 4	+ 1	— 2.5
United Kingdom	2 782	+ 7.5	+ 9.5	+ 5	+ 5	+ 7	— 0.5
Developing countries ³	11 312	+ 7	+ 10	+ 9	+ 6.5	+ 4	+ 1.5
including:							
Associated overseas countries and territories	2 282	+ 11.5	+ 9	+ 12.5	+ 18.5	+ 6.5	+ 3.5
Central and South America	2 731	+ 4.5	+ 4.5	+ 7.5	0	+ 6	+ 1.5
Others ⁴	2 107	+ 16	+ 24.5	+ 21.5	+ 11	+ 7.5	+ 4

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 sources.

lively growth than before as a result of a fairly rapid increase in deliveries to France and Italy. Seasonally adjusted, exports by Italy increased from the last quarter of 1966 to the first quarter of 1967 at at least the same speed as from the third to the fourth quarter of 1966.

The intra-Community import and export trend led to a deterioration in the French and Italian trade accounts with the other member countries.

The tendency for Germany's intra-Community export surplus to rise nevertheless did not persist; the balances of the Netherlands and of

the Belgo-Luxembourg Economic Union improved—that of the B.L.E.U. considerably.

In the first quarter the level of prices in the Community continued to go up, though at a slower pace; this was to a decreasing extent due to factors inherent in the economic trend itself, save perhaps in Italy. At any rate, prices were forced up not only by previous but also by current cost increases; in this connection special mention must also be made of the increases in certain indirect taxes in the period under review, of increases in public service charges and of upward revisions of rents. On the other hand, there was the inhibiting effect

of reduced prices of imported raw materials and semi-manufactures and in most member countries also of the fact that the level of vegetable and fruit prices was appreciably lower than at the same time in 1966, mainly as a result of better harvests in the preceding year and of favourable weather in 1967 up to the time of writing. Belgium was the only country where the cost of living rose distinctly, potato prices having registered an increase.

As for the price trend geared essentially to the economic trend itself, in Germany there were distinct signs of a stabilization of prices which, though being in the main a result of the slowdown of overall demand in money terms, was at the same time already partly due to an appreciable slowdown in the pace at which labour costs were rising. In the remaining Community countries the level of prices, particularly of consumer prices, continued to rise more distinctly. In Belgium and particularly in the Netherlands the upward thrust of costs—still appreciable—was an obstacle to any moderation of the increase in prices. In Italy the tendency for prices to increase which was still observed towards the end of 1966 has levelled off again. Here, it was probably only in the services sector that wage costs per unit of output exerted an upward pressure on prices; at any rate, charges for services have continued to rise vigorously. With charges for services going up relatively steeply in France, the level of prices continued to rise there at the same (fairly moderate) pace.

In April the national indices indicating most closely the level of consumer prices had risen 3.0 % in Italy (consumer prices) 2.6 % in France (consumer prices) and in Belgium (retail prices), 2.3 % in the Netherlands (cost of living), 1.7 % in Luxembourg (cost of living), and 1.6 % and Germany (cost of living) above the corresponding figure for 1966.

Owing to the trend of exports on the one hand and of imports on the other, the Community's balance of visible trade with non-member countries in the first quarter of 1967 closed with a slight surplus, which means an improvement of a good 800 million u.a. compared with the balance of the corresponding period of the previous year. The latest development represents a further improvement in the upward trend from the fourth quarter of 1966 to the first quarter of 1967. Although no information is

yet available on the trend of the balance of services transactions, the balance of investment income and the balance of unrequited transactions, it can be assumed that the surplus on the overall current account has again gone up slightly.

Information so far available on capital movements, on the other hand, suggests that these transactions have probably had a compensating effect on the Community's overall balance of payments. At any rate, the gross gold and foreign exchange reserves of the monetary authorities in the member countries actually declined by some 130 million u.a. from the end of December 1966 to the end of April 1967. At the same time, however, the seasonal improvement in the net foreign exchange position of the commercial banks appears to have been somewhat stronger than is usual following end-of-year settlements.

In the aggregate, then, transactions with abroad contributed only little to the expansion of internal liquidity in the Community, with the trend again differing widely from one member country to another. While in Germany the persistent surpluses continued to help increase liquidity and in the Belgo-Luxembourg Economic Union the balance of payments had for the first time since summer 1966 again moved into surplus and had increased domestic liquidity, the trend of the balance of payments in France did not stimulate expansion, and in Italy and in the Netherlands had restrictive effects. In Italy this was again attributable to outflows of capital which were probably caused not only by higher interest levels in other countries but also by fiscal measures taken—and rumours as to others which might follow—in Italy in the field of investment income.

In most member countries the cash operations by the public authorities also led to an increase in domestic liquidity. This applies in particular to Germany, where the cash deficits of the public authorities increased considerably—were it only because tax receipts lagged far behind estimates; these deficits were to a considerable extent financed by short-term borrowing. The situation with regard to the central government budget was similar in the Netherlands. In Italy and in Belgium, on the other hand, Treasury transactions reduced domestic liquidity in the first quarter, with seasonal influences as a con-

tributing factor. In France the cash deficit of public authorities at the beginning of the year was appreciably higher than a year earlier.

The slack demand for credit was—in most member countries—the main determinant of the trend of bank advances to business and private customers. At any rate, in the countries where economic activity is relatively weak the monetary authorities have eased credit conditions very appreciably, but so far demand for credit has failed to react to any marked extent. While in the Benelux countries the expansion of bank advances slowed down, in Germany short- and medium-term credit to private customers in the first quarter actually tended to contract a little in absolute terms. In France, on the other hand, bank advances to business and private customers continued to rise, and in Italy the seasonal decline of these credits at the beginning of the year was distinctly weaker than a year previously.

Interest rates on the money markets continued to tend downward or at least (in France and Italy) ceased rising. This trend was supported by Bank rate cuts in Germany, Belgium and—

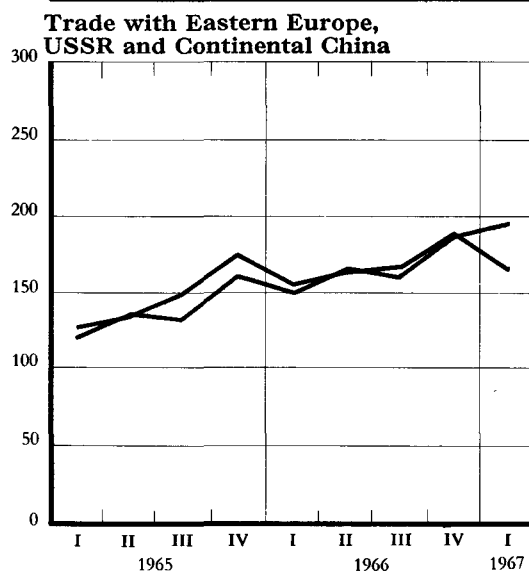
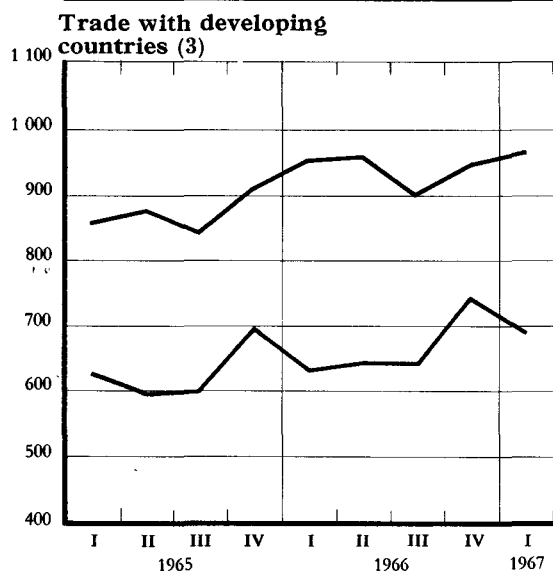
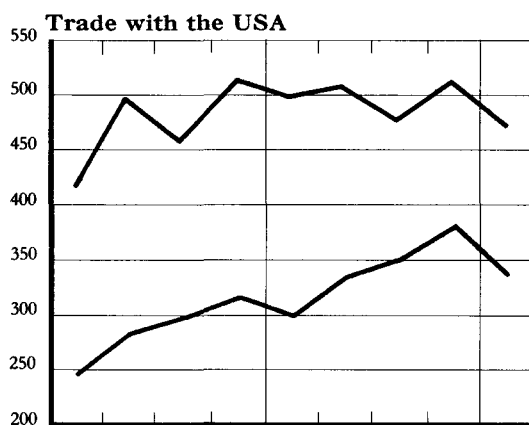
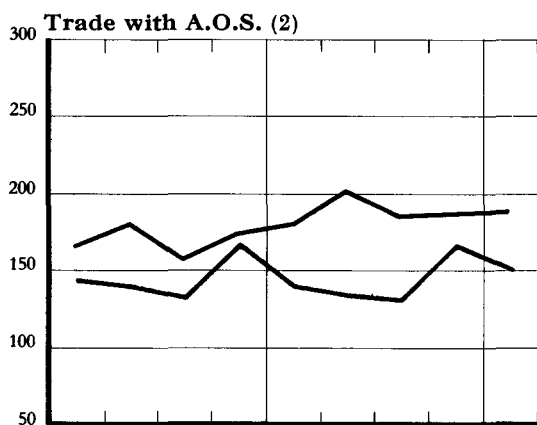
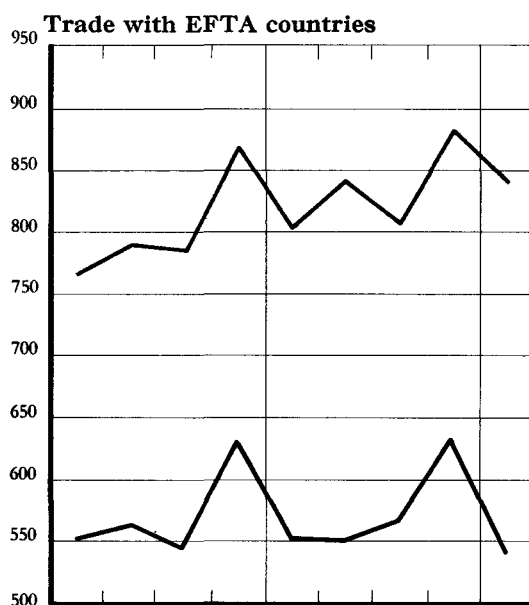
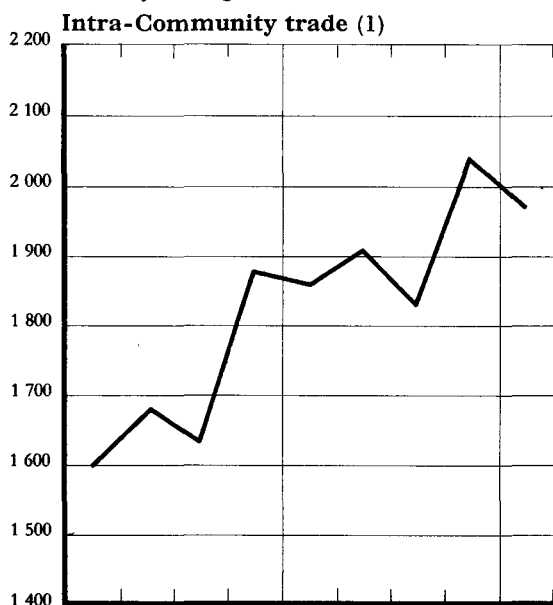
to a lesser extent—in the Netherlands. On the bond markets too interest rates fell again in Germany and in the Netherlands, while in general they showed little change in Belgium, Italy and France. In Italy, however, interest rates rose sharply for a time in April, because it was feared—mistakenly—that rules similar to those already in force on the taxation of dividend income might be introduced.

On the share markets the factors mentioned in the last Quarterly Survey remained important in Germany and in the Benelux countries, particularly the rise in bank liquidity and the liquidity of the economy as a whole, increased saving and perhaps also what is again a somewhat more optimistic assessment of the outlook for business trends and profits. In these four countries share prices therefore continued to recover. In Italy, however, the reintroduction of heavier taxation on dividends has contributed substantially to an acceleration of the decline of share prices observed since autumn 1966. Following these special fluctuations share prices now appear firmer, though the general level is lower. Only in France did the slight decline of share prices continue into the second quarter.

COMMUNITY TRADE

Monthly averages

In million u. a. *



— Exports

— Imports

(1) According to import returns.

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

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

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

B. Outlook

Until the end of 1967, the economies in the Community are, on the whole, likely to develop along the lines suggested in the last Quarterly Survey, with the growth of internal demand probably tending to pick up slightly compared with the weak trend in the first half of the year.

The expansion of external demand (i.e. goods and services actually exported to non-member countries) must certainly be expected to slow down somewhat for another few months. The relative weakness of demand for imports in the United States stands out as a major inhibiting factor. In this country the expansion of gross fixed asset formation, which is of particular importance for Community exports, may continue to lose momentum for some time yet. The McGraw-Hill investment survey of March-April detected no response to the announced reintroduction of specific tax alleviations and to the continued easing of credit policy; if anything, it suggested a further decline of the propensity to invest since winter.

Nevertheless, economic expansion in the United States may well pick up a little in the second half of the year — there are already signs of an incipient recovery. The wage increases granted in 1967 together with other increases “in the pipeline” (which in the aggregate might well be quite substantial) and a certain improvement in social benefits will probably help the expansion of private consumption to pick up again. In addition, in residential construction the stimulating effect of easier finance terms (among other factors) appears to be confirmed. Stock-building too may gradually begin contributing to the growth of production and imports. Lastly, expenditure by the public authorities will certainly continue to support expansion appreciably, although the new budget provides for a slower increase.

As this report goes to press it is still not known whether the increase in direct taxes (of 6 % from the middle of 1967) proposed by the

President will be implemented. In view of the strong expansionary contribution which the Federal budget for the period from July 1967 to June 1968 will probably make, the measure may, after all, be adopted—though probably with effect only from 1 January 1968 (and possibly with a higher rate).

In the circumstances it may be realistic to expect that in the second half of the year the United States will witness an economic expansion which might bring the growth of the real gross national product from 1966 to 1967, i.e. for the full year, to a little under 3.5 %.

In the United Kingdom the decline of economic activity appears to have come to a halt in the meantime, as already pointed out above; there may be a gradual recovery as the year advances. One pointer in this direction is the fact that the investment incentives which became operative during the past half year have obviously strengthened a little the propensity to invest, witness the rise in the number of permits issued for new industrial building projects. The relaxation—though only limited—of incomes policy to be expected will somewhat widen the scope for wage increases from the summer of 1967 onwards and will consequently promote an expansion of private consumers' expenditure, although the easy situation on the labour market which is likely to continue will set rather narrow limits to any increase in the wages and salaries bill. Lastly, public current expenditure must be mentioned as a particularly expansionary demand component; under the new budget it will increase substantially compared with the fiscal year ending in March.

Despite the resumed acceleration of domestic demand in money terms thus expected as the year advances, the real gross national product of the United Kingdom, calculated for the full year, is unlikely to exceed the 1966 figure by more than 1 %. The year-to-year expansion of imports will also undoubtedly still remain relatively small.

At the moment there is no reason for any notable modification of the forecasts made so far of the economic trend in the remaining industrial countries outside the Community. This applies in particular, despite a tightening of restrictive measures of credit and tax policy in Scandinavia, to all the continental EFTA countries. It is therefore still within the range of possibility that these countries' imports—including those from the Community—will increase somewhat faster than in the previous year.

The high level of their currency reserves may enable the developing countries to maintain their fairly expansionary import policy for the time being, although the trend of their export proceeds will probably remain rather weak until after the middle of 1967 in view of the somewhat cautious demand for raw materials by the industrial countries and as a result of the consequent weakness of raw material prices on the world markets.

As regards internal demand in the Community, there are some signs that gross fixed asset formation will pick up in the second half of the year. Investment in the form of building may even pick up quite distinctly. In Italy, it can be expected that industrial and public building activity will expand more vigorously and that residential construction will recover at a faster pace. In France too the recovery of residential construction will probably prove firmer than in the past, and in the remaining branches of the building industry growth can be expected to continue. It is, moreover, probable that in Germany—particularly as a result of the additional investment budget—public investment expenditure—especially on building—will rise again; expenditure on industrial and residential construction, on the other hand, is likely to remain rather depressed. In the Netherlands, the campaign against regional unemployment by the granting of public building and works contracts and the measures designed to support publicly-assisted housing will undoubtedly ensure that investment in building and construction continues at least at a relatively high level. In Belgium, building activity can probably be expected to gather additional momentum, mainly as a result of the continued brisk up-

swing of public building and contracting work, despite the weaker increase in private investment in industrial building and the cautious trend of housing starts in the early months of 1967.

All in all, expenditure on plant and machinery is also likely to improve in the Community, were it only because the trend of this demand component in Germany will probably cease to weigh down the average: in this country the decline of the propensity to invest may come to a halt and give way to somewhat more favourable tendencies—under the influence of cyclical forces, of pressure of competition and pressures to rationalize, of economic policy measures, of the appreciable increase in the liquidity of the economy and of the banking system, of the greater efficiency of the capital markets (in the widest sense of the term) and of considerably reduced interest rates. All the same, actual expenditure on investment can probably not be expected to rise again very appreciably before the end of 1967. In France, managements will probably implement their—expansive—investment plans at much the same tempo as in the past, and in Italy expenditure on plant and machinery may even rise at a faster pace—at least to judge from the results of the EEC Business Surveys. Only in the Benelux countries will this type of capital spending by enterprises tend upwards at a weaker rate (Belgium) or even continue to decline (Netherlands, Luxembourg).

The trend of stockbuilding may well on balance stimulate production and imports. This applies in the first place to manufacturers' and dealers' stocks of finished goods, now that the remaining stocks build up involuntarily have been run down as a result of the current adjustment of production and the recovery of demand. Here, another factor is the disappearance of uncertainty as to the taxation of old stocks once the value-added tax is introduced in Germany and is extended to retail trade in France. Secondly, improved production expectations and the more favourable development of production itself suggest that there will also be a renewed expansion—at a steadily growing rate—of stocks of raw materials and semi-manufactures. Predictions as to future stock trends are always of a

very approximate nature, especially as far as the timing and the extent of the change in trend are concerned; but the mere fact that firms will have stopped cutting down stocks will by itself mean that the economy will be stimulated vigorously.

Judging from the budget estimates for 1967 and from the way budgetary expenditure has been handled so far, public current expenditure on goods and services will undoubtedly continue to rise briskly. And it is unlikely that in the months ahead the expansion of private consumers' expenditure will again tend to slow down: it must be expected that the current pace of growth may even become slightly faster, particularly as there seems to be no general prospect that the propensity to save will rise once again.

The disposable income of households will continue to rise in France and in Italy, probably stimulated—particularly in Italy—by the vigorous expansion of employment as well as by other factors. Moreover, the rise in hourly wage rates in both countries will hardly be smaller than in the first quarter of 1967. It is also a safe assumption that in the two countries income from entrepreneurship and property will go up at an appreciable speed. In Germany, the rise in hourly earnings can hardly be expected to lose further momentum; employment too will probably show a less unfavourable trend than in the early months of 1967. In the Benelux countries, the trend of incomes may remain rather expansionary, despite inhibiting after-effects of the slowdown of economic activity in the first half of the year. In Belgium, the sliding wage-scale must be expected to come into operation again—as it recently did in important industries—since prices are still rising appreciably, and in the Netherlands the slowdown of wage expansion will be less marked for disposable incomes than gross incomes, when the second stage of the income tax cut becomes operative in the middle of 1967. Lastly, allowance must be made for the fact that transfer incomes in all member countries will continue to rise—in some cases even faster than previously.

In view of the expected strengthening of overall demand, the growth of Community supply

will in all probability again gather some momentum in the course of the second half of 1967.

Industrial production in particular can be expected to pick up somewhat. In Germany a recovery growing in strength is not to be ruled out, and in France and the Belgo-Luxembourg Economic Union expansion will probably gather some speed. In Italy, production is likely to go on growing fast. It can be also assumed that in the Community as a whole building activity will show a relatively appreciable rise.

The recovery of internal production expected to occur in the second half of the year should be achieved primarily by advances of productivity. In the circumstances the numbers in paid employment in the Community as a whole will certainly rise only marginally, and this appears to rule out a tendency for the number of unemployed to decline in the second half of the year. But unemployment will probably no longer rise at anything more than a declining tempo and may even stop rising altogether towards the end of the year. One pointer in this direction is that in Germany the expected upswing in coming months and its psychological effects will discourage firms from laying off workers. In France—where it is mainly attributable to a rise in the working population and to structural factors—and in the Belgo-Luxembourg Economic Union, the upward trend of the number of unemployed should at least gather momentum. In addition, with expansion in Italy spreading to the whole of the economy (now also increasingly to the building industry), unemployment in this country may even be expected to fall faster, particularly as the influence of slack economic activity in some member countries on the migration of workers within the Community will decline. Only in the Netherlands, where regional structural difficulties are becoming increasingly evident, may unemployment still be expected to increase appreciably—though also more slowly.

The acceleration of the rise in internal demand in the Community is likely to result in a change in the trend of imports from non-member countries which would be rather pronounced if the change in the economic climate led to a substantial replenishment of stocks of raw

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ²		1967 ³
	At current prices in '000 million u.a. ⁴	% change on preceding year ⁵				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	65.6	+ 3.5	+ 5.9	+ 3	+ 6	+ 0.5
Public current expenditure on goods and services	39.7	+ 4.4	+ 10.1	+ 2.5	+ 8	+ 4.5
Private consumers' expenditure	169.1	+ 4.2	+ 7.7	+ 4	+ 8	+ 3.5
Gross Community product	279.2	+ 4.1	+ 7.7	+ 4	+ 7.5	+ 3.5
Balance exports ⁶ less imports ⁶ (at current prices, in '000 million units of account)	+ 1.4		+ 2.8		+ 3.5	+ 4.5

¹ Source : Statistical Office of the European Communities: national accounts from 1955 to 1965.

² Commission estimates.

³ Commission forecasts.

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

⁵ Community aggregates based on official exchange rate.

⁶ Goods, services and factor income.

Note :

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

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

materials and semi-finished products. As this factor is very difficult to assess, it is impossible at the moment to tell whether the rate of expansion of imports as compared with that of exports will mean a deterioration in the Community's balance of trade. However, the current improvement must at least be expected to diminish; consequently the Community's surplus on current account will probably improve more slowly.

Price trend will probably settle further in the second half of 1967. In Germany, it is unlikely that the upward price trend will continue, while

in Belgium and Luxembourg they should rise more slowly. In France prices are likely to go on rising at a relatively moderate tempo. In the Netherlands, however, further cost increases and special factors (increases in rents and in excise duties from 1 July) will again force up the price level, and in Italy prices must be expected to increase at a slightly faster rate.

The economic trend discernible in the Community so far this year and the prospects outlined above do not call for any very substantial modification of the forecasts given in the last

Quarterly Survey for the trend of the gross Community product for the full year of 1967 as compared with 1966. The fact that in the first half of the year the trend may have been somewhat more sluggish than expected merely suggests that the probable growth rate will now be near the lower limit of the predicted range of 3.5 to 4 %.

According to established practice the Commission in this second Quarterly Survey of the annual series submits a first outline of the development of the economy in the following year as it is considered likely at present on certain assumptions. It must be emphasized that it is particularly difficult and hazardous to make forecasts for 1968. For one thing, the world economic trend must depend in part on unforeseeable political situations (war in Vietnam, Middle East crisis). Another factor—concerning the United States economy—is the uncertainty surrounding the implementation of economic policy measures already announced there and the subsequent economic trend: what with political developments and official action to adjust the economy, the trend in this country is no longer following the customary cycle. But the future business trend within the Community is also unusually difficult to predict.

At a time when business in Germany is very sluggish and there is no way of foreseeing what will be the effects of short-term economic policy and of the cyclical forces making for an automatic recovery, any forecast as to the extent of a new economic upswing in Germany and its repercussions on the other member countries cannot be more than approximate.

There is however little doubt that economic expansion in the Community will pick up quite distinctly in 1968.

One element in support of this trend—though not the major one—will be demand from abroad, the year-to-year growth of which is expected to be faster. Demand in the United States in particular may expand somewhat more rapidly and may force up imports by this country more sharply than from 1966 to 1967.

If no solution is found to the conflict in Vietnam, public current expenditure will again make a heavy contribution to activity. If the opposite were the case, budget policy will probably be implemented sufficiently strongly in support of business trends at least to ensure that fiscal policy does not inhibit the economy. But private consumers' expenditure too is likely to expand distinctly (even in case of an income tax increase), the main factor here being appreciable wage increases. The accompanying improvement of the sales prospects and of the price situation may have a somewhat greater influence on the investment decisions of managements than the pressure of costs. Lastly, the stockbuilding cycle should again enter an expansionary phase in the course of 1968 at the latest, and the recovery of residential construction will in all probability continue at a faster pace.

Economic developments in the United Kingdom will to a great extent depend on whether the policy of economic restraint is eased further. As the short-term development of the British balance of payments suggests—even against the background of outstanding debt—that maintenance of the selective and on the whole moderate relaxation of the checks on expansion will not do any harm, the recovery of private domestic demand—as yet still very reluctant—may be expected to gather some momentum.

Together with government expenditure, which will probably continue to rise vigorously, and a rather appreciable increase in exports, this may lead to a slight acceleration of the rise in the national product and in imports.

In the EFTA countries activity is expected to increase in 1967, but in most of them this is likely once again to reveal numerous bottlenecks in production capacity. This would impede economic growth in real terms in these countries in 1968 but would if anything again strengthen demand for imports—unless radical anti-inflationary measures were taken.

Experience gained so far, on the other hand, suggests that the developing countries will in the foreseeable future react to the current

weakness of their export proceeds with a degree of import resistance, though by that time a growing number of industrial countries may again have started to step up their demand for raw materials and semi-manufactures (notably in view of the relatively low level of their stocks).

