

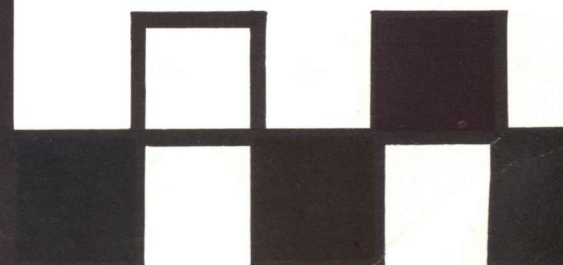
**European
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**Directorate-
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and Financial
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**The economic situation
in the Community**

1

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Quarterly survey

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

COMMISSION

The Economic Situation in the Community

MARCH 1967

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Note:

This Survey was completed around mid-March 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. 3-1967 of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

At the turn of the year economic activity in the Community was increasing at a quieter pace than previously.

True, demand from abroad was expanding at roughly the same pace as in the preceding months; in the fourth quarter of 1966, the value of visible exports to non-member countries was again up a good 8 % on the corresponding period in 1965.

As against this, the growth of internal demand in money terms slowed down further. Thus, the trend of gross fixed asset formation was probably at best only very slightly upwards, and the contribution made by investment in stocks was also hardly worth mentioning. The growth of private consumers' expenditure also eased appreciably.

Internal supply seems to have increased relatively little. At any rate, industrial production measured by the adjusted index of the Statistical Office of the European Communities showed no advance between the third and fourth quarters of 1966. The gross index in the fourth quarter was only 3.5 % higher than a year earlier; this was due primarily to an unmistakable slackening in the industrial production of the Federal Republic of Germany. But growth continued in the branches of industry not covered by the index and in services.

In most member countries pressure on the labour markets eased in varying degree, partly because of the way the general economic situation was developing, partly because of a strong increase in the labour force; the rise in unemployment was particularly rapid in the Netherlands and the Federal Republic of Germany.

Although the rise in the Community's total internal demand was levelling off, imports of goods from non-member countries speeded up slightly in the fourth quarter—partly as a result of sharply expanding food imports; this value was

3 % up on the last quarter of 1965, when it had already been very high. Since, however, exports continued to expand even more rapidly, the Community's balance of visible trade improved. In the fourth quarter the deficit, which had totalled about 360 million u.a. ⁽¹⁾ in the same quarter of 1965, disappeared; the current balance of payments as a whole will again have improved correspondingly. The balance of capital transactions on the other hand seems to have closed with a deficit. The fact that the official gold and foreign exchange reserves of the member countries went up by a good 200 million u.a. in the last three months of 1966 was very largely attributable to the usual temporary deterioration in the net foreign exchange position of the commercial banks.

In the period under review visible trade between the member countries expanded rather faster than in the previous months, mainly as a result of relatively heavy imports by France and Italy. On an import basis its year-to-year growth rate in terms of value was about 6.5 %.

The price rise in the Community as a whole has slackened further, particularly in the Federal Republic of Germany and to a lesser degree in the Benelux countries; in France and Italy, on the other hand, there was some further, if limited, acceleration in the pace at which prices were rising.

The outlook for the Community as a whole until the end of 1967 suggests that economic expansion will continue; the rate of expansion, however, may well remain quite slow until the middle of the year or beyond.

Demand from abroad, particularly from the United States, will probably lose something of its momentum.

Internal demand in money terms will probably also be less dynamic in the coming months, and even if its expansion speeds up, as it may in the second half of the year, this will not prevent its total growth for 1967 being smaller than it was in 1966. This applies particularly to gross fixed asset formation despite the quite considerable further advances made in Italy and France, as there is in the Federal Republic of Germany still a tendency for the time being for business activity to slacken. Private consumers' expenditure, too, will probably expand at a relatively quiet pace—again mainly because the trend in the Federal Republic of Germany and, to a less marked extent, in the Benelux countries will continue to be weak at least until mid-year. Still, the increase in the volume of consumption in 1967 could be almost the same as in the previous year.

Internal supply in the Community will rise further, but at first the rise is likely to be fairly small. The growth of industrial production might not pick up before the second half of 1967 and in any case its growth rate for the full year will probably be lower than in 1966 (3-4 %, compared with 5 %). With continuing, if perhaps somewhat slower expansion in the branches not covered in the index of production,

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

and provided agricultural output is normal, a rise in the real gross Community product of 3.5-4 % between 1966 and 1967 can probably be expected.

The quieter trend of aggregate demand in the Community will doubtless be reflected in a relatively weak expansion of imports from non-member countries. But since—as mentioned—the growth of exports will also lose momentum, the deficit on visible trade for the full year 1967 could be roughly the same as in 1966.

Except in France and Italy the price rise will probably again level off to some extent, even though in several member countries forces leading to cost inflation will still be felt. In Belgium and the Netherlands particularly prices will none the less continue to rise at a relatively high pace.

The forecast this time is fraught with special factors of uncertainty, not only because it is particularly difficult to determine how factors influenced by the climate of opinion, such as the propensity to invest and save, will develop in the coming phase of the economic cycle, but also because they depend on the validity of the basic assumptions made concerning economic policy—a sphere in which a number of changes are being made or have been announced.

In most member countries the task of short-term economic policy is to give rapid and effective support to real economic growth or to set it moving again without going so far as to inhibit the further action of the forces making for price stabilization. Action on the lines of the Council recommendation of 22 December 1966 will best fulfil these requirements.

A. Recent developments

1. Demand

In the final months of 1966 and, it would seem, in early 1967 also total demand in the Community advanced rather more slowly than hitherto, owing to a marked slackening of the expansion of internal demand.

On the other hand, external demand—in terms of goods and services actually exported to non-member countries — expanded at roughly the same pace as in the previous months. Customs returns show that in the fourth quarter of 1966, as in the third, the value of visible exports was a good 8 % higher than a year earlier.

United States purchases continued to give strong support to the growth of exports, although in the private sector the expansion of final demand in that country was showing clear signs of a slowdown towards the end of the year. In particular the trend of fixed asset formation by industry, which had been rising sharply, tended to flatten out, probably to a large extent because of less buoyancy in profits and the withdrawal of tax advantages. But the growth of private consumers' expenditure, particularly on durables, also lost dynamism—in the main probably because of the slower advance of the total wages bill caused by reductions in hours worked.

Public spending, particularly on armaments, continued to bolster total demand strongly. In addition, a revival in the pace of re-stocking contributed to a rise in the real gross national product of the United States of 1 % in the December quarter of 1966, or roughly the same amount as in the third quarter—in each case seasonally adjusted in relation to the previous quarter. For the full year 1966, the latest estimates give a growth rate for the real gross national product of about 5.5 % over 1965.

In the early months of 1967 the tendency to lose momentum seems to have been confirmed and even to have become rather more pronounced. Only public spending maintained its high pace of expansion unabated and there were signs of a hesitant improvement in the trend of

building starts—probably stimulated by the reliefs accorded to reduce the difficulties of financing and by some easing of the general interest level. Although the economy was less overheated, there was no very apparent deceleration of the upward price thrust—perhaps as a result of the continually increasing pressure of costs.

Community exports to the United Kingdom in the final quarter of 1966 and early in 1967 showed strong fortuitous fluctuations due to the cancellation, at the end of November, of the surcharge on semi-finished and finished goods; their underlying trend, however, was unmistakably downwards, following the depressed trend of demand in that country. Partly as a result of the more severe curbs introduced in July 1966, all important components of domestic demand, with the exception of government expenditure, registered a more or less distinct drop. This still applies to capital investment by enterprises, and for some time it has also been true of private consumption, the seasonally adjusted monthly figures for both of which fell slightly in volume and perhaps also in value during the period under review. Despite a tendency for the growth of British exports to improve, the seasonally adjusted production index of all manufacturing industries therefore fell between July and December by nearly 5 %. Simultaneously, there was a considerable increase in the number of unemployed.

In the other industrialized countries outside the Community economic expansion continued in the fourth quarter, on the whole at only a slightly changed pace. Weaker growth in some of them (particularly Austria, Sweden and Canada) seems to have been rather more than offset by accelerated activity in others (Switzerland, Denmark, Japan); at any rate the Community's sales to this group of countries, which had been growing more slowly since the spring of 1966, picked up slightly from the beginning of the fourth quarter.

The Community's exports to the developing countries during the period under review were again influenced by the readiness of these countries to import; this has increased since

Visible exports to non-member countries

(Values and % changes on preceding year)

| Exports to | 1965 | | 1966 | | | | |
|--|-------------------------------------|--------|---------------------|---------------------|---------------------|---------------------|--------|
| | million u.a. (¹) | % | 1st quar- ter | 2nd quar- ter | 3rd quar- ter | 4th quar- ter | Year |
| All non-member countries: | 27 079 | + 12 | + 7.5 | + 10.5 | + 8 | + 8 | + 8.5 |
| of which: | | | | | | | |
| Industrial countries (²) | 17 612 | + 12.5 | + 9 | + 10.5 | + 7 | + 7.5 | + 8.5 |
| including : | | | | | | | |
| United States | 3 425 | + 20 | + 22 | + 18.5 | + 18.5 | + 20 | + 19.5 |
| EFTA : total | 9 602 | + 8.5 | + 5.5 | + 6.5 | + 3 | + 1 | + 4 |
| United Kingdom | 2 367 | + 3.5 | + 18 | + 12.5 | + 6 | - 7.5 | + 7.5 |
| Developing countries (³) | 7 510 | + 9 | + 0.5 | + 8.5 | + 8 | + 9 | + 6 |
| including: | | | | | | | |
| Associated overseas countries and terri- tories | 1 733 | + 5 | - 3 | - 3 | - 1 | + 0.5 | - 1.5 |
| Others (⁴) | 1 966 | + 19 | + 20 | + 20.5 | + 20.5 | + 11.5 | + 18.5 |

Source: Statistical Office of the European Communities.

(¹) 1 u.a. = 1 unit of account = 0.888671 gm. 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 of the Standard Country Classification for Foreign Trade Statistics of EEC countries.

(⁴) Class 3 of the Standard Country Classification for Foreign Trade Statistics of EEC countries and other destinations.

mid-1966, doubtless because of the considerable rise in their total foreign currency reserves—itself to some extent a reflection of their earlier import restrictions. In particular, sales to Latin America and to the developing countries in Asia showed more than average progress.

While therefore the expansion of external demand for Community goods was in general largely maintained during the period under review, the growth of internal demand in money terms slowed down further.

The rise in gross fixed asset formation was only very slight. Although the weather was favourable—except in Italy—investment in construction was rather depressed. While the expansion of public works in the Community

as a whole continued, apart from seasonal fluctuations, at roughly the same pace as in the previous months, actual expenditure on industrial building declined in some member countries as the propensity to invest weakened. Residential construction also continued to fall off, mainly because of weakness in the Federal Republic and the Netherlands, while in Italy recovery has made little further progress and in France has not really started; but at least the decline in the last-named country has stopped.

Investment in plant and equipment in the Community as a whole tended to stagnate. True, it continued to expand appreciably in France, Italy and—less clearly—Belgium, but it fell

off in the Federal Republic and to some extent in the Netherlands also.

Investment in stocks did not impart any notable stimulus to business. Stocks of raw materials and semi-products were probably further run down in some member countries in view of the stagnation of industrial production. Replies to the EEC business survey show, too, that stocks of finished goods left with producers have at times shown a distinct increase; producers have consequently endeavoured to reduce them by limiting output. Adjustment of dealers' stocks has probably now been completed in several member countries.

Total consumption expenditure in the Community rose more slowly during the final months of 1966. True, this hardly applies to public expenditure on goods and services, as expenditure on staff in the public sector of various member countries further increased; but the expansion of private consumers' spending weakened a little. In Germany and the Benelux countries especially, the rise in retail trade turnover usual at the time of year was for certain goods considerably smaller than in the same period of the previous years. The flattening-out of the general economic trend and the considerable uncertainty that prevailed as to future economic and political developments in these two countries evidently caused consumers to be more cautious. In France, too, the rate of expansion probably moderated somewhat but here, in contrast to the countries mentioned above, the consumer durables sector was hardly affected. In Italy the underlying increase in consumption continued to be strong and fairly smooth.

The trend sketched above may be due not only to a wait-and-see attitude on the part of consumers, whose propensity to save was consequently higher than before in several member countries, but also to a slowdown in the growth of disposable incomes. The expansion of wage and salary rates in Italy and France did not accelerate, while in the other member countries expansion unmistakably slowed down, although in varying degree from one country to another. Along with this, changes in numbers employed and hours worked pushed up mass incomes in Italy and France and depressed them in the other member countries. However, transfer incomes again rose strongly everywhere in the Community.

The slowdown in purchases by households mainly affected sales of consumer durables. However, thanks particularly to the continuing upward trend in Italy and the high level clearly reached in France the number of new private cars registered in the Community in the fourth quarter of 1966 was only slightly lower than in the corresponding period in 1965, when it was particularly high in several member countries because of purchases in anticipation of the heavier indirect taxes which came into force on 1 January 1966. The relatively low consumption of textiles was partly attributable to the mild weather, but it also corresponded in part to a phase of the special textile cycle, which for some time now has proved to be fairly independent of the general business situation.

2. Production

Internal supply in the Community expanded only slowly in the final months of 1966 and early in 1967.

Growth in the Community's industrial production, already weak in the third quarter of 1966, came to a complete standstill on many fronts in the fourth quarter, as may be seen from the seasonally adjusted index of the Statistical Office of the European Communities (excluding construction and food, beverages and tobacco). In the fourth quarter the gross index was only 3.3 % above the corresponding figure a year earlier, after a year-to-year growth rate of 5.5 % in the third quarter. This decline reflected a slight fall in industrial production in the Federal Republic of Germany, which practically offset further advances in Italy and in France, where they were however slower than before, in the Netherlands, and also in Belgium, where however they were very weak. The slackening of industrial production in Luxembourg seems to have ceased.

In the Community as a whole no substantial changes of trend appear to have occurred in the basic materials industries. Expansion continued in chemicals; there was stagnation, although with a slight tendency to recover, in iron and steel while production fell off in coal mining and in various building materials branches, weakness in the latter being due to the hesitant trend of building and construction.

Production of plant and equipment developed very weakly in the Community, mainly because in the Federal Republic supply was adjusting itself more closely than before to the slower growth of demand.

In the consumer goods industries production rose less than before. The number of passenger and estate cars produced in the Community in the December quarter was only 3 % higher than at the same period in the previous year. For textiles the corresponding year-to-year growth rate was about 2 %.

Despite the tendency for industrial production to level off, the upward trend of internal supply in the Community as a whole continued, although at a slower pace. This was attributable to a rise in the contribution of agriculture to the gross Community product—in the season concerned this means a rise in livestock products—and to further expansion in the services sector; the contribution made by certain services, however, especially transport, was affected by the easing of business activity, particularly in the Federal Republic of Germany.

Total numbers in paid employment in the Community seem to have declined slightly as the turn of the year, mainly because the numbers employed in industry, and especially in building, were declining in Germany and the Netherlands. In these two countries and in Belgium there were in some industries shorter working hours or temporary shutdowns. As against this the total number of persons in paid employment and probably also the total of hours worked in the French and Italian economies were again up slightly.

As a result of the slower growth or even stagnation of production in some member countries and a relatively strong expansion of the labour force in France and the Netherlands, the number of unemployed, adjusted for seasonal and fortuitous variations, increased in the Community, the increase being greatest in the Federal Republic of Germany and the Netherlands, less in Belgium and only slight in France. At the same time there was a sharp fall in the number of vacancies in Germany and the Netherlands, showing that here, as in the Belgo-Luxembourg Economic Union, the strains previously experienced on labour markets were in general progressively disappearing. In Italy the return of

workers who had been employed in other member countries, particularly the Federal Republic of Germany, may be the reason why the tendency for unemployment to recede is now less pronounced than it was.

3. The balance of the markets

After their weak rise in the two previous quarters imports to the Community from non-member countries increased more rapidly in the final months of 1966. The foreign trade statistics show that, after seasonal adjustment, visible imports rose between the third and fourth quarter by about 2.5 % in value (from the second to the third quarter, by 1.5 %). In the last quarter they were consequently a good 3 % up on the very high level of the corresponding period of 1965.

The speedier increase in imports towards the end of the year was mainly attributable to the fact that the decline in imports into Germany and the Netherlands was largely eliminated, while imports into France and Italy continued to grow rapidly. It was also partly a consequence of rapidly rising food purchases by most of the member countries following modest harvests for various products and by Italy under the influence of other special factors.

United States deliveries to the Community continued however to suffer from the weakness of the demand for raw materials and also the slower rise in purchases of manufactures (particularly plant and equipment) in several member countries, even though more farm products were probably imported. The slower growth of demand for investment and consumer goods in the Community also made itself felt in the trend of exports from EFTA countries to EEC, with the exception of the United Kingdom, whose sales to the Community rose even faster than before, probably because of the slackness of business activity at home. However, the quite appreciable growth of Community imports from the developing countries continued and it was clearly stimulated by the heavier purchases of farm products made towards the end of the year. Community imports from Latin America, for instance, expanded considerably, and those from the associated overseas countries and territories again showed lively growth.

Although the expansion of the Community's gross domestic product weakened, the growth of trade between the member countries picked up in the final months of 1966; on the basis of the seasonally adjusted import figures, its value was 1.5 % up in the third quarter, and probably about 2.5 % up in the fourth. The figure for the December quarter of 1965 was exceeded by 6.5 % (value).

This further speed-up in internal trade is mainly due to the ending — perhaps only temporary ending — of the downward trend of purchases by the Federal Republic of Germany which had begun in the spring, while in France and Italy demand for imports continued to expand. Purchases by these two countries in the fourth quarter of 1966 were up nearly 20 % on the very high level already registered in the corresponding period of 1965. Together, these developments more than offset the effects of a fall in import demand in the Benelux countries.

On the export side lively demand from France and Italy continued to provide considerable stimulus to exports from Germany to the rest of the Community. At the same time the decline in Italian and French sales came to a halt as imports by Germany levelled off. Exports from the Benelux countries on the other hand were weak, mainly because visible trade between these countries themselves was stagnant. In the Netherlands the tendency for growth to slow down was particularly evident.

As regards the visible trade balance of each member country with the other member countries, the first point to note is a sharp recovery in the balance of the Federal Republic of Germany. The tendency for the French and Italian trade balances to deteriorate persisted. In the Benelux countries the unfavourable trend of exports caused a further increase in the Netherlands deficit, while in the Belgo-Luxembourg Economic Union there will probably have been no great change on the previous quarter's surplus.

The more or less appreciable weakening in the expansion of demand that occurred in most member countries was now reflected more clearly in the trend of their prices, while in those countries where economic growth continued by and large to be vigorous prices came under some slight renewal of pressure.

In Germany and — to a less marked extent — in the Benelux countries, the upward thrust of prices lost momentum, even though in the Benelux countries the pressure of unit costs scarcely eased; but partly because of the lower prices paid for imported raw materials and semi-products, the effects of this development were considerably more apparent at wholesale than at retail level.

In France and Italy, where business activity is experiencing a spell of lively growth, there seems to have been a rather greater tendency to pass on cost increases (which here, however, are much smaller than in the other countries). Not only was there a further distinct increase in the prices of services but in the industrial sector, too, the trend began to move slightly upwards again. In Italy prices too again rose somewhat more appreciably although this was mainly the result of exceptionally bad weather.

The national cost-of-living indices which are more or less representative of the level of consumer prices (cost-of-living index, consumer price index, retail price index — according to country) had in January 1967 risen 3.2 % in the Netherlands, 2.9 % in Belgium, 2.8 % in France, 2.3 % in Germany, 2.3 % in Italy and 1.8 % in Luxembourg above the corresponding figure for 1966. In most cases these rates are lower than they were only a few months ago. However, this fall reflects not only the present tendency for prices to rise more slowly but also, to some extent, the particularly sharp price rises that occurred a year ago.

According to the foreign trade statistics, the Community's visible trade balance again improved in December. This was partly a reflection of the business situation, partly the result of late entries shown in the December statistics. In the fourth quarter of 1966 the deficit practically disappeared, whereas at the same time in the previous year it amounted to about 350 million u.a. Largely for this reason, the surplus on the current balance will probably have increased again.

On the other hand provisional figures on capital movements point to a quite considerable net export of capital in the same period. Even though the gross gold and foreign currency reserves of the monetary authorities in the mem-

Visible imports from non-member countries

(Values and % change on preceding year)

| Imports from | 1965 | | 1966 | | | | |
|---|------------------|-------|-------------|-------------|-------------|-------------|--------|
| | million u.a. (1) | % | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Year % |
| All non-member countries: | 28 582 | + 6.5 | + 13.5 | + 8.5 | + 6 | + 2.5 | + 7.5 |
| of which: | | | | | | | |
| Industrial countries (2) | 16 227 | + 5 | + 15 | + 7 | + 4.5 | + 1.5 | + 6.5 |
| including: | | | | | | | |
| United States | 5 693 | + 4.5 | + 20 | + 2 | + 4 | + 0 | + 6 |
| EFTA : total | 6 896 | + 4.5 | + 9 | + 7 | + 4 | + 0.5 | + 5 |
| United Kingdom | 2 605 | + 1 | + 9.5 | + 5 | + 5 | + 7 | + 6.5 |
| Developing countries (3) | 10 529 | + 7 | + 10 | + 9 | + 6.5 | + 3.5 | + 7.5 |
| including: | | | | | | | |
| Associated overseas countries and territories | 2 047 | — 0.5 | + 9.5 | + 12.5 | + 18.5 | + 4.5 | + 9.5 |
| Central and South America | 2 615 | + 6 | + 4.5 | + 7.5 | + 0 | + 5.5 | + 4.5 |
| Others (4) | 1 824 | + 18 | + 24.5 | + 21.5 | + 11 | + 7 | + 15 |

Source : Statistical Office of the European Communities.