The major impulses for the upswing—in excess of the expected slight recovery in the second half of 1967—in the Community in 1968 are, however, likely to come from the trend of internal demand. There is much evidence pointing to this conclusion.

Factors encouraging capital spending by enterprises include the tendency for costs to stabilize, the easing of the situation on the capital markets with reduced interest rates, the labour shortage persisting in the medium term and the prospects of fairly favourable economic development for the longer term. These factors may well lead to an increase in the propensity to invest quite apart from any official measures aimed at stimulating growth. Added to this, there are, however, the effects of the measures already taken to encourage investment, some of which will certainly be given still broader scope and whose period of validity is in any case likely to be extended.

As regards residential construction, it is probable that the recovery which the number of housing starts in most member countries suggests for the second half of 1967 will lead to an appreciable acceleration of actual expenditure in the course of 1968. The downward movement in interest rates, the availability of an appreciable volume of savings, the more flexible policy governing the granting of building permits and the strengthening of public assistance measures will together constitute a strong incentive to residential construction.

There can hardly be any doubt that public investment will rise appreciably in 1968—although the structure of the budget will continue to provoke financing difficulties. What is certain is that a number of the additional public investments decided upon in 1967 for reasons of

economic policy will be completed only in 1968. These are to be financed by loans. The relaxed situation on the capital market will also facilitate heavier borrowing.

The recovery or acceleration of the expansion of private and public investment, together with a more satisfactory trend of exports, will probably also gradually lead to a higher level of employment; unemployment will then tend to fall back. From that time onwards the wages and salaries bill may go up fairly appreciably, and there is no doubt that incomes other than from paid employment will, in this phase of the cycle, which will be marked by a vigorous rise in turnover, expand at least as vigorously. For this reason and also because the propensity to save, recently appreciably increased, will probably revert to a normal level, private consumers' expenditure in the Community is likely to increase at a distinctly faster pace.

In view of the uncertainty accompanying any prediction of internal demand, it is extremely difficult to assess the probable trends of imports, of the trade balance and of current payments as a whole. None the less some deterioration is likely, as imports into the Community will probably grow faster than exports to non-member countries, were it only because firms are now expected to replenish depleted stocks.

In the circumstances the Community product will probably grow at the "normal" rate of 4.5 %, the typical rate for the 'sixties so far. This rate is the mean value of a growth bracket which probably ranges from a lower limit of 4 % to an upper limit of 5 %.

The rise of prices in the Community may in the aggregate slow down further. This applies to Germany and—to a less marked extent—to the Benelux countries, provided of course that policy to spur on economic activity is kept within certain limits. Experience shows that the phase of economic recovery of the type now expected, with its relatively strong advances in productivity up to the point of optimum utilization of production capacity, favours price stability. The after-effects of cost inflation and of the structural distortions of the official

budgets will still be felt : they will take the form of rent increases, higher charges by public utility and transport firms, higher indirect taxes and heavier contributions to old-age-pension and health-insurance schemes, all factors which

will force up the cost of living. In Italy and in France, where economic activity has for some time past again shown an expansionary trend, the tendency for prices to rise may also gather a little tempo.

C. Short-term economic policy

Developments in the past few years, the analysis of the more recent economic trend, the outlook for the rest of the year and tentative forecasts for 1968 show that economic activity in the member countries has been or is passing through an almost classical cycle which may be summarized as follows: as a start economic upswing, boom in investments by enterprises and public authorities; general excess of demand; demand-induced price increases; over-employment; as a result cost push inflation which in its turn, combined with the balance-of-payments deficits that have accrued in the meantime, the anti-inflationary measures taken—particularly in the field of monetary and credit policy—and the resulting excess strain on the money and capital markets, absorbs demand-pull inflation; persisting cost increases; cost-induced price increase (though smaller than the rise in costs); shrinking of the profits of enterprises; deterioration of the current budgets; sales of consumer goods continue to thrive, interest rates go on rising—till, fairly suddenly, the propensity to invest falls off on account of undue deterioration in profit expectations and because of the high cost and scarcity of loan capital for enterprises and, for very similar reasons, also to the public authorities; contraction of investment; slowdown of economic expansion; easing of the employment situation and consequently slowdown of the increase in incomes of households; rise in the savings ratio; incipient moderation of the upward thrust of wages; slackening of the growth of consumption; the stronger the preceding inflation and the more unevenly balanced the weapons used to combat it, the more pronounced are the downward tendencies of industrial production and building and construction activity; rise in the number of unemployed beyond the mark compatible with full employment. Where economic policy requirements in the upswing phase and (at latest) in the cost-push phase have been neglected—i.e. for example, where counter-measures are introduced too late or with the wrong emphasis—this course of events is unavoidable unless inflation is to be allowed to set in again immediately.

The cyclical “built-in” forces making for an automatic recovery already become operative,

however, in the downward trend of the cycle: elimination of obsolete firms, relatively unproductive firms and firms ill-placed from a structural point of view; corrective adjustment of misdirected investments made in the situation of excess demand; improvement in workers' morale; slowdown of the rise in wage costs; increase in the mobility of the factors of production; formation of productivity reserves; return of price stability; increasing caution of public authorities in their current spending, rationalization, retrenchment; rise in the liquidity of the economy and of the banks, downturn of interest rates, considerable improvement of the situation on the capital markets helped by the balance-of-payments surpluses common at this phase of the cycle, by a central bank policy which, under these circumstances, may rapidly withdraw all restrictions and go over to an “easy money” policy, and lastly by the “built-in stabilizer” effect of the deficits (mainly financed at short term) on the major official budgets; stabilization of the propensity to invest and subsequently beginnings of a fresh improvement prompted by the pressure of competition, the achievement of a rational combination of the factors of production and the prospect of stable costs and consequently higher profits should sales build up; renewed expansion of residential construction as soon as interest rates appear to have reached their lowest point; fresh increase in borrowing by enterprises and local authorities, particularly municipalities; return to a normal savings ratio by households; beginning of the new upturn or of the new acceleration of total domestic demand; increase in the total number of hours worked but for some time still no rise in the numbers employed; increased propensity to invest and of actual investment; finally also rise in employment, again substantial wage increases, accelerated expansion of consumption, decline of unemployment.

This pattern has been observed in all the Community countries, though with a certain time-lag from one member country to another—first in Italy, subsequently in France, then in Belgium, Germany, and finally in the Netherlands. Nor is it in all cases absolutely in line with the theoretical model—depending on whether—

as in France—it was subjected to anti-cyclical budget policy treatment early on, in the phase of inflation, or whether such measures were not taken or not applied with sufficient force (as in other Member States), and depending on the strength of the influence of the neighbouring Community countries, that is depending on the degree of interpenetration—necessarily higher for small countries. But it can hardly be disputed that the main features of the cycle have been essentially the same in the individual member countries.

Great importance attaches today firstly to the fact that the economically dominant part of the Community, particularly Germany, is passing through the phase of more or less marked weakness of economic activity; the restraining influences on the rest of the Community are therefore relatively strong—although it must be kept in mind that these restraining effects do not only change the trend of overall demand in money terms, of production and of employment, but also of prices and costs.

Secondly, it is important to note that economic activity in the United States as well is at the moment passing through a phase of slow-down of expansion or even of stagnation—at the high level reached. If stagnation there were to continue, the contribution of trade with non-member countries to the economic expansion of the Community—a contribution which is still expected although external demand has lost momentum—would be severely diminished.

Thirdly, it is important for the present assessment of the economic situation that should the trend rise once again in Germany, it may well be that at that time—that is around 1968—practically the whole of the Community will be in the rising phase of the cycle, though there will still be differing degrees of progress at this phase. This would be of some consequence for short-term economic policy in the Community, all the more so if at that time world economic activity, spurred on by the trend in the United States, were expanding once more.

As regards the first point, it is obviously expedient that in weighting the aims of short-

term economic policy in the Community, there should be a certain shift of emphasis in that now as much importance should be attached to the aim of economic growth as to the aim of stabilizing prices and costs, which in the past few years has—quite justifiably—been given top priority. The significance thus attached to growth can however not apply to all member countries in absolutely the same way, less so for instance in Italy (where economic expansion is already fairly rapid) and in the Netherlands (where there is still a relatively vigorous upward thrust of cost and prices), yet more so in France and Belgium and above all, of course, in Germany. More stress on growth does not of course mean that the aim of price stability could be neglected—not even from a longer term angle.

On several occasions it is pointed out in this report that in Germany the “built-in” cyclical forces making for an automatic recovery and the measures taken so far to support and encourage economic activity could well suffice by themselves to get the upswing under way again. It would therefore be wise to wait and see how the economic trend develops and what effects the measures have before any important new steps are taken. This does not rule out a further strengthening of the expansionary lines of monetary and credit policy, nor more vigorous action to encourage Länder and communes to step up their own investments. Limited interim arrangements in the tax field might also be used to combat the tendency for firms to run down stocks (should this persist). But no decision should be taken to spend new large amounts of additional public money, financed by short-term borrowing, or to make tax cuts “financed” the same way) before the effect of current policies is discernible. Otherwise there would be the danger of “too much of a good thing”—that is that sooner or later new vigorous inflationary tendencies would emerge which then could hardly be combated in time.

If it turned out, however, that contrary to expectations the economic trend was still pointing downward in May-June and that the upswing after the vacation period was much too weak, there should be no hesitation in starting a new campaign to stimulate economic activity.

The best policy would then again be additional public investment; in contrast to the last campaign, however, the main emphasis should then be on the granting of loans for financing purposes to the regional and particularly to the local authorities. The Federal Government has already announced that it is preparing a second contingency budget—just in case.

Similar considerations apply to Belgium, where the authorities should first wait until the effects of economic growth measures and regional conversion measures are discernible before any new far-reaching measures are taken. The effects of German economic policy, which has an important impact on the Belgian economy, should also be taken into account. It may however be expedient to allocate the funds intended to be spent as investment incentives not mainly for new investments but to a large extent also for investment in existing enterprises.

Only in France may it be appropriate to take some additional action, beyond the measures already taken to modify government expenditure and to allow a certain tendency for the budget to accumulate a deficit. A suitable field would be residential construction, which has run into some difficulties in consequence of a switch to new financing methods. In July, in fact, certain measures were already adopted with this objective in view.

These suggestions do not, however, account for all problems in all the countries: in addition to measures to support or revive the expansion of internal demand through the acceptance of the "built-in" stabilizer effect of the budgets and through programmes (financed to varying extents on the money markets) to promote investment, measures should also be taken once again to improve the growth conditions. The authorities should, in other words, restore the revenue and expenditure pattern of budgets, which has strongly deteriorated in the past few years, to a sound state, and the need to improve the profit situation and the profit outlook of enterprises should not be neglected. The main aims of such measures must be to check the expansion of public current expenditure (the bulk of which is consumption expenditure) and,

if absolutely necessary, to increase current receipts (at the expense of private consumption)—the objective being not only an absolute but also a relative new increase in public saving. With regard to enterprises, one aim of incomes policy should be to ensure that the slowdown of the rise in costs is adequate with prospects of lasting some time: but the opposite extreme—with a trend of wages and consequently of the purchasing power of the population too weak to sustain economic expansion—must also be avoided.

Such a policy would also be in line with the recommendations of 22 December 1966 which the Council addressed to the Member States on the guidelines for short-term economic policy in the year 1967—not only in the interest of the stabilization of prices and unit costs but also with this very objective of longer-term economic growth.

On these points, most Member States appear to have complied only partly with the Council recommendation so far. There have been considerable efforts, which include in Germany a cutback of the expansion of Federal Government expenditure by some DM 3 500 million, in Luxembourg the decision to make a small cut in current expenditure compared with the original budget for 1967, in Belgium decisions (not yet defined in terms of figures) concerning the curtailment of current expenditure (particularly with regard to education, health insurance and workers' old age and disability insurance) and in the Netherlands at least a firm intention to offset additional expenditure by cuts elsewhere. In France official policy has been started to reduce the deficits of the public transport and utility enterprises and of the social insurance institutions.

But in Germany and in the Benelux countries such of these measures as are in fact being implemented are based on the balances of the current budgets as estimated for 1967, which even without the effects of the slowdown of economic activity were mostly considerably less favourable than those achieved in 1966. Also, there is still the danger—notably in the Netherlands—that the present budget estimates for

current public expenditure may be exceeded. Many of the "structural" improvements in the balances of the budgets achieved so far are therefore far from absolute. An indication of how inadequate the measures taken are is the tendency to budget once again for heavier deficits which (even assuming an improvement in the economic situation) was discernible in most member countries when discussions began on the 1968 budget.

There is therefore an urgent need for further measures in Germany, in the Benelux countries but also in Italy; they could be carried out best as part of a medium-term budget programming scheme, but should nevertheless not be made dependent on the feasibility of such a scheme. If the additional reorganization measures mentioned before are not taken it must be anticipated in some member countries that the upswing expected sooner or later may very soon again show a deflationary bias as a result of the insufficient accumulation of savings, and that the subsequent cost-push phase will once again impair profits and official budgets (both already structurally distorted) so that a really serious downturn of the economic trend would inevitably ensue.

To prevent a reorganization drive of the type recommended from adversely affecting the present economic situation, care would, however, have to be taken to ensure that the improvement in the current budgets achieved was reflected in correspondingly increased capital spending. Inasmuch as it is considered necessary also to increase taxes, rates and contributions, these increases could perhaps be decided upon but be put into force only when economic activity is actually gathering momentum again.

The more efficiently measures to give the budget a sound basis are applied or pursued, the easier it will be to maintain monetary and credit policy along expansionary lines—i.e. by the right policy mix—and the lower the interest level may be.

As regards the second point, (effects of the American economic situation), many Americans

—including Administration and Federal Reserve experts and the economic advisers to the President—believe that domestic demand in the United States will pick up again in the second half of the year. The key to the new trend will be the federal deficit, due to rise very steeply even if no allowance is made for the present slowdown of the growth of tax revenue resulting from the economic situation. The increase in direct taxation proposed by the President—so far no more than a proposal—would not redress the balance completely. Consequently economic activity in the United States is likely to make a heavier contribution to world economic expansion—and consequently to expansion in the Community—than towards the end of 1966 and in the first half of 1967.

Should it, however, not do so, the authorities should deploy short-term economic policy instruments so as to make the most of the additional margin which would then become available for the correspondingly faster expansion of internal demand. This would be appropriate not only for reasons of economic growth but also with regard to international balance-of-payments equilibrium. Such a relationship between the economic trends in the two areas would help to improve the US balance of payments, and the Community can easily cope with the corresponding deterioration in its own balance. All member countries should be prepared for such a contingency; they should work out corresponding short-term economic policy programmes, with arrangements for securing an adequate flow of finance, and they should keep these programmes up to date all the time if they are not already doing so. If the need for such action became acute in late autumn the application of these measures would have to be co-ordinated throughout the Community—that is they should, if possible, be based on a Council recommendation.

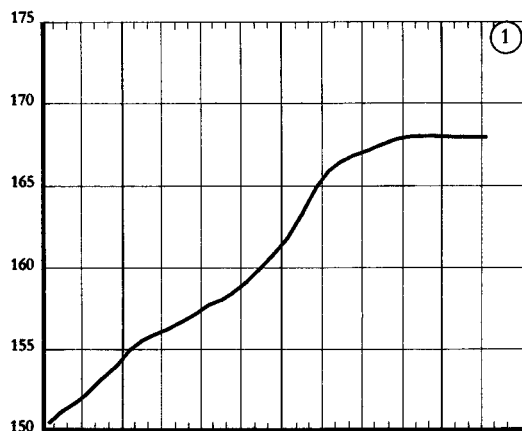
It is, however, more probable that the economy of the United States will, in the course of the second half of 1967 and even more so in 1968, once again make a stronger contribution. At the same time it is possible that this period will also cover the point in time at which trends in practically the whole of the Community will be swinging upwards; this would then be the situation referred to above as a third

consideration of importance at the present juncture. If the trends developed not only along parallel lines in the Community but were also in phase with the trend in the United States, the tempo of the upswing could be accelerated appreciably; the "economic balancing act" due to the interaction of trends moving in opposite directions might then give way to a phase of cumulative growth. It is clear that this would

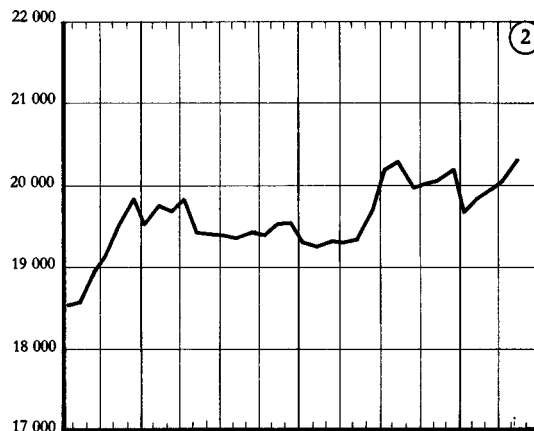
present both a danger and an opportunity: the danger of overheating which might set in earlier than otherwise, but also the prospect that the co-ordination of short-term economic policies in the Community could be made considerably easier. The way to take advantage of this opportunity is to place short-term economic policy as far as possible on a Community basis.

ECONOMIC INDICATORS

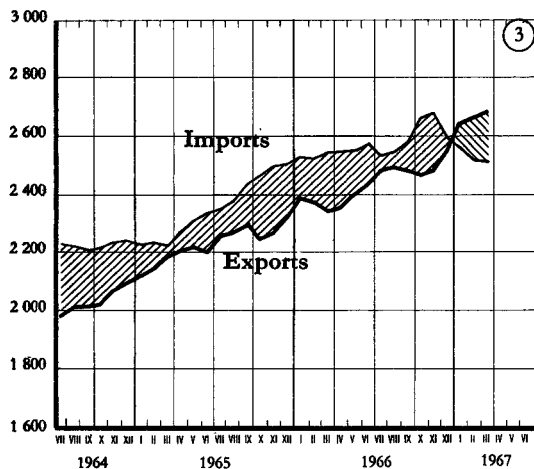
Industrial production 1958 = 100



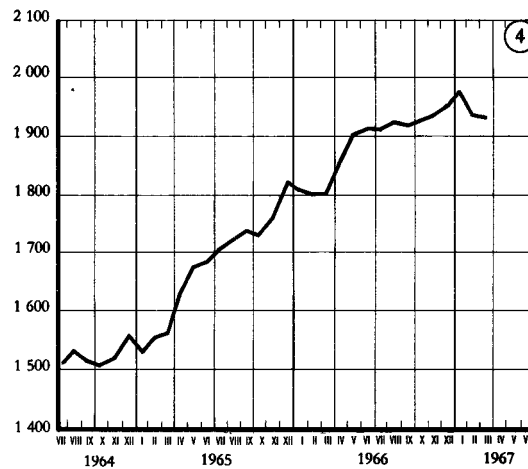
Gold and foreign exchange reserves million u.a.



Trade with non-member countries million u.a.



Trade between member countries million u.a.



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 (1965)

Total area ('000 sq. km.)	1 167.5
Total population ('000)	181 550
Density of population per sq. km.	156
Numbers in employment ('000)	74 650
Numbers in employment, breakdown by main sector (%)	
— Agriculture	18
— Industry	44
— Services	38

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	5.8	4.2	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	4.2	4.2	149	61
Gross fixed asset formation	10.3	10.1	7.2	5.3	8.4	3.5	3.2	172	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	4.6	3.1	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	123	162	167	171	166
	1966	162	166	170	174	173	175	157	134	170	173	178	172
	1967	.	.	.	.	.	.	.	.	.	.	.	.
Imports from non-member countries (cif, million u.a.)	1965	2 243	2 090	2 422	2 363	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	2 609									
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									
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	+ 69									
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	1 853	1 902	1 968	1 853	1 686	1 967	2 015	1 977	2 013
	1967	1 925	1 861	2 145									

NOTES

Source : Statistical Office of the European Communities.

Table 1

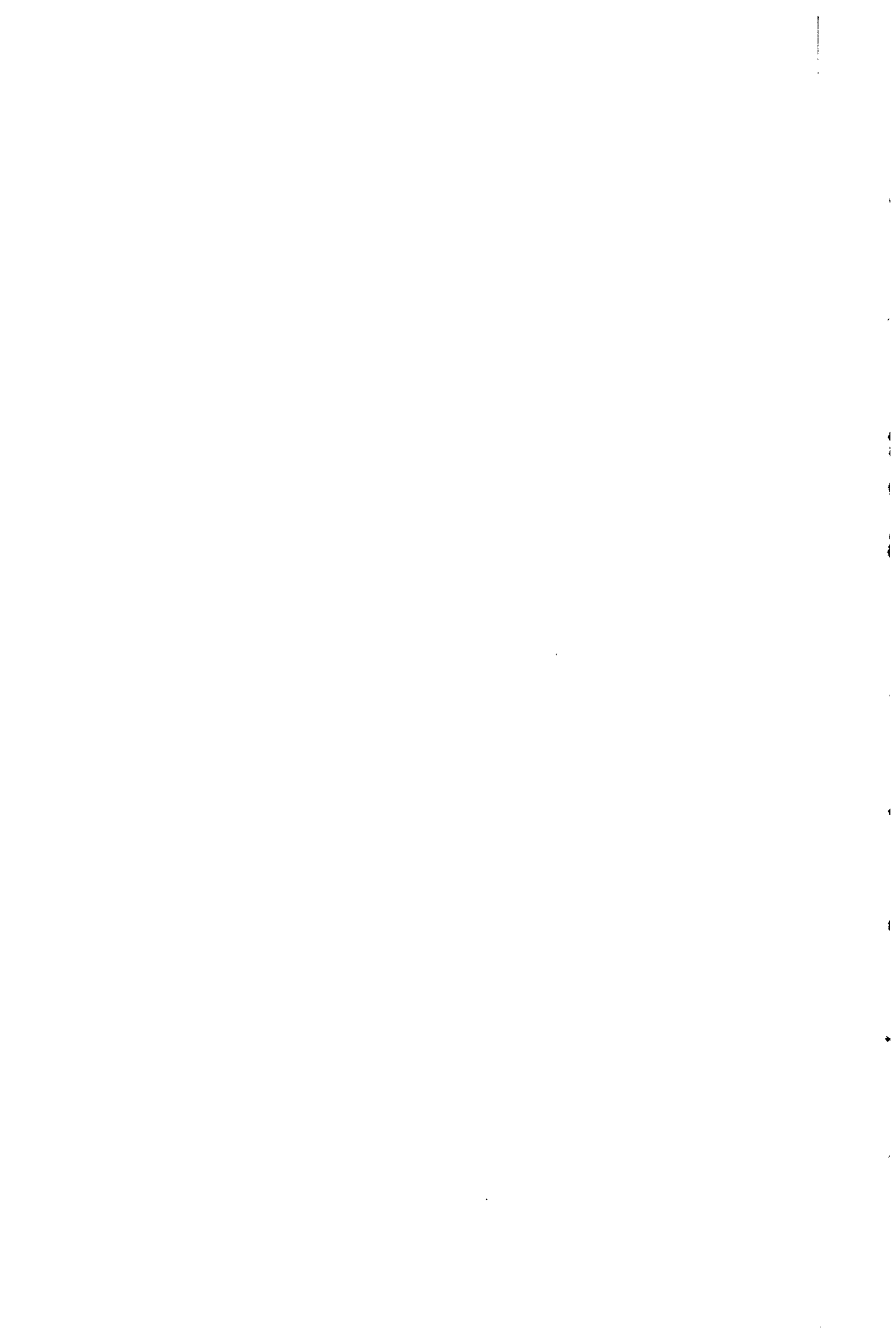
- Total population at mid-year.
- Numbers in employment at mid-year.

Table 2

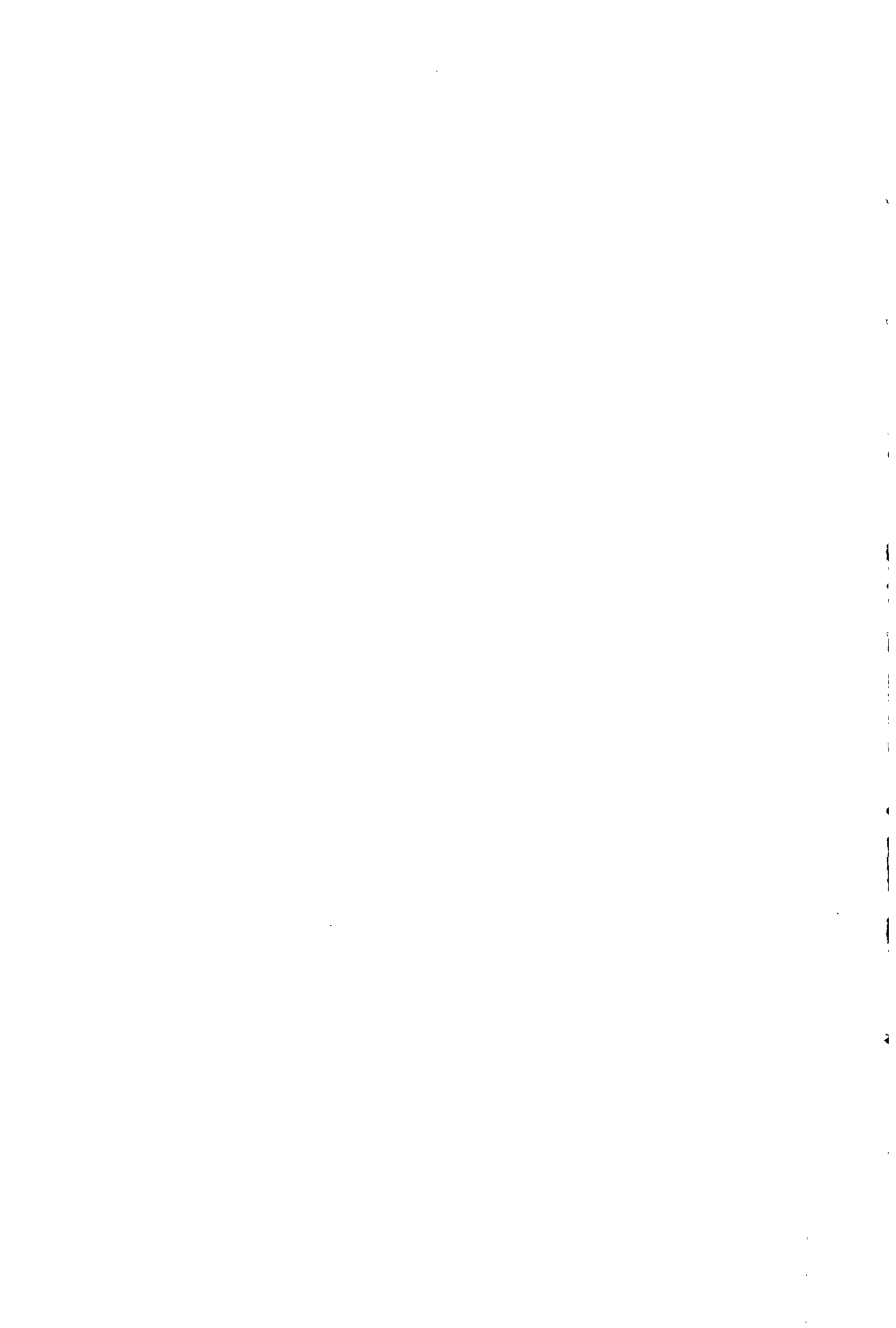
- The final column of the table gives a % breakdown of GNP at market prices by main categories of expenditure. The calculation of the Community's GNP has been made on the basis of official exchange rate.
- Industrial production: index of the Statistical Office of the European Communities, excluding construction, 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).