(1) 1 u.a. = 1 unit of account = 0.888671 gm. 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 of the Standard Country Classification for Foreign Trade Statistics of EEC Countries.

(4) Class 3 of the Standard Country Classification for Foreign Trade Statistics of EEC Countries and other sources.

ber countries rose by a good 200 million u.a. between the end of September and the end of December 1966, this was partly due to the usual end-of-year "window dressing" operations of the commercial banks in some member countries, and to this extent was accompanied by a deterioration in the net foreign exchange positions of these banks, and was followed by a corresponding reverse movement at the beginning of 1967.

In aggregate, then, transactions with abroad contributed relatively little to the expansion of internal liquidity in the Community, but the trend differed widely from one member country to another. In the Federal Republic of Germany

the rising surpluses on current account, only partly offset by net exports of capital, led to a sharp rise in liquidity; in the Benelux countries developments in the balance-of-payments situations further reduced liquidity, though not as severely as before; in France there was often a distinct tendency for liquidity to contract as a result of the deficits on current payments, coupled at times with outflows of capital caused by differences in interest rates. In Italy, transactions with abroad had a moderately restrictive effect, but here chiefly because the capital account was in deficit.

In all member countries with the exception of France internal liquidity continued to increase

as a result of deficits on the cash transactions of the public authorities, which were only partly financed by calls on the capital market. As against this, there was a distinct lull in the expansion of bank advances to business and private customers in the member countries other than Italy and France; in Germany the expansion of credit, at least as far as short-term lending to business and private persons is concerned, came almost to a stop.

The strains that had been apparent on the capital markets of several member countries have clearly eased as a result, in particular, of the slowdown of demand for finance by enterprises;

this factor was reinforced by (a) the reticence of public sector borrowers due to official economic policy and interest rate measures (in the Federal Republic of Germany this was in large measure a result of the Round Table talks on the capital market), (b) more or less pronounced improvements that occurred in the balances of payments, and (c) the rise in bank liquidity, due in no small degree to the policy of the Central Banks, which took no steps to impede this development and which, in Germany and in Belgium, even reduced Bank rate early in 1967. This easing of strain was reflected, particularly in Germany and the Netherlands, in a appreciable rise of bond market prices. The decline

Demand for and supply of goods and services

| | 1964 ⁽¹⁾ | 1965 ⁽¹⁾ | | 1966 ⁽⁴⁾ | | 1967 ⁽⁵⁾ |
|--|---|---|-------|---------------------|-------|---------------------|
| | At current prices in '000 million u.a. ⁽²⁾ | % change on preceding year ⁽³⁾ | | | | |
| | | Volume | Value | Volume | Value | Volume |
| Gross fixed asset formation | 65.6 | + 3.5 | + 6.0 | + 3.5 | + 6 | + 2.5 |
| Public current expenditure on goods and services | 39.7 | + 4.4 | + 9.8 | + 2.5 | + 9 | + 4 |
| Private consumers' expenditure | 169.1 | + 4.2 | + 7.6 | + 4.5 | + 8 | + 4 |
| Gross Community product | 279.2 | + 4.1 | + 7.6 | + 4 | + 7.5 | + 3.5 to 4 |

| | | | | |
|--|-------|-------|-------|-------|
| Balance exports ⁽⁶⁾ less imports ⁽⁶⁾ (at current prices, in 1000 million units of account) | + 1.4 | + 2.8 | + 3.4 | + 3.8 |
|--|-------|-------|-------|-------|

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

⁽²⁾ 1 u.a. = 1 unit of account = 0.888671 gm. of fine gold = US \$1 at official exchange rate.

⁽³⁾ Community aggregates based on official exchange rate.

⁽⁴⁾ Commission estimates.

⁽⁵⁾ Commission forecasts.

⁽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.

in interest rates again made suppliers of capital on these markets more forthcoming, and to this must be added rises or recoveries in the savings ratios of households. These factors, too, contributed to an easing in interest rates. In France the upward push of these rates slowed down distinctly, because around the turn of the year rates began to ease not only in the other member countries but also in leading non-member countries and on the Euro-dollar market. Developments were similar in Italy, but here, as already stated, the degree of strain had previously been very slight.

Except in France and Italy, the prices of shares have picked up distinctly since the beginning of 1967. True, this is to some extent linked with the better prices quoted on stock exchanges in important non-member countries, for instance in New York and London; in the main, however, it appears to stem from internal factors, such as the rise in bank liquidity and the liquidity of the economy as a whole, increased saving and, not least, a certain improvement in the general business climate, i.e. confidence in the way the economy is shaping and particularly in the outlook for profits. Naturally, these trends, once started, were reinforced by speculative buying.

B. Outlook

The economic trend towards the end of 1966 proved to be somewhat quieter than had been expected. The reasons were in part cyclical; it was pointed out in the last Quarterly Survey that it is difficult to forecast with accuracy the extent of a fall-off in investment — such as was expected and subsequently occurred in the Federal Republic of Germany. From Germany inhibiting influences spread to the other member countries.

In some member countries unpredictable political and psychological factors, especially government crises and uncertainty concerning the economic and financial policy that would be pursued, also tended to discourage spending by businesses and consumers. Here, however, it must be pointed out that shortly before and after the turn of the year there was a wave of pessimism about the state of business; nor was this confined to the Community: a similar phenomenon was to be observed in some important non-member countries.

Since then, the business climate has manifestly improved somewhat, and so has the tenor of certain economic forecasts. The change has occurred not only because government crises were overcome, because clear economic and financial policy lines were worked out in the Federal Republic of Germany (and also in the Netherlands before the elections in February) and also because in other countries further measures to strengthen confidence were taken or announced; a part was probably played by cyclical factors also, for instance the fact that in some member countries the efforts to limit stocks are ceasing to have as much influence as previously. To this must be added in certain member countries the support derived from the higher level of liquidity, the easier situation on the capital market, the prospect of a less rapid upward push of wages costs, and the fruits of rationalization measures in firms; taken together, these may make the longer-term outlook for profits appear somewhat less bleak than it did recently.

In any case the developments towards the end of the year call for some modification of the estimates for 1966 and, partly for this reason, will also affect the forecasts for 1967. The Community's gross product in real terms will have

risen between 1965 and 1966 only by a good 4 % (4.1 %) instead of nearly 4.5 % (4.3 %) as given in the last Quarterly Survey, and the rate of growth in 1967 is now estimated at 3.5-4 %, instead of a good 4 % ⁽¹⁾.

First, the most recent information indicates the possibility of a somewhat more serious slow-down in the growth of external demand (in the sense of actual exports of goods and services to non-member countries) than previously forecast. The trend of economic activity in the United States, for instance, and consequently of American imports, must probably be judged somewhat more cautiously. True, the effects of the contemplated increase in direct taxes (by 6 %, from mid-1967) would be partly offset by a simultaneous improvement in transfer incomes and an easing of credit policy which has already begun; but the rise in taxation — if it actually comes into effect — would have the effect of accentuating the tendency for the upward curve of private investment and private consumers' expenditure to flatten out. The normalization of excess stocks which is likely to occur soon in some branches may also act as something of a brake on economic activity. Finally the draft 1967/68 budget points to a slower expansion of public expenditure from July 1967 onwards, although in this budget, in contrast to previous years, defence spending has been estimated rather at the upper limit of what may actually be spent.

However these things turn out, there seem to be no real grounds for pessimism as to the business trend in the United States; influential economic observers there even reckon that the second half of 1967 will show a tendency for the pace of economic growth to recover. Another relevant factor in this connection is the recent official decision to reintroduce the tax incentives originally suspended until the end of

(1) The figures in brackets represent the exact estimates which, for technical reasons, must be taken as a basis of work; they show that the corrections are not as great as they appear when the figures are rounded off to the nearest half percentage point. The practice of rounding figures off is advisable in order to avoid giving a false impression of great exactitude. Even the margin of error of a purely statistical kind (as in the official ex-post statistics) is between 0.5 and 1 %.

1967 (tax reliefs for investment in plant and machinery and more liberal depreciation allowances for construction). These incentives should do something to stimulate the propensity to invest and could well begin to bear point in the second half of 1967.

The outlook for the other important industrialized countries sketched in the last Quarterly Survey does not at present seem to call for any adjustment. For the United Kingdom it can still be assumed that the real GNP in 1967 will to all intents and purposes remain stable. This presupposes some revival during the year of investment and consumer demand, which for the moment is certainly still very weak; such a revival is quite within the bounds of possibility in view especially of the various investment incentives introduced (refunds and premiums payable from the proceeds of the selective employment tax, direct subsidies instead of the tax reliefs that depend on profits) and the rise in public spending which is proving, despite everything, to be quite vigorous.

In general the economic situation in the other EFTA countries — even if account is taken of the effects of short-term economic policy measures—will probably follow the trends observed at the end of 1966. This means, on the one hand, a slight acceleration of real growth in Denmark, Switzerland and now—despite a rise in indirect taxes—probably also in Sweden, and on the other, a possible fall-off of expansion in Austria. On the whole, import demand in these countries, most of which will experience a relatively strong upward movement of prices due to demand pull or cost push, is even likely to pick up somewhat.

The developing countries will probably have no cause to make any fundamental change in their arrangements for imports, which are at present expanding. True, world market prices for raw materials and semi-finished products are still giving a little ground; but a price collapse and considerable falls in the volume of exports over the whole range of the goods they export are unlikely, especially as even those industrialized countries where economic growth is slackening or maintaining a modest pace will probably not reduce their demand for raw materials appreciably below the 1966 figures, stocks in most of them having already been severely depleted.

Largely as a result of this outlook for world

demand, it would seem that the value of the Community's visible exports to non-member countries may still rise by about 7 % in 1967 (after a rise of 8.5 % between 1965 and 1966).

On the other hand internal demand in money terms is likely to expand rather less rapidly in the Community than has so far been assumed. For gross fixed asset formation in particular the slowdown of growth could prove to be somewhat more pronounced, especially for the full year 1967 when compared with 1966, while it is still assumed that the trend during the current year will be very much as already forecast.

There is, however, still considerable uncertainty as to how investment by firms in Germany will turn out. The recent measures (especially higher investment spending by the Federal Government, more generous depreciation allowances) and the already very evident improvement in financing terms will undoubtedly have an effect; but in present circumstances it is difficult to fix an exact date for this. There should be signs of some recovery at any rate some time in the second half year. In the Netherlands, investment expenditure is likely to be maintained roughly at the level of the previous year. As against this, gross fixed asset formation will probably rise further in Belgium and grow at quite a considerable pace in Italy and France.

In the Community as a whole, the adjusted figures for investment in plant and equipment will probably make some little progress in the coming months. Expenditure on construction may recover progressively during the year, beginning with the speedier execution of certain public investments in Germany and Belgium, while in all member countries, including Germany, effective demand for industrial building may harden or even show a distinct rise; in Italy the pick-up in housing will probably gather strength as the year goes on; in Belgium the expansionary trends that are evident in this field may be expected to continue, while in France the rise, which was very weak in 1966, could speed up somewhat. In Germany and the Netherlands, however, housing will probably continue to show weakness throughout the whole of 1967.

As regards the trend of consumption expenditure, it seems certain that, despite all talk of economy measures, public current expenditure on goods and services will continue to rise rapidly (annual rate about 7 %). True, private

consumers' expenditure is likely to expand more slowly in the coming months; since, however, some recovery is expected towards the end of the year and the rise in consumer prices may well be smaller, the forecast of an increase of about 4 % by volume between 1966 and 1967 remains valid. Here too, the trends sketched for the different member countries in Quarterly Survey No. 4/1966—pronounced slowdown of growth in Germany, at least in the first half year, somewhat less appreciable weakening in the Benelux countries, definite expansion in France and Italy—call for no essential adjustment.

This trend in consumption will be supported by a roughly corresponding increase in the disposable income of households. Noteworthy changes in savings ratios, although always a possibility, are not expected at present. The total wages bill in Germany will expand at a much slower pace, not only because the growth of hourly earnings will be further moderated but also because the total number of hours worked will at times fall off even further; however, this factor in particular may well recover in the second half of the year. The situation in Belgium and Luxembourg will be similar, although particularly in connection with wages the trend will be far less marked. Because of the decisions on incomes taken towards the end of 1966, the total wages bill in the Netherlands is still rising quite considerably despite heavier unemployment, but the rise is no longer as rapid as it was last year. In France and Italy the expansion of employment is sure to continue, and the rise in wage rates will be unchanged—but none the less distinct. In these two countries incomes from entrepreneurship and from wealth are also likely to continue growing appreciably. In all member countries transfer incomes will rise at roughly the same high rate as in 1966 and in some countries even more rapidly.

As a result of the slowdown in the growth of aggregate demand the growth rate of internal supply in the Community will tend to decline further during part of 1967.

Despite the effect of the storms on sowing in Italy, the expansion of agricultural production should, if weather conditions are normal in the rest of 1967, be greater than in 1966, when harvests were in part rather poor. In building, too, a slight rise in activity is to be expected in the course of 1967. In the services sector—

again for the Community as a whole—expansion should continue at a relatively vigorous pace although the tempo of advance could be somewhat more modest than in 1966.

As against this, industrial production is unlikely to show any progress during the coming months; only in the second half of 1967 is its recovery likely to become more distinct, after stabilization—or something better—has been reached in the Federal Republic of Germany and, as a result, the expansion expected in France and Italy is once again fully reflected in the Community figures. For the full year 1967, then, there could be a rise of 3-4 % in industrial production as defined for the index of the Statistical Office of the European Communities, i.e. excluding construction and food, beverages and tobacco.

In view of the relatively modest growth of production anticipated and the possibility that rationalization measures may have a quite considerable impact, no material rise in the number of persons in paid employment in the Community is probably to be expected for the remainder of 1967. Since the labour force is increasing and the number of self-employed is tending to fall, even if perhaps more slowly, the number of unemployed may still rise. It is not possible to make exact forecasts on this, since much will depend on the extent to which rationalization is completed in individual establishments and in general on the trend of productivity. Further factors will be the expectations of managements (do they anticipate that in the rather longer run labour will again become short, do they expect demand to pick up soon?), labour market policy, the rate of unemployment benefit and, of course, the trend of wages.

It is also not possible to forecast how the use in certain member countries of labour from other Community countries will be influenced quantitatively by the fall-off in employment in other words how many fewer Italians will be at work in other member countries than at the same period a year earlier. Even if the number of non-renewals of foreign workers' contracts in Germany and the Benelux countries has apparently past its peak, the backwash of this development may at times mask the underlying tendency for unemployment in Italy to decline.

The growth in imports of goods and services from non-member countries is likely to continue in the coming months, but for some time to

come the rate of increase of visible imports will doubtless be relatively small. In Germany a pick-up in purchases is to be expected only from the second half year onwards, or even later, and the demand for imports in the Benelux countries, too, will doubtless remain fairly low until then. Furthermore, in France and, to a less marked extent, in Italy the expansion of purchases, which has so far been very rapid, might give way to a rather slower trend.

Even if allowance is made for some revival in the second half year — once the depletion of stocks has come to an end, business activity picks up in Germany and, finally, with far more vigorous expansion in the imports of defence material and of certain farm products, the growth in terms of value of visible imports into the Community could in 1967 be slightly below the rate of 7 % so far forecast. Since a similar slight downward adjustment must be made for the expansion of exports, the assumption that the Community's balance of visible trade in 1967 will be practically unchanged (the 1966 deficit was about 1 300 million u.a.) can be maintained. The surplus on current account should be somewhat higher than in 1966.

Intra-Community trade will increase further, even if once again at a somewhat slower pace. Demand from France and Italy in particular will contribute to its expansion, while the trend of purchases within the Community by the

other member countries does not suggest that they will provide any noteworthy stimulus, at least before the middle of the year.

The slowdown that has occurred in the expansion of total demand has somewhat improved the outlook for the trend of prices. In the Community as a whole the rise in the price index for private consumption between 1966 and 1967 may none the less be as much as 2.5 %. It is still in the Netherlands that the sharpest rise—about 4 %—is to be expected; this will in part be attributable to “autonomous” factors such as heavier indirect taxation, higher rents, increased charges for public services, etc. Next in the table of price rises come Belgium and France. In Italy the price trend is likely to remain calm, but here certain measures which tend to push up prices (not least the transfer back to industry of social charges temporarily assumed by the State) and special factors affecting food prices could somewhat accelerate the rise of the consumer price level. In Germany on the other hand the upward price movement is now likely to slow down fairly appreciably.

In several member countries inflationary pressures on costs are still making themselves felt. Increases in indirect taxes and rates for public services, etc., are also helping, not only in the Netherlands but in the other member countries too, to push prices up.

C. Economic policy

This forecast—like the last one given in Quarterly Survey 4/1966 and in the statement to the European Parliament on behalf of the Commission⁽¹⁾—is subject to considerable uncertainties. Like all forecasts so far published by the Commission, it is not an extrapolation “*ceteris paribus*”, but equally it is not just wishful thinking. On the contrary, we are here dealing with “probability calculations” based on the assumptions which at present appear most realistic to the Commission; they cover certain magnitudes, such as the propensity to invest and the savings ratio, which are subject to psychological influences difficult to determine; they include, too, the broad lines of economic policy and any changes therein that are expected by the Commission. In all these fields unforeseen developments are of course always possible.

As regards the forecasts of economic developments in the Community in 1967 and the results for the full year, the “sensitive points” are mainly those connected with the world economic situation. It is for instance clear that the unpredictable course of events in Vietnam and with it the economic situation in the United States, where the outlook is judged in widely varying ways by different American experts, will play an important role. But the economic situation in the Federal Republic of Germany is also a source of uncertainty.

The Commission is still not inclined to be pessimistic about the situation in Germany. On the contrary, it once again points in various parts of this Survey to positive factors which suggest a recovery of business activity in this country—in particular the short-term economic programme of the Federal Government. Nevertheless the uncertainty of the forecast, especially as regards investment, means that developments in the business situation of Germany should be watched with particular care in order that complementary measures can be taken should this prove necessary. It is not only the economic well-being of Germany itself that makes this care advisable but also, from the Community angle, the extent to which the German econo-

mic situation influences the other member countries. The Council recommendation of 22 December 1966 already provides for possible changes in policy, and the Commission has declared on a number of occasions that it would not hesitate to propose any new measures necessary, some of which might well concern the short-term economic policy of other member countries.

The Commission repeats its opinion that the requisite short-term economic policy instruments exist, even if a number of improvements are still possible and advisable. In this connection we may mention the recommendations which the Commission sent the Member States in a special memorandum⁽²⁾ as far back as late 1962 and which was undoubtedly a contributing factor in the various improvements which have meanwhile occurred. The bill for the promotion of stability and growth which is at present before the Federal Parliament in Germany largely corresponds with the recommendations in the memorandum. The most important point is if the bill becomes law it could improve the internal co-ordination of public finance policy, particularly between the Federal Government and the Länder.

On the whole, however, it may be said that the authorities in the member countries would be quite in a position to take further effective measures should this prove necessary, provided the political will exists at all levels.

The Commission is, however, of the opinion that the short-term economic policy being applied or already announced by the member Governments is fully in line with short-term economic requirements and the Council recommendation of 22 December 1966. The Governments of the Federal Republic of Germany and of the Benelux countries are making efforts to put their public finances on a sounder footing, especially by measures to restrict the expansion of public expenditure which more or less

(1) Address delivered by M. Marjolin, Vice-President, on 2 February 1967.

(2) “Memorandum on measures to ensure that the institutions and instruments to combat any temporary fall-off in economic growth or recessive trend are put into a state of readiness”. Doc. II/COM 276 final of 28 November 1962.

directly affects consumption and by increasing taxes and charges for public services, particularly at the expense of private consumption. In this connection they are further endeavouring to bring about a shift in the structure of their budgets that would mean greater investment spending and more action to promote investments by firms. Finally, thanks to this public finance policy, a more or less rapid easing of restrictions on credit has become possible and is in hand.

The Commission believes that all action to support and give fresh vigour to economic growth so far announced should be rapidly put into effect wherever this has not yet been done. Delays can only be unfavourable from every angle. However, these measures should then be given an opportunity to produce their effect, and the results should be tested before further steps are perhaps taken. This applies particularly to short-term economic measures being taken in the Federal Republic of Germany : an investment budget with deficits financed by short-term borrowing, tax reliefs in connection with the amortization of investments, borrowing on the money market to finance deficits in the public budgets and in pensions and unemployment insurance where deficits are due to the slackening of business activity and can serve as built-in stabilizers; to similar measures in Belgium : promotion of reorganization and fresh investments, particularly in certain regions; also in France: measures to ensure that the award of tenders and spending by the State takes account of the trend of the economy expected during the year, i.e. stronger expansion during the first six months; and, finally, in the Netherlands: further expenditure to combat unemployment in the regions which are also suffering from structural problems; in some cases short-term borrowing to meet the aggregate deficit on the public budgets wherever the deficit is due to the slackening of business activity.

The other element in the short-term economic policy programmes of the Governments—and of the Council recommendation—should be followed up with no less energy. This is the reduction to be made in the expansion of those forms of public spending which contribute more or less directly to consumption, coupled where necessary with increases in taxation and in the charges made for public services, but as far as

possible not to the detriment of the capacity of enterprises to finance their investments from their own sources. The impression is unavoidable that in some member countries where action on such lines is obviously needed, the authorities are nevertheless very hesitant to take it, particularly when the expansion of current public spending is to be curbed. If really incisive measures are not after all taken, there could ultimately be a recurrence of difficulties similar to those encountered in 1965/66. Today it is already clear that in almost all member countries the public budgets will in 1968 once again be threatened with relatively heavy financial deficits even if, with an improvement in economic activity, there is a recovery in the growth of current revenue. However, in the next period of economic upsurge the structure of budgets ought to be such as to allow of adequate counter-cyclical action; failing this, it will hardly be possible to avoid the re-emergence of inflationary phenomena.