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



A. Federal Republic of Germany

In the first quarter business activity continued to slacken for a time, but in the spring the situation seems to have become steadier.

In the first three months of the year investment as a whole was still declining very appreciably. Private consumers' expenditure was also increasingly slowed down by inhibiting factors and by then was expanding only marginally. The upward movement of foreign demand, however, persisted, though at a slower pace and, as hitherto, helped to boost business activity.

The generally very hesitant trend of demand resulted in a further drop in industrial production and in building and construction. None the less, the rate of decline of industrial production already seems to have slowed down again; it is even possible that the level of production may have stabilized. The remaining components of the net domestic product, nevertheless, may have continued to expand, though in some cases more slowly. Imports declined again.

On the labour market an increase in underemployment was avoided. The number of unemployed persons fell steadily from the February peak, but after adjustment for seasonal variations there was still no substantial reduction in unemployment.

Considerable progress was made towards the re-establishment of domestic stability; the upward movement of prices and wages eased distinctly. There were considerable surpluses on the visible trade account.

Economic activity is still likely to be relatively subdued in the coming months. As hitherto, however, there is a good deal of evidence that by the end of the year a definite recovery of economic expansion will have set in. Should, however, the economic measures already decided upon and "built-in" cyclical recovery factors not suffice, further steps would have to be taken.

1. Recent developments

In the first months of the year the expansion of exports of goods and services seems to have slowed down somewhat. Visible exports (according to the foreign trade figures) were nevertheless 9.6 % in value and 9.2 % by volume higher in the first quarter of 1967 than a year previously; in the preceding quarter the year-to-year growth rates were just on 13 % and 12.2 % respectively.

The key to this trend was a slight weakening in the pull of foreign demand, though the export drive by German firms was if anything

stepped up further. Exports to the United States, in particular, were influenced by the reduced receptiveness of the American market. Visible exports to the Community countries showed divergences patterned on the varying business trends in those countries: exports to Italy expanded more rapidly and those to France remained at a very high level, while adjusted exports to the Netherlands and to Belgium and Luxembourg showed a downward trend.

The underlying trend of overall domestic demand in the opening months of the year was slacker than in the fourth quarter of 1966.

The decline may well have persisted through the first quarter right into the spring, but at a decreasing pace.

Gross fixed asset formation definitely declined. In industry, in particular, the trend of actual expenditure on investment was entirely influenced in the first months of the year by the current deterioration in the propensity to invest, which was particularly marked towards the end of 1966 and seems to have halted only recently. This applies to investment both in plant and machinery and in building and construction. Public investment also continued to decline and there was a downward trend in residential construction.

All in all investment in plant and machinery was distinctly lower than in the same quarter of 1966. The decline in building investment was less sharp, but the difference in weather as between the two years had something to do with this.

Firms were still endeavouring to keep stocks down. Although it was possible, mainly in some branches of the consumer goods industry, to reduce the accumulation of stocks appreciably by suspending production, businessmen still felt that stocks were too heavy. Be that as it may, the pressure exerted by stocks, to judge by the results of the EEC Business Survey, does not seem to have increased as much as in the preceding quarter.

The expansion of consumer spending as a whole slowed down further in the first quarter, but public expenditure on goods and services showed a further considerable rise. Private consumers' expenditure, on the other hand, was by then tending to rise very little, on account of the effects of the decline in employment, the reduction in overtime working, and the slower rise of negotiated wages and salaries on the nation's gross wage- and salary-bill.

In the first quarter total gross wages and salaries were still only 2.5 % higher than a

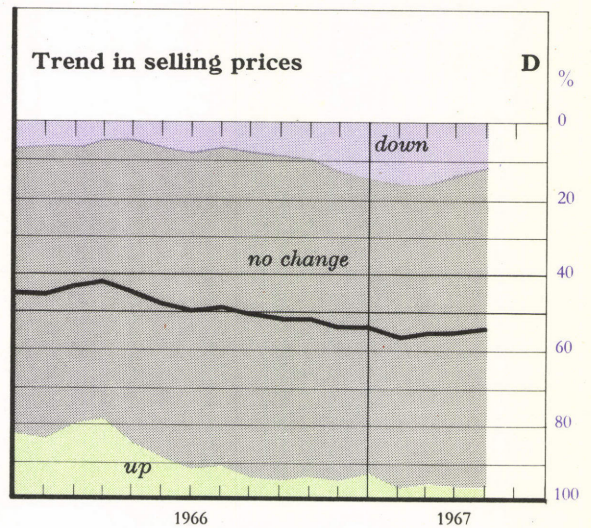
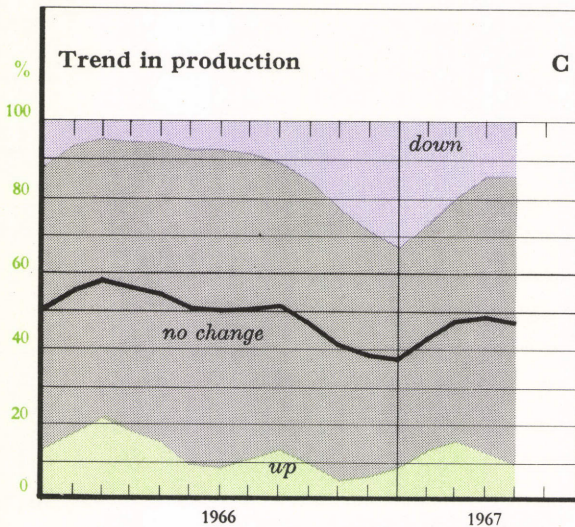
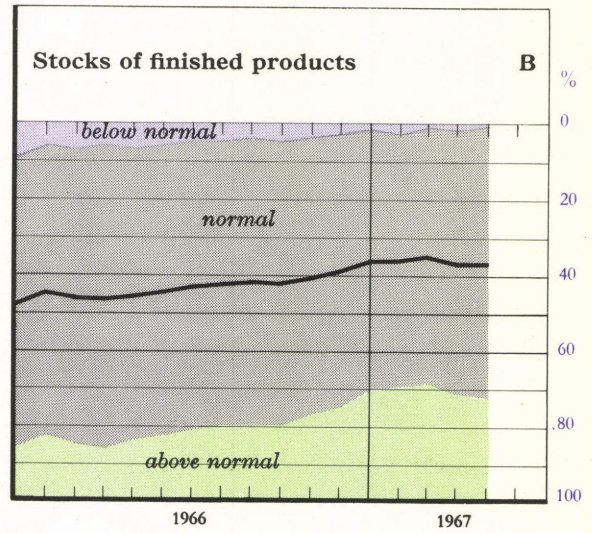
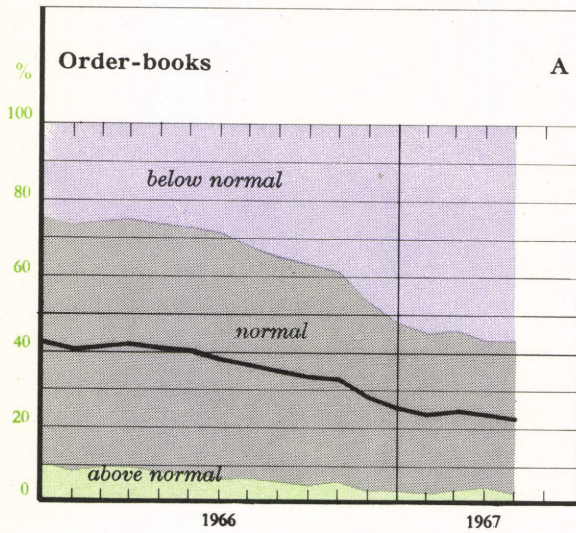
year previously, after a 5.5 % year-to-year growth rate in the fourth quarter of 1966. Despite a very sharp increase in social transfer incomes the growth rate of total mass incomes (net) therefore fell from 5.3 % to 4 %. Lastly, income from entrepreneurship and property made what was probably only hesitant progress because of the general trend of business and profits.

On account of the changed business and employment climate, households were in many cases compelled to limit or postpone purchases and this encouraged a relatively high level of saving. This restraint hit replacement purchases of consumer durables (e.g. cars, refrigerators) hardest, postponement of which is apparently not felt to influence living standards directly. In contrast, expenditure on beverages and tobacco, travel and other services showed a further distinct rise; increases in rents, however, had something to do with this. Retail sales in the first quarter were running only a little ahead—2.3 % in terms of value—of the figure for the same period of 1966.

Monetary demand trends—in particular investment in capital goods and stocks—were reflected in the trend of supply and prices. Domestic supply, i.e. production, may have made no progress or even declined slightly. The further slackening in industrial production, after adjustment for seasonal variations, was fairly appreciable. It is nevertheless true that the rate of decline fell towards the end of the first quarter and industrial production may even have been running level in the following two months. According to the Federal Statistical Office's index of production per working day this supply component was 5.5 % lower in the first quarter than a year previously, after a 1 % decline on a year-to-year basis in the final quarter of 1966, but one reason for this is that in 1966 the adjusted trend had risen right into the spring.

The capital goods industry was the one in which output lagged furthest behind the level of the corresponding period in 1966; next came the consumer goods industry, while food, beverages and tobacco were slightly up. Building and construction were 7.3 % down.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three colours (green, grey and violet) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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

Production in the other sectors seems to have made better progress : it was normal in agriculture, there was moderate expansion in services and probably also in some craft industries at least, a relevant factor here, perhaps, being the greater availability of manpower.

On the labour market the underlying situation did not change in the first quarter to the extent that it had done in autumn 1966. The number of persons unemployed, which by the end of 1966 had risen to 372 000, increased it is true to 674 000 by the end of February, but here seasonal forces as well as the slackening business trend played a role. Subsequently the number of unemployed persons declined by roughly the right figure for this time of the year. By the end of May there were 458 000 unemployed (about 2.1 % of the total number of employed and unemployed workers). The number of workers on short time did not show such a distinct decrease; at mid-May it stood at 173 400.

At the end of May the number of unemployed persons was 350 000 higher than a year before and in mid-May that of workers on short time was more than 170 000 higher than in mid-May 1966. On a year-to-year comparison the number of foreign workers in employment dropped by nearly 180 000. At the end of March, nevertheless, they still totalled about 1.06 million, i.e. 5 % of the number of persons in paid employment, as opposed to 3.9 % in March 1964, a year in which the German economy was booming. The total number of persons in paid employment went down from the first quarter of 1966 to the first quarter of 1967 by some 3 % (5.3 % in industry and 13.5 % in building and construction). It is interesting to note that the decline in number of persons employed in industry corresponds fairly closely to the decline in production; therefore labour productivity did not improve, despite a considerable decrease in time lost through sickness. This means not only that employers are hesitating to lay off workers, but also that considerable reserves of productivity are accumulating for the new upswing.

In the opening months of the year imports of goods and services may for a time have

shown a further distinct fall. Visible imports in the first quarter, according to customs returns, were 7.6 % by volume and 9.2 % in value below the level of a year before. While at first it was mainly imports of raw materials and capital goods that were reduced, later purchases of consumer goods also contracted for a time.

Because of this trend, the tendency for prices to rise eased considerably. Producers' prices from February on were actually below those of a year before; by April the year-to-year decline was 1.4 %. The increase in consumer prices continued, but at a far slower pace. The cost-of-living index (for the average consumer group) rose from December 1966 to April 1967 by 0.6 %, in part because rents and some taxes were raised. In April the index was running 1.6 % ahead of the same 1966 figure.

The declining trend of imports and the continuing rise in exports were reflected in a further improvement in the balance of trade. According to foreign trade returns the surplus in the first quarter amounted to DM 4 300 million, compared with DM 3 500 million in the last quarter of 1966 and DM 850 million in the first. With a further deficit on services and transfers the current account yielded a surplus of DM 2 900 million in the first quarter. In the same quarter there was also a surplus on capital transactions (excluding changes in the commercial banks' foreign exchange holdings but including the residual item, which always fluctuates considerably at the turn of the year). Consequently the overall balance of payments showed a surplus of DM 3 400 million, against DM 213 million a year before.

However, official gold and foreign exchange reserves rose from the end of September to the end of March by only DM 142 million. One reason was that the banks re-exported in January the funds that had been repatriated in December for end-of-year window-dressing purposes; but another was that on account of higher interest rates abroad and because of firms' slack demand for credit, other funds

were also exported. The heavy surplus on the balance of payments, therefore, did not burden international liquidity to any important extent.

The balance-of-payments trend engendered all the same a further expansion of the banks' domestic liquidity, a development which, moreover, was still being encouraged by the Bundesbank's action to relax restraints (mainly by lowering minimum reserve rates). In these circumstances it was possible to finance the public authorities' cash deficits, which had been swollen by smaller tax revenues due to the economic situation, largely out of bank liquidity; in the first three months of the year bank advances to the public authorities increased at a decidedly sharp pace. Short- and medium-term bank advances to business and private customers on the contrary remained stationary and then even declined slightly. Apart from the generally slack business climate, the main reason why the demand for credit by industry and commerce was sluggish was that firms paid relatively little tax in March because of their low assessment of profits at the main tax due-date.

This being so, the banks' purchases of securities increased considerably. Since, in addition to this factor, a savings spurt also helped to bring interest rates down, other investors gained confidence as well. As a result the situation on the securities market improved appreciably. On the market in fixed-interest-securities the authorities were able to float large public loans again for the first time after a long interval.

The yield on all outstanding fixed-interest-securities, which in December had still been 7.6 %, eased by April to 6.9 %. The stock market made further distinct gains, despite fluctuations. The Federal Statistical Office's share price index went up by 6.5 % from December to April.

2. Outlook

It is very difficult to define the prospects for the economy during the rest of 1967 mainly because it is not yet possible to judge exactly what results the official economic measures taken so far will have.

It is likely, nevertheless, that foreign demand (i.e. actual exports of goods and services) may rise further though certainly not as much as in 1966. Despite tendencies for the economic trend to slow down on some export markets, further expansion of exports can probably now be expected, yielding a year-to-year figure of some 7 %.

From the angle of expenditure on gross fixed asset formation, the trend of fixed business investment will probably still have a restrictive effect on overall monetary demand in the coming months. This is again particularly true of investment in plant and machinery, where probably no very radical recovery is to be expected before the end of the year. As early as the second half of the year, however, there could be a recovery in the climate of investment because of the accumulation of liquidity and the probably low interest charges (by then probably even lower), the easing in the upsurge of wage costs and, finally, the psychological and practical effects of the sharp increase in central government spending. Firms have been authorized to write off assets faster until the end of October 1967 and, under the circumstances, this may also encourage heavier investment than hitherto. The relatively low utilization of capacity will, it is true, for a time restrain any propensity to extend plant, as long as out-of-date or structurally inadequate plant and misdirected investments have not been eliminated sufficiently and as long as the prospects for the expansion of demand are not more promising. Managements are likely, however, to feel more strongly the need for rationalization. In any case, an effective recovery of investment in plant and machinery, as has been said, will probably materialize only towards the end of the year.

The prospects for the trend of investment in construction can perhaps be assessed with more confidence. Here it seems fairly certain that in the second half of the year there will be something of a recovery in the underlying trend. Three-fifths of the funds distributed or to be distributed under the supplementary Federal capital budget are earmarked for building and construction. Moreover, extensive investment expenditure will also be incurred

over and above the normal budget; because of a time-lag here too, such expenditure will likewise begin to make an impact mainly in the second half of the year and so will the sum of some DM 600 million accruing to the local authorities from the mineral oils tax. Lastly, the lower interest level should make public and private parties more ready to contract debts and should therefore increase their readiness to embark on building projects. It will, however, still be some time before this is noticeable in the effective trend of building activity, particularly in residential construction, which will probably not show any distinct rise in the near future.

The stockbuilding trend may have a less restrictive effect in the second half of the year. For purely technical reasons, the drive to curtail stocks, which hitherto have weighed relatively heavily on production and, in particular, on imports, cannot be pushed beyond a certain limit. The mere fact that firms are no longer running down stocks is enough by itself to stimulate production and import growth. The switch on 1 January 1968 to the value-added tax system could, however, delay for a time plans to replenish depleted stocks, there being some uncertainty as to how old stocks will be taxed.

As for consumption expenditure, only public expenditure on goods and services may be expected to continue expanding sharply, whereas private consumers' expenditure will probably remain fairly slack for a time. For one thing, the incomes of households will probably rise only a little, were it only because the nation's wage- and salary-bill will increase very slowly, with employment at a low level and many firms experiencing sales difficulties. Secondly, saving will probably remain at a relatively high level for a time.

Given overall demand trends, a further decline in the underlying trend of industrial production is not to be expected in the coming months; on the other hand, no really radical recovery is likely in the near future either. The trough of the industrial recession, however, may well have been left behind and the beginnings of

the upturn may soon be clearly discernible. Production of basic materials may even grow substantially once again. Production in the service and craft industries will in any case continue to make progress, though the tempo of expansion will vary according to industry.

In the coming months imports may for a time remain at a relatively low level. However, with overall demand stabilized and likely to begin growing again, the (unadjusted) trend of imports should then pick up. As a consequence, the heavy surpluses on current account would begin to contract again, especially as the expansion of exports also seems to be slowing down.

Price stabilization should make further progress in the months to come. For one thing, all the evidence is that industrial producers' prices will for a time continue to drift downwards. Secondly—in agriculture—nothing at present suggests a renewed acceleration of the present sluggish movement of farmgate prices. Lately dealers' profit margins also seem to have come under pressure, so that the producers' price reductions are being passed on to the final consumers in greater measure than in the past. Nevertheless, rising charges for services (dearer uncontrolled services as well as higher rents and overdue adjustments of public service charges) will force the consumer price level up a little further.

As regards the probable results of the business trend in the full year of 1967 as against 1966, some slight downward adjustments have been made to the forecast—the key figures were published in Quarterly Survey No. 1/1967—mainly in respect of private consumers' expenditure and investment. A direct or indirect reason for this is that some of the assumptions underlying the previous forecasts, for example the rate of disbursement of Federal investment, including the contingency budget, and the structural reorganization of the budget to promote investment expenditure, proved incorrect, or only partly correct, for the periods specified. This being the situation, the growth of the real gross national product must be marked down slightly by a few tenths of a

point; rounding, however, brings the forecast growth rate down by a whole point, from 2 % to 1 %.

Tentative forecasts beyond the end of 1967 suggest a progressive recovery of economic growth in 1968. The main contribution will probably come more and more from private investment (including stocks), but public investment will also certainly increase appreciably. A relevant factor is that finance available to commercial and industrial firms as a whole will probably by then be even more abundant. A slow recovery of employment (total number of man-hours worked) and an acceleration in the trend of wages and salaries, together with a further drop in the savings ratio of households (almost automatic in this phase of the business

cycle) will also induce a re-expansion of private consumption. In these circumstances it seems probable that the gross national product will grow by about 3 % for 1968 compared with 1967.

The authorities responsible for short-term economic policy have taken some further measures since the last Quarterly Survey came out. It was decided that the placing of orders should be speeded up: under the DM 2 500 million contingency budget this was being done very slowly. By mid-June in principle all orders will have been placed. The allocation—likewise long-delayed—of additional funds accruing from the higher mineral oils tax (DM 600 million) was finally made. The green light was given for investment expenditure under the ordinary

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ¹		1967 ²
	At current prices (in DM '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume ⁴
Exports ³	83.5	+ 6.6	+ 9.1	+ 10.5	+ 12.7	+ 6.5
Gross fixed asset formation	109.2	+ 6.9	+ 9.1	+ 0.5	+ 2.8	— 7.5
Public current expenditure on goods and services	61.7	+ 6.6	+ 12.7	+ 0.6	+ 7.9	+ 3.5
Private consumers' expenditure	232.9	+ 6.0	+ 9.5	+ 3.1	+ 7.0	+ 1
Gross national product	413.8	+ 4.9	+ 8.7	+ 2.6	+ 6.3	+ 1
Imports ³	78.2	+ 14.3	+ 17.5	+ 2.1	+ 4.7	— 0.5

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

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.

Federal budget, the bulk of which had been blocked pending adoption of the 1967 budget by the Bundestag. Lastly, unemployment benefit was increased.

The Bundesbank maintained its policy of augmenting bank liquidity to support and reinvigorate the economic trend, partly because of the public authorities' considerable need for credit: public deficits had risen sharply owing to additional "anti-cyclical" investment expenditure, to the slackening trend of revenues (due to the economic situation) and to the very fast increase—curtailed only moderately—in consumer and transfer expenditure. From January to the end of May the Bundesbank reduced the minimum reserve rates three times and thus freed a total of DM 3 200 million for bank liquidity. There were also very large inflows of liquidity due to heavy foreign trade surpluses.

Owing to the increase in liquidity, the hesitancy of many potential borrowers (both capital and credit) and the relatively high savings ratio of households, the interest level on the money and capital markets fell further. Its failure to sink faster despite the "wait-and-see" attitude of many borrowers was hardly due to Bank rate policy—in the space of some four months the Bundesbank cut its discount rate by no less than 2%, from 5% to 3%.

Heavy official borrowing probably goes far to account for the slow pace of the decline. Other factors were the temporarily appreciably higher rates on foreign markets, mainly the Euro-dollar and Euro-currency markets, and what has so far been weak interest-rate competition in the credit system.

A final consideration is that certain factors, which have already almost acquired a structural nature, limit the reduction of interest rates, above all the fact that as a result of the latest demand-pull inflation followed by cost-push inflation the patterns of income and expenditure both in the business and public sectors of the economy have shifted to the disadvantage of saving (corporate profits, public savings).

There is a tendency for this process to persist, at least in respect of the public authorities; where the Federal finances are concerned the details now available on a medium-term financial forecast provide a striking picture of the problem. Even an immediate restoration of full employment would apparently not change the situation basically.

This being so, the relative demand for borrowed capital both by firms and by the authorities for any given (satisfactory) rate of growth has risen considerably. As household saving obviously could increase at the same pace, the shortage of capital has—in structural terms—become more serious than a few years ago, and this is bound to affect the interest level.

With a view to longer-term economic growth, what seems to be needed urgently is a structural improvement in the relationship between public current expenditure and current revenue and—to some extent rendered possible by this improvement—a better relationship between public current expenditure and public investment, in favour of public saving and investment. Similar considerations apply to the private sector: for firms, the upward cost movement must be sharply curbed; if and when the resources of the economy are once again in full use, this will make possible a further improvement in profits, even in the longer term, without the danger of further price increases. In the household sector, for the longer term, efforts should be made not to cut down saving but to maintain the savings *ratio* at a relatively high level. It is clear that this would yield additional available capital and force interest rates down further, which could only encourage the growth of investment, public and corporate, in the longer term at any rate. A recovery in the growth (underlying trend) of private consumers' expenditure should be sought mainly in a further increase in the volume of employment, the key to which would be more investment.

The trend since the summer of last year, taken with the current stagnation is already tending to generate the conditions under which the

economy can expand at the right pace on balanced lines. The prices of final products and of individual cost components have become stable or are rising much more slowly; relations between income and expenditure and the structures of both are changing so that they will be more favourable in the new upswing; productivity reserves (in the broadest sense of the term) are emerging and these will facilitate control of the new wave of expansion and thus keep it free of strain over a longer period.

On the other hand, of course, the post-inflation adjustment period must at all costs—were it only in the interests of the other member countries—be prevented from degenerating into a real recession, that is an actual decline in the national product on a year-to-year comparison. This is a danger that can never be entirely ruled out after a difficult inflationary situation of imbalance. The slowdown of the business trend must therefore be watched closely, and prompt measures applied to keep it within bounds, and an expansionary economic policy is indispensable for the preparation of the upturn as well. The measures that at time of writing seemed necessary to do this have probably in the meantime been taken more or less completely by the authorities responsible for short-term economic policy in the Federal Republic. The Länder and the communes must be induced to support this policy. And the authorities should also start preparing new short-term economic “contingency programmes” to cope with any eventuality; this, moreover, is in accordance with the Commission’s recommendation¹ of 1962 to the Member States that such programmes should always be kept ready. Lastly, the “Law to promote economic stability and growth”—recently adopted—provides further scope for action.²

As for any further economic measures to promote expansion, the outlook for the next

¹ “Memorandum on ensuring institutional and instrumental preparedness to combat a recession or any marked slackening of economic growth”, Doc. II/COM(62)276 final, 28 November 1962.

² This outline law is also based in part on the 1962 recommendations (see Footnote 1).

eighteen months suggests no reason for not awaiting the impact of action already taken, the effectiveness of which could definitely be enhanced if its implementation were speeded up further in various spheres. If, however, adequate signs of a recovery were not discerned. Measures prepared in the meantime should be applied.