Those responsible for short-term economic policy in the Community are faced not only with the problem that as a result of the demand inflation experienced earlier in some member countries economic growth has become considerably slower or even ceased altogether, and that this in turn is having a damping effect on the other member countries, but they must also keep in mind that some Community countries, particularly the Netherlands and Belgium, are still in a cost-push phase, with prices and the charges made for public services showing the delayed effects of earlier cost increases, and at times with further unduly strong increases in various elements of costs, particularly labour costs. The slower growth or stagnation of economic activity is at last having an increasingly damping effect on the development of these cost factors; but if economic growth were now given too sharp a stimulant, this could interrupt the process and lead ultimately to a fresh spurt in costs.

The policy of supporting economic growth or giving it a fresh boost must therefore be carried out in such a way that the tendency to stabilization is not impaired. This principle is in line with the Council recommendation of 22 December 1966, which once again gave high priority to the aim of stabilizing prices and unit costs. It is clear that the solution of this difficult twofold task requires that aggregate domes-

tic demand in money terms shall be carefully steered with the aid of public finance policy and of monetary and credit policy to ensure that a suitable pattern is achieved.

However, in most Member States the situation is at present such that incomes policy could play a more prominent part; this it would be well able to do in view of the easier situation on the labour markets. It would appear that in the Federal Republic of Germany at least a promising start has been made.

In this field, too, it is not easy to find the right way, particularly as regards wages policy. On the one hand excessive wage rises must be avoided, as they would eat further into business profits and so make self-financing more difficult, further reduce the propensity to invest and reinforce recessive trends and, with them, unemployment. On the other hand, incomes policy must also take account of the fact that the trend of wages is important for private consumer demand, which is the largest element of total demand and which must not in turn be so weakened that it might exert a recessive influence on the economic situation.

At any rate, it cannot and must not be left entirely to the policy of financial and credit support to economic growth to prevent unemployment from rising too sharply and then to reduce it again to smaller proportions; it is precisely in this field that incomes policy, too, can and must play an important role, quite apart from the fact that it would greatly further the stabilization of prices and unit costs.

For several years unemployment in the Community — except in Italy where it is structural — had ceased to be a problem, but its recurrence has justifiably been treated as a matter of concern by both the national and the Community authorities. It should, however, be noted that in no member country (again with the exception of Italy) has the ratio of unemployed to labour force—after adjustment for seasonal fluctuations—exceeded 2 % in January or February 1967. In general unemployment in the Community is still running below rates (for example) in the United Kingdom and in the United States. At the beginning of 1960 the seasonally adjusted percentage of unemployed was still significantly higher in the Federal Republic of Germany than it is now; the same

is true of the Netherlands at the beginning of 1959, of Belgium at the beginning of 1962 and of France early in 1960. It must also be remembered that the disappearance of extremely severe strains on the labour market means that seasonal fluctuations are probably wider than is allowed for by the formulae for seasonal adjustment at present in use. In addition, a certain number of persons who in normal business conditions would never have entered or re-entered the labour market have been the first to be discharged and now rank as unemployed persons. Finally, the structural unemployment so far largely concealed by inflation is now becoming more and more evident. Be that as it may, Germany and the Netherlands in particular—countries where previously the pressure of inflation was strongest—are experiencing a certain amount of unemployment caused by the deterioration in the economic situation. This is the result of the previous demand inflation and of unbridled cost increases.

However, the main problem, from the psychological and political angle as well as from the short-term economic standpoint, is caused by the very fast growth of unemployment in the Federal Republic of Germany and the Netherlands last autumn and in January of this year, and by the persistent tendency for effective unemployment to increase in France and, less distinctly, in Belgium. In Germany, on the other hand, the rise in February seems, after seasonal adjustment, to have been rather less pronounced.

In Italy, where the seasonally adjusted figures for unemployment were still tending downwards till near the end of 1966, this trend may have been unfavourably influenced at the beginning of 1967 by the return of Italian workers who had been employed abroad (particularly in Germany) but whose contracts were not renewed. True, the return movement from the other Community countries does not seem to have been on such a large scale as was sometimes feared. At the end of January 1967 there were only 31 700 fewer Italians at work in Germany — the Community country employing the largest number of Italian migrant workers—than a year before. Unquestionably, however, Italy is here facing an additional problem. The Commission wishes to stress once again that equality of treatment for workers from other Member States with nationals of the country, in line with the rules on freedom of movement

for workers, and with the principle of the priority of EEC workers in the Common Market, is more than ever appropriate in the circumstances of today.

In any policy to sustain or revive economic growth, special importance attaches to measures for dealing with unemployment, especially when the pattern of public demand is changed to put greater stress on investment, since investment, of course, has a relatively marked effect on employment. In addition, short-term economic policy action should as far as possible be concentrated on areas which are structurally weak. This should not be done with "conservation" in view, but as part of the structural transformation to be carried through in the areas concerned. Labour market and employment policy—vocational training and further training, retraining, improvements in the availability of information concerning the situation on the labour market, aids to redeployment and help in moving, etc.—should also be definitely strengthened.

There would seem to be a further problem for short-term economic policy in the way the payments balances of certain member countries are developing. This applies in particular to Germany and to France. In 1966 the balance of payments of the former country was roughly in equilibrium, after having shown a considerable deficit in 1965; present trends suggest that there will be a large surplus on its current payments in 1967. France's balance of payments was probably slightly in deficit for the second half of 1966, after a considerable surplus in 1965. In particular the current balance of payments has deteriorated and the trend is towards a quite sizeable deficit for 1967.

The Commission does not consider that the French payments balance would justify a policy of throttling back the expansion of domestic demand. On the contrary, the deflationary effect of the deficits increases the margin for measures to promote non-inflationary domestic growth, and this situation could be exploited in the interest of investment. The problem for Italy is similar. True, this country's current account still shows a considerable surplus, but the tendency for it to deteriorate is very evident and in addition there have been outflows of capital; short-term economic policy in Italy should therefore endeavour to sustain the pace at which demand, particularly investment demand, is

rising. The situation is somewhat different in Belgium and the Netherlands, where the current accounts are tending to improve but where deficits are still coupled with a tendency for costs and prices to rise; here the overall steering of demand must be handled more cautiously with the main object of reducing the deficits further and, ultimately, of achieving adequate surpluses once again. This is also the reason why in these countries monetary and credit policy must be eased more hesitantly than, say, in the Federal Republic of Germany. As in France, however, the margin for action is wider than would appear when looked at in isolation. For in the Federal Republic of Germany the economic pick-up that is expected will tend after a time to reduce the surplus and thus contribute to improving the balances of other member countries—in particular the Benelux countries, though France will also benefit. Further measures by the German authorities to cut down surpluses, such as artificial incentives to export capital, promotion of imports and possibly measures to put a brake on exports, would at present only hinder the underpinning and revival of the economic situation at home. Alternatively, the German economy would have to receive such extensive "shots in the arm" that prices would very soon begin to rise again, and the action taken to reduce the surplus would then go too far. In any case it can be said that a monetary and credit policy aimed at reducing interest rates in Germany should not be postponed for fear that there might be outflows of liquidity to other countries; these outflows, which would keep the surpluses on the global balance of payments within limits, could and should be offset within the country by means of a suitable expansionary policy.

In conclusion it should be pointed out that in view of the effects on non-member countries it would be logical to consider in future not only the payments balances of the individual member countries, but also the payments balance of the Community as a whole. In fact, the changes in the balances of the member countries are in the main a purely intra-Community matter and the problems arising in this connection are dealt with in this Survey in the remarks on short-term economic policy and on co-ordination. Furthermore, the repercussions outside the Community may largely cancel each other out—as they do at present: the Community's current balance is benefiting considerably from develop-

ments in the German external position and at the same time is being affected by the deterioration in the Italian and, even more, in the French position. When therefore allowance is made for developments in the external situation of the Benelux countries, aggregate surplus on the Community's current payments will show only a moderate rise between 1966 and 1967, a rise which will in any case be smaller than between 1965 and 1966. It will therefore hardly be excessive when measured against the

Community's obligations to export capital, in particular for development aid.

These considerations on short-term economic policy also correspond in essence to the conclusions reached in the member countries' economic budgets for 1967 and the relevant studies which the Short-term Economic Policy Committee has again made, as it does each year. The memorandum prepared by the Committee at the end of its session of 6-7 February 1967 is published as an annex to this Survey.

Short-term Economic
Policy Committee

Opinion on the economic budgets for 1967

Brussels, 9 March 1967

1. At its session of 6 and 7 February 1967 the Short-term Economic Policy Committee discussed the economic prospects for 1967 and the problems they presented for short-term economic policy. In making this examination the Committee had available the economic budgets for 1967 and new forecasts prepared by the Commission on the basis of such information as had been received on the short-term trends of the preceding four months and on the measures of economic policy taken or proposed.

2. Economic activity throughout the world will probably follow less expansionary lines, and while therefore the outlook for exports by the Community is likely to remain favourable, its upward movement may well be less vigorous than had been expected. The expansion of internal demand in money terms in the Community will also be weaker than forecast in spring 1966, the main reason being that economic activity in Germany slowed down more sharply than had been expected; through intra-Community trade this had a damping influence on other member countries also, particularly the Benelux countries. At the same time, however, the estimates of imports from non-member countries must also be put lower; and it is to be hoped, finally, that the upward trend of prices will slacken somewhat more rapidly.

3. All in all it can at the moment be expected that in 1967 the growth of the real gross Community product will be somewhere between 3.5 % and 4 % (compared with the forecast of fully 4 % in the preliminary economic budgets and also a probable outturn of fully 4 % for 1966). In the individual member countries

the real gross national product may rise by the following percentage figures : the Federal Republic of Germany 2 %, France 5 %, Italy 5.5-6 %, the Netherlands 3.5 %, Belgium and Luxembourg 2.5 %.

4. These forecasts are assumptions as to the probable course of events—they are no prognostications made on the basis of “*ceteris paribus*” in economic policy, nor are they targets reflecting the intentions of the authorities. They rely in particular on the implementation of the new programme of budget policy (including the contingency budget) of the Federal Government and on a gradual further easing of credit policy by the Central Bank in Germany (*), on the measures proposed by the Belgian Government to place the ordinary budget on a sound footing and to promote investment, and finally—more or less generally throughout the Community—on a certain relaxation of the situation on the money and capital markets and corresponding declines in interest rates in those member countries where they are relatively high.

5. Despite the expected slowdown in the rate at which production is expanding, the outlook for the stabilization of price levels and unit costs is still not without its problems. True, the slowdown of economic activity in Germany, and to a lesser extent in Belgium and the Netherlands, has led to a more or less distinct strength-

(*) Since the session of the Committee the Bundesbank took new measures to ease credit policy and lowered the bank rate from 4.5 to 4 % and the minimum reserve requirements by 10 %.

ening of the forces working in favour of price stabilization, and the importance of Germany's economy in the Community as a whole has meant in this connection that the quieter trend of prices begun in this country has been of particular importance to the rest as well; nevertheless forecasts concerning the level of prices still appear to show too distinct an upward trend—at least in the Netherlands and in Belgium—even when allowance is made for the impact of heavier indirect taxes and higher charges for public services. In these countries it is hardly if at all possible to continue attributing the increases to excess demand; they are rather a result of higher costs, both past and present.

6. The most recent picture of economic developments in 1967 calls for a short-term economic policy which, to an extent varying from one member country to another, supports economic growth and at the same time further promotes the stabilization of prices and unit costs in the Community as a whole. This is a difficult task which can be solved only by applying a suitable combination of instruments of budget policy, monetary policy and incomes policy.

7. With regard to budget policy, the Committee points to the Commission's Quarterly Survey No. 4/1966 on "The economic situation in the Community", where it stated that the reduction of the aggregate financial deficit of all budgets, as recommended by the Council, should be based on the forecast growth—in money terms—of each country's national product. Any increases in the deficit that resulted from an appreciable slowdown of economic activity ought not therefore to elicit additional measures intended to reduce the deficit; they should rather be tolerated, because they have a part to play as a "built-in" stabilizer of economic activity, and if necessary they should be financed by short-term borrowing.

8. In addition, the Committee also wants to make it quite clear that all the Member States except France should in any case change the pattern of public spending by reducing the proportion of expenditure directly or indirectly contributing to consumption and raising the proportion of expenditure on investment and on measures to encourage investment by enter-

prises. The Committee continues to think it expedient that budget policy — particularly in the Benelux countries where public expenditure is still growing at a fairly high rate — should make its contribution to ensuring that demand will not expand beyond the point where the tendency for prices to stabilize can be expected to suffer.

9. In all member countries policy for dealing with manpower and employment problems is gaining in importance. According to current forecasts, the monthly average for unemployment in 1967 should not exceed 2.5 % of the working population in any member country except Italy; persistent underemployment caused by the general business situation is therefore regarded as unlikely, particularly as a considerable part of the unemployment totals will be accounted for by structural unemployment, which had in some member countries been masked by generalized overemployment until mid-1966. But this does not mean that there will be no problems: in certain areas, there will be substantial and protracted unemployment among older labourers, and office workers, the less skilled and young persons — while there will at the same time be a persistent shortage of manpower in several professions and in some areas, and a general shortage of skilled workers.

In the circumstances, it is important that efforts to provide more and better training, to re-train workers for new jobs and to increase regional and occupational mobility should be accelerated and intensified in all member countries and at Community level.

10. The Committee attached particular importance to an examination of the business situation in the Federal Republic of Germany. The large surplus on that country's current account shows how important economic developments in the Federal Republic are, not only for itself but also for the other Community countries. The Committee notes that the present phase of the business cycle is characterized by a gradual return to price stability and a perceptibly slower rate of economic growth. It welcomes the German Government's proposals to the Parliament for measures to reduce the Federal budget deficit by DM 3 700 m., and its announcement of a bill that is to cover a "contingency budget" for public capital expenditure up to a maximum of DM 2 500 m. In this connection, it will be

necessary to ensure that the Länder and local authorities likewise limit the growth of their expenditure on consumption, so that they will be in a position to make additional investments should the need arise. At the same time, the Committee welcomes the fact that more generous write-off terms are to be granted immediately for investments made by enterprises before the end of October 1967, and the efforts being made by the Federal Government to achieve concerted action with both sides of industry where wages policy is concerned; these efforts have already been given approval in principle by the central organizations of both sides of industry. The Committee considers that an incomes policy being given real form in this way is an important step towards the attainment of the objectives in view. In these circumstances, further progress towards the gradual elimination of the Bundesbank's remaining restrictions is both feasible and desirable. ⁽¹⁾ The exports of capital that might result from such a policy would be innocuous enough, in view of the large surplus on current account expected in 1967. The Committee would, however, like to point out that in 1968 those responsible for the Federal budget will probably again be faced with difficulties similar to those recently experienced, i.e. the deficit will tend to expand, owing particularly to unduly heavy current expenditure. It is therefore important that the longer-term budget planning should soon be implemented. Lastly, the Committee considers that the instruments of short-term economic policy, especially those concerned with domestic co-ordination, might be considerably improved by the adoption of the bill to promote economic stabilization and growth. In this connection, the Committee attaches particular importance—in the longer term—to those parts of the bill which would give the Federal Government full powers to alter certain tax rates for a limited period as part of its short-term economic policy.

11. In principle, the Committee also welcomes the measures proposed by the Belgian Government in January, to eliminate the deficit now to be expected on the ordinary budget—this, as originally presented, had been in balance—by cutting down expenditure and, above all, raising taxation; greater severity in steps to

limit expenditure that has a direct or indirect influence on consumption might, however, have been advisable. The threat of a deficit that has recently arisen is based on the assumption that the growth in revenue will slacken and that expenditure will rise more strongly, for in Belgium too the business situation is proving less favourable than expected. As the purpose of these measures is to enable the public authorities to increase their own expenditure on investment and encourage investment by others, without putting undue strain on the capital market and thus making it more difficult to finance private investment, they can be expected to favour economic growth. At the same time, it would be desirable—particularly if liquidities were to become tighter as a result of deficits on the current payments account—to ensure that credit policy is gradually further relaxed. But as long as the growth rates of actual wages remain relatively high,—though not so rapid as before—and as long as prices go on rising, caution will still be needed in this connection. It is therefore especially important that the talks held with the two sides of industry should really lead, in the near future, to a more distinct moderation of wage trends.

12. In the Netherlands, prices are not yet showing much inclination to settle down, and the growth of domestic demand in money terms still needs to be restrained. It should be possible to achieve this result with the 1967 budget and the additional fiscal measures (reduction in income tax postponed from 1 January to 1 July 1967, increase in indirect taxes to enter into force on 1 July 1967 instead of 1 January 1968). This does not mean that no new types of expenditure can be undertaken, such for instance as investment in areas suffering from structural difficulties; but such additional expenditure ought, as far as possible, to be offset by cuts in those forms of expenditure which increase consumption either directly or indirectly. Monetary policy could then be substantially relaxed, but only once there were clear signs that excess demand was falling.

13. In the Grand Duchy of Luxembourg, too, measures have now been announced to redress the financial situation of the public authorities, in which deterioration has not been solely due to developments in the business situation. Serious efforts of this kind would seem to be

(1) See footnote on p. 25.

required if productive investment is to be expanded without hindrance — an increasingly urgent economic necessity in Luxembourg. At the same time increases in costs, particularly labour costs, ought to be limited more firmly than hitherto.

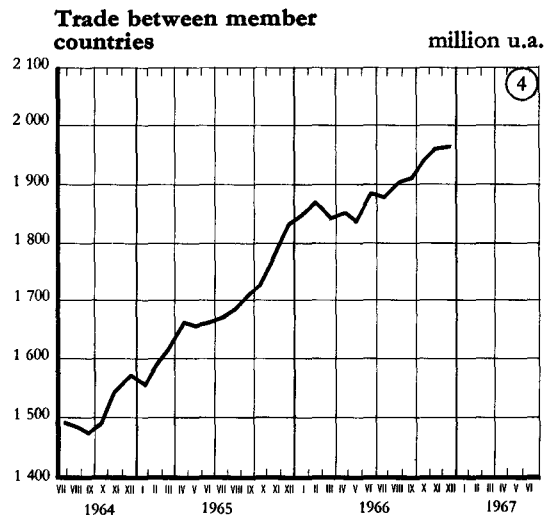
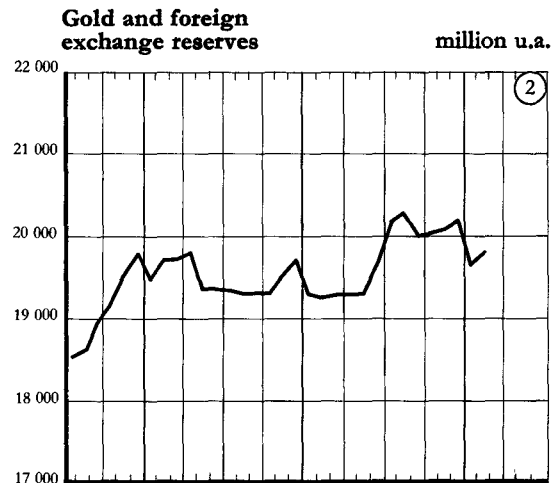
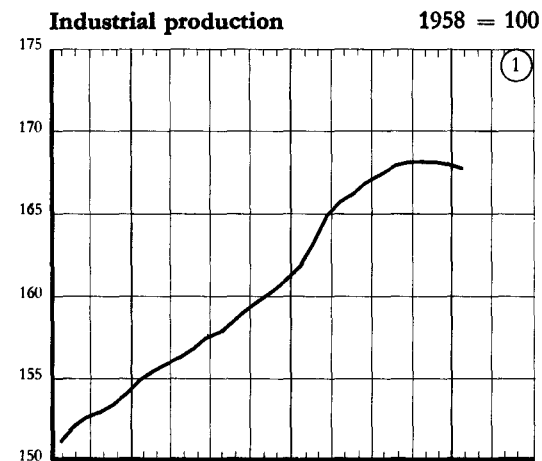
14. While in France the economic upswing is continuing, the growth of some elements of demand is apparently falling off — owing to the slower expansion of exports and the pressure of competition from imports, to the restrictive effects that the deterioration in the balance of payments is having on internal liquidity and, lastly, to the hesitant trend in residential construction. This might provide a wider margin for action to expand domestic demand without inflation. This should be done primarily through the encouragement of investment—perhaps by means of an appropriate credit policy and measures to assist residential construction—but it ought not to lead to any deterioration in the financial situation of the public authorities. In France, too, it is still important that further progress should be made in the field of incomes policy, in order to prevent any fresh increase in costs.

15. In Italy, domestic demand continues to

rise strongly, while the elasticity of domestic supply is being increased by the substantial reduction in the balance-of-payments surplus; Owing, however, to the more modest expansion of exports, economic growth may turn out to be a little less vigorous than seemed likely at the beginning of the autumn. In view of the recovery in investment, care will be necessary in guiding the growth of domestic demand, which might otherwise exceed the limits compatible with stable prices and unit costs. The main aim of short-term economic policy in Italy should still be to limit the increase in public expenditure on goods and services in order to step up the proportion spent on investment, coupled with action to ensure that deficits in the public budgets are increasingly financed without resort to short-term borrowing.

In Italy, the problem of relatively large-scale structural unemployment remains. In addition, the unemployment caused by the decline in business activity which occurred in 1964/65 is being reduced only slowly; in addition, Italy must reckon with the return of a certain number of workers—it is at present impossible to tell how many—who have been working in other Community countries.

ECONOMIC INDICATORS



NOTES :

Source : Statistical Office of the European Communities.

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

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

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

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

u.a. : one unit of account = 0.888671 gm. 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 |
|-------------------------------------|---|------|------|------|------|------|------|--------------------------------------|--|
| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1965 | 1965 |
| Gross Community product | 5.1 | 7.7 | 5.4 | 5.6 | 4.4 | 5.8 | 4.1 | 145 | — |
| Industrial production | 6.3 | 11.9 | 6.9 | 5.8 | 5.2 | 7.1 | 4.4 | 158 | — |
| Visible imports | 5.1 | 20.5 | 6.0 | 11.3 | 10.2 | 6.9 | 5.0 | 185 | — |
| Private consumers' expendi- ture | 3.7 | 6.2 | 6.2 | 6.4 | 6.0 | 4.4 | 4.2 | 143 | 61 |
| Gross fixed asset formation | 8.3 | 10.3 | 10.1 | 7.2 | 5.3 | 8.4 | 3.5 | 167 | 23 |
| Visible exports | 12.5 | 11.1 | 3.0 | 1.0 | 3.8 | 9.3 | 11.0 | 164 | — |
| Intra-Community visible trade | 24.2 | 22.0 | 15.0 | 13.9 | 16.0 | 13.2 | 12.2 | 292 | — |
| Gross product per capita | 4.2 | 6.7 | 4.4 | 4.3 | 3.2 | 4.6 | 3.0 | 135 | — |

TABLE 3: Basic monthly indicators

| | Year | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Industrial production (1958 = 100) | 1964 | 147 | 152 | 156 | 156 | 159 | 155 | 143 | 121 | 154 | 159 | 164 | 157 |
| | 1965 | 154 | 159 | 157 | 163 | 164 | 164 | 147 | 128 | 162 | 167 | 171 | 166 |
| | 1966 | 162 | 166 | 170 | 174 | 173 | 175 | 157 | 134 | 170 | 173 | 178 | 172 |
| Imports from non-member countries (cif, million u.a.) | 1964 | 2 238 | 2 186 | 2 237 | 2 381 | 2 192 | 2 320 | 2 254 | 1 886 | 2 085 | 2 270 | 2 238 | 2 460 |
| | 1965 | 2 243 | 2 090 | 2 422 | 2 368 | 2 380 | 2 352 | 2 404 | 2 156 | 2 388 | 2 443 | 2 562 | 2 757 |
| | 1966 | 2 516 | 2 367 | 2 782 | 2 525 | 2 563 | 2 622 | 2 418 | 2 308 | 2 605 | 2 687 | 2 631 | 2 675 |
| Exports to non-member countries (fob, million u.a.) | 1964 | 1 891 | 1 878 | 1 959 | 2 038 | 1 866 | 2 036 | 2 053 | 1 731 | 2 030 | 2 252 | 2 118 | 2 291 |
| | 1965 | 1 940 | 2 064 | 2 414 | 2 172 | 2 249 | 2 192 | 2 348 | 1 997 | 2 291 | 2 330 | 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 |
| Balance of trade (million u.a.) | 1964 | - 397 | - 308 | - 278 | - 342 | - 326 | - 288 | - 201 | - 155 | - 55 | - 18 | - 125 | - 169 |
| | 1965 | - 303 | - 26 | - 8 | - 196 | - 131 | - 160 | - 56 | - 159 | - 95 | - 63 | - 194 | - 105 |
| | 1966 | - 363 | - 188 | - 215 | - 153 | - 112 | - 120 | + 88 | - 82 | - 145 | - 61 | - 104 | + 174 |
| Intra-Community trade (million u.a.) | 1964 | 1 436 | 1 452 | 1 496 | 1 577 | 1 415 | 1 576 | 1 532 | 1 243 | 1 512 | 1 654 | 1 510 | 1 623 |
| | 1965 | 1 445 | 1 576 | 1 801 | 1 680 | 1 661 | 1 691 | 1 785 | 1 437 | 1 734 | 1 871 | 1 812 | 1 933 |
| | 1966 | 1 654 | 1 790 | 2 087 | 1 858 | 1 902 | 1 968 | 1 853 | 1 686 | 1 967 | 2 015 | 1 977 | 2 013 |

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 gm. 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 autumn and the winter months economic activity lost momentum fairly appreciably. Overall investment declined, and private consumers' expenditure showed a tendency to become steadier. The continued vigorous upswing of exports failed to offset the effects of weak domestic activity. The growth of production all but came to a halt; industrial production actually declined slightly.

The situation on the labour market has changed; overemployment has disappeared fairly rapidly and has given way to a considerable—though partly seasonal—rise in unemployment. Consumer prices have continued to tend upwards, but there are signs that they have been rising at a slower pace. There have been heavy surpluses on the visible trade balance. In the fourth quarter, however overall payments balanced out, partly owing to special capital transactions.

There are no prospects of a basic change in economic activity before the summer. Nevertheless, public finance and monetary and credit measures are encouraging expansion or are improving the conditions which will enable the economy to pick up again. Pessimism seems to be disappearing and it may well be that growth will recover in the course of the second half of the year.

1. Recent developments

Exports of goods and services continued to rise at a rapid tempo in the fourth quarter of 1966. Foreign trade returns show that visible exports were up in value by nearly 13 % and by volume by a good 12 % on the corresponding 1965 figures. Expansion appears to have continued in the early months of 1967, though at a somewhat slower pace.

In particular, deliveries to other Community countries have again expanded fairly vigorously. Similarly, exports to the United States have remained very buoyant.

Domestic demand seems practically to have stopped expanding altogether. This is mainly attributable to the fact that gross fixed asset formation has actually declined, firstly as a cyclical reaction to an earlier investment spree and secondly because psychological factors—particularly the uncertainty ruling some weeks

ago with regard to political developments at home and to the future course of economic and financial policy—created a climate of pessimism which was probably exaggerated.

Expenditure on plant and machinery in the fourth quarter of 1966 probably fell well short of the level of the corresponding period of the previous year. At the same time aggregate expenditure on building and construction seems to have stopped growing.

The stockbuilding trend as a whole also inhibited expansion. Firms went on running down stocks of raw materials and semi-manufactures and many industries have been trying to reduce their stocks of manufactures, which had reached undesired proportions.

While in the last quarter public current expenditure on goods and services actually expanded very distinctly, the trend of private consumers' expenditure was increasingly affected by the

decline of investment, the slackening labour market and a certain moderation of the wage rise. In the fourth quarter the gross wage and salary bill was 5.5 % higher than a year before, compared with a year-to-year increase of 7.1 % for the third quarter. The increase for total mass incomes was 5.3 %, a more moderate improvement than in previous periods. Lastly, the proportion of disposable income of households put aside as savings appears to have stopped declining; on the contrary, it looks as if the propensity to consume tended to weaken.

In particular, the trend in purchases of motor vehicles and other consumer durables proved very sluggish. Retail turnovers in the fourth quarter were only 1.8 % higher in value than a year before. On the other hand, there is plenty of evidence that expenditure on services (e.g. on holidays and travel) has continued along more expansionary lines.

Inhibited by the trend of overall demand and its individual components, production tended to weaken. This is definitely true for industrial production; according to the Federal Statistical Office's index of production per working day, by the fourth quarter it no longer slightly exceeded the level of the previous year as it still had done in the third quarter, but fell short of the corresponding 1966 figure by about 1 %. The tendency to retrench emerged first in the capital goods industries, but in the fourth quarter the consumer goods industries, including the motor industry, also cut or suspended production with a view to reducing stocks of manufactures on their hands. By contrast, building output declined less than it had previously, owing to relatively good weather, particularly in the first months of 1967.

In general terms, the slowdown of economic activity has distinctly affected the number employed, the number of hours worked and the situation on the labour market. The numbers of workers on short time and of the fully unemployed has risen rapidly, and, for the first time since the beginning of 1960, the number of unfilled vacancies dropped back below the number of unemployed. This trend persisted into the first weeks of 1967. By the end of February the unemployment rate, calculated as a percentage of persons in or seeking paid employment, was 3.1 %; expressed as a percentage of the total labour force including the self-employed, it was 2.4 %.

These figures are not seasonally adjusted; consequently they contain a seasonal component whose variations have naturally become more conspicuous—although weather conditions have been relatively favourable—now that the extreme situation of overemployment has disappeared. Another attenuating factor is that the unemployment figures include persons who took on jobs only because of the excessive strain on the labour market and also what is probably a quite considerable degree of structural unemployment, previously masked by the inflationary economic trend. There is however no doubt that a degree of "economic" unemployment has emerged. In any evaluation of the unemployment figures, another point to be remembered is that at the end of the year a considerable number of contracts of foreign workers were not renewed; these workers have therefore left the country. Nevertheless the number of foreign workers in the Federal Republic was, at 1.07 million at the end of January 1967, only some 60 000 lower than at the end of January 1966.

The trend of imports of goods and services appears to have remained rather weak. Customs returns show that in the fourth quarter of 1966 visible imports fell slightly short of the—admittedly very high—level of the corresponding period of the previous year, i.e. by 2.3 % (volume) and 1.8 % (value).

As far as consumer prices are concerned, the tendency for the upward price movement to lose momentum has become only a little more marked: certain seasonal price increases and new rises in rents have been recorded. The cost-of-living index went up by 1.1 % from September to December; in February 1967 it was 2.2 % higher than a year before. Industrial producers' prices, on the other hand, continued their slow decline; by February they were down to the level of a year before.

These foreign trade trends led to a further improvement in the balance of visible trade; the fourth quarter yielded a handsome surplus of DM 3 500 million. In spite of substantial transfers to abroad and a deficit on services, the current account closed with a surplus of DM 1 700 million. Capital movements, however (including the residual item of the balance of payments) showed a deficit of DM 1 900 million mainly due to the fact that the remaining commitments arising out of American post-war economic aid were met and payments were

made under the offset agreement with the United States, so that the overall balance of payments roughly balanced out. The foreign exchange position of the commercial banks deteriorated from the end of September to the end of December by DM 1 500 million as a result of the year-end window-dressing operations. The deterioration—essentially temporary in character—was reflected in an increase in the Bundesbank gold and foreign exchange reserves of practically the same amount.

Transactions with abroad have served to boost domestic liquidity. Their influence was further strengthened by the cash deficit of the public authorities. With business demand for credit distinctly subdued, the banks have stepped up their lending mainly by providing increased funds for the public authorities.

Bank liquidity has increased accordingly, and also because, in line with a slack trend of incomes and expenditure, the circulation of notes and coin had risen only moderately. The banks have not only reduced their rediscount commitments with the Bundesbank but they have also considerably replenished their previously severely depleted holdings of bills and securities. This helped to force interest rates down further.

2. Outlook

The outlook for economic development in the further course of the year as described in the last Quarterly Survey (4/1966) remains essentially unchanged. In that Survey it was assumed that economic policy measures would be used to support demand, and this prediction has been confirmed. At the same time business confidence seems to have revived now that the difficulties and uncertainties in the domestic political scene have been overcome. Business expectations have, if anything, improved slightly. There is in fact a good deal of evidence—notably in recent EEC Business Surveys—that managements are now beginning to feel that the business climate may set fair. A contributing factor is that on the whole demand from abroad is still expected to continue to rise fairly briskly; a tendency—likely to be slight—for foreign demand to weaken could well be offset to a great extent by a more vigorous export

drive in industry. At all events, the flow of orders was still rising fairly vigorously until quite recently.

As for the trend of gross fixed asset formation, the downward movement of actual expenditure on plant and machinery will probably continue in the first half of the year owing to the decline of incoming orders and of orders on hand. From the summer onwards the propensity to invest and subsequently actual investment may, however, improve again because in the meantime the Federal Government may have succeeded in appreciably increasing its investment expenditure under the contingency budget; other public authorities may also increase their investment though not to the same extent. Whether and to what extent public investment can be expected to make a contribution in the near future will largely depend on the degree to which the investment intentions of the Länder can be maintained despite the deterioration of current revenue. At any rate the general intention now seems to be that increased deficits resulting from a decline of tax revenue should no longer be offset by a reduction of investment but should be covered by more borrowing. This will be made easier as liquidity on the money and capital markets increases.

These are all factors which should eventually help to stimulate once again the propensity to invest of enterprises. A recovery in the profit situation is, however, of vital importance. It cannot yet be predicted with certainty when and to what extent such a recovery may be expected; this will depend, among other things, on how costs and particularly wage costs develop during the next few months.

In spite of the recovery anticipated for the second half of the year, gross fixed asset formation, calculated for the full year of 1967, may still decline more than forecast.

Public current expenditure on goods and services will doubtless continue to forge ahead despite the measures taken to check its expansion. Although private consumers' expenditure is hardly likely to move along distinctly expansionary lines in the first half of the year and will at best in the second half of the year again show some growth, it will all the same make a fair contribution to economic activity.

The growth rate for total factor incomes will probably decline further in the immediate

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 | + 7.1 | + 9.1 | + 10.4 | + 12.6 | + 9 |
| Gross fixed asset formation | 109.2 | + 6.9 | + 9.1 | + 0.6 | + 3.0 | — 3 |
| Public current expenditure on goods and services | 61.7 | + 6.6 | + 12.7 | + 0.3 | + 7.9 | + 2.5 |
| Private consumers' expenditure | 232.9 | + 6.1 | + 9.5 | + 3.2 | + 7.0 | + 2 |
| Gross national product | 413.8 | + 4.8 | + 8.7 | + 2.7 | + 6.4 | + 2 |
| Imports ⁽³⁾ | 78.2 | + 14.8 | + 17.5 | + 2.1 | + 4.5 | + 5 |

⁽¹⁾ Statistisches Bundesamt, Wirtschaft und Statistik, N^o. 1/1967.

⁽²⁾ Commission estimates.

⁽³⁾ Goods, services and factor income.

⁽⁴⁾ 1966 prices.

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.

future. This applies in particular to wages and salaries, as the total number of hours worked has declined and the wage trend will probably level off further. The growth of owners' profit withdrawals will probably remain weak. The main source of support for the trend of factor incomes will be the upward movement of income transfers, which will, if anything, gather momentum. Not only are the "dynamic" old age pensions, geared to the expansionary wage trend of the years 1963-65, continuing to rise steeply, but benefits paid out of unemployment insurance (rates were increased by 15 % on 1 April) are acquiring greatly increased importance. This is having the effect of a built-in stabilizer on the trend of sales of consumer goods.

The supply trend, too, will probably prove weak until the summer. Industrial production, in particular, can hardly be expected to start expanding again before the second half of the year; but the decline of production is likely to have come to a halt by then. While the output of basic materials and producer goods will continue to expand slightly, the decline in the capital goods and consumer goods industries will probably continue for some time yet. In the course of the second half of the year production in general may well gather momentum again.

By contrast, the production of services and of special branches of the artisan sector is likely to expand throughout the year, now that manpower is available again.

The trend of imports will no doubt for some time remain very subdued, as long as stocks of raw materials and semi-manufactures are being run down and private consumption does not create a substantial demand for imports of manufactures. Later in the year, however, imports may well stage a recovery—not only because the reduction of stocks will have ceased and agricultural and Government imports will have picked up—but also because business conditions in general should be improving. Nevertheless, there will still be a strong tendency for the current-account surpluses to build up.

As to the future trend of prices, slack demand and keener competition may now lead to more general stabilization than before. The pressure of costs will nevertheless persist, since productivity improvements have become smaller, a factor offsetting the slowdown in the rise of labour costs. But it should cease eventually—to the extent that the trend of actual wages continues to slacken and at the same time productivity gathers momentum as a result of a revived growth of production and as a consequence of rationalization measures.

All in all these predictions are still largely in line with those published in the last Quarterly Survey (4/1966) for the full year of 1967. The estimates of the real gross national product have been reduced by a few tenths of a point—which, because of rounding, means a revision from 2.5 % to 2 %—mainly because the results of the fourth quarter were somewhat more unfavourable than had been expected, a development bound to affect the estimates for the full year 1967. The forecasts for trends in the course of 1967 remain much the same.

It would in fact perhaps be far from desirable that economic activity should recover substantially more than is expected at the moment for the last half of 1967, entailing appreciably faster annual growth. Such faster growth might bring with it the danger that the new upswing would again—not as early as 1967 but probably in the course of 1968—involve inflationary developments which could not fail to affect the other Community countries.

The authorities responsible for short-term economic policy in Germany should, were it only because of the influence of business activity in Germany on the partner countries in the Com-

munity, take prompt and effective action to support and revive economic growth, but it would be a mistake to try once again to step up the expansion of demand in money terms in all fields and by all available means. A particular point is that budgetary measures stimulating consumption should be avoided: such measures would only adversely affect the pattern of expenditure in the next upswing. Nor should the incomes policy, which the Federal Government has embarked upon with good prospects of success, be adjusted to accept relatively high wage increases simply with a view to stimulating consumer demand. This would not only help maintain tendencies towards higher prices but would also adversely affect profit expectations and would promote tendencies towards a recession. The recovery of economic activity must be based on and supported by investment—this would eventually also lead to a renewed and stronger growth of consumer demand. This is also the aim of the Council recommendation of 22 December 1966 on the main lines of short-term economic policy for 1967, and for the time being at any rate, there are no reasons for a change.

As far as can be concluded from the announcements they have made and the draft laws they have submitted so far, the authorities responsible for short-term economic policy in Germany intend in principle to follow the lines set out in the Council recommendation. One aim is to reduce the expected Federal budget deficit by some DM 3 700 million by curtailing the expansion of expenditure mainly intended for items of consumption and by speeding up tax collection. Furthermore an investment budget has been announced which provides for additional expenditure of up to DM 2 500 million, DM 850 million of which are to be spent under an Immediate Programme. This budget and a deficit in the main budget that might arise, despite the measures of restraint, as a result of a more distinct slowdown of economic activity are intended to be financed by short-term funds out of bank liquidity. This too is compatible with the Council recommendation, as the suggested reduction of deficits can of course only be reckoned on the basis of the deficit figures foreseeable when the Council discussed the matter. No objections can of course be raised against the built-in stabilizer effect of deficits that have risen again in view of the economic situation.

Moreover, special depreciation allowances are being granted for investments undertaken by enterprises up to and including October 1967. Lastly, a concerted incomes policy operation has been put in hand and general declarations of support from union and management leaders have already been elicited. Reacting to the government programme, the Bundesbank eased its policy of restraint further (it had already begun relaxing the squeeze some time before); Bank rate has been lowered twice (from 5 % to 4.5 % on 6 January and to 4 % on 17 February) and the minimum reserve requirements have been lowered on several occasions. In addition the Bundesbank has declared its readiness to co-operate in the creation of liquidity conditions enabling that part of budget deficits due to current economic circumstances and the whole of the investment budget to be financed from short-term resources.

If this policy is carried out—it depends mainly on the approval of the legislatures, which can probably be taken for granted at least in respect of overall objectives—it would broadly comply with the Council recommendation of 22 December 1966. Measures would be taken to reduce appreciably the deficit in the Federal budget, and its expenditure pattern would be modified for the benefit of investment expenditure. The Länder and the local authorities would now also have to take co-ordinated action. In all likelihood the incomes policy will also have to be given more concrete form.

If the Government economic policy programme is carried out quickly, it may make a key contribution to a resumption of economic growth. Including the special investment budget, the expenditure of the Federal Government will probably rise by as much as 10 % in 1967.

It might, however, have been even wiser to forgo the speedier collection of certain taxes and instead to check more sharply the expansion of those items of Federal Government expenditure mainly or wholly in the field of consumption. The new tax measure does practically nothing but weaken the finance situation of firms and this is definitely not appropriate at this stage—even though firms could in fact obtain the funds they need from the banks.

The expansion of public current expenditure on

goods and services and of transfer payments ⁽¹⁾ (the bulk of which goes to swell private consumption) is apparently still so rapid that there is a definite danger next year that considerable budget deficits may emerge—even if in the meantime the recovery of economic activity is reflected in a revenue trend moving upwards once again. The measures taken or planned so far offer solutions—and not complete solutions—only for the short term. The authorities should therefore tackle without delay the problem of a thorough reform of the public finances as a whole. This should be done as part of arrangements for medium-term budget planning.

The authorities must bear in mind that in order to ensure the “controlled expansion” which is the Government’s aim anticyclical measures will be necessary during the upswing phase. It would certainly not yet be sufficient to supplement only the provisions of the amended “Bill for promoting stability and economic growth”; on the expenditure side, too, measures should soon be taken with regard to public expenditure on consumption so as to ensure that budget policy can be adequately deployed for stabilization purposes without investment suffering unduly.

Lastly, once the economic situation has improved those in charge of budget policy should make early arrangements to consolidate or—even better—repay the short-term loans now raised. Such arrangements should become all the more important the more domestic liquidity expands; the methods chosen by the Federal Government to finance deficits, probably also the methods used to finance social and unemployment insurance, and the foreign trade surpluses are all swelling domestic liquidity.

3. The economic situation in West Berlin

It was not until 1966 that West Berlin was affected—though then quite appreciably—by the tendency for economic growth to slow down. While as recently as in 1965 production had risen considerably more vigorously than in the Federal area, the expansion of the real gross product in 1966 lagged behind the other Länder

(1) Including social insurance out-payments.

by a good 2 %. In the fourth quarter in particular most demand components were definitely tending to lose momentum.

Although visible exports continued to grow vigorously, their expansion failed to offset the weakness of the remaining components of demand; the trend in the rest of the Federal area was the same. In the fourth quarter exports showed a year-to-year rate of growth of 14 %, following 12 % in the third quarter. Deliveries to West Germany were 5.3 % higher than a year earlier as against a year-to-year improvement of 7.4 % in the third quarter.

Gross fixed asset formation had probably very nearly stopped growing altogether by the fourth quarter of 1966. The trend of capital expenditure on plant and machinery declined and investment in building increased only slightly although building activity suffered very little from the winter weather, which was relatively mild.