3. The economic situation in West Berlin

Economic growth slackened further in the first quarter, although the decline in economic activity was less marked than in the rest of the federal Republic.

The expansion of visible exports even tended to gather momentum; export figures were some 19 % up on the corresponding figure for the previous year, after a year-to-year growth rate of 14 % for the fourth quarters. On the other hand, in view of the rather weak business situation there, deliveries to the rest of the Federal Republic were running at only about the same level as in the corresponding period of the previous year.

The trend of gross fixed asset formation too was somewhat sluggish. It may nevertheless prove to have been a little above the level recorded in the corresponding period of the previous year. This is, it is true, entirely attributable to a sharp increase in investment in building and construction due to the mild winter.

The tendency for private consumers’ expenditure to slacken was also less appreciable here than in the rest of the Federal Republic. Wages did, admittedly, increase at a slower pace, but the expansion of the disposable incomes of households was supported by the continued expansive trend of transfer incomes; these are of greater importance in Berlin because of the relatively large number of persons drawing social insurance pensions. In terms of value, retail turnover in the first quarter was a good 3 % higher than a year earlier.

In the early months of the year employment declined further. In industry (including building and civil engineering) the number of persons in paid employment in the first quarter was as much as 6.8 % lower than in the corresponding period of the previous year. The number of unemployed was 17 300 at the end of April as compared with 6 000 a year earlier; at 13 300, the number of unfilled vacancies notified was 10 000 down on the number previously registered.

In the first quarter of 1967, industrial production, which had continued to expand slightly in the previous quarter, was 1 % down on the corresponding period of the previous year. The slowdown in production can be largely attributed to a recent decline in production in the electrical engineering industry: the output of the mechanical engineering industry actually rose sharply in March.

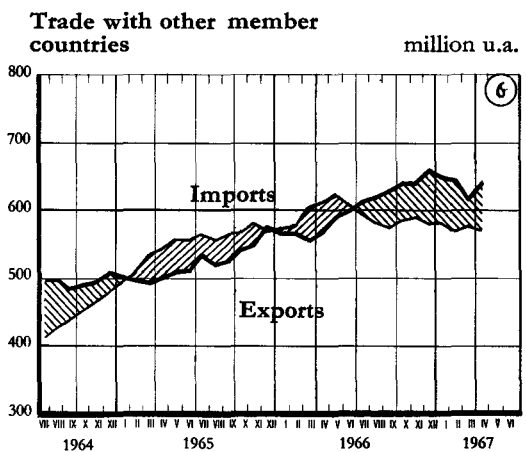
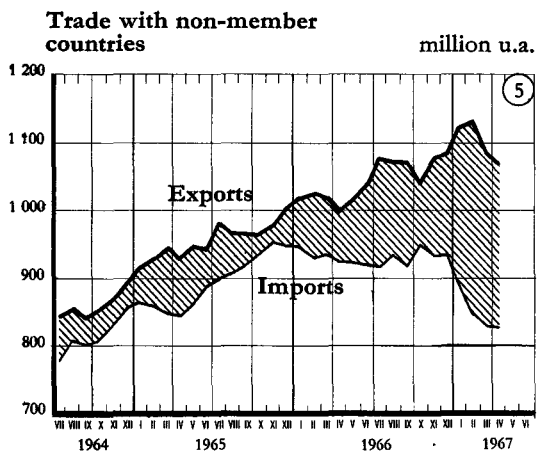
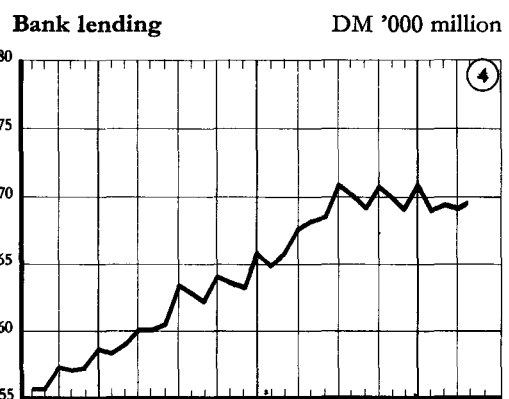
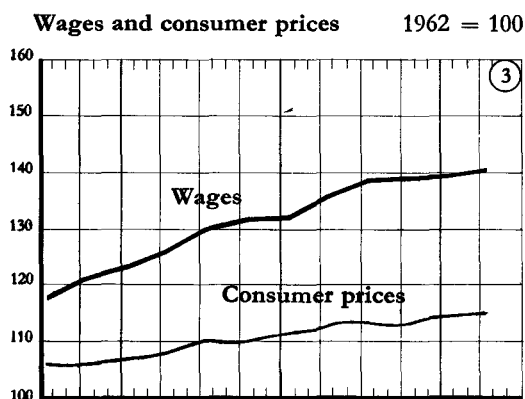
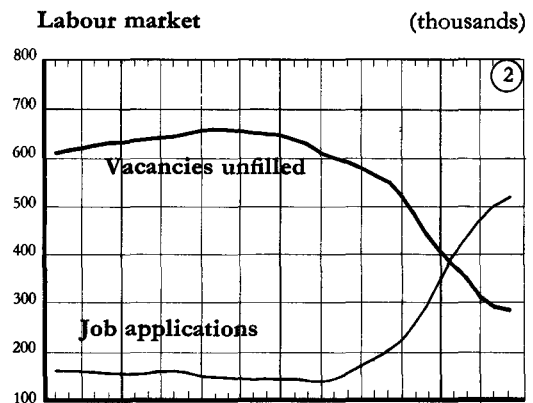
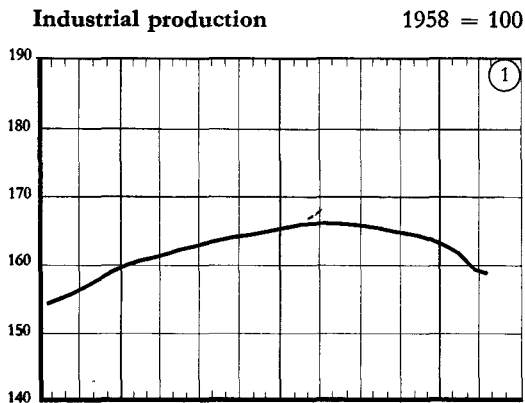
For the first time in years, West Berlin's imports from the rest of the Federal Republic failed in the first quarter of 1967 to reach the level recorded a year earlier. The balance of visible trade with the rest of the Federal

Republic therefore closed with a surplus of DM 21 million as compared with a deficit of DM 35 million in the fourth quarter of 1966.

The outlook suggests that trends in West Berlin's economy will diverge even more widely. On the one hand, the weakening trend in the garment industry, which accounts for just under 10 % of West Berlin's industrial turnover, may well persist for some time to come. On the other hand, however, public contracts placed in West Berlin under the Federal Republic's supplementary investment budget could lead to a further appreciable improvement of production in the electrical engineering industry, an industry which is structurally more significant since its share of industrial turnover in 1966 was 28.5 %.

The present slower economic trend, and in particular the situation on the labour market, should not be allowed to mask the importance of housing policy and efforts to improve the structure of employment. The special character of the West Berlin economy means that economic growth is largely determined by structural policy measures and these therefore have, in the last analysis, a considerable bearing on future prospects for 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 : 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.

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' expendi- ture	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.a.	% of the total
	1960	1961	1962	1963	1964	1965	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	7 318	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	236	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	16.3	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	150	158									
New orders received (1958 = 100)	1965	166	173	198	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									
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									
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	236									
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									
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	168	182	194	242	
	1967	155	148	181	172									
Total visible imports (million u.a.)	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	1 482	1 607	1 530	1 533	
	1967	1 392	1 276	1 442	1 406									
Total visible exports (million u.a.)	1965	1 864	1 353	1 627	1 897	1 544	1 407	1 535	1 297	1 481	1 583	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									
Balance of trade (million u.a.)	1965	+ 33	+ 106	+ 135	+ 1	+ 65	- 77	+ 26	- 77	- 62	+ 17	- 27	+ 162	
	1966	+ 46	+ 93	+ 72	+ 33	+ 160	+ 101	+ 230	+ 88	+ 246	+ 201	+ 189	+ 479	
	1967	+ 357	+ 353	+ 374	+ 461									
Official gold and foreign exchange reserves (million u.a.)	1965	6 604	6 702	6 860	6 825	6 486	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	6 634	6 759	6 722									
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									

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.
- 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 a further slight slowdown in the rhythm of economic expansion in the early months of 1967. The downward trend of exports does admittedly appear to have come to a standstill but the trend in investment in stocks had a perceptibly inhibiting effect and the expansion of private consumers' expenditure may have been somewhat weaker than hitherto because the rise in incomes was only rather moderate. Public current expenditure on goods and services and gross fixed asset formation were the only factors that continued to increase at a brisk—perhaps even a slightly faster—pace. The growth of domestic production and the rise of imports both lost a little momentum.

Nevertheless, the outlook for the coming months points to a gradual increase in the pace of economic growth due to a recovery in demand from abroad and a change in dealers' stockbuilding arrangements. The trend of costs (which is still relatively favourable) and continued keen competition (from foreign as well as French firms) should prevent the upward thrust of prices from gaining in strength for the time being.

This means that those responsible for economic policy now have—and will still have in the second half of the year—some latitude for manoeuvre which can be used to support economic growth without jeopardizing overall equilibrium. In 1968—when, to judge by preliminary forecasts, all components of demand should be in a phase of full expansion—the preponderant requirement could therefore be for measures to improve economic structure rather than for measures to stimulate demand.

1. Recent developments

Exports of goods and services, which had declined in the second half of 1966, steadied early in 1967. However, this return to a somewhat more favourable trend may have been due to purely fortuitous factors such as increased deliveries to the United Kingdom, following the withdrawal of the import surcharge on 1 December 1966, and a revival in exports of agricultural products. It would appear that the slackening of demand from abroad attributable to the sluggish economic situation in many importing countries still persists. Exports to the Federal Republic of Germany in particular tended if anything to decline; in the first quarter of 1967 they were 8.5 % down on the corresponding period of the

previous year. All in all, foreign trade statistics show that overall visible exports were 4.4 % higher in value than in the corresponding period of the previous year.

Domestic demand from final consumers, that is to say total expenditure on gross fixed asset formation and consumption, continued to increase briskly. The trend of investment in stocks, on the other hand, acted as a brake on economic activity.

The increase in gross fixed asset formation may well prove to have been slightly more rapid in recent months, owing in the main to the speedier allocation of public contracts agreed

on at the beginning of 1967 for economic policy reasons. The investment programmes of private enterprises, which called for greatly increased expenditure during 1967, seem to have been put into effect promptly, to judge at least from the results of the survey of investment intentions carried out by INSEE in March 1967 and the figures for the capital goods industry revealed by the most recent EEC Business Survey. As for investment in residential construction, the signs of recovery discernible in recent months, particularly in publicly assisted housing, have become stronger.

Investment in stocks, however, was extremely sluggish on the whole. Dealers even appear to have allowed their stocks to run down as low as possible in anticipation of transitional arrangements (adopted end of April) for the reform of the turnover tax system which provide that from 1 January 1968 the TVA will be extended to cover retail trade. Manufacturers' stocks of finished goods in some industries did, admittedly, increase somewhat precisely because of the more cautious attitude on the part of dealers. Stocks of raw materials are unlikely to have grown further in view of the subdued rhythm of production.

There was probably a somewhat more marked increase in public current expenditure in recent months, associated—in the case of expenditure on materials—with the speedier allocation of contracts towards the beginning of 1967. The growth of expenditure on wages and salaries in the public sector was due to the usual increase in wages and salaries, brought forward this year to 1 March.

The expansion of private consumers' expenditure may well have shown a slight tendency to slow down. It is true that although there was a sluggish start to the year, by March turnover at retail level was again higher than in the corresponding month of 1966 and the number of new cars registered rose more steeply than is usual at this time of year. But on the whole the purchasing decisions of households were rather cautious, largely because of the more sluggish trend of economic activity and the more relaxed situation on the labour

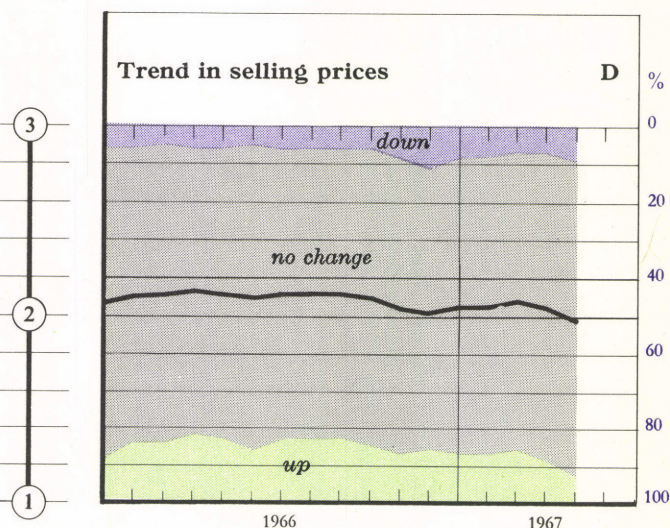
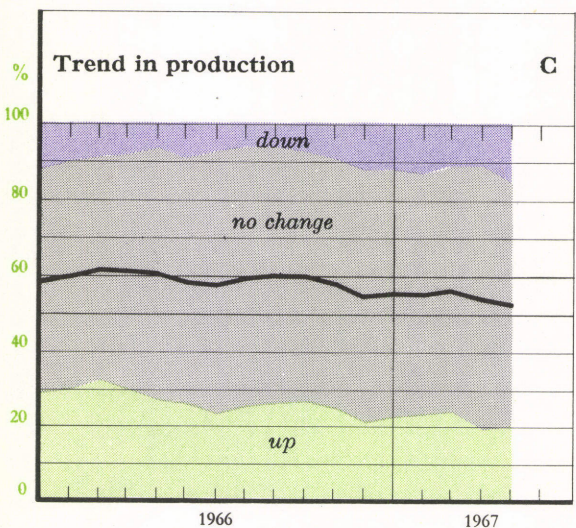
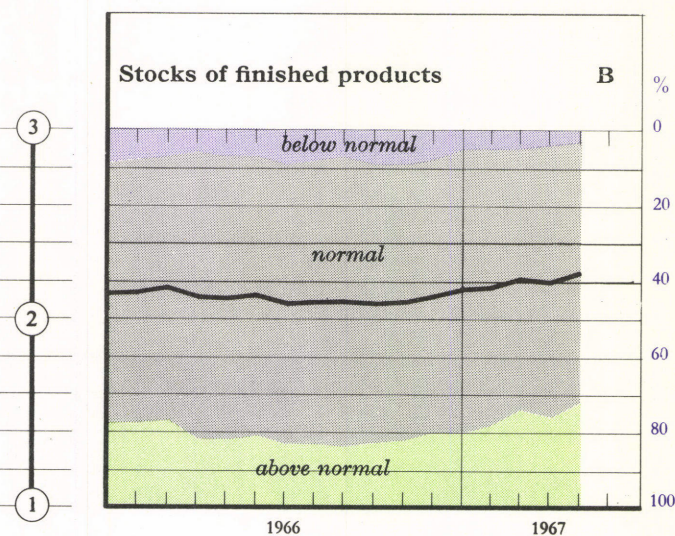
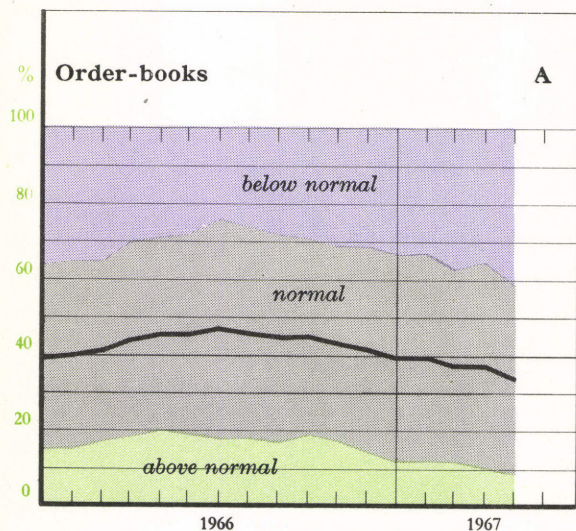
market. Added to this, however, is the possibility that household incomes in the first quarter of 1967 may have expanded at a slower rate than previously owing to the fairly distinct slackening in the expansion of employment at the turn of the year and the further relatively steady increase in hourly wage rates (a yearly rate of close on 6%). It would appear that the savings ratio tended to decline slightly.

Given these developments in the most important individual demand components, it may be assumed that overall demand slackened again a little towards the beginning of the year. The repercussions on the expansion of domestic production, particularly in the industrial sector, were fairly appreciable; the demand for imports has now also begun to slacken perceptibly.

According to the seasonally adjusted INSEE index (excluding construction) there was no noteworthy increase in industrial production in the first quarter of 1967 over the level reached in the last months of 1966. The underlying trend is, however, likely to have been slightly upwards, since statistical returns were influenced by fortuitous factors such as strikes in the textile and metal-using industries. Growth was fairly strong in the capital goods industries; it slackened somewhat in the basic materials industries, and the consumer goods industries had for a time slowed almost to a stop. In the first quarter of 1967 overall industrial production—according to the unadjusted index—was a good 5% above the corresponding figure for 1966. Output in the building industry was almost 6.5% higher than a year earlier.

This relatively limited expansion of production meant that the increase in the total number of hours worked in trade and industry was very small. The situation on the labour market tended to ease further; although the number of vacancies dropped slightly, the number of persons seeking employment grew steadily during the spring months. On 1 May some 34 000 vacancies had been notified and approximately 184 200 persons were registered as seeking employment, as against 37 500 and 142 100 respectively in the corresponding period of 1966 (these figures being seasonally adjusted). If the unemployment ratio were

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D: The three colours (green, grey and violet) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows:

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

calculated not on the basis of figures for those seeking employment but rather on the basis of figures—which are almost twice as high—for those actually unemployed (as a proportion of the number of persons in paid employment)—it is likely that it would currently lie at around 1.7 % as compared with approximately 1.3 % a year earlier.

Imports of goods and services, which had expanded vigorously throughout 1966, levelled off considerably in the early months of 1967. Lower growth rates were recorded for imports of raw materials and consumer goods in particular; imports of capital goods on the other hand maintained a strong upward trend. All in all the volume of visible imports in the first quarter of 1967—based on foreign trade returns—was approximately 11.5 % higher than in the corresponding period of the previous year.

The slight slowdown in the expansion of demand and the cooling of the economic climate which became evident towards the end of 1966 and early 1967 apparently had no dampening effect on prices. Consumer price levels continued to rise at a pace which was still relatively moderate, though it quickened slightly from the spring of 1966 onwards. According to the INSEE index (259 items) the year-to-year increment for the first quarter of 1967 was 2.8 % as against 2.6 % for the first quarter of 1966 and only 2.4 % for the first quarter of 1965. Prices rose most in the services sector. Even if rents are left out of account, the average price level in this sector in the first three months of 1967 was—according to the INSEE index—5.8 % higher than a year earlier (6.9 % including rents). There was also a somewhat more marked increase in prices for finished industrial goods (1.7 % for the full year) while food prices, with a year-to-year growth rate of 2.2 %, rose considerably more slowly than in the early months of 1966.

The steadier development of exports and the simultaneous slackening in the growth of imports meant that the trend towards a deterioration of the trade balance did not become

more pronounced. Nevertheless, the visible trade deficit in the first quarter of 1967 was almost twice as high as that recorded a year earlier—namely FF 2 400 million as against FF 1 300 million. It is likely that the overall balance of payments will barely have reached equilibrium—although the appreciable fall in interest rates on important markets abroad probably caused a certain swing in capital movements—and there may well be a deficit on the current account. In any event, the official gold and foreign exchange reserves (gross) fell again, this time by FF 218 million, between the end of December 1966 and the end of March 1967.

The balance-of-payments situation did not, therefore, have an expansionary effect on the liquidity of the economy in the first months of 1967. Added to this, the overall transactions of the Treasury tended, if anything, to syphon off liquidity, although, because of the accelerated rhythm of expenditure, the budget deficit was much larger than in the corresponding period of the previous year. As before, the only factor which exercised any appreciable influence on liquidity was the lending operations of the banks; at the end of March the volume of short-term loans was running almost 14 % higher than a year earlier.

The money market remained under considerable strain early in 1967; and it is only recently—following the adoption by the Bank of France of a more flexible intervention policy—that there has been any sign of an improvement and of a tendency for interest rates to ease down slightly. On the capital market, the level of quotations remained subdued and the trend of interest rates was very firm. Although there was relatively little borrowing by private firms in the early months of the year and public undertakings made fewer issues to cover their financing needs than in the first quarter of 1966, the local authorities and—to a greater extent—the savings institutes under public law were able to place a very much larger volume of fixed-interest-bearing securities. On the whole, the yield on long-term capital was considerably higher than in the corresponding period of 1966.

2. Outlook

Economic growth, which was rather hesitant in the early months of this year, should increase in pace gradually in the second half of 1967 under the influence of a steady revival of demand from abroad and the possible further stimulus of a change in stockbuilding policies at wholesale and retail level.

The expected recovery of exports depends very largely, however, on the economic situation in the Federal Republic of Germany—the main market for French products—and prospects here are somewhat uncertain at the present time. There are many indications, it is true, that the downward economic trend in Germany has passed its lowest point, but there is likely to be a time-lag before the return to increased economic activity will be reflected in a lasting demand for increased imports. As regards exports outside the Community, the economic situation in non-member countries is on the whole fairly expansionary, and will doubtless generate an increased demand for French products, especially if the competitive position of French firms, both as regards price and delivery dates, remains generally favourable.

If demand from abroad does in fact expand steadily, it would boost the propensity to invest. Industry in particular would most certainly implement to the full its extensive investment programmes, which represent a considerable increase on those for 1966. Investment by public authorities, for which considerable funds are still available from the 1966 budget year, will in any event proceed at an accelerated pace in accordance with the Government's wishes; it is probable therefore that expenditure will be considerably in excess of the amounts voted in the 1967 Finance law. There is every indication that the expected recovery of investment in residential construction, of which the first signs are now discernible, will be achieved in the months ahead. Public housing programmes have been extended and the financing facilities for private housing have been considerably improved by the capital sums and credit facilities made available for the first time under the new system of saving for homebuilding. All this suggests that the trend of

overall gross fixed asset formation in the second half of 1967 will certainly not be less—and might even be somewhat more—vigorous than in the first months of this year.

The inhibiting effect of investment in stocks during the first part of 1967 should gradually disappear with the adoption of transitional measures for the application of the TVA system to retail trade. Some sectors might even step up their stocks—now abnormally low—and this would encourage production in industries serving them.

All in all then, the outlook for the development of employment and incomes of households during the months ahead appears to be somewhat more expansive than hitherto. Because of this, the increase in private consumers' expenditure could also be somewhat more marked, especially since consumers regard their present financial position as being very favourable and have concrete plans for purchasing durable consumer goods. Despite this, the propensity to save is unlikely to decline to any appreciable extent as long as the labour market appears to be easing and there is no radical improvement in the social climate.

On the basis of these assumptions and forecasts, overall demand in the second half of the year should work its way back to a more rapid rate of expansion and generate a faster growth rate for domestic production. Industrial production in particular should expand vigorously once again. It may be expected that output in the building industry, which is in any case expanding under the influence of the accelerated implementation of public investment programmes, will be stimulated further by the increased demand for residential construction.

There should also be a further somewhat more distinct upward movement of imports during the second half of 1967, especially if there is an upswing in dealers' investment in stocks. Since, however, a simultaneous increase in exports is to be expected, the balance of trade is unlikely to show any further serious signs of deterioration, though it may admittedly remain in deficit.

Because of the relatively high elasticity of supply, the upward thrust of prices is unlikely to gain in strength in the months ahead even if the expansion of demand once again gathers momentum—especially since the trend of costs has, if anything, been favourably influenced by increased capacity utilization for some time past. Competition—from foreign as well as domestic suppliers—may well restrict attempts to widen profit margins with a view to increasing sources of self-financing. The further reduction of intra-Community tariffs scheduled for 1 July 1967 should, in addition, have a restraining effect on prices. On the other hand, it may be expected that decisions taken or to be taken in connection with measures to improve the financial position of public

undertakings and of social insurance institutions will lead to a fairly appreciable rise in the level of prices.

There is no need, on the basis of the details given above, to make any major corrections in the quantitative forecasts for the full year 1967 published in the last Quarterly Survey (1/1967). A slight reduction should, however, be made in the rate of increase forecast for private consumption, in view of the fact that consumer purchasing proved more sluggish than had been expected in the first quarter. This would mean that the growth rate of the GNP—at constant prices—would be somewhat lower, amounting perhaps to 4.5 % instead of the 5 % previously forecast.

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
Exports ³	62.7	+ 11.3	+ 11.6	+ 7.0	+ 8.2	+ 5
Gross fixed asset formation	92.3	+ 5.3	+ 9.0	+ 5.9	+ 8.8	+ 7.5
Public current expenditure on goods and services	58.7	+ 3.7	+ 6.3	+ 3.4	+ 6.8	+ 5
Private consumer's expenditure	278.1	+ 4.0	+ 6.3	+ 4.8	+ 7.8	+ 4.5
Gross national product	435.6	+ 4.2	+ 6.8	+ 4.9	+ 7.7	+ 4.5
Imports ³	63.1	+ 3.6	+ 3.6	+ 11.1	+ 13.2	+ 8.5

¹ Les Comptes de la Nation de l'année 1966; Ministère de l'Economie et des Finances, Paris.