The growth of private consumers' expenditure in the last three months of the year was remarkably moderate. The decline in numbers employed was the key to the slower rise in the gross wage and salary bill. Mainly for this reason, retail turnover was a little less than 1 % above the level of the corresponding quarter of the previous year.

The trend on the labour market veered appreciably for the first time for many months. In the fourth quarter of 1966 the number of persons employed in industry (including building

and civil engineering) was 4.2 % lower than in the corresponding period of the previous year. The number of unemployed rose distinctly even though, at 1.3 % of the number of persons in paid employment at the end of December, the unemployment rate stayed below that in the rest of the Federal Republic.

Industrial production continued to weaken in the fourth quarter; the index of production showed hardly any improvement on the figure for a year earlier. While the production of the consumer goods industry and particularly of the clothing industry declined steeply, production in the capital goods industry developed somewhat more favourably than before.

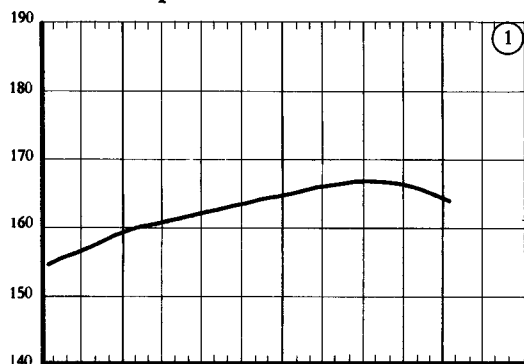
At DM 35 million in the fourth quarter of 1966, the deficit on visible trade with the rest of the Federal Republic was considerably lower than a year earlier.

The disappearance of excess demand led to a further moderation in the upward movement of prices. Nevertheless, by the fourth quarter the cost-of-living index was still showing a 3.7 % year-to-year increment.

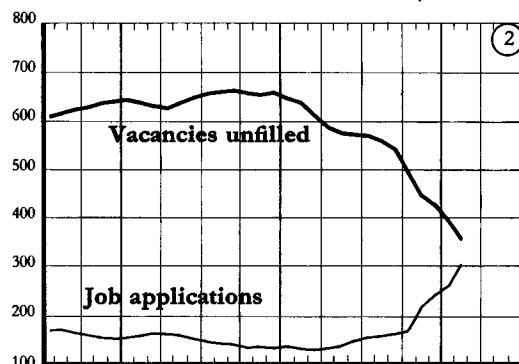
It looks as if the tendency for business activity to lose momentum will continue: the order situation in industry has deteriorated further. The increase in public contracts planned by the Federal Government in support of general economic activity may, however, make an appreciable contribution of lasting effect to economic activity in West Berlin. The production capacity available in the electrical engineering industry in particular would facilitate growth.

ECONOMIC INDICATORS

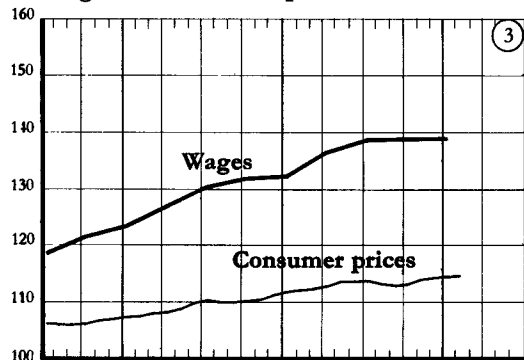
Industrial production 1958 = 100



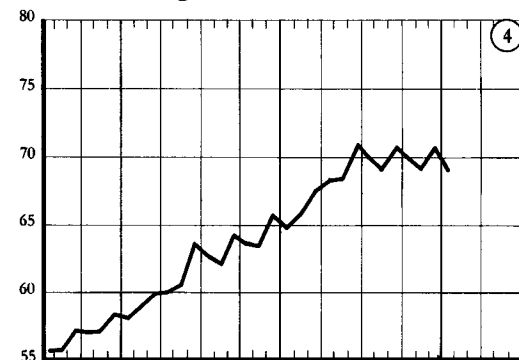
Labour market (thousands)



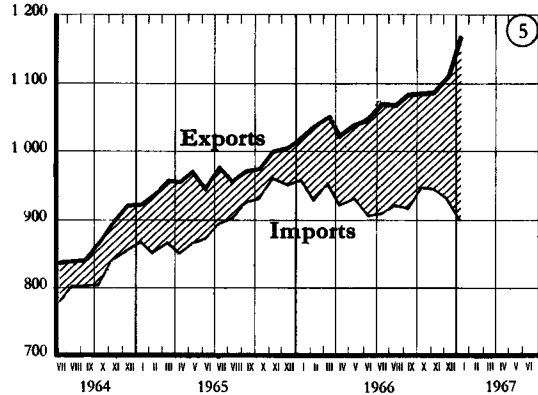
Wages and consumer prices 1962 = 100



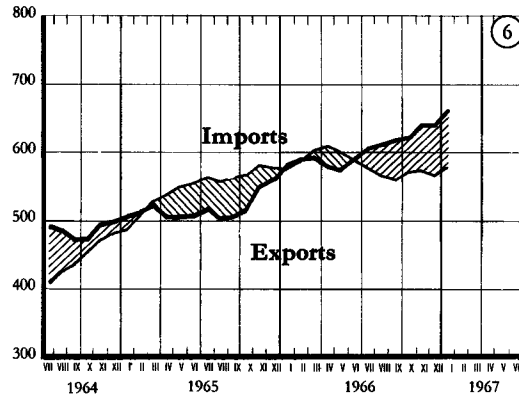
Bank lending DM '000 million



Trade with non-member countries million u.a.



Trade with non-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. Series seasonally adjusted. Three-month moving averages.

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) | 59 676 |
| Density of population per sq. km. | 240 |
| Numbers in employment ('000) | 27 082 |
| Numbers in employment, breakdown by main sector (%) | |
| — Agriculture | 10.9 |
| — Industry | 48.7 |
| of which : Construction | 8.2 |
| — Services | 40.4 |
| 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) | 8 017 |

TABLE 2 : Key indicators

| | % change by volume on preceding year | | | | | | Volume indices (1958 = 100) | Contri- bution (in %) to GNP |
|---|---|------|------|-------|------|------|--------------------------------------|--|
| | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1966 | 1966 |
| Gross national product | 5.4 | 4.2 | 3.3 | 6.6 | 4.6 | 2.7 | 151 | — |
| Industrial production | 6.3 | 4.5 | 2.7 | 8.5 | 5.6 | 2.5 | 161 | — |
| Total imports | 8.1 | 11.4 | 8.0 | 10.7 | 14.3 | 2.1 | 230 | 20.1 |
| Private consumers' expenditure | 6.8 | 5.9 | 2.9 | 5.3 | 6.0 | 3.2 | 151 | 57.0 |
| Public current expenditure on goods and services | 7.8 | 11.5 | 7.5 | — 0.5 | 6.6 | 0.3 | 161 | 15.7 |
| Gross fixed asset formation | 9.4 | 5.9 | 2.9 | 12.0 | 7.1 | 0.6 | 181 | 25.6 |
| Total exports | 3.5 | 3.9 | 9.0 | 9.6 | 6.6 | 10.4 | 192 | 21.4 |
| Gross national product per capita | 4.0 | 2.8 | 2.2 | 5.3 | 3.3 | 1.6 | 138 | — |
| Gross national product per person gainfully employed | 4.0 | 3.4 | 3.0 | 6.2 | 4.0 | 3.0 | 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 | - 7.4 | 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 | 20.8 |
| Intra-EEC | 13.9 | 15.3 | 15.9 | - 0.0 | 9.3 | 28.0 | 6.8 | 286 | 1 441 | 8.0 |
| From non-EEC countries | 0.3 | 4.4 | 22.2 | -12.2 | 7.8 | 18.1 | 0.1 | 160 | 2 299 | 12.8 |
| Imports of raw materials and manufactures | | | | | | | | | | |
| Total | 24.6 | 8.4 | 9.9 | 10.7 | 18.3 | 19.0 | 3.3 | 264 | 14 283 | 79.2 |
| Intra-EEC | 26.0 | 12.5 | 16.8 | 11.5 | 19.7 | 31.3 | 3.5 | 395 | 5 498 | 30.5 |
| From non-EEC countries | 24.0 | 6.7 | 6.8 | 10.3 | 10.2 | 12.5 | 3.2 | 218 | 8 786 | 48.7 |

TABLE 4: Basic monthly indicators

| | Year | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | |
|--|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|
| Industrial production (1958 = 100) | 1964 | 150 | 152 | 152 | 163 | 164 | 162 | 147 | 143 | 162 | 167 | 171 | 159 | |
| | 1965 | 151 | 156 | 162 | 168 | 167 | 168 | 153 | 142 | 162 | 166 | 169 | 156 | |
| | 1966 | 145 | | | | | | | | | | | | |
| New orders received (1958 = 100) | 1965 | 166 | 173 | 198 | 190 | 183 | 182 | 180 | 165 | 197 | 200 | 106 | 188 | |
| | 1966 | 173 | 178 | 216 | 193 | 193 | 188 | 176 | 170 | 192 | 192 | 183 | 169 | |
| | 1967 | 155 | | | | | | | | | | | | |
| 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 | | 138 | | | | | | | | | | | | |
| 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 | 231 | | | | | | | | | | | | |
| 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 | 4.18 | 3.33 | 3.47 | |
| | 1967 | 2.76 | | | | | | | | | | | | |
| Private consumers' expenditure: Retail turnover, value (1958 = 100) | 1965 | 184 | 129 | 154 | 170 | 156 | 150 | 167 | 143 | 155 | 179 | 195 | 241 | |
| | 1966 | 144 | 142 | 173 | 176 | 171 | 157 | 171 | 154 | 162 | 183 | 199 | 244 | |
| | 1967 | 152 | | | | | | | | | | | | |
| 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 | 1 635 | 1 476 | 1 541 | 1 544 | 1 478 | 1 449 | 1 482 | 1 607 | 1 530 | 1 533 | |
| | 1967 | 1 393 | 1 276 | | | | | | | | | | | |
| Total visible exports (million u.a.) | 1965 | 1 364 | 1 353 | 1 627 | 1 397 | 1 544 | 1 407 | 1 535 | 1 297 | 1 481 | 1 533 | 1 557 | 1 768 | |
| | 1966 | 1 492 | 1 490 | 1 757 | 1 559 | 1 701 | 1 645 | 1 708 | 1 537 | 1 727 | 1 809 | 1 719 | 2 012 | |
| | 1967 | 1 750 | 1 629 | | | | | | | | | | | |
| Balance of trade (million u.a.) | 1965 | + 33 | + 106 | + 135 | + 1 | + 65 | - 77 | + 26 | - 77 | - 62 | + 17 | - 27 | + 162 | |
| | 1966 | + 46 | + 93 | + 72 | + 83 | + 160 | + 101 | + 230 | + 88 | + 246 | + 201 | + 189 | + 479 | |
| | 1967 | + 357 | + 353 | | | | | | | | | | | |
| 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 | 6 684 | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |

Federal Republic of Germany

NOTES

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

Table 1

- Total population. Yearly average (estimate).
- Numbers in employment. Average for year. Source : Statistisches Bundesamt.
- Breakdown of gross domestic product at factor cost (1964 figures).

Table 2

- GNP at 1958 prices.
- Industrial production: value added at market prices.
- 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. Gross index (value) for manufacturing industry (excluding foodstuffs).
- 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.
- 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

Although the economic upswing continued during the closing months of 1966 and into the new year, exports weakened enough to slow down a little the expansion of overall demand, in spite of the fairly brisk growth of domestic demand, particularly in the form of investment. The pace at which production was expanding slackened but the upward trend of imports lost very little momentum.

There is however a good deal of evidence that, as exports and residential construction gradually pick up, the tendency of the economy as a whole to expand once again at a somewhat faster rate will prevail in the coming months and particularly in the second half of the year. However, it looks as if there is, at least for the immediate future, some slack to be taken up in respect of the expansion of domestic demand without renewed danger for wages and prices; the promotion of investment should be the main object of supplementary measures.

1. Recent developments

The expansion of demand from abroad had been losing momentum appreciably since the spring of 1966, but in the fourth quarter the trend veered for a time definitely downwards: the commodity trade returns show that the year-to-year growth of visible exports (value) fell from 7.5 % for the third quarter to an average of 2.6 % for the last three months of 1966. This is, however, hardly due to a deterioration in the competitive position of the French economy; it is largely attributable to the slackening of economic activity—varying in degree from country to country—in countries which are leading customers of France, like Germany, the United Kingdom, Belgium, the Netherlands, and Spain. In addition to the factors reflecting the underlying economic trend, there was the influence of fortuitous factors, as for instance the postponement of deliveries to the United Kingdom owing to the expected abolition of the import surcharge—the surcharge was withdrawn on 1 December 1966—and the decline in exports of agricultural products because the cereals surplus on the 1966 harvest was small. Contrasting with the export situation in Europe, exports to the developing countries in Africa (except Algeria), South America and Asia and to North America and Japan continued to forge ahead.

As far as can be seen at present, the strong tendency for exports to slacken has not perceptibly affected the expansion of domestic demand, although the business climate has deteriorated somewhat. In the closing months of 1966 and the early months of 1967 domestic demand remained brisk.

In particular, the industrial propensity to invest—to judge from the results of the INSEE surveys in June and November 1966—does not seem to have declined. By the end of the year the projects scheduled for 1966 were practically complete, and the programmes drawn up for 1967 were maintained. As investment expenditure by public enterprises and the Central Government moreover continued to expand very vigorously and as in addition demand for residential construction probably stopped slackening—at least in the field of publicly assisted housing—and settled at a fairly stable level, expenditure on gross fixed asset formation as a whole remained a very powerful element in the demand trend.

The expansion of investment in stocks, however, may well have been slightly weaker than before, mainly because dealers were very reluctant to commit themselves before promulgation of the implementing provisions of the Law on the reform of the turnover tax, which provides

that from 1 January 1968 retail trade will come under the tax on value added system.

Expenditure on consumption continued to rise, with disbursements by the public authorities expanding at, if anything, a somewhat faster pace and aggregate spending by households rising at a rate which was only slightly lower than before, although there were strong month-to-month fluctuations for the individual types of good and service: the expansion of incomes of households is hardly likely to have slowed down notably during the past few months. The growth of disposable income was also favoured by the fact that the tax burden was based on the incomes of 1965, a year for which income had increased less rapidly. It may however well be that the deterioration of the business climate induced households to put more aside as savings, and to concentrate their saving in highly liquid forms.

The continued lively expansion of domestic demand from final consumers was, however, not sufficient to fully offset the effects of a more cautious stockbuilding policy and—more important—the decline of exports. Consequently, overall demand probably rose at a somewhat lower rate than previously, and this change was reflected fairly promptly in a certain slowdown of the growth of production, though it has as yet affected very little the pace at which imports have been rising.

Industrial production, which in the first three quarters of 1966 went up at what would have been a rate of 7 to 8 % for the whole year, slackened somewhat in the fourth quarter, although the INSEE index (which excludes construction) still recorded a year-to-year growth rate of 6.5 % for the two quarters of 1965 and 1966 compared. Unlike industrial production, building production has, if anything, tended to pick up again to a certain extent in the past few months, since residential construction has not slackened further and industrial and public building activity has continued to expand at at least the same rate as previously.

Productivity gains, which continued to be fairly considerable, have on the whole been sufficient to account for the growth of production, somewhat slower as it was. Apart from seasonal variations, the total number of hours worked has probably risen only slightly in the fourth quarter of 1966. The weaker demand for

additional labour is reflected in a practically unchanged number (seasonally adjusted) of unfilled vacancies on the labour market and a continued—though now only slight—increase in the number (seasonally adjusted) of those seeking employment.

Imports have also risen vigorously during the past few months. In the fourth quarter of 1966 the volume of visible imports was some 11.5 % higher than in the corresponding period of the previous year, with imports of manufacturers in particular and of capital goods once again showing above-average growth rates.

Despite the sustained strong pressure of imports and a cost trend running fairly favourably (since wage increases remained moderate and productivity continued to improve considerably), prices rose further at the rate recorded since February 1966, that is slightly faster than previously. Continued lively domestic demand and the relaxation of direct price control—although for the moment still limited to only a few industries—through the conclusion of so-called “programme agreements”⁽¹⁾ have probably enabled some firms to widen profit margins again a little. Added to this there were persistent vigorous price increases for private services and some further “autonomous” increases in charges for public services. According to the INSEE index (259 articles), the general cost of living was 2.8 % higher at the end of 1966 than at the end of 1965.

With exports slackening and with imports continuing to rise vigorously, the visible trade balance has shown a continued and fairly appreciable deterioration in the past few months. The commodity trade statistics indicate that in the fourth quarter of 1966 the deficit reached almost FF 1 600 million compared with only about FF 110 million in the same period of the previous year. As a consequence the current account also swung into heavy deficit. Moreover, net imports of capital almost ceased—the drain on short-term capital resulting from the more attractive interest level on foreign markets was relevant here—so that for the first time for years there was once again a deficit on the overall balance of payments. The official gold and foreign exchange reserves (gross) fell by FF 734 million from the end of September to December 1966, while France's position with

(1) See Quarterly Survey 4/1966, page 74.

the IMF remained unchanged. During this period the net foreign exchange position of the commercial banks improved only slightly (by some FF 300 million). A year previously gross reserves had increased by FF 384 million, the IMF position had improved by about FF 85 million and the banks' foreign exchange holdings had swollen by FF 890 million.

The swing in the balance-of-payments trend has influenced the liquidity of the economy quite appreciably during the past months. In addition—transactions by the public authorities—including dealings in "building bills" between the Caisse des Dépôts et Consignations and the Central Bank—had a restraining influence for a time, particularly in November, although in contrast to the fourth quarter of 1965 the budget showed a distinct excess of expenditure. The continued, very strong expansion of lending by banks and other financial institutions to business and private customers did not have a full compensating effect so that the growth of the volume of money (note and coin in circulation and sight deposits) was appreciably slower than a year before.

The—relative—tightness of liquidity was reflected in continued strain on the money market, which was particularly pronounced at the end of 1966. The monetary authorities intervened to a limited extent only, so that the interest level continued to move closer to those being charged on foreign markets. The relaxation which is usual after the turn of the year was less marked this year. In the fourth quarter the capital market was dominated by issues of the public authorities (including a government loan of FF 1 500 million) and of the public savings institutions; the rate of interest on these loans was much the same as in preceding months.

2. Outlook

If it can be assumed that demand from abroad will still tend to be rather hesitant at the beginning of the year but will start making headway again in the second half of 1967—and this is the most likely prospect at the moment—the expansion of France's economy in 1967 will in the aggregate be hardly smaller than was suggested by the estimates given three months ago

in the last Quarterly Survey, 4/1966. Only if exports were to decline more steeply over a longer period would there be a danger of sharper repercussions on the trend of domestic demand, which so far has been fairly expansionary.

In fact, exports may, if anything, be expected to pick up again gradually in the coming months. For one thing, the impact of the slowdown of economic activity in several other countries is a factor likely to decline steadily in importance: the decline in sales to Germany, which, with a share of 20 % in France's total exports, is the largest foreign market for French products, will at least level out and may well—from mid-year onwards—even give way to a recovery. Secondly, the favourable factors which so far have been encouraging sales to the developing countries in Asia and South America, and to North America, Japan, and Italy, will probably remain effective. Keener competition on the world markets will, however, call for a more vigorous export drive by French industry, notably with regard to distribution networks; for farm products, both the supply situation and the sales outlook should improve faster than in the past. The grain harvest is likely to be back to normal, and a general factor is the development of the European agricultural market.

Provided exports do in fact pick up, employment and incomes will benefit and domestic demand will remain fairly buoyant.

Gross fixed asset formation in particular will continue to show an upward trend, the pace of growth—apart from seasonal variations—probably not being slower but rather a little faster than in the course of 1966. Faster growth is certain in the case of investment expenditure by the Government and public enterprises: here, the existing programmes entail growth rates which are distinctly higher than those of the previous year. But in respect of productive investment by the private sector too, above all by industry, there are reasons to believe that the scheduled schemes—also appreciably extended compared with 1966—will be actually implemented despite the weaker export trend. These reasons are above all the compelling need for higher capital investment for rationalization purposes—a need engendered by the keen competition on the domestic and foreign markets, which will stiffen further when the common market is complete on 1 July 1968

—and the fact that for the majority of the schemes firm orders were placed before the end of last year so that enterprises could claim tax reliefs in time. Lastly, investment in residential construction will probably expand more in the second half of 1967. Of late the number of permits for publicly assisted housing seems to have gone up again slightly; financing will become easier since the sums accumulated under the new system of saving for home-building plus the loans to which the savers are entitled will become available for the first time from the middle of 1967 onwards.

The trend of exports and investment should be sufficient to ensure that in the next few months overall employment and incomes increase at about the same rate as previously and that their growth gathers a little momentum in the later part of the year. It is therefore certain that the consumption expenditure of households will go on rising, although short-term fluctuations of psychological origin in the savings ratio may occur. The latest INSEE consumer survey shows that although consumers are somewhat less confident as to future trends, they intend to go on buying more, notably more cars and other durables.

In line with the trend of overall demand, the growth of domestic supply is unlikely to gather momentum to any appreciable extent before the second half of 1967. This applies to industrial production in particular: according to the latest business surveys, managements' expectations for the next few months with regard to the inflow of orders and the level of backlog of orders are not very optimistic, and their reports indicate that present trends for these variables are sluggish. As early as the spring of this year, on the other hand, the upswing in building production could well prove steeper than is usual for the season, depending on the extent to which the demand for new housing really recovers as the present signs suggest.