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

As far as can be seen at the time of writing, the further acceleration of the rate of economic growth expected during the second half of 1967 should gain full strength in 1968. All the components of demand should expand and interact on each other. The new upswing in economic activity in the Federal Republic of Germany should favour the trend of French exports. Investment activity in the private sector of the economy will increase further—even if, for the time being, managements are a trifle uncertain what action to take, with firms still operating below capacity. Investment expenditure by public authorities and by public undertakings will be governed by the targets set in the Fifth Plan—it will, in other words, be quite expansionary—and private capital will flow increasingly into residential construction. Finally, private consumption will expand vigorously since both employment and incomes will rise and the propensity to consume will be stimulated by rising expectations as to the future. In these circumstances, the GNP could well be 5 % higher in 1968 than in 1967.

The outlook suggests that the task of those responsible for economic policy should be to ensure that a certain amount of room for manoeuvre is available both now and in the months ahead so that appropriate measures to protect and promote economic growth, and perhaps even to stimulate it to a limited extent, may be adopted without jeopardizing overall equilibrium. In actual fact, the availability of unused capacity, not only of the technical means of production but also (in some industries) of labour itself is such that slack could be taken up by a more vigorous expansion of demand without this giving rise to any new pressures on costs and prices. Nevertheless, every decision taken by the authorities with a view to stimulating economic activity further should be very carefully thought out and under no circumstances should their effect extend beyond the time by which autonomous forces of expansion have regained sufficient strength to ensure a satisfactory growth rate unaided.

This applies first and foremost to decisions on budget policy. In the last Quarterly Survey (1/1967) the Commission noted that there seemed to be a case for concentrating the

placing of orders and actual spending by the public authorities to some extent in the first half of the year but that the principle of an overall balance on the 1967 budget should not be abandoned. The Government's arrangements appear to go a long way towards meeting these requirements, though it will hardly prove feasible to avoid a cash deficit this year: a supplementary budget was introduced early in June providing additional funds amounting to approximately FF 4 250 million to be used for advances to social insurance institutions and for investment loans. The proposed reform of the social insurance system, the growing deficits of which in the past year had already forced the Treasury to make advances totalling no less than FF 2 000 million, could however, in the longer term, relieve the budget of a considerable burden and create a margin for further expenditure biased in favour of investment and, consequently, more in line with the needs of short-term economic policy.

One measure particularly suited to present needs would undoubtedly be the encouragement of increased investment in residential construction, since the supply situation here is sufficiently elastic. A further expansion of the programmes for publicly assisted residential construction and the continued improvement of financing facilities for private residential construction, would, moreover, not only be neutral in their effect on stability at present but might even have a favourable influence in the longer run: an increase in the number of dwellings available would make a decisive contribution to solving the problem of manpower immobility, which has invariably proved to be a serious inflationary factor even at an early stage in previous periods of expansion.

Some steps have already been taken in this direction. Early in June the total sum which the *Crédit foncier* may allocate annually as special building loans under its agreement with the Bank of France was raised, the maximum amount of certain advances was increased by 30 % per dwelling and some arrangements made for speeding up the sale of new flats and houses. In addition, funds earmarked for publicly assisted residential construction in 1967 are to be used immediately and in their

entirety and an extension of publicly assisted housing schemes is being considered for the end of the year.

When announcing the introduction of these measures, the Government also gave details of other measures to promote economic activity. These involve, in the first place, further encouragement of investment by the more rapid allocation of public contracts, by investment loans to the electricity industry and export firms in particular, and by the extension of local authorities' credit facilities. The Government also intends, however, to encourage private consumers' expenditure to a limited extent in that credit regulations, in particular for the purchase of motor cars, have been relaxed.

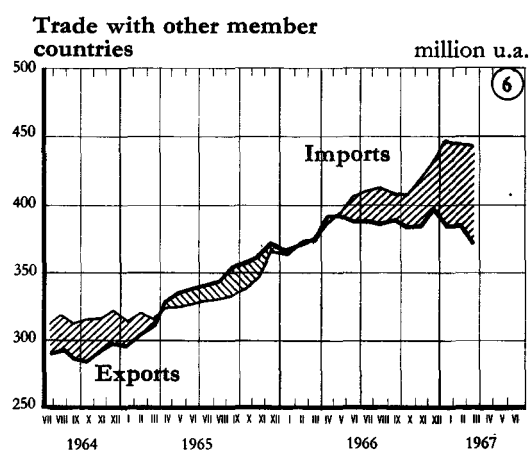
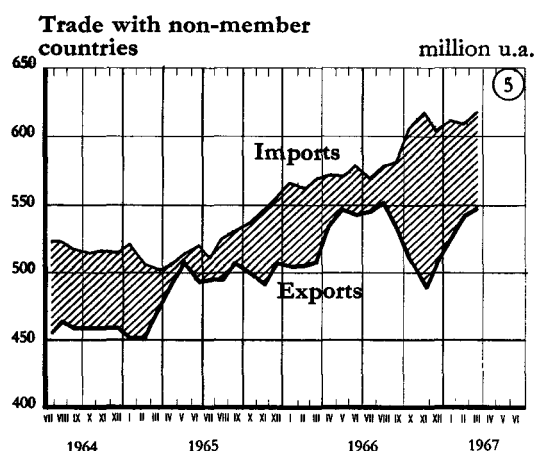
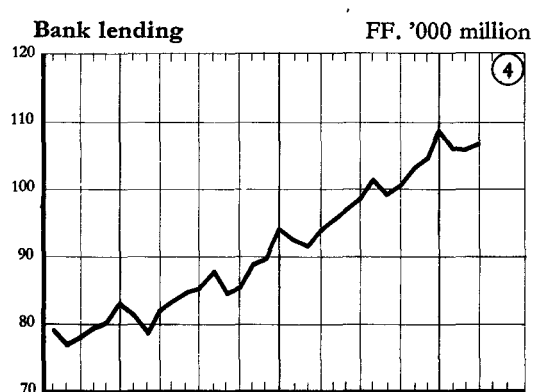
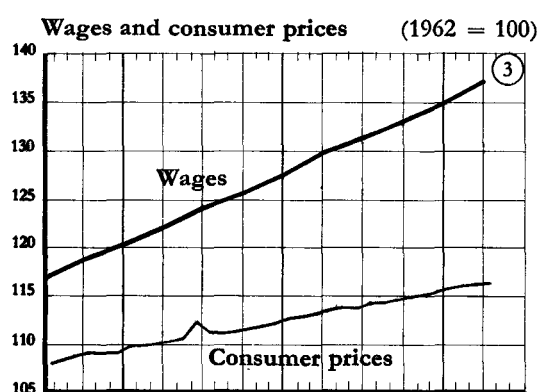
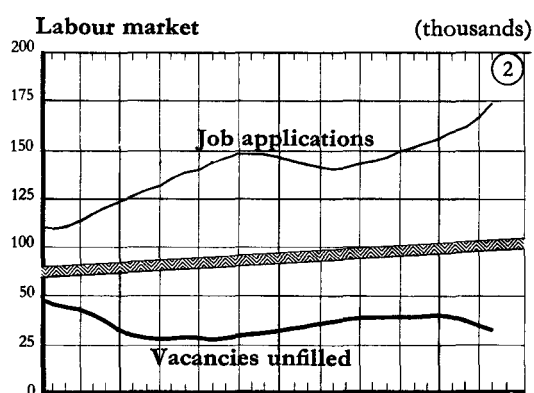
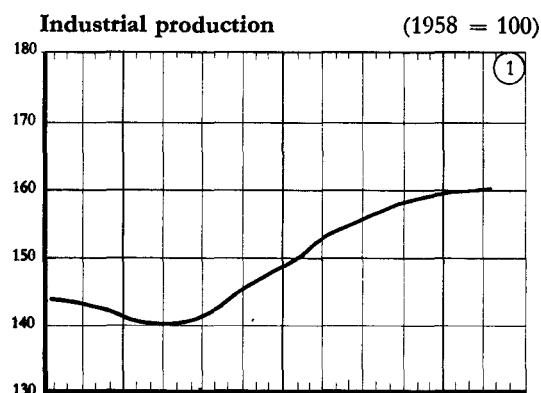
The problems to be tackled by the policy-makers in 1968 will probably, however, take a rather different form. The accelerated rate of overall economic growth which is predicted for the end of 1967 should by 1968 have

gathered full momentum. There would not then be much need to provide additional stimulus, a factor which should be given special weight in the draft of the 1968 Finance Law. Structural improvements could be a matter of far greater urgency than measures aimed at stimulating demand.

Early in May the Government asked the National Assembly for special powers for the period up to 31 October 1967. These powers, now granted, will allow it to order any prompt action it deems necessary in the following economic and social fields: the promotion of full employment and the drive against unemployment, participation by workers in industrial "profits of expansion", adaptation of firms to the new conditions of competition resulting, *inter alia*, from the establishment of the Common Market, modernization and conversion of industries and areas ill-adapted to present needs, and the reform of the social insurance system.



ECONOMIC INDICATORS



NOTES :

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

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

Graph 2. 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 (1965)

Total area ('000 sq. km.)	551.2
Total population ('000)	48 797
Density of population per sq. km.	88
Numbers in employment ('000)	19 642
Numbers in employment, breakdown by main sector (%)	
— Agriculture	17.3
— Industry	39.9
of which : Construction	9.4
— Services	42.8
Percentage share of gross domestic product	
— Agriculture	8
— Industry	46
of which: Construction	9
— Services	46
Gross product per capita (FF)	9 432

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 national product	+ 7.4	+ 4.4	+ 7.1	+ 4.8	+ 6.0	+ 3.5	+ 4.9	149	—
Industrial production	+ 7.6	+ 5.5	+ 6.7	+ 5.8	+ 7.4	+ 3.0	+ 6.4	155	—
Total imports	+16.5	+ 7.0	+ 8.7	+12.2	+12.2	+ 3.7	+11.1	193	11.7
Private consumers' expendi- ture	+ 5.6	+ 5.9	+ 6.9	+ 6.8	+ 4.7	+ 3.2	+ 4.8	147	63.7
Public current expenditure on goods and services	+ 2.7	+ 3.4	+ 4.3	+ 1.2	+ 4.9	+ 2.1	+ 3.4	132	13.3
Gross fixed asset formation	+ 6.8	+10.5	+ 7.9	+ 7.5	+11.7	+ 5.4	+ 5.9	175	21.8
Total exports	+17.2	+ 5.5	+ 3.1	+ 7.9	+ 7.7	+11.1	+ 7.0	198	15.1
Gross national product per capita	+ 6.3	+ 3.3	+ 5.1	+ 3.0	+ 4.7	+ 2.4	+ 3.8	135	—
Gross national product per person gainfully employed	+ 7.3	+ 4.4	+ 6.8	+ 3.5	+ 4.7	+ 3.4	+ 3.3	144	—

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	+22.5	+ 5.2	+ 2.0	+ 9.8	+11.3	+11.8	+ 8.4	212	10 397	100
Intra-EEC	+33.9	+18.8	+11.9	+14.2	+12.3	+18.0	+12.0	406	4 608	42.3
To non-EEC countries	+18.2	- 0.5	- 8.0	+ 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	+ 9.0	+ 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	+19.3	+ 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	161	162	163									
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	41.3									
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	138									
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							
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							
Balance of trade (million u.a.)	1965	- 128	- 17	- 38	- 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							
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	5 463	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							
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	191.1
	1967	187.9	185.6	188.0									

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

Sources: For 1966, Comptes de la Nation, Ministry of Finance, Paris.

- 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, excluding construction, food, beverages and tobacco.
- 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

During the early months of 1967 the trend of economic activity was again distinctly upward and largely free from strain.

The main support for this upswing came from domestic demand in general and gross fixed asset formation in particular. But there was also once again an appreciable expansion of demand from abroad; considering the reduced economic activity in some major importing countries, its growth proved to be remarkably buoyant.

While agricultural production (seasonally adjusted) continued to increase slowly, expansion of industrial production—already rapid—may actually have gathered a little momentum. There was also a lively expansion of supply from abroad.

The upsurge of economic activity favoured the situation on the labour market more than previously. The number of wage- and salary-earners, increased vigorously and at the same time there was an appreciable drop in the number unemployed.

There was, admittedly, a further rise in the level of prices after the beginning of the year but the underlying rate of increase was fairly moderate.

All the indications are that the economy will continue to expand at a decidedly rapid rate during the remainder of 1967—and presumably in 1968 too. The elasticity of production, which is still high, will, however, tend to decrease.

Current economic policy appears correct for the time being, but more determined efforts should be made to increase public saving.

1. Recent developments

It would appear that the upward trend of exports of goods and services was stronger in the first quarter of 1967 than in the second half of 1966. Visible exports (as defined for the foreign trade statistics) were 12.4 % up (value) on the corresponding figures for 1966. There was in particular an increase in the growth rate of exports of products of the food industry and of machinery and apparatus. This was accounted for mainly by sales to non-member countries, particularly to North America, the developing countries and Eastern Europe. Exports of services also seem to have increased more rapidly.

There is little doubt that domestic demand

expanded briskly in the early months of 1967. This is certainly true of expenditure on gross fixed asset formation. The relevant figures are, admittedly, less complete than usual this quarter for statistical reasons; but they all point to a further lively expansion of investment in plant and machinery and to a somewhat more rapid increase in investment in building and construction, the recovery of which in the second half of 1966 had seemed to lack assurance.

Neither production nor imports appear to have been influenced to any substantial extent by investment in stocks.

Consumption expenditure is likely to have expanded appreciably in the early months of

1967 as well; not only did public current expenditure on goods and services increase but there was a further distinct rise in private consumers' expenditure as well. There are in fact many indications that there was a slight acceleration in the growth rate of the latter. For one thing, the propensity to consume may well have been slightly stronger, and secondly, the disposable incomes of households almost certainly rose more quickly than in the fourth quarter of 1966, when the weather was particularly bad. In any event, the increase in the total number of hours worked¹ was more marked than towards the end of the previous year, and, at the same time, increases in cost-of-living bonuses and more especially some new wage agreements meant a fairly appreciable rise in hourly wage rates.

On the supply side, it would appear that agricultural production—apart from the necessarily very pronounced seasonal variations—expanded at the same reduced pace as in the last months of 1966.

On the other hand, the adjusted growth rate of industrial production probably gathered momentum in the first quarter. Since the index of industrial production, formerly based on the ISTAT index, has recently been re-based and has not yet been re-calculated back for a sufficiently long period, the extent of this increase in pace cannot be measured with any accuracy; it is, however, likely to have been fairly appreciable. In assessing the underlying trend, however, it should be borne in mind that special factors (floods, strikes) inhibited production in the fourth quarter of 1966 while others (additional hours worked to make up for time lost due to strikes, relatively mild weather) boosted the figures in the following months. According to the new index, industrial production in the first quarter was no less than 11.1 % higher than a year earlier, while in the fourth quarter of 1966 the year-to-year increment was 10.5 % on the basis of the old index. Production of machines and apparatus and vehicles was particularly brisk.

¹ The number of persons in paid employment multiplied by the number of hours worked per head.

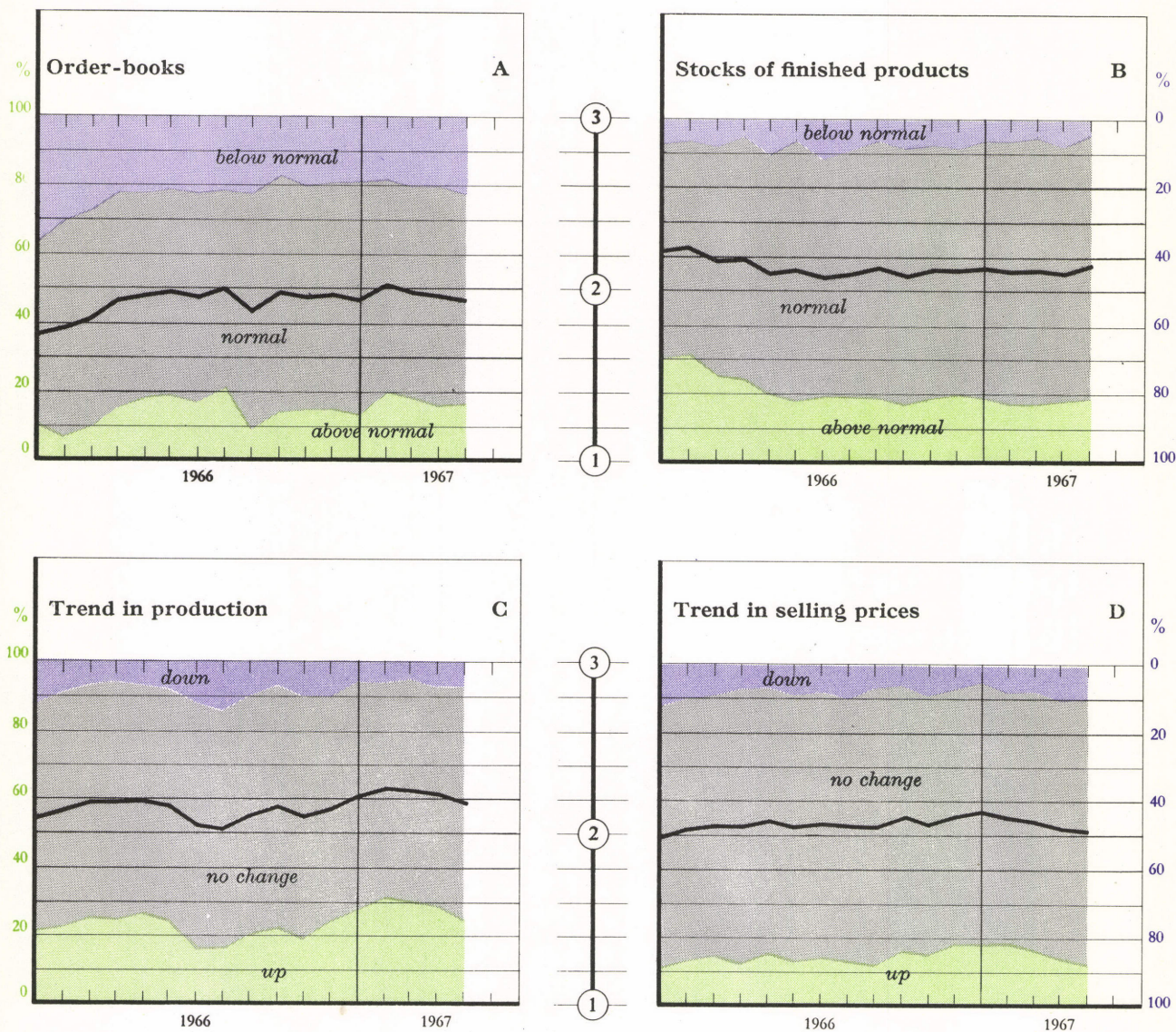
The figure for the number of persons in paid employment undoubtedly rose fairly considerably in the first quarter (apart from variations), and for the first time in three years is likely to have been higher than the corresponding figure for 1966. At all events, the ISTAT quarterly survey shows that the figure for January was 3.1 % (364 000 persons) higher than in January 1966, when admittedly the weather was exceptionally bad. Comparisons based on figures less subject to distortion by fortuitous factors—for example that between July 1966 and January 1967—also indicate that there was a very distinct expansion in the trend of employment, which has been moving upwards once again since the middle of 1966. In particular, there was an appreciable increase in the numbers employed in building and the rest of the industrial sector. At the same time, the overall pattern of employment seems to have shifted to make possible a more productive deployment of labour.

There was, apparently, only a very slight increase in the average hours worked per person employed now that a roughly "normal" level has been reached.

Despite an appreciable flow of workers returning to Italy from temporary employment abroad, there was an appreciable drop in the number of unemployed in the first quarter. According to ISTAT statistics the figure for January 1967—at 878 000—was a good 13 % lower than in January 1966.

There was a further vigorous rise in imports of goods and services in the first quarter, even if the overall growth rate was slower—undoubtedly only a temporary feature. Visible imports as defined for commodity trade returns exceeded the corresponding level for the previous year by approximately 11 % by volume and 12.7 % in value. Analysis by type of goods shows that expansion was particularly marked in imports of machinery, steel, and transport vehicles, while the area analysis shows that imports from the member countries, especially from the Federal Republic of Germany and the Netherlands advanced more rapidly than the rest. Imports of services are

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D: The three colours (green, grey and violet) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows:

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

likely to have been brisker than in the fourth quarter of 1966, and at any rate to have increased rapidly.

As far as can be judged from the new price indices, which have also been re-based, the prices continued to rise at a somewhat more moderate pace in the first quarter of 1967, having increased fairly appreciably towards the end of 1966. While the upward movement of food prices weakened at consumer level, it was once again fairly strong in respect of services in particular. The overall index of consumer prices rose by 1 % between December 1966 and March 1967 (the increase had been 0.3 % a year earlier); it was 3.2 % higher than the level recorded in March 1966. Most wholesale prices continued to fall; the index in March was 0.5 % lower than a year earlier.

With visible exports expanding faster and visible import growth losing a little momentum, the underlying trend of the visible trade balance stopped deteriorating. The deficit (customs returns) was Lit. 161 000 million in the first quarter, compared with Lit. 140 000 million a year earlier. Since, however, there was a simultaneous decline in net receipts from services, and capital movements again showed a large deficit, the overall balance of payments closed with a considerable deficit—in the region of Lit. 180 000 million, contrasting with a surplus of Lit. 48 000 million in the first quarter of 1966. The decline in net official gold and foreign exchange reserves between December 1966 and March 1967—they fell by Lit. 91 000 million to Lit. 2 835 000 million—in fact fell short of the deficit, since the commercial banks stepped up their imports of funds: in March and April official reserves began to increase once more.

The balance-of-payments trend thus had a restrictive effect on the domestic liquidity of the banks in the early months of 1967, as had also been the case in the fourth quarter of 1966. Intervention by the Bank of Italy and Treasury transactions tended to have the same effect, though this was admittedly due in part to seasonal factors. On the other hand, there

was—as is usual at this time of the year—a sharp decline in the amount of notes and coin in circulation. This had the effect of increasing liquidity and the banks were able to step up further their lending and purchases of securities without encroaching to any serious extent on liquidity margins.

On the securities market, the basic trend of quotations for bonds was fairly steady over the first four months of this year. There was, it is true, some disturbance at the beginning of April associated with rumours that once the rules on the taxation of dividends were tightened up again in mid-February similar rules on the taxation of the other types of investment income would follow. As a result of the new dividend tax rules, share prices dipped in February and have not recovered at the time of writing.

2. Outlook

The outlook for economic development up to the end of 1967 is definitely expansive, especially since Italian exports have so far proved fairly resilient.

As before, there is much evidence to support the assumption that exports of goods and services will continue to expand considerably even if the rate of growth is lower than during 1966: Italy's competitive position is strong, the outlook for a rapid expansion of trade with Eastern European countries is favourable, and it is to be expected that economic activity in other member countries which are of particular importance to Italy's external trade will stage a recovery. Finally, Italy's exports to member countries will gain throughout from the reduction of intra-Community customs duties on 1 July.

The prospects for the development of domestic demand also remain expansionary.

This applies first and foremost to gross fixed asset formation. It can be expected that investment in building and construction, which on the whole resumed its upward trend in the

middle of 1966, will continue to increase and gather momentum. To what extent residential construction will contribute to this development cannot, admittedly, be forecast with any degree of accuracy at present. But a rapid expansion of public works can certainly be expected, and there should also be an early brisk expansion of industrial building, to judge from the trend of new schemes in this sector. Since the available margins of unused production capacity have been shrinking for some time, the propensity to invest in plant extension could well be growing. This would clearly provide an additional stimulus for an expansion of investment in plant and machinery, quite apart from other factors—mentioned in the last two Quarterly Surveys—pointing to a further rapid expansion of this type of investment in the months ahead.

A slow increase still seems the likeliest assumption for investment in stocks.

There should be a lively expansion of consumption expenditure, this applying equally to expenditure by public authorities and households. As regards public current expenditure on goods and services, this forecast seems all the more likely in view of the recent decision to increase wages and salaries in the public sector by Lit. 25 000 million in the current year. The assumption that private consumers' expenditure will expand rapidly too is supported in the main by the very expansionary outlook for the development of mass incomes because of increased employment and a steady, if rather modest, upward trend in wages and salaries.

The growth of agricultural production may well suffer for some time to come from the damage due to last autumn's floods. On the other hand, there should be a further rapid increase in industrial production, especially if demand from abroad expands at the rate forecast. A lively rate of expansion can also be expected for output in the building industry and in the services sector.

The distinct upward trend in the number of persons in paid employment is likely to continue. To what extent this will lead to a

further reduction in the unemployment figure depends in no small measure on whether, and in what numbers, Italian workers continue to drift back from abroad.

There will almost certainly be a further vigorous expansion of imports, particularly imports of plant and machinery and agricultural produce.

The forecast that prices would continue to rise moderately but at a rather more rapid pace during 1967, published with supporting evidence in the last Quarterly Survey¹ still appears to be valid.

The visible trade balance and the current account in general will probably once again deteriorate perceptibly.

In view of the outlook for the economic situation up to the end of the year, the quantitative estimates of results for the full year 1967 (forecasts for the main aggregates were published in the last Quarterly Survey) may be retained without any major correction. In particular, it still seems more than likely that the real gross national product will increase by 6 % (rounded up) between 1966 and 1967.

The first forecasts for economic development in 1968, which are in the nature of things still very tentative, indicate that expansion could well continue at a lively pace. For one thing, the pull exercised by demand from abroad may even be considerably stronger than in 1967; even more important, a further rapid expansion of domestic demand is also to be expected. In the circumstances an increase of at least 5 1/2 % in the real gross national product would appear to be readily attainable.

With growth trends as outlined above—they are fully satisfactory as regards volume for the majority of items but call for increased vigilance in the realm of prices—the Council's recommendations² of last December still hold good.

¹ See page 60.

² See Quarterly Survey 4/1966, pp. 41-44.

As already suggested in the last Quarterly Survey, however, a certain flexibility in interpreting the guidelines of budget policy would be in order. It seems inevitable that the reduction in the cash deficit of the public authorities will be somewhat smaller than recommended because of the additional burden placed on the budget by flood damage in the

autumn of 1966. In any event, the effect of this on short-term economic policy should not be unduly serious as long as the slowdown of economic activity in certain major importing countries leads to a more moderate development of exports and consequently of overall demand in monetary terms than was estimated last December.