In view of the probable economic trends in important industrial countries, the pressure of foreign competition on the French domestic market must be expected to remain very strong. Consequently the vigorous upsurge of imports of manufactures will probably continue though imports of raw materials and semi-manufactures may slow down somewhat, now that production expectations and stockbuilding policies in industry have become somewhat more cautious.

The keen competition from foreign suppliers at steady and in some instances even declining prices is one of the reasons why domestic prices will probably not rise noticeably faster in coming months. The other reasons are that the labour market is relatively relaxed, so that wage increases will be kept within bounds, there is a certain amount of idle technical capacity in industry, and further considerable productivity gains are expected. In addition, the Government is to maintain price control measures in many industries. But there is no evidence either that the upward price movement, which had gathered some speed from the spring of 1966 onwards and in the fourth quarter had reached a level corresponding to very nearly 3 % for the full year, would slow down in the coming months. The expansion of domestic demand will remain strong enough to enable enterprises which are compelled to finance extensive investment programmes to widen their profit margins in fields where this is not in conflict with government price policy. "Autonomous" price increases must be expected, especially for public services and for agricultural products.

The only major correction in the probable figures for the year 1967 as a whole that has become necessary since the last Quarterly Survey (4/1966) was published concerns exports: owing to the unexpectedly serious slackening of domestic economic activity in some of the countries which are among France's major customers, the growth of exports will be distinctly smaller than in 1966. The effects on the growth of the real gross national product are none the less likely to remain limited: an increase by some 5 % is still by no means impossible.

For short-term economic policy, this means that as a result of the weak export trend there is now more room for domestic demand to expand without strain; the line which, once it had been reached, might in the interests of price and cost stabilization have called for renewed restrictive action, is now further away. There is consequently now more room for manoeuvre, which should be used for further facilitating investment and for implementing structural reforms.

The authorities should not, however, treat the room to manoeuvre gained in this way as solely a matter of budget policy, departing, for example, from the guideline—emphasized once more in the Council Recommendation of 22 December 1966—of overall balance be-

Demand for and supply of goods and services

| | 1964 ⁽¹⁾ | 1965 ⁽¹⁾ | | 1966 ⁽²⁾ | | 1967 ⁽³⁾ | |
|--|---|----------------------------|--------|---------------------|-------|---------------------|--|
| | At current prices in FF '000 million | % change on preceding year | | | | | |
| | | Volume | Value | Volume | Value | Volume | |
| Exports ⁽⁴⁾ | 62.7 | + 11.1 | + 11.7 | + 6 | + 8 | + 5 | |
| Gross fixed asset formation | 92.3 | + 5.4 | + 8.5 | + 6 | + 9 | + 7.5 | |
| Public current expenditure on goods and services | 58.7 | + 2.1 | + 4.6 | + 4.5 | + 8 | + 5.5 | |
| Private consumer's expenditure | 278.1 | + 3.2 | + 5.9 | + 5 | + 8 | + 5 | |
| Gross national product | 435.2 | + 3.5 | + 6.0 | + 5 | + 8 | + 5 | |
| Imports ⁽⁴⁾ | 63.1 | + 3.7 | + 4.0 | + 12.5 | + 14 | + 8.5 | |

⁽¹⁾ National Accounts 1955-1965, Statistical Office of the European Communities, Brussels, 1966.

⁽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 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.

tween revenue and expenditure, and allowing or actually causing, increased deficits to build up. Nevertheless, strict compliance with the expenditure estimates contained in the Finance Law for 1967 is no bar to the flexible adjustment—in terms both of timing in the year and of distribution by industry and region—of expenditure to the requirements of the economic situation. It looks as if there is 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 with a view to offsetting as far as possible the effect of the temporary slackening of demand from abroad on production, employment and incomes. In fact, the Government has apparently already taken the necessary steps. Arrangements should

be made to ensure that expenditure and measures directly or indirectly promoting investment activity are given priority over expenditure preponderantly favouring consumption.

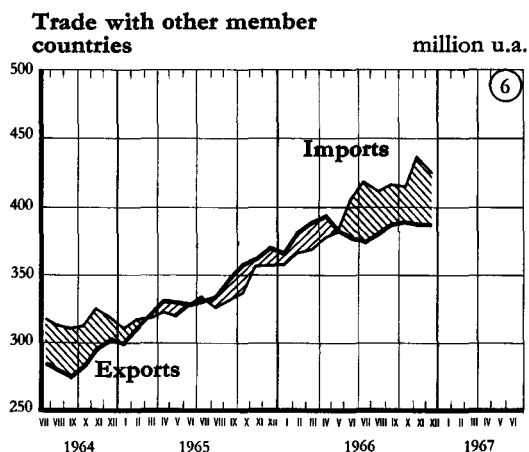
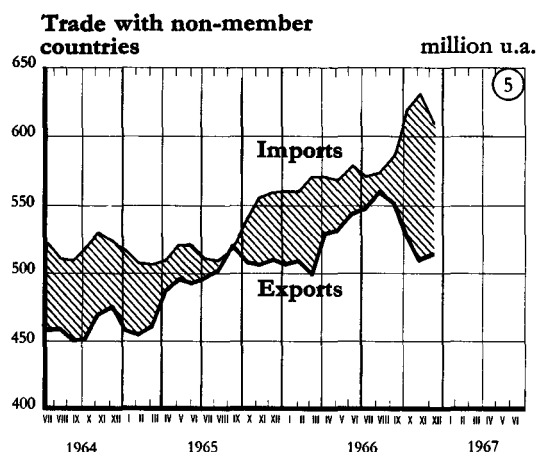
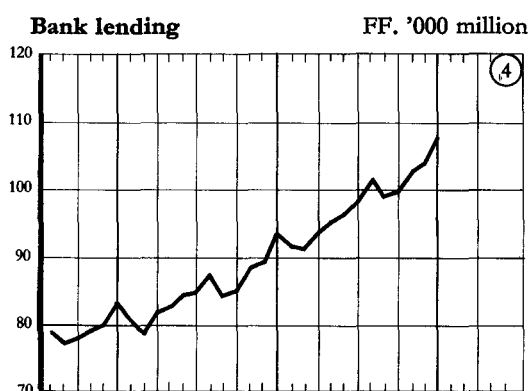
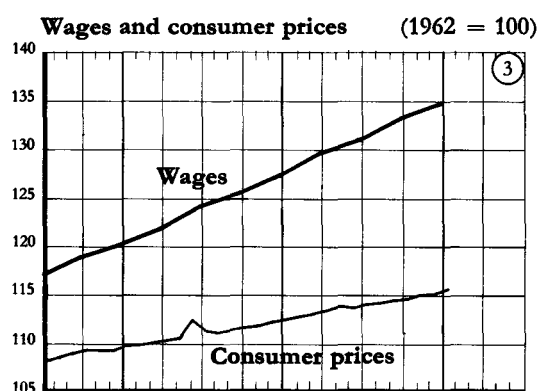
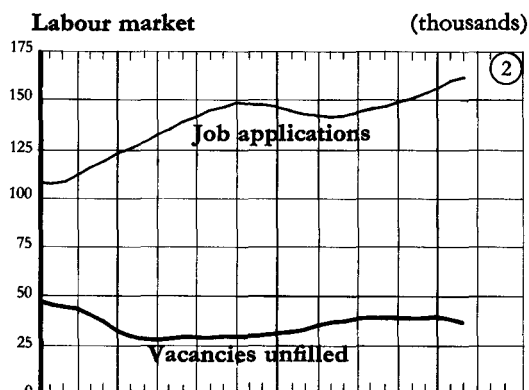
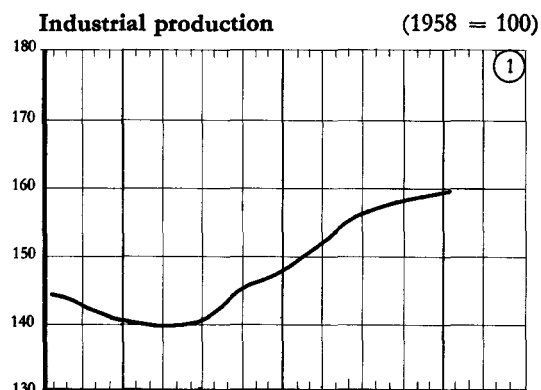
Budget policy implemented along these lines would enable the monetary authorities to maintain financing conditions favouring rapid and balanced growth: thus credit policy could, without jeopardizing stability, be used to compensate the relative contraction of liquidity due to the changed trend of the balance of payments and to forestall any difficulties likely to hamper enterprises in the execution of their investment programmes. This is also why the last restrictions surviving from the quantitative credit limitation imposed in 1963 (though to all in-

tents and purposes suspended since 1 July 1966) were abolished at the end of February.

Several measures, noteworthy from the angle of short-term economic policy, have also been adopted as part of the policy—introduced several years ago—to improve the structure of financing machinery. Their effect is to enhance competition between the credit institutes and to promote the international interpenetration of the capital markets; they also im-

prove and adjust the armoury of monetary and credit policy instruments. A particularly important measure is the liberalization of international capital movements, over some of which the Government has, however, retained certain supervisory powers, particularly in the field of direct investment; another important innovation is a new minimum reserve system superseding the old “coefficient de trésorerie” and binding the banks to maintain non-interest-bearing credit balances with the Bank of France.

ECONOMIC INDICATORS



NOTES :

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

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

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

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

Graph 4. Source : Conseil national du Cr dit. 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 gm. 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 |
|---|---|-------|-------|-------|-------|-------|-------|--------------------------------------|--|
| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1965 | 1965 |
| Gross national product | + 3.0 | + 7.4 | + 4.4 | + 7.1 | + 4.8 | + 6.0 | + 3.5 | 142 | — |
| Industrial production | + 3.1 | + 7.6 | + 5.5 | + 6.7 | + 5.8 | + 7.4 | + 3.0 | 146 | — |
| Total imports | - 1.6 | +16.5 | + 7.0 | + 8.7 | +12.2 | +12.2 | + 3.7 | 174 | 14.2 |
| Private consumers' expendi- ture | + 1.9 | + 5.6 | + 5.9 | + 6.9 | + 6.8 | + 4.7 | + 3.2 | 140 | 63.8 |
| Public current expenditure on goods and services | + 6.5 | + 2.7 | + 3.4 | + 4.3 | + 1.2 | + 4.9 | + 2.1 | 128 | 13.3 |
| Gross fixed asset formation | + 2.3 | + 6.8 | +10.5 | + 7.9 | + 7.5 | +11.7 | + 5.4 | 165 | 21.7 |
| Total exports | +12.4 | +17.2 | + 5.5 | + 3.1 | + 7.9 | + 7.7 | +11.1 | 185 | 15.2 |
| Gross national product per capita | + 3.0 | + 6.3 | + 3.3 | + 5.1 | + 3.0 | + 4.7 | + 2.4 | 130 | — |
| Gross national product per person gainfully employed | + 4.0 | + 7.3 | + 4.4 | + 6.8 | + 3.5 | + 4.7 | + 3.4 | 139 | — |

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 | 10 897 | 100 |
| Intra-EEC | +33.9 | +18.8 | +11.9 | +14.2 | +12.8 | +18.0 | +12.0 | 406 | 4 608 | 42.3 |
| To non-EEC countries | +18.2 | - 0.5 | - 3.0 | + 7.2 | +10.3 | + 7.8 | + 6.0 | 158 | 6 289 | 57.7 |
| Exports of food, beverages and tobacco | | | | | | | | | | |
| Total | +36.2 | +17.4 | - 2.9 | +22.0 | +14.4 | +11.5 | - 7.6 | 259 | 1 721 | 15.8 |
| Intra-EEC | +54.6 | +26.2 | + 1.4 | +34.5 | +16.6 | +26.5 | +19.5 | 688 | 840 | 7.7 |
| To non-EEC countries | +29.3 | +13.6 | - 5.1 | +15.4 | +13.0 | + 2.0 | - 1.7 | 162 | 881 | 8.1 |
| Exports of raw materials and manufactures | | | | | | | | | | |
| Total | +20.2 | + 3.3 | + 3.0 | + 7.8 | +10.7 | +11.8 | + 8.6 | 206 | 9 176 | 84.2 |
| Intra-EEC | +31.1 | +17.5 | +13.9 | +10.9 | +12.1 | +16.4 | +10.4 | 372 | 3 768 | 34.6 |
| To non-EEC countries | +16.2 | - 2.7 | - 2.6 | + 6.0 | + 9.8 | + 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 | +19.8 | + 6.5 | +22.9 | 394 | 4 471 | 37.7 |
| From non-EEC countries | +24.5 | + 4.5 | + 6.6 | +16.3 | +12.6 | + 1.2 | +11.3 | 179 | 5 484 | 46.1 |

TABLE 4: Basic monthly indicators

| | Year | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|--|------|------------------|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Industrial production (1958 = 100) | 1965 | 141 | 145 | 145] | 148 | 148 | 151 | 129 | 91 | 142 | 153 | 157 | 180 |
| | 1966 | 150 | 156 | 157 | 158 | 158 | 161 | 142 | 95 | 153 | 160 | 167 | 167 |
| | 1967 | | | | | | | | | | | | |
| 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 | 88.0 |
| | 1966 | 41.3 | 36.3 | 42.1 | 48.0 | 36.6 | 49.4 | 44.2 | 40.5 | 38.2 | 42.1 | | |
| | 1967 | | | | | | | | | | | | |
| Private consumers' expenditure: turnover of department stores (1958 = 100) | 1965 | 121 | 104 | 116 | 128 | 124 | 126 | 113 | 107 | 143 | 136 | 136 | 211 |
| | 1966 | 123 | 109 | 127 | 128 | 125 | 137 | 115 | 105 | 142 | 142 | (144) | 223 |
| | 1967 | | | | | | | | | | | | |
| 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 | 1 063 | 929 | 780 | 995 | 1 031 | 1 054 | 1 112 |
| | 1967 | 1 061 | 1 043 | | | | | | | | | | |
| 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 | 849 | 950 | 920 | 1 015 |
| | 1967 | 887 ₄ | 903 | | | | | | | | | | |
| 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 | - 103 | + 23 | - 51 | - 152 | - 81 | - 134 | - 97 |
| | 1967 | - 174 | - 140 | | | | | | | | | | |
| Official gold and foreign exchange reserves (gross, million u.a.) | 1965 | 5 172 | 5 254 | 5 316 | 5 367 | 5 341 | 5 350 | 5 336 | 5 346 | 5 381 | 5 381 | 5 449 | 5 459 |
| | 1966 | 5 468 | 5 503 | 5 571 | 5 649 | 5 724 | 5 821 | 5 967 | 5 963 | 5 893 | 5 856 | 5 798 | 5 744 |
| | 1967 | 5 710 | (5 716) | | | | | | | | | | |
| Money supply (FF '000 million) | 1965 | 159.3 | 157.9 | 159.9 | 161.9 | 162.6 | 166.1 | 170.1 | 169.2 | 170.2 | 171.6 | 169.9 | 177.2 |
| | 1966 | 174.5 | 173.5 | 175.6 | 177.3 | 177.7 | 182.1 | 186.3 | 184.0 | 184.7 | 185.0 | 182.7 | 190.8 |
| | 1967 | | | | | | | | | | | | |

France

NOTES

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

Table 1

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

Table 2

- GNP at market prices. Source: Rapport sur les comptes de la Nation, ministère de l'économie et des finances, Paris.
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.
- The figures for GNP per head and per person in employment from 1958 to 1964 are Commission estimates based on the component series.

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 consumers' expenditure. Index of value of total turnover of department stores and "single-price" 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

The economy continued to grow appreciably in the fourth quarter of 1966 and also, as far as can be discerned at this stage, in the early months of 1967, although economic activity was hindered by severe bad weather in the autumn months and by a series of strikes throughout the whole period under review.

Domestic demand, especially investment in plant and machinery, has made the main contribution to growth. The pull of demand from abroad, on the other hand, has weakened noticeably.

Production has expanded further, though at a slightly slower tempo. The growth rate of industrial production (apart from seasonal and fortuitous variations) may well, however, have remained unchanged. Imports have even continued to rise fairly steeply.

The effects of the bad weather on agricultural production and transport have led to a certain amount of strain in the demand-supply situation from time to time; this was reflected in November/December in a fairly marked rise in food prices.

Although the outlook for domestic demand remains expansive, economic growth could well prove less rapid in 1967 than was assumed some time ago, because of the less promising outlook for the expansion of exports.

Although, under these circumstances, those in charge of economic policy now have more room for manoeuvre in their efforts to encourage the expansion of demand without engendering further strain, the drive to curb through the budget the growth of public current expenditure should be vigorously pursued.

1. Recent developments

The trend of exports of goods and services was probably somewhat hesitant in the final quarter of 1966. Visible exports certainly faltered, although, in terms of value and as defined for the commodity trade statistics, they were again considerably—this time almost 10 %—above the corresponding figure for the preceding year.

Almost all the main classes of merchandise were affected by the general tendency for the expansion of exports to slacken. Area analysis shows that exports to other Community countries—especially to the Federal Republic of Germany—lost a great deal of momentum. It would appear that exports of services were sluggish, too.

Domestic demand, on the other hand, appears to have continued to expand appreciably in the fourth quarter. The incomplete information on gross fixed asset formation now available suggests that the lively upward trend of investment in plant and machinery has persisted. It is less certain whether the slight recovery in investment in building and construction noted towards the middle of 1966 has made any significant headway; this type of investment has, it is true, been adversely affected by very bad weather.

Investment in stocks seems at most to have grown slowly.

Consumption expenditure probably also registered a distinct increase for the fourth quarter. This applies both to public current expenditure

on goods and services and to private consumers' expenditure. The rate of increase of the latter does, admittedly, appear to have slackened slightly under the influence of a temporary slowdown in the growth of incomes, there having been a slight reduction in the rate of expansion of the total number of hours worked. ⁽¹⁾ Whether the upward movement of actual hourly wage rates also lost momentum in the final quarter is not certain, although statistical returns indicate that the trend of agreed minimum wage rates was not very expansionary. The fact that, for the first time in five years, the cost-of-living bonus included in minimum wages did not require an upward adjustment was a relevant factor here.

On the supply side, there was a distinct slowdown in the growth rate of agricultural production due to the extremely bad weather affecting Italy from time to time; according to the ISCO Index, crop production showed no increase in the fourth quarter.

Industrial production tended to expand at roughly the same—lower—rate registered in the third quarter. The seasonally-adjusted ISCO Index, based on the ISTAT Index, rose by almost 2 % between the third and fourth quarters, as against 2.4 % between the second and third quarters. But the unadjusted index showed a 10.5 % year-to-year increase for the fourth quarter. In judging these rates, it should be remembered that in the fourth quarter production suffered considerably from special phenomena (floods, strikes) while in the third quarter other special factors (additional hours worked to make up for time lost due to strikes) had boosted production. The liveliest expansion recorded was in the production of industrial materials and some types of plant and machinery.

The adjusted figure for the number of persons in paid employment is likely to have risen further, if more slowly, in the fourth quarter. The ISTAT quarterly sample survey shows that in October, when the weather was however already very bad, the number was still slightly lower than a year earlier (0.3 % or 33 000). The slackening in the rate of expansion of num-

bers employed is largely attributable to trends in building and construction. Provisional figures indicate that the normal seasonal drop in the number employed between October and January was unusually small this winter. There was apparently a further appreciable increase in the average hours worked per person employed.

The trend of employment led to a further slight decline in the number unemployed. In October, however, according to the ISTAT statistics, the unemployment figure was still running a little ahead (1 %) of the figure for the same period of the preceding year.

The adjusted trend of overall imports of goods and services continued to climb steeply in the fourth quarter; the slower rate of growth noted in December appears to have been short-lived. The upward movement was, however, solely due to the lively expansion of visible imports which, according to customs returns, were up on the corresponding 1965 figures by approximately 11.5 % by volume and by 13.2 % in value. The growth of imports of agricultural and food products and of plant and machinery gathered momentum, while imports of textiles and chemical products were, if anything, slightly more sluggish than in the third quarter. Imports of services do not seem to have increased.

In the last two months of 1966, there was a further distinct upward movement in the adjusted trend of prices, the first noted for a considerable length of time. For one thing, prices of foodstuffs at both wholesale and retail level rose appreciably; the principal reason for this is likely to have been the effects of the bad weather on agricultural production and on transport. Secondly, the upward thrust of charges for services became somewhat more pronounced at consumer level. Wholesale prices rose by 0.6 % and consumer prices by 1.3 % between October and December (corresponding 1965 figures: 0.5 and 0.8 %); in December the year-to-year increments were 0.1 % and 2.4 % respectively.

The tendency for the visible trade balance to deteriorate was more marked in the fourth quarter. The deficit, according to customs returns, totalled Lit. 107 800 million for this period, compared with a deficit of Lit. 59 800 million a year earlier. At the same time, the net receipts from services were running at a rather lower

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

level and the deficit on capital transactions increased considerably. Consequently, for the first time for two and a half years, there was a deficit—of Lit. 79 000 million—on the balance of payments; there had been a surplus of Lit. 179 000 million in the fourth quarter of 1965. Two noteworthy developments linked to the deficit were the deterioration of the foreign exchange position of the banks associated with the customary window-dressing operations in December and, above all, a reduction in the official net gold and foreign exchange reserves, which fell by Lit. 47 000 million to Lit. 2 925 000 million.

Hence, in contrast to the third quarter, the balance of payments tended to curb slightly the domestic liquidity of the banks. Nevertheless they stepped up once again their holdings of securities, with Treasury transactions tending to increase liquidity and the banks deriving considerable sums from (*inter alia*) the re-financing operations of the Bank of Italy. Furthermore, bank lending increased appreciably again, but at a somewhat slower rate than that at which customers' ordinary deposits grew. For that reason, the ratio of the former as a proportion of the latter—which was 67.2 % in December—continued to deteriorate slightly.

Trends on the securities market continued to develop unevenly in the fourth quarter of 1966 and in early 1967. The share market was relatively narrow; following the announcement of new regulations dealing with dividend tax towards the end of February, stock exchange quotations fell considerably. The bond market, on the other hand, was providing abundant funds up to the end of January at least, mainly as a result of direct or indirect support operations by the Bank of Italy. Despite very heavy issues of fixed-interest-bearing securities—particularly by the Government—there was consequently only a slight increase in the net interest return on bonds.

2. Outlook

All in all the prospects for 1967 still point to expansion ⁽¹⁾. The pull of domestic demand

(1) For fuller details, see "Outlook", Quarterly Survey 4/1966, pp. 92-95.

may, it is true, be somewhat greater and that of demand from abroad somewhat less than was to be expected three months ago.

The expansion of exports of goods and services may prove less than expected because of the weaker economic situation in some countries which are of particular importance to the Italian economy. There are, however, many reasons for assuming that exports will continue to expand considerably. These include the favourable competitive position of Italy, which has recently been strengthened by improvements in export credit arrangements, the drive to expand trade with Eastern European countries, the recent withdrawal of the United Kingdom import surcharge and the fact that intra-Community duties are to be reduced on 1 July. The findings of EEC business surveys and of the "Forum" survey carried out by "Mondo Economico" provide further evidence supporting the prediction that exports will continue to expand.

Domestic demand will probably increase more rapidly than demand from abroad in the months ahead.

For one thing, there should be a considerable expansion of gross fixed asset formation. Even if the recovery in residential construction remains rather slow, a distinct increase in overall investment in building and construction in general can be expected. Investment in plant and machinery should expand appreciably more rapidly. Some important reasons for believing that this type of investment should expand at a brisker pace were given in the last Quarterly Survey. It can be expected that Italian industry will have to meet increased competition from certain countries where expansion is losing momentum and this might also prove a relevant factor; it should, for instance, tend to strengthen the propensity to invest in rationalization projects.

The most recent findings of the "Forum" survey and other surveys support these forecasts for the future trend of investment.

Overall investment in stocks should tend to increase further although the rate of expansion of expenditure on stocks in the farm sector could be slower than usual.

Prospects for the trend of consumers' expenditure have also remained expansionary. Public current expenditure on goods and services will

Demand for and supply of goods and services

| | 1964 ⁽¹⁾ | 1965 ⁽¹⁾ | | 1966 ⁽²⁾ | | 1967 ⁽²⁾ |
|--|--|----------------------------|--------|---------------------|--------|---------------------|
| | Current prices (in Lit. '000 million) | % change on preceding year | | | | |
| | | Volume | Value | Volume | Value | Volume |
| Exports ⁽³⁾ | 5 486 | + 19.9 | + 20.1 | + 11.5 | + 12.5 | + 7 |
| Gross fixed asset formation | 7 202 | — 8.2 | — 6.8 | + 4 | + 5 | + 9.5 |
| Public current expenditure on goods and services | 4 659 | + 3.7 | + 11.6 | + 4.5 | + 11 | + 5 |
| Private consumers' expenditure | 20 841 | + 2.1 | + 6.0 | + 5.5 | + 8 | + 6 |
| Gross national product | 33 112 | + 3.4 | + 7.1 | + 5.5 | + 8 | + 6 |
| Imports ⁽³⁾ | 5 293 | + 0.9 | + 2.1 | + 13.5 | + 16 | + 13 |

⁽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 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.

probably expand briskly, notably because of the implementation of the relief programme for flooded areas. Private consumers' expenditure will also increase rapidly; it is likely that the restrictive effect of some recent increases in taxation will have been more than offset by an appreciable increase in mass incomes and, perhaps, by a stronger propensity to consume. The "Forum" survey predicts that expenditure on consumer durables will increase particularly rapidly in the first half of 1967.

Agricultural production may well increase at a somewhat slower pace than normal as a consequence of the damage caused by the bad weather of last autumn. On the other hand, it can be expected that industrial production will forge ahead and that building and construction will increase further, if rather slowly at first.

The number of persons in paid employment is

likely to increase more rapidly than previously. Despite this, however, it is doubtful if unemployment figures will decline to the extent expected, since the slowdown of economic activity in some member countries is forcing numbers of Italian workers employed there to return home.

Imports should continue to expand at a lively rate; imports of industrial materials and plant and machinery will probably expand particularly briskly—after a slack period—and imports of agricultural products may well gather momentum.

In general, prices will probably continue to rise moderately, though at a rather more rapid tempo. It is true that the elasticity of production of industrial goods in general will undoubtedly remain relatively high enough to prevent the expansion of demand generating strain. The

intensification of competition from abroad will also tend to stabilize prices. But the trend of unit labour costs (likely to be firmer), the increases in taxation, the re-imposition of certain social charges on enterprises as from 1 January 1967 and—to a lesser extent—the gradual relaxation of rent controls (beginning probably about the middle of the year) all represent cost-raising factors which could force prices upwards somewhat more than in 1966. Finally, the outlook for agricultural production suggests that some strain may develop in the situation with regard to supply and demand of agricultural produce and that the shortfall will not be completely made good by increased imports, save perhaps at higher prices.

There will most probably be a further appreciable deterioration on both the visible trade balance and the current account.

The shift in emphasis—from foreign to domestic demand—in the underlying factors of expansion has necessitated some small corrections in the estimated growth rates for the year 1967. However, an increase of approximately 6 % in the gross national product between 1966 and 1967 still seems attainable, although this rate should now be regarded rather as a maximum.

The most recent trends and the latest forecasts do not call for any fundamental policy changes. The authorities should continue to comply with the guidelines contained in the Council's recommendation of 22 December 1966 on short-term economic policy. At most, it would be acceptable if the reduction in the aggregate cash deficit of the public authorities were a little smaller than that which would be required to comply strictly with the Council recommendation; the trend of overall demand is likely to be more subdued than was expected at first and a considerably increased financial burden is being borne by the authorities as a result of the floods. The recommended curtailment of public expenditure channelled towards consumption appears to remain, however, an urgent necessity for the future, especially since public saving—which is also of great importance for medium-term economic growth—has contracted sharply in the last few years and has of late actually given place to dissaving.

The programme for the relief of flooded areas approved by the Government in November of

last year provides not only for cheap bank loans but also for additional Central Government expenditure amounting to more than Lit. 500 000 million up to the end of 1968; the bulk of this sum—though not all of it—is to be covered by increased taxation (approximately Lit. 370 000 million) and by certain savings on expenditure. The additional expenditure has a predominant investment bias and will therefore tend to reduce the proportion of overall Central Government expenditure channelled directly or indirectly towards consumption. The taxation measures involve a heavier tax on petrol and an increase in most types of income tax and in estate duty.

In February 1967, a law came into force which provides, in essence, for the extension of state guarantees in the field of export credits and broadens the financial basis of the leading export credit body.

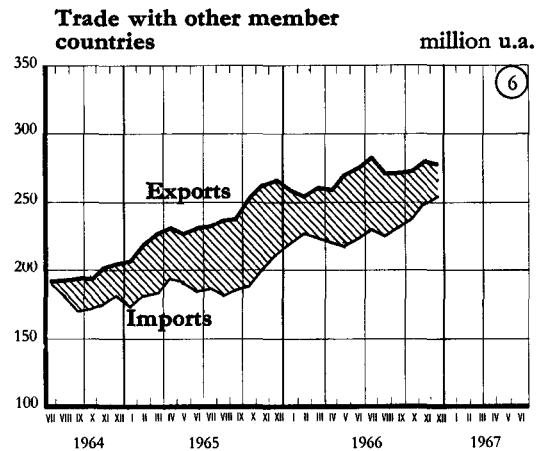
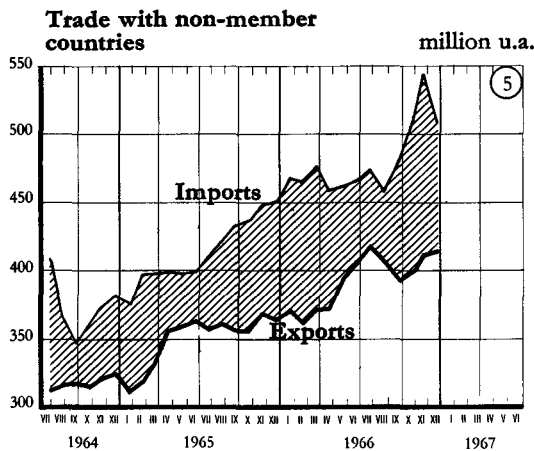
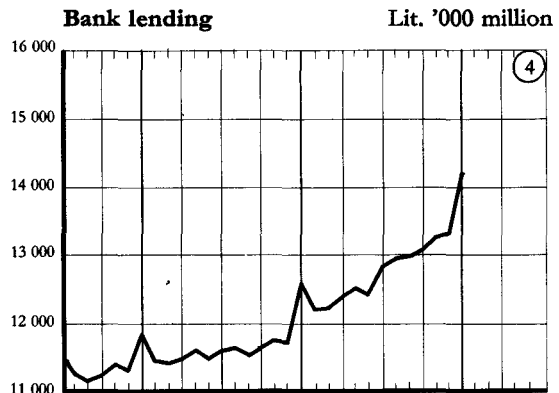
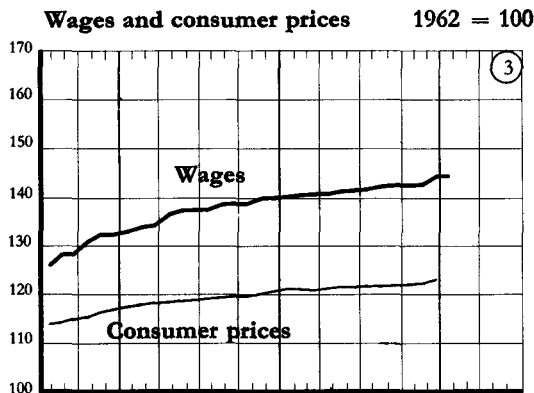
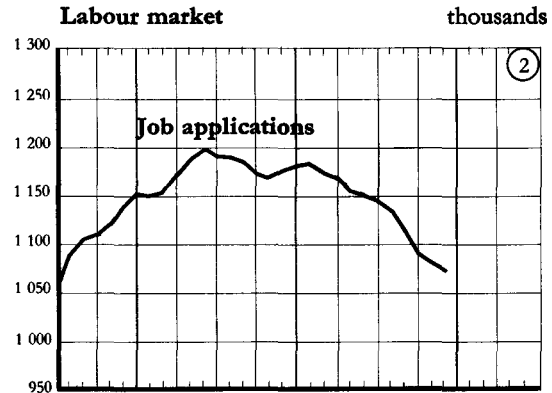
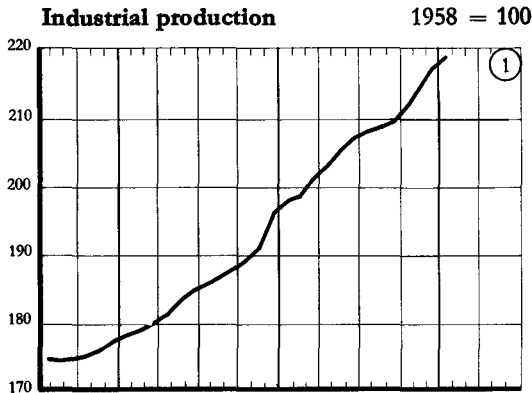
In the same month, a decree-law was issued tightening up once again the rules on the taxation of dividends. Dividends will now be subject to a 5 % withholding tax which will, however, only be regarded as an advance payment against the shareholder's tax liability as determined from his general income tax return. The shareholder's name must be notified to the revenue authorities. Another regulation, providing for a 30 % withholding tax in discharge of all tax liability, is mainly for non-residents. Previously, shareholders were free to opt for either of the two arrangements: they could have their names notified to the authorities and pay a 5 % tax deducted at source regarded as an advance payment against their general liability or their names could be withheld, in which case they paid a 30 % tax deducted at source in discharge of all tax liability.

Some other measures in favour of small and medium-sized industrial firms, adopted last December and in the early months of 1967, are also worthy of mention: the capital of the special fund set up early in 1965 to finance manufacturing firms which are economically sound but short of capital has been increased by Lit. 30 000 million to Lit. 130 000 million, the preferential loan conditions accorded firms in southern Italy wishing to invest in plant and machinery have been improved and extended, and the existing statutory rules on interest rebates have been extended in time and in scope.

While the measures in the sphere of export credit and in any case those in favour of small and medium-sized industrial enterprises are unquestionably in line with short-term economic policy needs, the new regulations on dividend tax—though it is completely equitable—

could tend to constrict the share market further and might thus inhibit the propensity to invest of enterprises. There does therefore seem to be a strong case for the immediate adoption of effective measures to develop the capital market so as to counterbalance these tendencies.

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.

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 |
|---|---|------|------|------|------|-------|-------|--------------------------------------|--|
| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | | |
| Gross national product | 6.8 | 6.3 | 8.2 | 6.3 | 5.8 | 3.0 | 3.9 | 148.1 | — |
| Industrial production | 9.7 | 11.1 | 9.3 | 8.8 | 7.9 | 2.0 | 3.8 | 165.7 | — |
| Total imports | 12.0 | 37.8 | 14.8 | 16.4 | 22.6 | - 5.4 | 0.6 | 240.7 | 15 |
| Private consumers' expenditure | 4.6 | 6.2 | 7.3 | 6.7 | 10.0 | 2.0 | 1.9 | 145.5 | 62 |
| Public current expenditure on goods and services | 4.4 | 4.0 | 4.8 | 5.4 | 5.1 | 4.1 | 3.7 | 136.0 | 15 |
| Gross fixed asset formation | 9.1 | 13.4 | 11.8 | 10.0 | 9.2 | - 7.3 | - 8.0 | 141.9 | 19 |
| Total exports | 19.8 | 18.2 | 16.5 | 12.2 | 7.0 | 12.0 | 20.1 | 266.5 | 18 |
| Gross national product per capita | 6.1 | 5.7 | 7.7 | 5.6 | 5.0 | 2.1 | 3.0 | 140.8 | — |
| Gross national product per person gainfully employed | 6.1 | 6.5 | 8.0 | 7.5 | 7.6 | 3.3 | 6.0 | 152.2 | — |

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 | 12.8 | 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 | 8.3 | 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 | 3 571.3 | 100 |
| Intra-EEC | 45.7 | 17.2 | 22.9 | 31.1 | - 4.5 | - 3.1 | 21.6 | 407.7 | 2 787.2 | 32.5 |
| From non-EEC countries | 38.4 | 8.1 | 13.0 | 21.5 | - 3.9 | 3.9 | 14.4 | 234.1 | 5 784.1 | 67.5 |
| Imports of food, beverages and tobacco | | | | | | | | | | |
| Total | 33.5 | 5.3 | 7.3 | 57.5 | 2.4 | 18.9 | 9.7 | 323.4 | 1 766.4 | 20.6 |
| Intra-EEC | 42.6 | - 1.3 | 10.0 | 73.1 | 15.7 | 20.6 | 13.5 | 439.3 | 380.7 | 4.4 |
| From non-EEC countries | 31.8 | 6.6 | 6.8 | 54.4 | - 0.6 | 18.4 | 8.7 | 295.8 | 1 385.7 | 16.2 |
| Imports of raw materials and manufactures | | | | | | | | | | |
| Total | 42.4 | 11.6 | 17.5 | 19.2 | - 5.5 | - 2.4 | 18.6 | 260.9 | 6 804.9 | 79.4 |
| Intra-EEC | 46.0 | 19.2 | 24.1 | 27.8 | - 6.6 | - 6.3 | 23.0 | 397.2 | 2 406.5 | 28.1 |
| From non-EEC countries | 41.0 | 8.4 | 14.4 | 14.8 | - 4.8 | - 0.2 | 16.3 | 219.7 | 4 398.4 | 51.3 |

TABLE 4: Basic monthly indicators

| | Year | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Industrial production (1958 = 100) | 1965 | 171.2 | 173.1 | 170.7 | 173.2 | 179.1 | 180.9 | 182.2 | 179.9 | 182.2 | 183.0 | 187.7 | 187.0 |
| | 1966 | 190.1 | 190.3 | 192.8 | 193.7 | 200.8 | 201.6 | 200.6 | 203.6 | 206.1 | 204.4 | 207.7 | 209.9 |
| | 1967 | | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |
| Private consumers' expenditure: turnover of department stores (1958 = 100) | 1965 | 270 | 215 | 249 | 303 | 284 | 318 | 296 | 241 | 330 | 354 | 319 | 542 |
| | 1966 | 313 | 231 | 275 | 313 | 319 | 338 | 306 | 267 | 330 | 377 | 355 | (570) |
| | 1967 | | | | | | | | | | | | |
| Total visible imports (million u.a.) | 1965 | 550.3 | 619.5 | 556.0 | 580.7 | 570.9 | 592.8 | 609.7 | 609.1 | 632.1 | 644.0 | 676.8 | 666.0 |
| | 1966 | 721.7 | 691.2 | 679.2 | 655.9 | 685.1 | 721.6 | 690.9 | 688.6 | 839.3 | 806.3 | 750.1 | 726.7 |
| | 1967 | | | | | | | | | | | | |
| Total visible exports (million u.a.) | 1965 | 514.1 | 562.1 | 588.0 | 613.6 | 546.8 | 657.5 | 587.7 | 578.5 | 624.4 | 601.6 | 643.7 | 609.0 |
| | 1966 | 623.1 | 600.2 | 671.6 | 629.1 | 702.2 | 739.7 | 683.9 | 620.9 | 693.2 | 710.3 | 671.1 | 671.5 |
| | 1967 | | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |
| 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 | 4 772.8 | 4 995.8 | 4 758.2 | 4 672.6 | 4 642.4 | 4 679.4 |
| | 1967 | 4 514.2 | 4 473.1 | | | | | | | | | | |
| Money supply (Lit. '000 million) | 1965 | 11 984 | 11 861 | 12 077 | 12 225 | 12 522 | 12 687 | 12 885 | 12 808 | 13 103 | 13 227 | 13 420 | 14 495 |
| | 1966 | 14 029 | 13 933 | 14 046 | 14 118 | 14 321 | 14 598 | 14 850 | 14 744 | 15 003 | 15 182 | 15 274 | 16 373 |
| | 1967 | | | | | | | | | | | | |

() 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.
- GNP per person in employment for 1959. Commission estimate.

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: 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 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 slackened in the autumn of 1966, and as far as can be seen at the moment this trend continued in the early months of 1967. The expansion of fixed asset formation became more and more sluggish, the rise in exports slowed down further, and the rise of expenditure on consumption was more moderate too. As a result, the growth rate of supply declined—mainly that of imports rather than domestic production—and strain on the labour market eased more rapidly.

Although prices continued to rise, their upward movement appears to have slowed down slightly, and the balance of current payments showed a slight tendency to improve.

The outlook for the rest of 1967 is that although a further substantial expansion of exports is likely, the growth of production may again slow down slightly, largely because investment may tend to decline. Strain on the labour market will probably be reduced more. Nevertheless, the upward thrust on prices will still remain fairly appreciable, one of the reasons being that wage increases, though more moderate than in 1966, will still considerably outpace advances in productivity. The balance of current payments may again improve.

Although it is advisable that measures should be adopted to support investment and to limit unemployment, sufficient care should none the less be taken not to compromise the achievement of external and—more especially—internal balance.

1. Recent developments

Exports of goods and services, which had slowed down in late summer and early autumn, were still rather sluggish in the fourth quarter of 1966. This was mainly attributable to the trend of exports to other Community countries, and more particularly to the slackness of imports by Germany. By contrast, exports to non-member countries went on expanding appreciably, steadily rising exports to the United States having more than offset the decline in deliveries to Britain. In the fourth quarter of 1966 total visible exports (as shown in foreign trade statistics) were only 2.5 % in value and 4 % by volume up on the last quarter of 1965.

In recent months domestic demand has also slackened distinctly. Gross fixed asset formation in particular seems not to have increased at all in the fourth quarter of 1966 and at the beginning of 1967; this was a result of financing difficulties and to some extent the deterioration

of the economic outlook. As far as productive investment by firms is concerned, expenditure on plant and equipment probably fell; this decline is likely to have been offset only in part by a further expansion of expenditure on building. The expansion of public investment slowed down at the same time. Lastly, investment in housing was also rather hesitant. Although a particularly large number of dwellings were completed in the fourth quarter owing to good weather and to considerable advances in productivity, the number of building starts dropped appreciably.

Stocks have probably continued to grow, if slowly, in recent months. Stocks of raw materials and semi-manufactures have probably declined, but on the other hand manufacturers' and dealers' stocks of finished goods seem to have been building up.

Public current expenditure continued to rise appreciably, chiefly because at the end of 1966 wages and salaries in the public services were

adjusted to the trend of wages and salaries in trade and industry.

However, the expansion of private consumers' expenditure—on consumer durables in particular—slackened distinctly. In the fourth quarter the year-to-year growth rate dropped to only 6 % in value, but this was largely a reflection of the extraordinary wave of purchases which had marked the last quarter of 1965 (when consumers were buying goods in anticipation of a rise in indirect taxes on 1 January 1966).

Nevertheless, there is hardly any doubt that the cooling-down on the economy has already had some effect on the trend of incomes of households. For instance, the rise in hourly wage rates was a little more moderate than before, and the wage increases at the beginning of 1967 when collective agreements were renewed (4 % for agreements concluded for one year) were probably more in line with Government recommendations. The total number of hours worked in the manufacturing and building industries is likely to have fallen slightly: in some industries the length of the working week was reduced, and numbers in paid employment probably declined slightly, if anything. The upward trend of transfer incomes began to ease off slightly, and then there were the effects of the graduated nature of direct taxes (the proposed tax cut having been postponed till 1 July 1967). Another possible factor is that consumers may have been induced by the more precarious employment situation to put a larger proportion of their incomes into savings.