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
Exports ³	5 486	+ 20.8	+ 20.3	+ 12.5	+ 12.0	+ 9
Gross fixed asset formation	7 201	— 8.4	— 6.8	+ 3.7	+ 5.3	+ 10
Public current expenditure on goods and services	4 608	+ 3.6	+ 12.8	+ 3.6	+ 6.9	+ 4
Private consumers' expenditure	20 869	+ 2.2	+ 6.5	+ 5.7	+ 8.9	+ 6
Gross national product	33 077	+ 3.5	+ 7.6	+ 5.5	+ 7.9	+ 6
Imports ³	5 293	+ 1.9	+ 2.7	+ 13.4	+ 16.0	+ 14

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

² Commission forecasts.

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.

As far as can be ascertained from information at present available, the economic policy pursued by the Italian authorities during the first months of 1967 did, in fact, comply broadly with the guidelines for budget and credit policy contained in the Council's recommendation. Apart from the liberalization of many imports from Eastern European countries which was approved early in May and should stimulate Italy's external trade to some extent, no meas-

ures of any great economic significance have been adopted since the last Quarterly Survey was published.

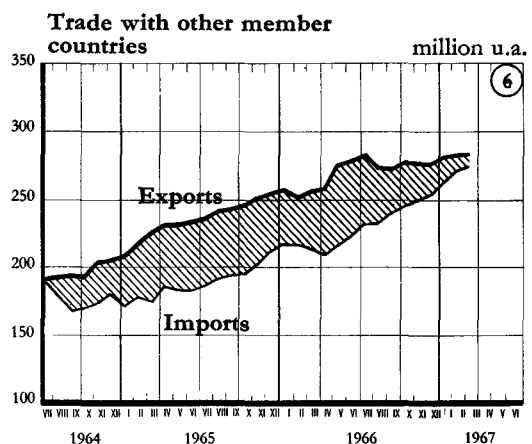
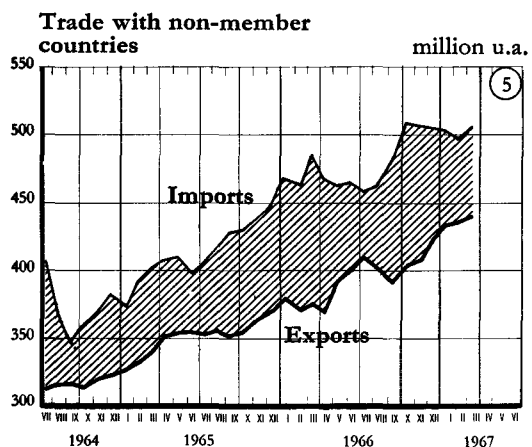
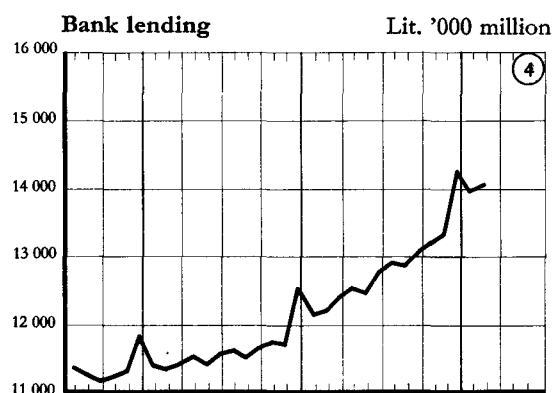
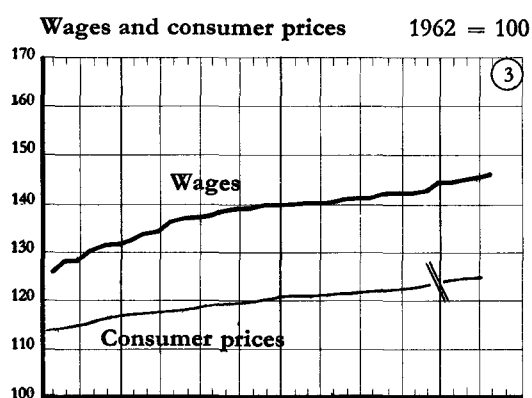
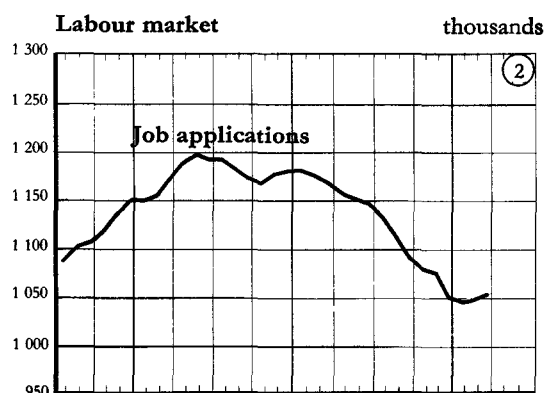
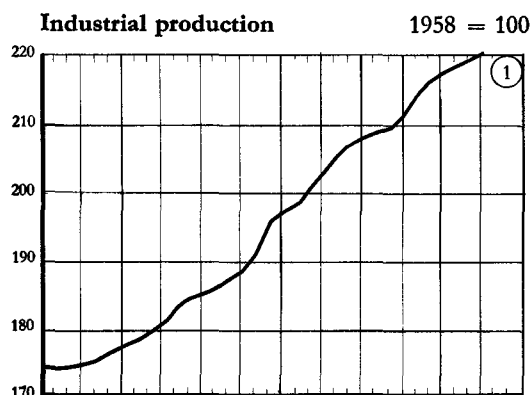
As far as budget policy is concerned, the current cash revenues of the Treasury—in the first quarter at any rate—grew more rapidly than cash expenditure and were actually higher than the latter, even after seasonal adjustment. The rapid expansion of revenues was partly,

as it were, the automatic product of expanding economic activity. To the extent that it is due to increases in taxation introduced in connection with the programme of state aid to victims of last autumn's bad weather, it is likely to be followed by increased expenditure in the near future. Should this happen, it is clear that the relationship between the growth rate of cash receipts and that of cash expenditure would be bound to deteriorate once more, unless the authorities can slow down the growth of expenditure elsewhere.

The restraint exercised by the Government in approving new expenditure shows that it is aware of the problems presented here. In the recent negotiations which led to the signing of

a basic agreement with those employed in the public service, it ensured that additional expenditure on wages and salaries resulting from the agreement (approximately Lit. 480 000 million over the period 1967 to 1971) would be particularly low in 1967 and 1968. Restraint was undoubtedly called for in this instance since consumption expenditure was involved and increased expenditure of this kind naturally tends to encroach on public saving. Public saving has already been contracting at a disquietingly rapid rate in recent years so that a policy aimed at expanding it once more is precisely what is needed at this stage. Such a policy would also mitigate the danger of disturbances of equilibrium emerging—whether now or later—with all the adverse effects that this would have on economic growth.

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.

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)	18 883
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	(4.4)	144.0	—
Gross national product per person gainfully employed	6.5	8.0	7.5	7.6	3.3	3.8	(7.4)	163.5	—

() Provisional figures

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	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	12.3	537.9	3 261.7	40.6
To non-EEC countries	22.3	11.8	5.8	7.0	13.4	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	2 737.2	32.5
From non-EEC countries	38.4	8.1	13.0	21.5	- 3.9	8.9	14.4	234.1	5 734.1	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	330.7	4.4
From non-EEC countries	31.8	6.6	6.8	54.4	- 0.6	18.4	8.7	295.8	1 335.7	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	102.9	102.8	113.8	109.5								
Building: domestic turnover of building materials (1958 = 100)	1965	160.8	136.8	173.8	160.8	166.7	196.3	192.8	183.4	184.7	185.6	185.5	180.2
	1966	142.7	129.3	177.6	183.1	195.1	188.6	201.8	202.8	172.1	203.8	192.5	189.4
	1967	180.2	158.7	200.2									
Private consumers' expenditure: turnover of department stores (1958 = 100)	1965	270	215	249	303	234	318	296	241	330	354	319	542
	1966	313	231	275	313	319	338	306	267	330	377	355	586
	1967	302	245	(329)									
Total visible imports (million u.a.)	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	718.9
	1967	812.9	744.8	779.3									
Total visible exports (million u.a.)	1965	546.4	560.4	596.3	589.3	571.8	611.8	576.3	609.6	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	673.7	686.0
	1967	753.5	690.3	725.9									
Balance of trade (million u.a.)	1965	- 84.9	- 32.0	+ 13.1	- 6.5	- 43.8	+ 37.5	- 2.1	- 9.3	- 1.1	- 3.2	- 23.4	- 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									
Official gold and foreign exchange reserves (net, million u.a.)	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	4 772.3	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								
Money supply (Lit. '000 million)	1965	11 984	11 861	12 077	12 225	12 522	12 687	12 885	12 808	13 108	13 227	13 420	14 495
	1966	14 020	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										

() 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.
- 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

- *Economic growth has slowed down further since the end of 1966. The effects of the sluggish development of investment demand coupled with the persisting upward movement of prices have not been offset by an appreciable expansion in demand from abroad.*

The slackening trend hit import growth first but then also began to impair the development of domestic production. One important consequence is that unemployment tended to rise still more. In the first quarter of 1967, there was a slight improvement on the current account (adjusted for seasonal variations) but consumer prices continued to rise at a fairly appreciable pace, though the year-to-year comparison showed a smaller increment than it had a year previously.

The outlook suggests that the pressure of demand on domestic resources will continue to ease. Nevertheless, there is still a danger that the continuing effects of national and local budget policies may delay the stabilization of prices and costs.

In these circumstances, it is to be feared that the slightly brisker growth expected in 1968 will not be accompanied by the full elimination of internal and external disequilibria.

1. Recent developments

Exports of goods and services developed at a lively pace during the first quarter of 1967. According to the foreign trade statistics, visible exports (value) were 12.9 % higher than for the corresponding period of the previous year, whereas the year-to-year growth rate had been only 2.6 % during the last quarter of 1966 and 5.6 % for the whole of 1966. When comparing these figures, it must admittedly be remembered that the level of exports had been unusually low during the early months of 1966, mainly as a result of a fall-off in deliveries of farm produce. Nevertheless, the year-to-year growth rate (exclusive of farm produce) amounted to 11 % for the first quarter of 1967.

The area analysis for exports has remained much the same since summer 1966. For example, exports to non-member countries have continued to increase more vigorously than those to other Community countries: the brisk rise in sales to Italy and France only partly

offset the continued uncertain development of exports to the Federal Republic of Germany. Investment lost considerable momentum after the end of summer 1966, a trend persisting into the first quarter of 1967. However, the impact of this development on the growth of total domestic demand appears to have been offset to some extent by a consolidation—perhaps only temporary—of the growth in consumption demand.

Real gross fixed asset formation ceased growing in the first quarter of 1967, but this was the net result of trends in the various elements of this demand component which themselves varied fairly widely: in the enterprises sector, expenditure on plant and machinery probably declined even more than before, owing to factors often mentioned in these Surveys (reaction to an investment boom that had gone too far; narrower profit margins as a result of the excessively rapid rise in wages which, in turn, was due to over-employment; finance dear and scarce). By contrast, expenditure on commercial building appears to have increased

considerably, thanks, no doubt, to the relatively favourable weather. The same factor encouraged more investment in residential construction—the number of dwellings completed was 34 % above that of the first quarter of 1966—and the expansion of public investment, to which measures to combat regional unemployment may also have contributed.

The trend of investment in stocks probably served to slow down general business activity. Managements had already been extremely cautious when replacing depleted stocks of raw materials and semi-manufactures during the closing months of the last year, and they now appear to have begun running down stocks of finished goods as well.

The fairly rapid growth rate of public current expenditure on goods and services has been sustained owing to the rise of approximately 4 % in public-service wages and salaries granted at the beginning of the year. Although business has been losing momentum generally, private consumers' expenditure appears to have risen again even more vigorously during the first quarter of 1967 than towards the close of 1966. However, as with the export figures, prudence is recommended in the interpretation of the comparison of the year-to-year increases (11 % in value for the first quarter of 1967, 5.5 % for the fourth quarter of 1966)—the reason being that consumer expenditure was relatively low in the first quarter of 1966 because of a wave of consumer purchasing towards the end of 1965 when an increase in indirect taxes was expected. None the less, it still looks as if the underlying trend of private consumers' expenditure has gathered a little momentum so far this year, as is evidenced in particular by the increase in consumption in terms of volume.

The increase in the incomes of private households probably grew a little more rapidly, the authorities having authorized a 4 % wage increase during the first quarter on the extension of the short-term collective wage agreements for 1967, and wages under various long-term collective agreements having risen a little faster, although the deteriorating employment situation (total hours worked) probably affected incomes more than before.

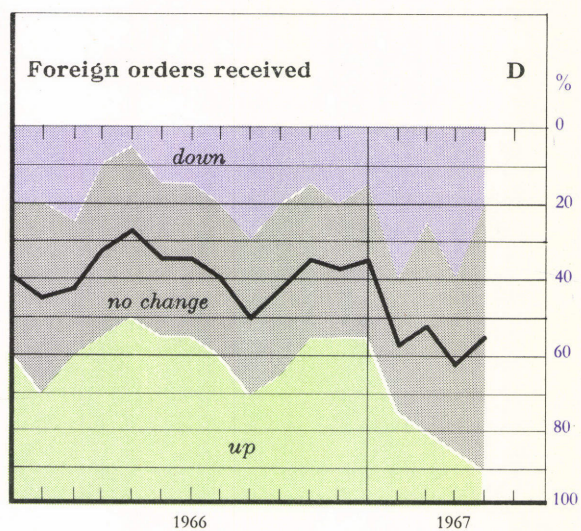
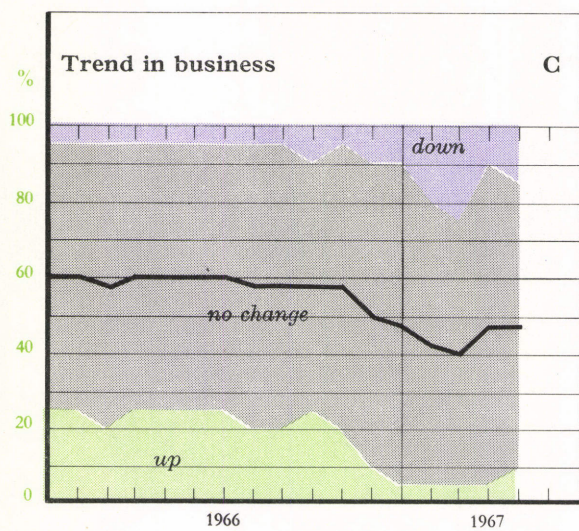
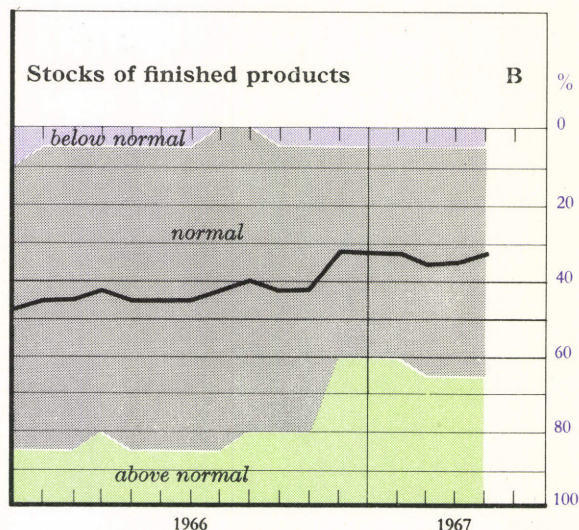
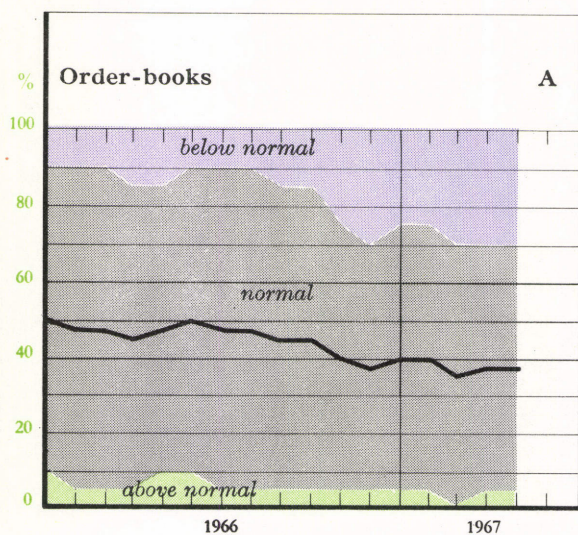
The development of total supply during the first quarter of 1967 reflects the hesitant growth in overall demand. As far as domestic supply is concerned, the growth in industrial production (adjusted), which had been extremely vigorous until the fourth quarter of 1966, slackened appreciably and now even appears to have come to a halt. According to the CBS index, adjusted for the number of working days in the month, production during the first quarter was, however, still 4.5 % above the level of the corresponding period of the previous year. On the other hand, the upward trend in building, where the growth rate in the fourth quarter of 1966 had still been very brisk—as a result of a spurt in productivity improvements—may even have gathered further momentum.

Unemployment increased until January. The number of unemployed then fell back from 108 500 (compared with 56 900 before the end of 1966) to 81 700 in April. The seasonally adjusted figures show a persisting rise, however; the unemployment rate (percentage of unemployed in the total civilian labour force) rose to 2.1 % in April. Closer analysis shows that unemployment is concentrated chiefly in the frontier provinces of the Netherlands while the rate of increase in the west of the country is much lower. This is partly accounted for by a fall-off in the number of frontier workers, mainly resulting from slacker economic activity in the Federal Republic of Germany, and by slightly easier labour market conditions in the west of the country, which have prompted workers from other provinces to go home again. The geographical differentiation in the number of vacancies is less pronounced. All in all, they continued to decline in number during the period covered by the present Survey; the figure for April was 67 800 (compared with 119 700 in April 1966).

Finally, the process of shortening the working week seems to have continued; by the end of April, decisions of this kind had been taken concerning approximately 27 700 wage- and salary-earners.

During the first quarter of 1967, the adjusted trend of imports of goods and services probably

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

GRAPHS A, B, C and D : The three colours (green, grey and violet) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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

persisted at roughly the same level as in the fourth quarter of 1966. According to customs returns, visible imports in the first quarter showed no volume increase at all over the first quarter of 1966 and an increase of only 1.4 % in terms of value.

Price conditions have not substantially altered. It is true that, at the wholesale stage, the stabilizing tendencies which emerged in the autumn have gained strength, partly because farm produce prices have fallen, but consumers' prices rose again during the first quarter, although the industrial federations voluntarily maintained the price policy principles contractually established until the end of 1966. The cost-of-living index rose by 4.7 % over the December 1966 - April 1967 period, compared with a rise of only 6.5 %, however, during the corresponding period of the previous year. If the April index surpassed the level of April 1966 by only 2.3 %, this is due to the fact that the rise in prices at the end of 1965 and the beginning of 1966 had been particularly vigorous.

With exports expanding at a rather more lively pace and imports marking time, the visible trade balance improved slightly during the first quarter of 1967. The deficit during this period amounted to Fl. 1 100 million, compared with Fl. 1 700 million for the first quarter of 1966. The services balance deteriorated and the result was a further deficit (Fl. 98 million on a cash basis while on a transactions basis the figure was as high as Fl. 350 million) on current account; since, moreover there was also a net outflow of capital, there was a relatively high deficit (Fl. 200 million) in the overall balance of payments for the first quarter of 1967, though this was considerably lower than in the previous quarter. Net official gold and foreign exchange reserves fell during this period by Fl. 80 million and the net foreign exchange position of the commercial banks deteriorated by approximately Fl. 120 million.

Under the impact of transactions with abroad domestic liquidity tended to contract in the first quarter of 1967. The fairly rapid expansion of bank lending to firms and indivi-

duals served to counter this trend. The expansion of short-term loans, for which a further ceiling has been imposed under the credit squeeze, in any case probably did not exceed the ceiling set for the January-March period. Official transactions, especially central government transactions, made an expansionary contribution to domestic liquidity during the first quarter.

At least until April, interest rates tended to drift downwards—although this was less noticeable for money-market rates than for yields on the bond markets. It is true that the public authorities drew heavily on the capital market, but there were scarcely any private issues. On the other hand, demand for capital on the market in promissory notes (*onderhandse leningen*) was decidedly brisk.

The pick-up in prices at the beginning of the year on the stock markets continued chiefly as a result of the improved international stock exchange atmosphere, of the growth of domestic liquidity and of a more realistic assessment of the profit outlook.

2. Outlook

The present outlook does not differ essentially from the forecast made in the last two Quarterly Surveys (4/1966, 1/1967). One reason for this is that in its economic policy programme (announced in April) the new Government kept very close to the proposals of the caretaker Government. As far as the national budget is concerned, the deficit will probably, in any case, greatly exceed the assessment made in autumn 1966.

The prospects for exports of goods and services during the coming months point to a considerable increase in momentum, especially for exports to non-member countries. Sales in the member countries of the Community will probably depend to a great extent on the development of the domestic economic activity of these countries and, more particularly, on that of the Federal Republic of Germany.

Since the outlook here, at least for the time being, is still very uncertain however, the supposition could well prove correct that, in spite of an improvement in the supply potential from domestic production, the rise of overall exports in the yearly average will not prove to be much greater than between 1965 and 1966.

Compared with export growth—which is in fact substantial—the expansion of effective domestic demand is likely to remain within narrower limits. If the probable increases in prices are discounted, domestic final demand is hardly likely to give any fresh impetus to business trends.

A weaker propensity to invest will inhibit the growth of overall gross fixed asset formation. The decline of the adjusted trend in purchases of plant and machinery may well be accompanied by a similar though less marked decline in outlay on commercial building. The influence of the factors determining this is likely to be only partly offset by the effects of the measures recently adopted to support investment in particular regions of the country. Furthermore, according to information now available, it must be considered very unlikely that public capital expenditure will increase to any noteworthy extent (apart from variations) during the months ahead. Finally the trend of residential construction will become more and more hesitant: financing difficulties persist, and they will lead to a further decline in the total number of dwellings in course of construction.

Investment in stocks will probably make no noteworthy contribution in the coming months.

The rate of increase of public current expenditure on goods and services will remain fairly high until the end of the year, mainly because actual spending will exceed estimates to a considerable extent. Growth in private consumers' expenditure will probably continue during the next few months, but will be fairly weak: the trend of the disposable incomes of households will gain no support from the employment situation, while the further general increase in wages under short-term collective wage agree-

ments on 1 July will not exceed 1.5%. However, the second stage of the reduction in the wages and income tax will be reached in midsummer and this should stimulate the development of consumption in monetary terms. But since, at the same date, an increase in turnover tax—entailing higher prices—will come into force, the expansionary impact of the tax cuts on private consumers' expenditure in real terms will not be strong.

Finally, it is to be expected that households will either not alter their savings ratio or that during the coming months it may even rise a little further as conditions get steadily more relaxed on the labour market.

In view of the outlook for overall demand, the growth of domestic supply will be fairly slow. By the autumn, the growth of industrial production could even slow down for a time.

In these circumstances, the number of workers available for employment will probably rise again slightly for some time, were it only because, towards the middle of the year, many young people—although fewer than last year—will come on to the labour market for the first time.

During the months ahead, it is unlikely that imports of goods and services will show signs of resuming vigorous growth. However, it is not impossible that import demand will, before the end of the year, gain a little firmness again, particularly if firms stop running down their stocks of raw materials and semi-manufactures. In the short-term, the visible trade balance will probably improve further.

Although the pressure of demand has been easing, the tendencies for prices to grow more stable are unlikely to gain real strength before the end of the year. It is true that the (adjusted) upward wage trend has slowed down a little, but productivity gains are likely to grow smaller. Furthermore, autonomous price increases such as higher rents and higher turnover tax will help to force prices up.

On the whole, the present outlook is in line with the forecasts made for the full year 1967 in the last Quarterly Survey (1/1967). The value increase in gross national product is assessed, as before, at 3 %.

A more pronounced rise in general economic activity may be expected once again in 1968. The results of an accelerated rise in public investment and a recovery in the propensity to

invest might add their weight to the impact of an improvement in demand from several countries which are major customers of the Netherlands. The slight acceleration in the value increase in gross national product (the Commission's tentative forecast: 3.5 %) is, however, at least until early 1968, no bar to a further modest increase in unemployment, an increase which could in the end help to slow down somewhat the upward cost and price movement.

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ²		1967 ³
	At current prices (in Fl. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	30.28	+ 9.1	+ 10.6	+ 6	+ 6	+ 6.5
Gross fixed asset formation	15.38	+ 5.1	+ 9.4	+ 7	+ 13	— 0.5
Public current expenditure on goods and services	9.78	+ 0.9	+ 11.2	+ 2.5	+ 11.5	+ 2.5
Private consumers' expenditure	35.58	+ 7.8	+ 11.9	+ 3.5	+ 9.5	+ 3.5
Gross national product	61.83	+ 5.4	+ 11.0	+ 4	+ 10.5	+ 3
Imports ⁴	30.89	+ 7.4	+ 7.7	+ 7.5	+ 8	+ 3

¹ Statistical Office of the European Communities, National Accounts 1955-65.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Notes:

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

As may be gathered from the statement issued on 18 April by the new Dutch Government, economic policy must, in the first place, be concerned with internal and external stability. Essentially, the Government intends to go on implementing the economic and financial poli-

cies instituted by Professor Zijlstra's caretaker administration. The measures introduced as early as the end of 1966 and the beginning of 1967 by this Government were reviewed in detail in the last Quarterly Survey (1/1967). They comprised, in particular, a change in the

date of the entry into force of certain tax measures and a number of budget cuts involving a total of Fl. 91 million, through which fiscal policy is to make a contribution to the attainment of equilibrium.

On the other hand, in order to deal with unemployment in the regions, investment incentives were increased and additional public funds of about Fl. 100 million allocated; this latter sum will have to be financed from the budget cuts. In addition, Fl. 100 million were made over to the communes as advances on contributions to be made by the Pension Fund. Lastly, on 15 March, the Central Bank lowered Bank rate from 5 % to 4.5 % and dropped the penalty deposits system. Therefore, should the credit ceiling be exceeded, commercial banks and agricultural credit institutions will now no longer be required to maintain corresponding non-interest-bearing deposits in the Central Bank.

The new Government subsequently introduced more measures the main aim of which is to combat regional unemployment: additional credits amounting to Fl. 100 million were made available to the communes. The Government also intends to release Fl. 100 million should unemployment rise again. Credit guarantees up to Fl. 150 million are to be offered to the textile industry. Finally, in June, the quantitative restrictions on bank lending to business and individuals were lifted.

When the new Government's programme was submitted, it was, however, announced that the deficit in the budget for 1967 would greatly exceed the amount estimated. According to the April assessment, the cash deficit will amount to Fl. 2 400 million—which is higher than the 1966 deficit—and by the end of the year the deficit might in fact prove even heavier. The new Government certainly intends to defer the execution of less urgent tasks in order thus to meet the expenses involved in combating regional unemployment and other tasks, as far as possible by reducing its outlay under other budget headings.

The Treasury's net financing requirements for 1967, estimated at Fl. 2 650 million, already

exceed those of 1966 (Fl. 2 200 million). Nevertheless, the authorities believe that the amount for which cover is not yet assured and which would have to be financed on a short-term basis will probably still fall short of Fl. 900 million.

The general aims of the Government's programme are broadly in line with the recommendations made by the EEC Council on 22 December 1966. In view of the continued rises in wage-costs and prices, there is a case for a careful assessment of the effects of the decisions already implemented before any more elaborate measures to sustain the economy are adopted. There is no reason whatsoever for immediately adopting an energetic policy of reflation; the unemployment is specifically of a structural kind, as is clearly shown by the fact that there are still areas and trades suffering from heavy shortages of labour as well as areas and trades in which structural unemployment has emerged after having been masked merely by the general inflationary effects of excess demand. It is obvious that economic policy cannot cope with this situation without restoring inflationary pressure: what is needed is appropriate action with regard to structures, the regions and the labour market.

A premature reflation policy would hamper the restoration of internal and external equilibrium and the authorities should therefore exercise caution. In this connection, it should be noted that, in any case, the Central Government's budget policy already departs a long way from the guidelines suggested in the Council's recommendation. Even if allowance is made for the consequences to State expenditure and revenue arising from the fact that economic development has been less vigorous than anticipated, the deficit in the Government's budget still greatly exceeds that originally estimated. According to the Council's recommendation, the cash deficit should be substantially less than the Fl. 2 400 million now forecast. Moreover, the bulk of the discrepancy is accounted for by a further unduly steep rise in outlays either directly or indirectly expanding consumption.

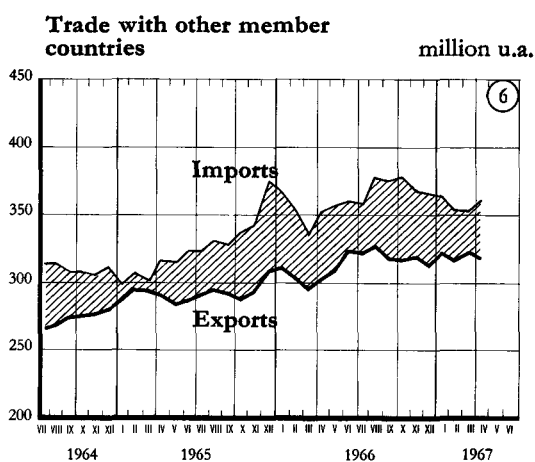
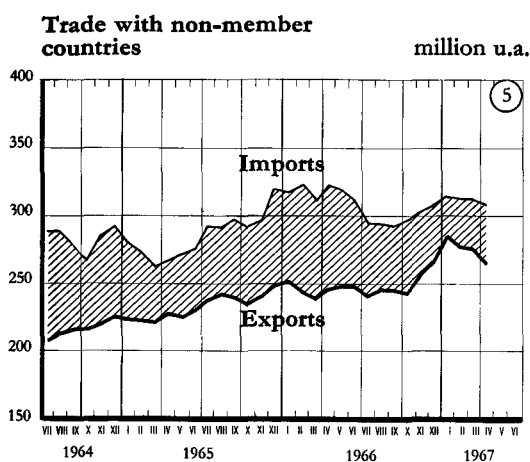
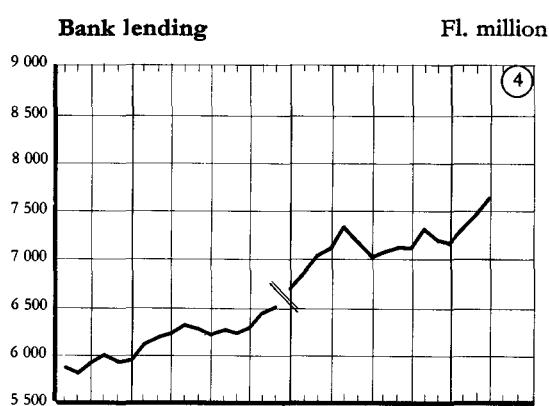
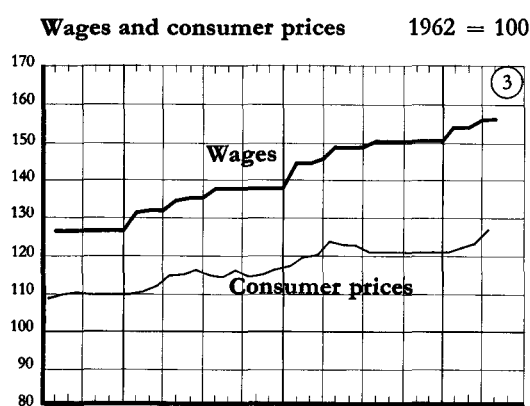
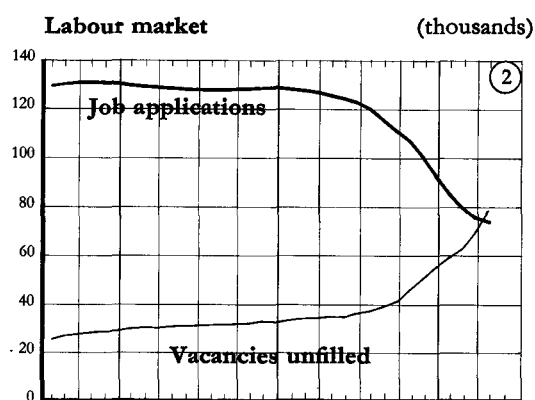
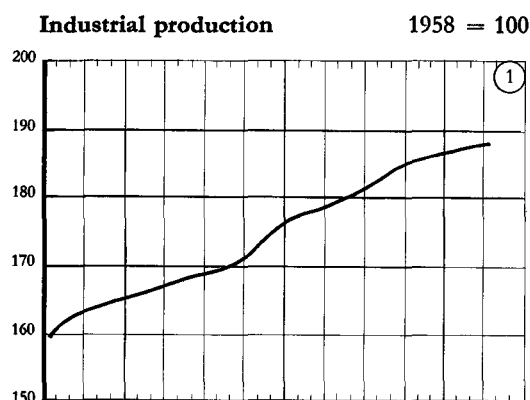
It may well be that the short-term financing of the deficit is now on a scale which, in view

of the economic trend, exceeds a desirable level. It should also be remembered that further heavy budget deficits could give rise to grave problems in 1968, a year in which trends in general economic expansion might well gather momentum once again.

In these circumstances, all necessary measures should be taken to ensure that the national budget and the public authorities' budget in

general will stimulate consumption less than in the past. A national budget policy along these lines would leave more latitude *inter alia* for operations promoting investment and would make more funds available to pay for a structural policy designed to curb any excessive rise in regional unemployment. Moreover, an improvement of this kind in the policy mix would undoubtedly assist the authorities in their endeavours to keep wage increases in line with productivity gains.

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

Netherlands

TABLE 1: Basic data (1965)

Total area ('000 sq. km.)	33.5
Total population ('000)	12 292
Density of population per sq. km.	367
Numbers in employment ('000)	4 505
Numbers in employment, breakdown by main sector (%):	
— Agriculture	8.5
— Industry	42
of which: Construction	10
— Services	49.5
Percentage share of gross domestic product:	
— Agriculture	8.3
— Industry	41.2
of which: Construction	(7)
— Services	50.5
Gross product per capita (Fl.)	5 584

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1959	1960	1961	1962	1963	1964	1965	1965	1965
Gross national product	+ 5.2	+ 8.9	+ 3.5	+ 3.8	+ 3.7	+ 8.8	+ 5.4	146	—
Industrial production	+ 9.0	+10.1	+ 4.2	+ 4.8	+ 5.4	+10.1	+ 5.3	160	—
Total imports	+13.8	+17.3	+ 5.8	+ 7.5	+ 9.5	+14.8	+ 7.4	205	48
Private consumers' expendi- ture	+ 4.6	+ 6.4	+ 5.8	+ 6.5	+ 7.7	+ 6.1	+ 7.8	154	58
Public current expenditure on goods and services	- 1.2	+ 6.6	+ 4.4	+ 5.1	+ 7.8	+ 2.8	+ 0.9	129	16
Gross fixed asset formation	+12.0	+11.6	+ 6.7	+ 4.4	+ 2.1	+16.9	+ 5.1	175	24
Total exports	+11.5	+13.3	+ 3.0	+ 6.2	+ 6.2	+11.8	+ 9.1	179	49
Gross national product per capita	+ 3.7	+ 7.6	+ 2.2	+ 2.4	+ 2.2	+ 7.3	+ 3.9	133	—
Gross national product per person gainfully employed	+ 4.1	+ 6.9	+ 2.1	+ 1.7	+ 2.3	+ 7.2	+ 4.1	132	—

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	
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	+13.2	+ 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	+13.6	+ 6.3	+ 8.0	223	6 991	87.2
Intra-EEC	+18.8	+20.0	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	234	4 086	51.0
From non-EEC countries	+15.6	+ 7.7	+ 0.7	+ 6.1	+13.0	+ 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	175	187	189	185
	1967	173	176	178									
Investment (Fl. million)	1965			3 744			4 283			4 224			4 581
	1966			4 100			4 916			4 913			5 103
	1967												
Construction (Fl. million)	1965			1 545			1 814			1 993			1 854
	1966			1 587			2 079			2 249			2 163
	1967			2 036									
Private consumers' expenditure (1958 = 100)	1965	177	158	175	186	189	182	207	176	187	199	201	232
	1966	192	169	194	209	206	204	221	197	203	211	219	237
	1967	211	187	218									
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	683
	1967	680	639	719									
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	593	616	593
	1967	601	532	606	532								
Balance of trade (million u.a.)	1965	- 77	- 75	- 99	- 108	- 76	- 63	- 121	- 98	- 24	- 82	- 68	- 182
	1966	- 125	- 156	- 183	- 131	- 86	- 71	- 103	- 122	- 64	- 72	- 53	- 95
	1967	- 79	- 107	- 113	- 108								
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	2 088	2 120	2 058
	1966	1 970	1 972	1 997	1 943	1 953	1 918	2 012	2 010	1 996	2 006	2 033	2 036
	1967	1 970	1 995	1 998	1 995								
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	17.98	17.77	18.03	18.34
	1967	17.89	17.97	18.27									

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.
- Investment. Source: CBS. Gross fixed investment. Total value, quarterly figures.
- Construction. Source: CBS. Building production. 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 activity continued to grow during the first quarter of 1967, although at a somewhat slower rate. Exports provided fresh stimuli and official spending increased heavily. In the private sector, however, there was a certain slowdown in the growth not only of investment but also of consumers' expenditure. Industrial production rose slightly and according to the INS index was 2 % higher than in the first quarter of 1966. Imports, on the other hand, tended to decline and the trade balance improved perceptibly. There was a further distinct rise in consumer prices.

In view of the rather subdued trend to be expected in internal demand, the rate of economic growth during the months ahead will be increasingly conditioned by the way external demand develops. Since the outlook for the latter is not unfavourable, economic expansion may speed up again in 1968.

If, however, economic growth is to be maintained at an adequately high level over an even longer period, those responsible for short-term economic policy will still have to aim at stabilizing costs and prices while doing everything possible to promote investment, particularly in the structurally weak areas. The authorities are making efforts along these lines. Their success will largely depend on whether the policy of restoring the structural balance of the ordinary budget is pursued with all the drive that will be required.

1. Recent developments

In the early months of 1967, exports of goods and services rose about as quickly as in the second half of 1966. The relatively high year-to-year growth rate of visible exports in the first three months of 1967 (10 %, according to the customs returns, after 4.5 % in the last quarter of 1966) may partly be due to the fact that, in the corresponding period of 1966, the level of exports, especially those to non-member countries, had been exceptionally low.

Exports of iron and steel were more lively than before because of the revival in demand from non-member countries, and exports of chemical products rose steeply.

The growth rate of domestic demand, however, turned out to be below that experienced in the closing months of 1966.

Outlay on gross fixed asset formation appears to have risen at a somewhat slower rate, in the main because of the way in which residential building developed. The decline in building starts was sharper in early 1967 than towards the end of the previous year, when the slowdown was already marked. This deterioration was no doubt related to the financing difficulties caused by the poor supply of credit and high rates of interest. The rise in investment by enterprises may also have dipped somewhat. Indeed, the stimulus derived from investment by foreign companies—still a deci-

sively important factor—is waning more and more. In contrast with this, public investment appears to have gone on rising very steeply.

Investment in stocks was seemingly on the decline, a state of affairs which was certainly due to more cautious stockbuilding by both dealers and manufacturers.

One particular conclusion which may be drawn from the figures on the execution of the ordinary budget is that public current expenditure on goods and services again rose at a fast rate. On the other hand, the rise in private consumers' expenditure may well have weakened slightly again. The total wages bill continued to increase during the first quarter, but its growth rate was somewhat lower than before. This slackening was no doubt due to a slightly smaller rise in agreed hourly wage rates, to a decline in numbers employed and the reduction in the average number of hours worked per person. The latter tendencies may incidentally have been a factor in the increased propensity to save shown by households.

The trend of overall demand and of its components had different effects on domestic production and on imports: the former continued to increase a little, whereas the latter tended to flag.

Industrial production (adjusted for seasonal variation and including construction) continued to rise during the first quarter—even if rather slowly. According to the INS index, which does not yet cover all forms of production and in particular omits certain structurally dynamic industries, industrial production was about 2 % above the level of the first quarter of 1966, after its level in the fourth quarter of 1966 had been in line with that of the corresponding period a year earlier.

Imports of goods and services showed a tendency to decline. In particular, visible imports for the first quarter developed a downward trend which was largely due to adjustment of

stocks. For the first quarter the value of imports (based on customs returns) was 2 % higher than for the same period of the previous year.

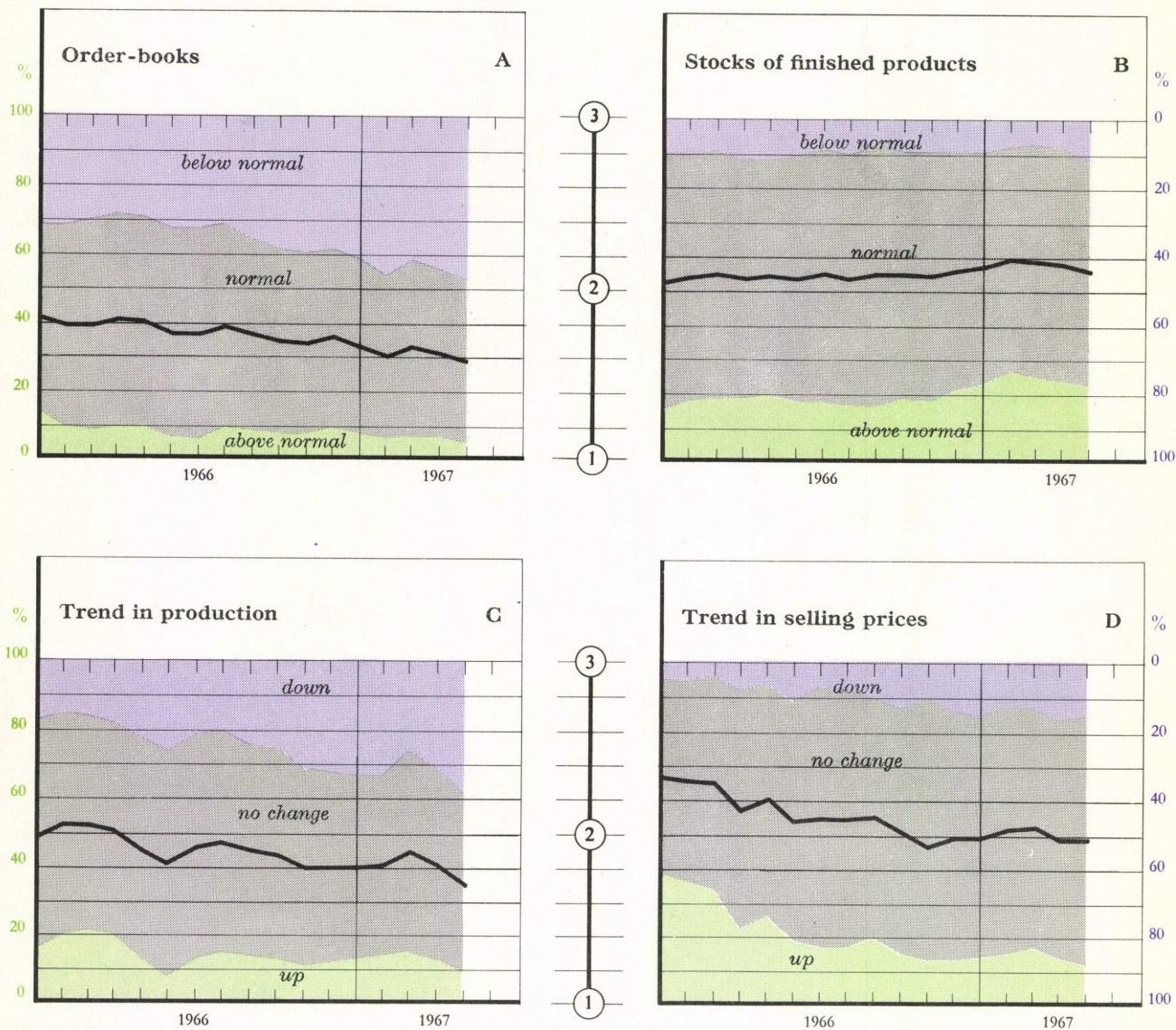
The labour market experienced a further increase in unemployment; this was in part the result of seasonal and short-term factors but even more of incipient structural weaknesses which had so far been more or less masked by the inflationary trend. The unemployment rate¹ rose to an average of 1.9 % during the first four months of 1967, against 1.4 % in the fourth and also the first quarters of 1966. Short-time working also tended to increase.

After a quieter spell in the second half of 1966, consumer prices rose again somewhat more rapidly from the beginning of 1967. This was partially due to a sharp seasonal rise in the prices of agricultural products, but a further important factor was the rush of applications from various sectors for permission to raise prices after the end of the price freeze. In the first quarter the retail price index was 2.9 %, in April-May 2.5 %, higher than in the corresponding periods of the previous year, whereas wholesale prices, except those for agricultural produce, were inclined to settle down, largely as a result of the easing of prices for imported raw materials.

The developments in foreign trade outlined above caused a distinct improvement in the balance of trade. In terms of customs statistics there was even a surplus of Bfrs. 2 000 million in the first quarter, contrasting with a deficit of Bfrs. 4 400 million in the first quarter of 1966. In consequence, the current payments account also showed a surplus of Bfrs. 4 300 million. Since on capital account outflows of public capital were not quite offset by net private inflows of capital, the overall balance of payments for the first quarter closed with a surplus of Bfrs. 3 700 million.

¹ Number (not seasonally adjusted) of persons drawing unemployment benefit who are fully or partially employable and are seeking employment, expressed as a percentage of the total civilian labour force.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three colours (green, grey and violet) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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

Domestic liquidity expanded distinctly more slowly in the first quarter, despite the exceptional surplus on foreign transactions and the further expansion of bank credits. The current trend is primarily due to a reduction in the amount of short-term borrowing to cover the deficits of the central government and, even more, those of other public corporations.

As the financing needs of the public authorities were considerable, long-term interest rates remained high; only on the money market was there any distinct easing of the rates charged.

Since the New Year, share prices have been hardening. From the end of December 1966 to the end of March 1967 the average rise was approximately 8.5%. The chief causes of this recovery were probably the prospects of relatively better yields from equities, and also the very firm tone on Wall Street.

2. Outlook

In the last Quarterly Survey it was anticipated that economic growth would gather fresh momentum during the second half of 1967. Whether this expectation is confirmed will, in view of the slower expansion of gross fixed asset formation, depend largely on the way in which foreign demand develops.

Since it is still uncertain when and to what extent economic expansion will recover in Germany and the United States and since, in addition, there is as yet nothing to suggest that imports of goods by the Netherlands is about to pick up, the chances that exports of goods and services from Belgium will expand faster than before have not improved. In fact, it seems likely that until the autumn there will be a rather modest rise in the adjusted export figures—a rise that may well be not much more rapid than it has been since summer 1966; even so, it will be due to deliveries from the recently installed plants and the new measures introduced to encourage exports.

The increase in domestic demand may further slacken during the next few months, and here

the main factor will be the trend of outlay on gross fixed asset formation. In particular, greater caution may well be exercised over investment of capital in residential construction, and investment by enterprises may gradually lose further momentum as the large projects undertaken by foreign firms are completed without schemes of equivalent magnitude to take their place; the plan to step up government assistance for regions faced with particularly serious problems will, however, provide an increasing measure of encouragement for this class of investment. Public capital expenditure, on the other hand, may well rise at a fast rate during the months ahead.

In view of the way in which overall demand is developing, the adjustment of stocks now taking place is unlikely to be completed for several months, and so for some time to come investment in stocks can be expected to inhibit economic expansion.

Among other things, the rise in public sector salaries and wages, which is to take effect towards the middle of 1967, should extend the already sharp expansion of public current expenditure on goods and services. On the other hand, it looks as if the rise in private consumers' expenditure might flatten out again to some extent, for the rise in the disposable income of households will probably continue to flatten out slightly until the turn of the year. One reason for this is that the further fall that is likely to occur in the level of employment could hamper the growth of the total wages bill and, in addition, sustain or further reinforce the propensity to save. A second reason is that the rise in wages and salaries may well slow down somewhat further, despite the effect of the sliding wage scale. Finally, the Government does not intend to increase transfer incomes again to any notable extent before the beginning of next year.

In these circumstances, supply is likely to continue advancing at quite a slow pace, especially in the industrial sector: the opinions of businessmen concerning the state of their order books confirm the view that industrial output is likely to rise but slowly.

Imports of goods and services are also likely to be sluggish for some time yet.

In spite of a drop in the number of foreign workers employed and in spite of the probability that the tendency to shorten the working week in industry will persist, there may well be some further growth in the number of unemployed.

The upward pressure exerted on costs during recent years will probably mean that prices continue to rise fairly rapidly for some time to come. Nevertheless, the rate of rise may gradually diminish during the second half of the year, owing primarily to a further decline in import prices, stiffer competition, the limited tendency for demand to expand and the slower climb in wage costs.

The forecasts in the last Quarterly Survey concerning changes in the main components of demand for the full year 1967, compared with those of 1966, need only very slight correction. Because of the recently somewhat less favourable prospects for gross fixed asset formation, the estimated growth rate for this component of demand is now somewhat lower. In view of the sluggishness of business activity in a number of countries which are major buyers of Belgian products, it still seems advisable to retain a margin when forecasting the rise in gross national product, which should in 1967 be some 2.5 to 3 % higher than in 1966.

In 1968, the rate of economic growth in the Community and consequently the rate of increase in Belgian exports might well be faster than in the current year. In addition, the

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ²		1967 ³
	At current prices (in Bfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	295.2	+ 8.5	+ 10.4	+ 5	+ 7	+ 6
Gross fixed asset formation	163.8	+ 1.4	+ 5.5	+ 4	+ 7.5	+ 3.5
Public current expenditure on goods and services	98.1	+ 5.3	+ 9.6	+ 4	+ 13	+ 3
Private consumers' expenditure	507.1	+ 3.4	+ 8.1	+ 3	+ 7.5	+ 3
Gross national product	773.8	+ 3.3	+ 8.2	+ 3	+ 7.5	+ 2.5-3
Imports ⁴	295.0	+ 7.8	+ 7.9	+ 8.5	+ 10.5	+ 5

¹ Statistical Office of the European Communities, National Accounts 1955-1965.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

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

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

propensity to invest of Belgian entrepreneurs may certainly be expected to recover. On these assumptions, an increase of fully 3 % in real gross national product appears to be possible.

As far as short-term economic policy is concerned, special mention should be made of the passing of a law this March enabling the Crown to exercise certain powers to stimulate economic growth, accelerate the structural renovation of the regions and strengthen the equilibrium of the budget. On 20 April and 25 May 1967, two implementing regulations were published pursuant to this law. A summary of the measures provided for is appended to this chapter. The regulations consist essentially of provisions which are intended to ensure full employment and to put fresh life into the economy by means of more substantial assistance for private investment and exports, while the balance of the budget is restored through higher taxation and a certain degree of reorganization in public administration.¹ With regard to social policy, the most important steps were those aimed at retraining and re-integrating workers affected by the closing of coal-mines.

Credit policy reflected the tendencies noted on the money and capital markets. Since the beginning of the year, the discount rate has been lowered in three steps from 5.25 % to 4.5 %. On the other hand, quantitative restrictions on the growth of bank lending, which had already for some time been relaxed notably by the exemption of certain investment credits and export credits, were withdrawn in June.

Taken as a whole, and provided it is strictly implemented in all its aspects, the policy announced by the Belgian authorities could in large measure correspond to the needs of the current situation and to the recommendation made by the Council of the Community last December.

However, only a very small part of the measures applying to public finance had been put

¹ There were also a number of measures to facilitate the movement of capital and so to assist private investments in particular.

into effect when the present report was drawn up. The first set of tax increases, which is already in force, is likely to reduce the deficit on the ordinary 1967 budget by Bfrs. 2 000 million. On the other hand ordinary expenditure, which during the first three months of 1967 was nearly 16.5 % higher than in the corresponding period of 1966—this rate of increase is considerably higher than that foreseen for the full year—does not yet appear to have been very effectively limited. Even if the additional tax measures (i.e. the planned increase in corporation tax, tobacco tax and the income tax paid by the higher income groups) are soon carried into effect, there is likely to be a deficit on the ordinary budget for 1967; this will be so even if no allowance is made for the shortfalls in revenue and the additional expenditure which inevitably occur when the business trend is less favourable than was anticipated at the time the budget was drawn up. A deterioration of the balance (by, say, Bfrs. 1 000 - 1 500 million) is quite acceptable as a built-in stabilizer of the economic situation, and so is the financing of this sum by short-term borrowing, but anything that goes beyond this motivated deterioration is not. In practice, the deficit seems to be following a rising curve, and so is the scale of short-term borrowing used to finance the deficit.

All things considered, it seems that the “structural” balance of the ordinary budget will not be restored unless further, very energetic measures are adopted, especially in the field of expenditure. If no effective action of this type is taken, there is even a danger that the deficit will rise still further in 1968, despite the likelihood that economic developments will then be more favourable; in particular, the burden placed on the money markets as a result of a situation of this kind might be far too heavy.

In this connection, it should also be remembered that substantial sums will have to be found for the financing of the extraordinary budget, of the measures adopted to give fresh impetus to economic growth, of the steps to speed up the industrial conversion of certain regions and of the other arrangements for bringing the economy back to normal. The more limited the reorganization of the ordinary

budget and the later it is effected, the more difficult will it be to finance the expansionary measures without causing undue difficulties for those seeking to obtain from the capital market finance for other (private) investments.

The measures for stimulating the economy and industrial conversion in the regions are in principle to be welcomed for reasons both of short-term economic policy and of longer-term economic growth. So too is the fact that the new measures to stimulate the economy are, from the angle of regional policy, more selective than before and that the Government's action will be co-ordinated through the establishment of a fund to assist economic expansion and the conversion of industry on a regional scale. In all probability, too, the recovery of business would be helped forward greatly if the new measures were applied in such a way that greater attention were paid to raising productivity and improving the scientific research done by Belgian enterprises as well.

Lastly, mention should be made of the measures intended to facilitate the financing of economic growth through increased collaboration by the savings banks and certain non-profit-making institutions in the financing of productive investments and infrastructure projects. It appears desirable that these measures should be further extended; in particular, consideration should be given to rapid implementation of the recommendation of the de Voghel Committee which dealt with problems of financing economic expansion, especially those relating to stock exchanges and share savings.

Summary of the measures taken by the Government under the law of 31 March 1967 and investing the Crown with powers to give fresh stimulus to the economy, to accelerate the industrial conversion of certain regions and to stabilize the budget (Royal Decrees published in the "Moniteur Belge" on 20 April and 25 May 1967):

1. *Industrial conversion in certain regions*

- a) Establishment of a fund to assist economic expansion and for the conversion of

industry in certain regions; a sum of Bfrs. 5 000 million to be appropriated to this fund.

- b) Coalmining areas affected by closures to be put rapidly on a sound footing and receive immediate support.
- c) More intensified, selective deployment of the grants made to assist certain areas under the provisions for the promotion of economic growth.

2. *Promotion of investment*

- a) Intensification of endeavours to attract foreign investment.
- b) The grant of tax concessions on new investments, in particular by waiving for a limited period of five financial years, the corporation tax on normal income from those shares or from that part of a firm's capital subscribed and paid up when the firm is floated or expanded.
- c) Institution of a more favourable system governing depreciation for tax purposes and a higher ceiling for government guarantees.

3. *Encouragement of exports*

Increased appropriations for the "Office national du Ducroire" (the National Export Guarantee Institution), grant of turnover tax rebates on certain products and interest rebates on credits for the export of capital goods to the developing countries.

4. *Provision of capital*

- a) Reorganization of the "Conseil supérieur des finances" (Financial Council) and the "Conseil des institutions publiques de crédit" (Council for Public Credit Institutions), increased operating resources for the "Société nationale de crédit à l'industrie" (an industrial credit organization) and the "Caisse générale d'épargne et de retraite" (a savings bank and pensions organization) and greater facilities for intervention by the "Société nationale d'investissement" (a national investment institution).

- b) Wider facilities for investment by private savings banks and preferential placing of

reserves and other liquid assets of non-profit-making organizations in investments for productive purposes, infrastructure works and publicly assisted housing.

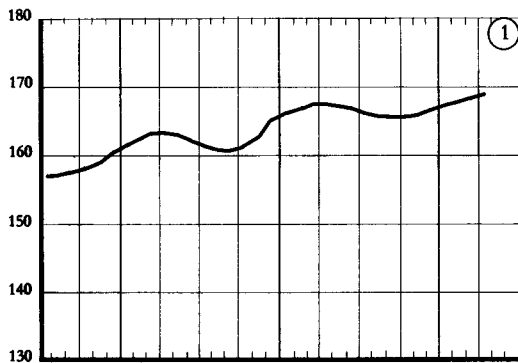
5. *Balance of the budget*

a) Limitation of government expenditure, notably by more stringent control of subsidies and cuts in expenditure on education and on health and invalidity insurance.

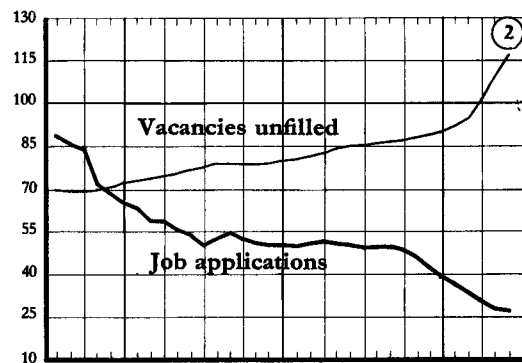
b) Raising the revenue received from taxation, mainly by upward adjustment of the rates and scales of estate duty, by increasing taxes on transfers and purchases of real estate property and on other conveyances of real property for valuable consideration from 11 to 12.5 %, and finally by raising the luxury tax, the tax on insurance contracts, on cigars, cheroots, gaming, betting, juke boxes, etc. In addition, various measures were taken to increase the efficiency of tax collection.

ECONOMIC INDICATORS

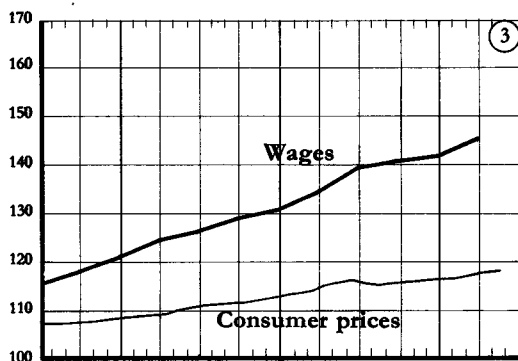
Industrial production 1958 = 100



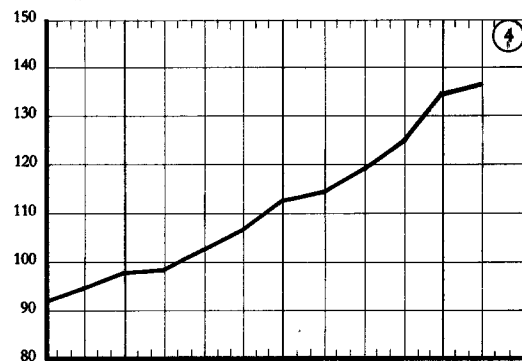
Labour market 1962 = 100



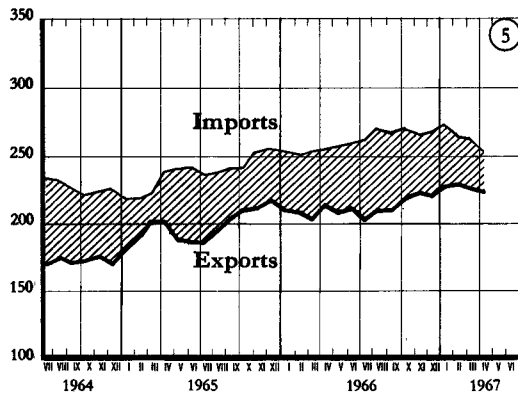
Wages and consumer prices 1962 = 100



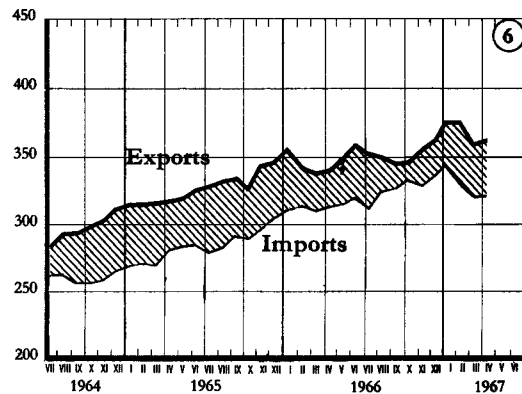
Bank lending to private sector BF. '000 million



Trade with non-member countries million u.a.



Trade with other member countries million u.a.



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

Belgium

TABLE 1: Basic data (1965)

Total area ('000 sq. km.)	30.5
Total population ('000)	9 450
Density of population per sq. km.	310
Numbers in employment ('000)	3 704
Numbers in employment, breakdown by main sector (%)	
— Agriculture	5.5
— Industry	45
of which : Construction	7.5
— Services	49.5
Percentage share of gross domestic product :	
— Agriculture	6.5
— Industry	42
of which : Construction	7
— Services	51.5
Gross product per capita (Bfrs)	88 400

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP ¹
	1959	1960	1961	1962	1963	1964	1965		
Gross national product	+ 2.6	+ 5.6	+ 4.7	+ 5.5	+ 4.6	+ 6.6	+ 3.3	138	—
Industrial production	+ 4.2	+ 8.5	+ 4.7	+ 7.5	+ 4.9	+10.5	+ 2.5		
Total imports	+12.2	+12.4	+ 7.0	+ 6.8	+ 8.0	+11.1	+ 7.8	186	38.0
Private consumers' expen- diture	+ 2.0	+ 6.0	+ 2.2	+ 4.8	+ 5.3	+ 3.9	+ 3.4	131	65.5
Public current expenditure on goods and services	+ 5.3	+ 5.4	+ 1.6	+ 9.1	+11.5	+ 4.2	+ 5.3	151	12.8
Gross fixed asset formation	+ 8.8	+12.6	+10.7	+ 5.8	- 1.0	+12.8	+ 1.4	162	20.7
Total exports	+ 7.2	+ 9.6	+ 8.3	+ 7.6	+ 7.3	+12.5	+ 8.5	179	38.9
Gross national product per capita	+ 2.1	+ 5.1	+ 4.2	+ 4.8	+ 3.8	+ 5.7	+ 2.3	132	—
Gross national product per person gainfully employed	+ 3.5	+ 5.1	+ 3.5	+ 3.7	+ 3.7	+ 5.5	+ 2.3	131	—

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	381	335	5.0
To non-EEC countries	- 4.4	+ 8.7	+25.7	+26.8	- 2.1	+31.3	+17.1	205	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	139	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	392.7	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	+ 4.3	+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	278	3 834	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	158	118	147	162	156	152	159
	1967	150	147	160			150	147	160				
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	
	1967												
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	103.8	100.7
	1967	84.6	94.3										
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	134.8	136.2	139.7	146.0	142.4	146.3	143.2	144.6	148.0	140.7	145.0	149.9
	1967	144.2	145.0										
Total visible imports (million u.a.)	1965	455	477	547	552	514	518	505	454	553	561	578	614
	1966	519	554	607	555	533	607	520	503	601	609	616	641
	1967	581	550	630									
Total visible exports (million u.a.)	1965	482	519	571	507	484	551	513	432	536	552	576	612
	1966	493	528	629	562	537	621	514	475	606	575	594	621
	1967	574	594	609	604								
Balance of trade (million u.a.)	1965	+ 27	+ 43	+ 24	- 45	- 31	+ 34	+ 8	- 21	+ 33	- 9	+ 5	+ 3
	1966	- 26	- 27	+ 22	+ 6	- 47	+ 14	- 6	- 119	+ 6	- 34	- 22	- 20
	1967	- 7	+ 44	- 21									
Official gold and foreign exchange reserves (million u.a.)	1965	2 000	2 006	2 002	2 026	2 010	2 000	2 010	2 028	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	(1 966)								
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	327.1	339.7
	1967	325.0	320.5	326.5	333.6								

() 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, average for 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.
- Investment. Source: Département de l'économie appliquée de l'Université libre de Bruxelles (DULBEA). Current prices.
- Construction. Source: INS. Index based on number of man-hours worked.
- 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

Neither the rate of increase in overall demand, which continues to be very slow, nor its composition appears to have altered much during recent months. Foreign demand has still been rising slowly, whereas the expansion of domestic demand has been hampered by the decline of expenditure on gross fixed asset formation. Everything points to the likelihood that these tendencies will be maintained during the months ahead; at the same time, further progress may be made towards achieving stability of prices.

1. Recent developments

The slight increase in exports of goods and services quickened somewhat in the early months of the year.

Mainly on account of the firmer flow of orders from non-member countries, there has been a rise, if only a modest one, in the quantities of iron and steel products delivered. In addition, export prices appear to have improved since the New Year. The exports of other goods have doubtless maintained their fairly distinct rise.

The contribution made by domestic demand has been small, chiefly because of the sluggishness of expenditure on gross fixed asset formation. Investment in residential construction, affected particularly by the restrictions on credit, sagged. At the same time it seems that only a few industrial branches, mainly those in processing industries, increased their investments, while investment by other branches apparently fell off more or less sharply. Public investment probably increased, if only to a fairly small extent.

Although in the first quarter the disposable incomes of households made little progress, private consumers' expenditure continued to grow. This process may have been stimulated by a slight advance in the propensity to con-

sume of households, which was very likely the result of increased spending in anticipation of the impending improvement of certain transfer incomes (pensions and family allowances) and of minimum wages.

The modest increase in production continued in the first three months. For the first time in two years the output of iron and steel was slightly higher than in the corresponding quarter of the previous year. According to the STATEC index, industrial production was 0.9 % up on a year earlier; in the last three months of 1966 it had been no less than 3.7 % below the figure for the last quarter of 1965. Building output appears, however, to have slowed down appreciably.

On the other hand, there was a decline in imports, doubtless due mainly to the weak demand for capital goods. The reduction of manpower requirements in the iron and steel industry and, above all, in the building trade, accentuated the tendency for the labour market to ease; this meant that the number of foreign workers employed in industry fell for the first time since 1963.

Prices were still inclined to rise slightly. While the official cost-of-living index for April-May was only 1.7 % higher than in the corresponding period of the previous year, it should be borne in mind that at that time a particularly

sharp rise in food prices had just occurred. At 3.6 % the increase over the prices charged a year earlier for services and for other goods was considerably heavier than that shown by the general cost-of-living index.

2. Outlook

The rise in exports of goods and services will probably slacken somewhat in the coming months because foreign orders for iron and steel products are likely to decline.

The poorer prospects for gross fixed asset formation hinted at in the last Quarterly Survey

have been confirmed by developments during the first three months of 1967; nor is there any sign that the trend in this field may undergo any sudden change for the better in the months ahead. The available figures on projected investment by enterprises and in residential building suggest that there has been a fairly perceptible decline compared with a year earlier. Public investment may expand a little less quickly than had been estimated, as the Luxembourg Government has been endeavouring to improve the overall balance of the State finances.

Private consumers' expenditure, on the other hand, will continue to expand; its progress may

Demand for and supply of goods and services

	1964 ¹	1965 ¹		1966 ²		1967 ³
	At current prices (in Lfrs million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	25 717	+ 4.5	+ 3	+ 3.5	+ 3	+ 4
Gross fixed asset formation	11 100	- 18	- 16	- 3.5	0	- 2.5
Public current expenditure on goods and services	3 521	0	+ 6	+ 2.5	+ 9	+ 2
Private consumers' expenditure	18 736	+ 3	+ 7	+ 2.5	+ 6	+ 2
Gross national product	31 596	+ 1.5	+ 3	+ 2	+ 4	+ 2.5
Imports ⁴	27 478	- 0.5	+ 0.5	+ 2	+ 4	+ 1.5

¹ Statistical Office of the European Communities, National Accounts 1955-1965.

² Commission estimates.

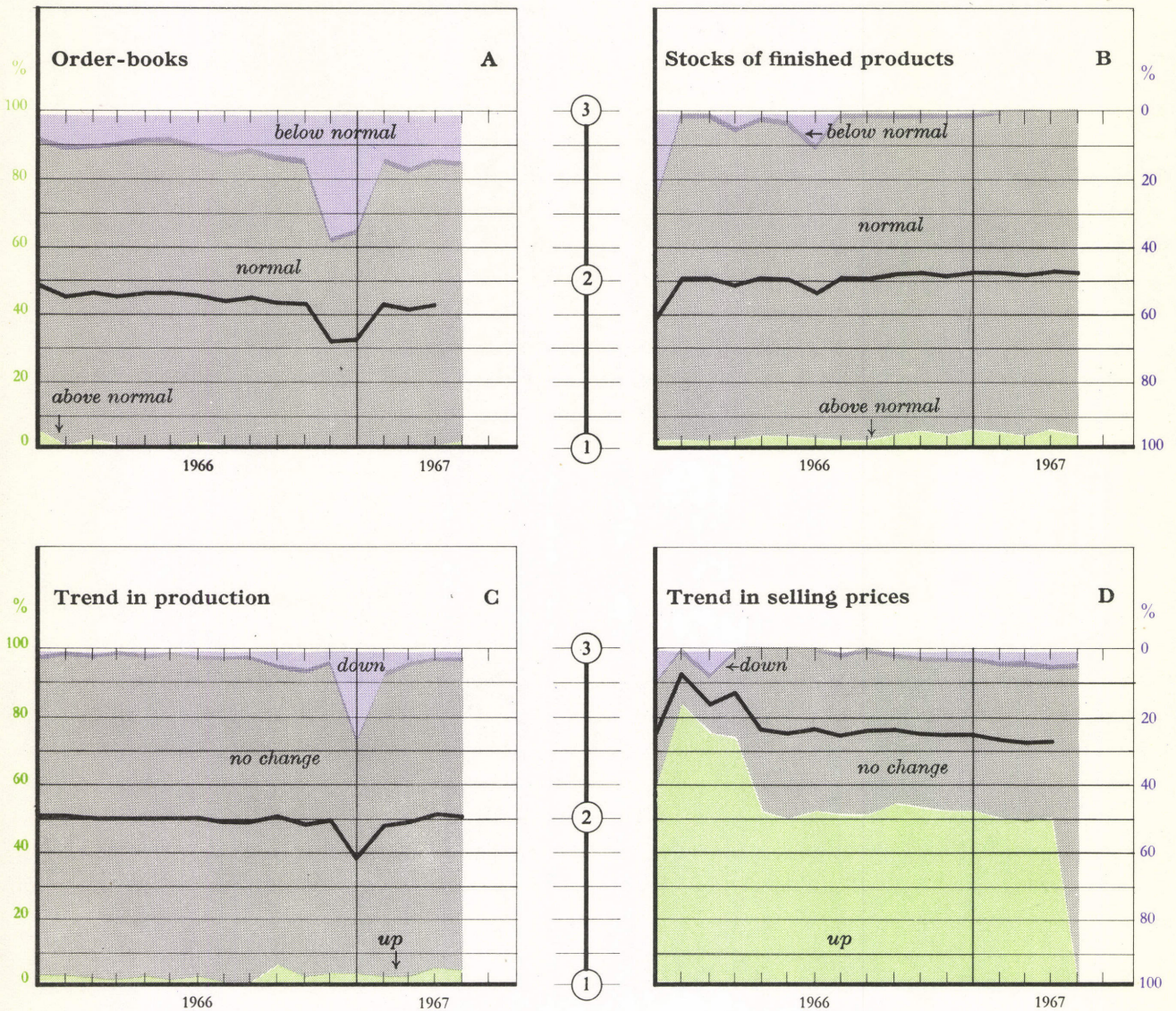
³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three colours (green, grey and violet) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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

be sustained by a somewhat more vigorous advance in the disposable incomes of households which will follow the impending rise in certain transfer incomes and in minimum wages; in addition, the sliding wage scale may come into operation this summer.

The increase in domestic supply is likely to be hardly any greater than it has been in the last few months. What is more, the decline in demand for capital goods may well impede a revival of import activity.

These prospects for the development of supply and demand during the rest of the year are in no sharp contrast with the forecast of results for the full year 1967 made in the last Quarterly Survey (No. 1/1967). The figures for gross fixed asset formation have, however, been revised downward to some small extent, because industrial circles are somewhat pessimistic about the future and because the trend in residential building has also been less promising of late. In view, however, of the equilibrium that can be expected between import and export figures, the increase in real gross national product can still be assessed at about 2.5 %.

It is still very difficult to make any forecast regarding the characteristics of the individual

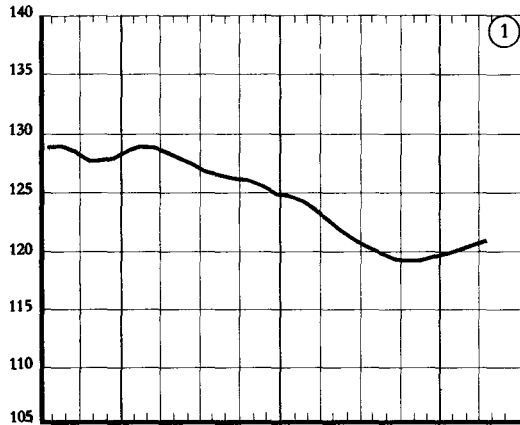
components of demand and their possible effect on the expansion of the gross national product in 1968. Provided there is a slight improvement in the market for steel, an increase of approximately 3.0 % in the real gross national product may be expected for 1968. The position on the labour market may none the less ease further: the demand for manpower emanating from the new industries appears to be slackening, and the iron and steel industry has many means of raising productivity without taking on more staff.

The observations made in the last Quarterly Survey on the short-term economic policy of the Luxembourg authorities still hold good. It is too early yet to judge the extent to which those responsible for the management of budgetary expenditure will be able to keep it within the bounds laid down in the Budget Law for 1967 in its amended form. In view of the more marked weakness of investment by enterprises and the growth of unused capacity in the building industry care should be taken to ensure that the authorities responsible for the management of the Grand Duchy's finances do in fact curb those types of expenditure which cause consumption to rise and thereby increase the possibilities of promoting a higher level of capital investment, as recommended by the Council of the Community on 22 December 1966.

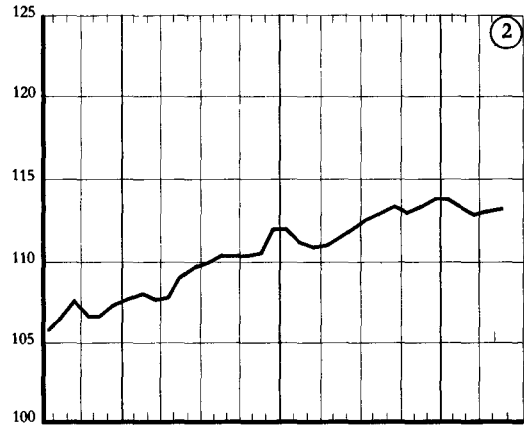


ECONOMIC INDICATORS

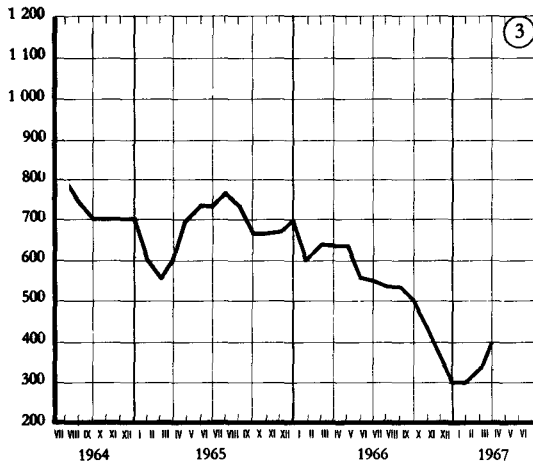
Industrial production 1958 = 100



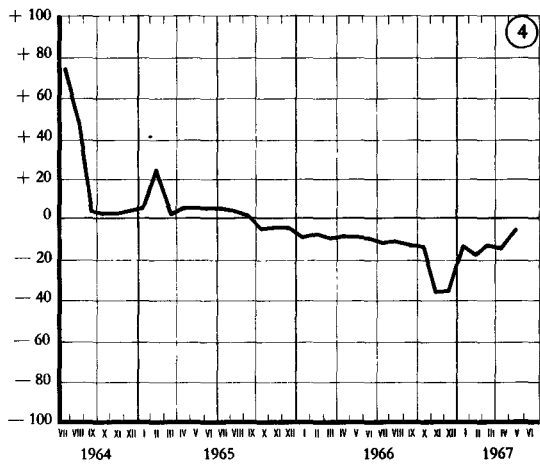
Consumer prices 1962 = 100



Vacancies unfilled number



Orders in hand %



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 (1965)

Total area ('000 sq. km.)	2.6
Total population ('000)	331
Density of population per sq. km.	127
Numbers in employment ('000)	139
Numbers in employment, breakdown by main sector (%):	
— Agriculture	13
— Industry	46
— Services	41
Percentage share of gross domestic product in 1963	
— 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	124								
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								
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	78	54
	1967	39	46	69	72								
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								
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							

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.