The slowdown in the expansion of demand was not without its repercussions on the growth of supply, either.

So far, the growth (apart from seasonal variations) of industrial production has in fact slackened only slightly. According to the CBS index, industrial production per working day in the fourth quarter of 1966 was still 5.5 % higher than a year before, following a third-quarter year-to-year growth rate of 6.3 %. The tendency for building output to slow down towards the end of 1966 was more marked, following a rather sharp rise that lasted well into autumn.

All in all, the growth of production—modest as it was—was due solely to advances in productivity. As the natural growth of the

working population was at this time rather pronounced, the easing of the labour market situation was greatly accelerated. The unemployment rate (percentage of unemployed in the total civilian labour force), which, seasonally adjusted, had been about 1.1 % in September 1966, went up to 1.7 % in February 1967, when 106 000 unemployed were registered, compared with only 57 800 in February 1966. The seasonally adjusted number of unfilled vacancies declined; this was the first time for years that it was lower than the number of unemployed.

The expansion of imports of goods and services came to a halt. In recent months the trend may even have reversed, mainly owing to reduced demand for imports of raw materials and capital goods. According to customs returns, the total volume of visible imports in the fourth quarter was 2 % down on the last quarter of 1965—though imports then had been particularly high as a result of the wave of spending mentioned above.

The underlying price trend continued to move upwards in recent months. In the last quarter of 1966 and in January 1967 the CBS cost-of-living index did not move past the third-quarter figure, but this was mainly due to a tendency for food prices to come down. The year-to-year increase was still 3.2 % in January, having been 4.9 % in the fourth quarter. In the autumn months wholesale prices for basic materials declined slightly, while prices for manufactures continued to rise.

As a result of the decline in imports, the balance of trade (as defined for commodity trade returns) improved considerably in the fourth quarter of 1966. Provisional data show a surplus of Fl. 172 million on current account (on a transactions basis), compared with a Fl. 78 million deficit in the fourth quarter of 1965. And since net imports of capital rose, the overall balance of payments closed with a surplus of about Fl. 380 million. The net gold and foreign exchange reserves of the monetary authorities increased by Fl. 176 million from September to December. For the whole of 1966 they went up by Fl. 152 million, while the net foreign exchange position of the commercial banks deteriorated by Fl. 382 million.

The improvement in the balance of payments, the decline in the rate of increase of notes and

coin in circulation and finally a certain moderation in the expansion of lending led to a slight increase in bank liquidity in autumn and at the turn of the year. Bank lending to public authorities in particular rose less vigorously than a year before. Since January—and for the first time—the expansion of short-term advances to business and private customers has stayed within the limits set by the monetary authorities.

Although demand was still strong, the strains on the capital market showed a tendency to ease, and from November on this was reflected in a slight decline of the yields on bonds of public authorities.

2. Outlook

There is some degree of uncertainty about the economic outlook for the coming months, mainly because a great deal will depend on the economic policy decisions taken by the new Government formed after the elections of 15 February 1967.

It may be assumed, however, that in 1967 demand from abroad (in terms of actual exports of goods and services) will be the most expansionary component of overall demand. What was said on this point in the last Quarterly Survey (No. 4/1966) therefore still holds good. There is some indication that exports will prob-

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 | + 5.5 | + 6 | + 6.5 |
| Gross fixed asset formation | 15.38 | + 5.1 | + 9.4 | + 8 | + 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 |
| Gross national product | 61.83 | + 5.4 | + 11.0 | + 4.5 | + 10 | + 3 |
| Imports ⁽⁴⁾ | 30.89 | + 7.4 | + 7.7 | + 7 | + 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 worked out by the Commission and 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.

ably pick up again in the second half of the year, since demand may expand in a number of countries that import from the Netherlands and pressure to export will have mounted as a result of uncommitted supply being available out of domestic production. The CBS business surveys show that in recent months the flow of orders from abroad has not been unfavourable.

Domestic demand will probably expand appreciably more slowly than in the course of 1966; in the first half of the year it may well be that the rate of expansion—with seasonal variations left out of account—will even slacken off a little more from the rate observed in recent months. The main reason for this is an expected decline in the adjusted trend of gross fixed asset formation. The tendency for firms' productive investment to slow down, which started in autumn 1966, will probably continue. Public expenditure on investment may also fall off at the same time, though the slowdown may in fact be less substantial than would normally have been expected, particularly because funds have recently been made available for local authorities' capital expenditure with a view to combating unemployment in certain parts of the country. Lastly, investment in housing construction in general will probably be lower than in 1966, despite the measures of support for publicly assisted housing.

The expansionary influence exerted by investment in stocks on overall demand will probably weaken further during the coming months—not only because businessmen will still be pursuing a cautious policy regarding additions to stocks of raw materials and semi-manufactures but also because they are expected to try to run down stocks of finished goods that had built up involuntarily.

Lastly, the expansion of expenditure on consumption may slow down again. Although public current expenditure is likely to go on rising rather rapidly, if at a somewhat slower pace than in 1966, private consumers' expenditure will probably expand distinctly less than in 1966, both on a year-to-year comparison and in terms of the trend over the year. The wage bill will not rise as much as it did in 1966, since the authorities kept the increase down to 4 % when short-term collective agreements were renewed at the beginning of the year, plus 1.5 % to be granted towards the middle of 1967. And then it is likely that the slowdown

of economic activity will have quite a substantial effect on the total number of hours worked and also on households' incomes from entrepreneurship and property. The rise in disposable incomes will, however, slacken less appreciably than the rise in gross incomes, since the second income tax cut will become effective on 1 July 1967.

In view of the outlook for demand, there is no reason to expect that production, and more particularly industrial production, will grow at all vigorously. In industries where there is a structural tendency for the rise in production to remain vigorous, this rise may nevertheless be checked when the working week is shortened in mid-year under long-term collective agreements.

Advances in productivity will probably be sufficient to ensure some growth of production. This means that the number of unemployed will probably increase a little especially as the working population is growing substantially.

For the time being, imports will probably rise only very slowly; after the spring, however, a more distinct upward trend may set in again, mainly as a result of a slight recovery in imports of consumer goods and a more normal situation regarding raw material purchases.

Despite the slowdown in the expansion of demand, the considerable rise in the pressure of supply and the downward trend of world market prices, it is probable that the level of prices, particularly consumer prices, will still rise substantially, though probably less vigorously than in 1966. Not only must the cost increases brought about by the inflationary tendencies of recent years be expected to have continued repercussions: the increase in wage costs per unit of production is still going on too. Lastly, the increase in turnover taxes and rents scheduled for the middle of the year will also help to send up the cost of living.

The tendency since the third quarter of 1966 for the trade balance to improve again may gather additional momentum in the coming months.

These prospects tally more or less with the forecasts for the whole of 1967 set out in Quarterly Survey No. 4/1966. It is only with regard to the forecast of private consumers' expenditure that a slight downward revision

appears to be indicated. The real gross national product, however, may still be expected to rise by some 3 % from 1966 to 1967.

In recent months the orientation of short-term economic policy was marked by the stabilization efforts undertaken by the caretaker Government; the political parties had agreed on these efforts pending the formation of a new Government after the elections.

The most important measures taken by the caretaker Government have already been described: the proposed second cut in income tax was postponed from 1 January to 1 July 1967 and the increase in turnover tax originally scheduled for 1 January 1968 was brought forward to 1 July 1967; these dates may, however, be changed in the light of the economic situation. Endeavours were also made to check the expansion of current government expenditure; as a result of these measures of budget policy it is expected that the central Government will only make limited calls on the capital market and thus yield precedence to the local authorities. Lastly, the Government's incomes policy required wages to go up more slowly in 1967 than in 1966.

There is no doubt that this package of measures, if carried out, would accord fully with the EEC Council's recommendations of 22 December laying down guidelines for short-term economic policy in 1967 — except perhaps as regards incomes policy, which still allows wage increases to go too far ahead of advances in productivity.

In the meantime, however, there have again been new developments in the field of budget policy. The rise in government expenditure in 1966, for instance, turned out to be considerably higher than the figure that had been taken as a basis for the 1967 estimates. Partly for this reason but also partly because the estimates of expenditure were again exceeded, current expenditure in 1967 will probably be again higher than envisaged in the estimates. This is due in particular to higher public expenditure on wages and salaries and on certain measures of agricultural policy and to additional expenditure on unemployment benefits resulting from the slowdown of economic activity. In addition, new privileges (tax alleviations and grants) have been extended to private investment in certain regions. Apart from a further Fl. 100 million spent by the Government on private and public

building projects in particular, another Fl. 100 million was also made available to the local authorities. These measures are designed to combat unemployment, which is concentrated in various parts of the country. Only Fl. 100 million will be raised by corresponding savings in current government expenditure; the remaining Fl. 100 million is to be financed by the Bank voor Nederlandsche Gemeenten (Bank for Netherlands Municipalities) in anticipation of funds accruing out of pension schemes and held by the Treasury. On the other hand, local authorities' borrowing on the capital market in 1967 will continue to be centrally channelled through the Bank voor Nederlandsche Gemeenten and will thus be controlled by the authorities responsible for short-term economic policy. For the first time a ceiling has been set for the expansion of short-term bank credits to local authorities from January to April 1967.

On the revenue side there will be a shortfall of government receipts due to the fact that on account of the slowdown of business activity the country's total turnover and incomes are growing more slowly than estimated; the Government will also have to cover the loss of local authorities' tax revenue that is to be expected for the same reasons.

All in all, it is now probably unlikely that the 1967 budget deficit will really be as much smaller than the 1966 deficit as had been originally suggested. Further, it must be expected that the Government will finance much of the budget deficit by short-term borrowing since it is intended as far as possible not to resort to the capital market so that the local authorities and perhaps also enterprises may be able to draw on the capital market for financing their investments. Lastly, it is clear that any change in the dates on which the new tax measures will take effect could only lead to a further increase in the budget deficit.

Acting in agreement with the commercial banks, the Central Bank has maintained the quantitative restrictions on the expansion of short-term bank lending for the period from January to April 1967. The system of penalty deposits for exceeding the limits fixed for credit expansion has, however, been relaxed.

These latest tendencies of short-term economic policy in the Netherlands and the continued financing of part of the deficit by short-term borrowing are certainly justified to the extent

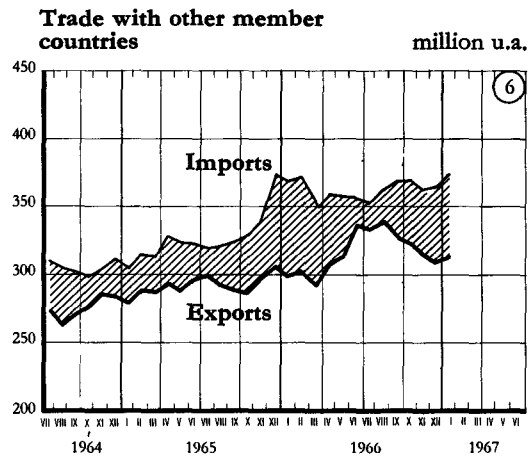
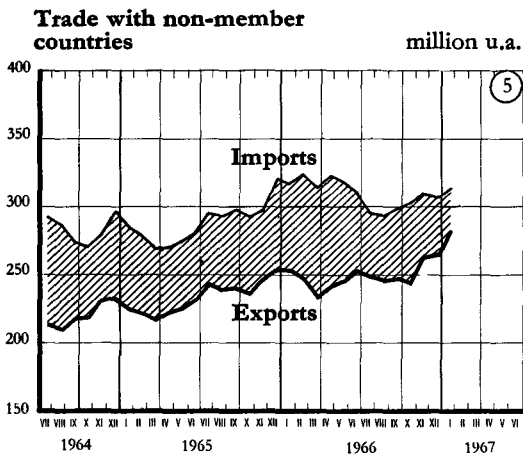
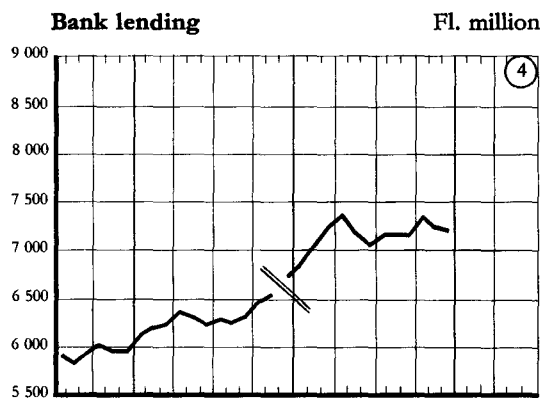
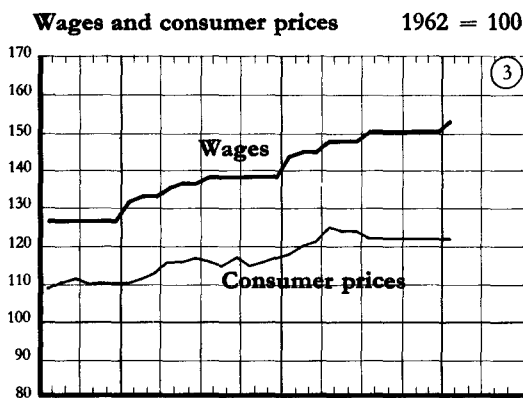
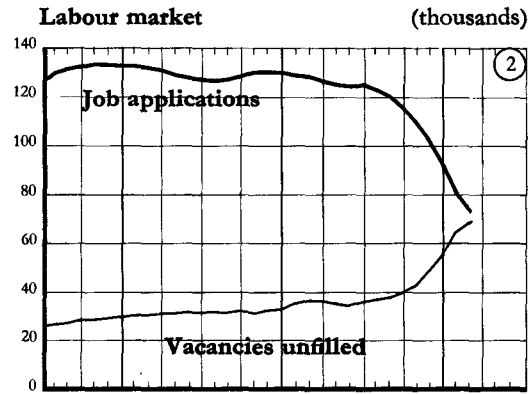
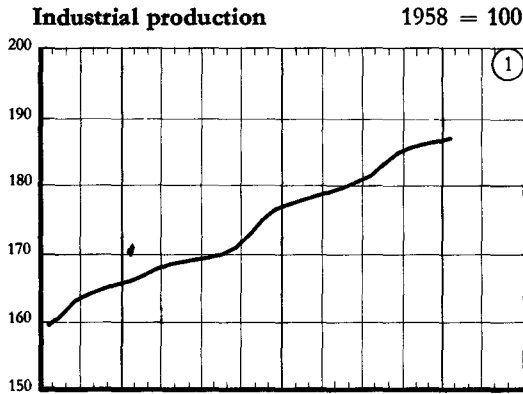
that they represent a reaction to the danger of too sharp a decline in investment, particularly by local authorities. Nevertheless, care must be taken not to go too far in supporting investment and accepting the budget's effect as a built-in stabilizer. Otherwise, the proposed stabilization of prices and unit costs may be seriously jeopardized.

In this respect, however, special problems have arisen in the Netherlands because incomes policy has not been brought properly into line with the other measures that influence demand. The still relatively high growth rates of wages allowed under the incomes policy—in part under the effect of existing long-term wage agreements which provide for annual wage increases that are too high—are liable to engender recessive tendencies, if the other components

of short term economic policy (i.e. budget policy and credit policy) create condition necessary for the stabilization of prices. In these circumstances, managements and unions should not exceed the decisions already taken on wage increases for 1967 and the authorities should begin discussions now with industry and the unions with the view to maintain in 1968 the expansion of wages within limits compatible with price stability and appropriate growth of the gross national product and of employment.

In the field of budget policy, efforts should be made to limit the expansion of current expenditure further, thus making funds available—non-inflationary funds—to finance public investment and measures designed to promote investment by enterprises.

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 gm. 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' expenditure | + 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 | + 7 | + 2 | + 2 | + 2.5 | + 7 | + 4 | 132 | — |

TABLE 3: Foreign trade (at current prices)

| | % change on preceding year | | | | | | | Indices 1958 = 100 | Million u.s. | % of the total |
|--|----------------------------|-------|-------|-------|-------|-------|-------|--------------------------|-----------------|----------------------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 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 | +18.2 | + 5.9 | + 7.5 | 221 | 3 018 | 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 | + 5.8 | + 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 | + 6.8 | +15.5 | +16.2 | + 3.5 | + 3.9 | 184 | 1 027 | 12.8 |
| Intra-EEC | +16.4 | +41.5 | - 7.0 | +11.8 | +22.0 | +13.1 | + 8.8 | 308 | 246 | 3.1 |
| From non-EEC countries | + 1.2 | - 1.0 | +10.0 | +16.3 | +14.9 | - 1.2 | + 2.5 | 163 | 781 | 9.7 |
| Imports of raw materials and manufactures | | | | | | | | | | |
| Total | +17.2 | +14.0 | + 4.3 | +11.0 | +18.6 | + 6.3 | + 8.0 | 223 | 6 991 | 87.2 |
| Intra-EEC | +18.8 | +20.0 | + 7.6 | +15.0 | +19.0 | + 7.8 | + 8.7 | 284 | 4 086 | 51.0 |
| From non-EEC countries | +15.6 | + 7.7 | + 0.7 | + 6.1 | +18.0 | + 4.2 | + 7.0 | 178 | 2 905 | 36.2 |

TABLE 4: Basic monthly indicators

| | Year | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Industrial production (1958 = 100) | 1965 | 157 | 159 | 159 | 163 | 166 | 164 | 145 | 147 | 165 | 177 | 179 | 174 |
| | 1966 | 165 | 168 | 174 | 178 | 176 | 176 | 149 | 162 | 175 | 186 | 188 | 184 |
| | 1967 | | | | | | | | | | | | |
| Investment (Fl. million) | 1965 | | | 3 744 | | | 4 283 | | | 4 224 | | | 4 581 |
| | 1966 | | | 4 100 | | | 4 916 | | | 4 913 | | | |
| | 1967 | | | | | | | | | | | | |
| Construction (Fl. million) | 1965 | | | 1 545 | | | 1 814 | | | 1 993 | | | 1 854 |
| | 1966 | | | 1 587 | | | 2 079 | | | 2 249 | | | 2 163 |
| | 1967 | | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |
| Total visible imports (million u.s.) | 1965 | 554 | 564 | 630 | 614 | 577 | 617 | 665 | 537 | 620 | 676 | 625 | 793 |
| | 1966 | 625 | 626 | 759 | 701 | 630 | 684 | 652 | 620 | 696 | 670 | 669 | 688 |
| | 1967 | 680 | 639 | | | | | | | | | | |
| Total visible exports (million u.s.) | 1965 | 477 | 489 | 532 | 506 | 501 | 554 | 543 | 438 | 596 | 594 | 557 | 611 |
| | 1966 | 500 | 470 | 572 | 570 | 544 | 612 | 549 | 498 | 632 | 598 | 616 | 593 |
| | 1967 | 601 | 532 | | | | | | | | | | |
| Balance of trade (million u.s.) | 1965 | - 77 | - 75 | - 99 | - 108 | - 76 | - 63 | - 121 | - 98 | - 24 | - 82 | - 68 | - 182 |
| | 1966 | - 125 | - 156 | - 188 | - 131 | - 86 | - 71 | - 103 | - 122 | - 64 | - 72 | - 58 | - 95 |
| | 1967 | - 79 | - 107 | | | | | | | | | | |
| Official gold and foreign exchange reserves (million u.s.) | 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 | 2 038 | 2 036 |
| | 1967 | 1 970 | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |

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.
- 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.
- Industrial production as % of GNP in 1961.

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

The slackening of demand from abroad was more distinct in the fourth quarter of 1966 than in the third. Despite the support given to economic activity by the continued buoyancy of fixed asset formation, the expansion of expenditure on consumption also slackened.

It would appear, however, that the chief sufferer from the sluggish trend in overall demand was the growth rate of imports; domestic production was not affected and continued to expand, though the pace was still very modest. Unemployment again increased slightly. Prices rose less vigorously than before, and the current balance of payments closed with a smaller deficit.

In the coming months there will in all likelihood again be a rather weak advance in overall economic activity, but during the second half of the year there could be some slight acceleration, provided the export trend improves further—and there are indications that it will—and provided the proposed increases in public investment and the promotion of private investment do not encounter any financing difficulties.

1. Recent developments

The upward trend in the exports of goods and services came practically to a standstill in the autumn of 1966. Visible exports in particular—both to Community countries and to others—tended to stagnate. In both groups of countries, the favourable influence exerted by countries where the expansion of domestic demand is lively (such as France and the United States) seems to have been more than offset by the unfavourable influence exerted by countries where domestic demand is slackening (such as the Federal Republic of Germany and certain EFTA countries). The foreign trade statistics show the value of visible exports in the fourth quarter of 1966 to have been only some 4.4 % higher than in the corresponding period of 1965, compared with a year-to-year rate of 5.8 % in the third quarter. At the same time the increase in receipts from services and factor income slackened.

The trend of gross fixed asset formation showed no noteworthy change in the last quarter of 1966, nor, it would seem, in the early months of 1967; all its components indicated that the rate of expansion remained appreciable. As before, it was foreign firms which provided most of the stimulus in productive investment by enterprises. In the sphere of public investment, some acceleration occurred in the placing of orders by the Government and by regional and local authorities. Finally, the housing figures reflected the sharp rise in the number of starts registered in the first half of 1966.

Investment in stocks increased further. Stock-building of raw materials and semi-manufactures slackened considerably, in line with the not very lively advance being shown by production; but in a number of industries there was an involuntary increase in the stocks of manufactures held by producers and dealers.

The expansion of consumer expenditure appears

to have slowed down slightly. This is certainly not true of public current expenditure on goods and services, which continued its rather vigorous increase, but the growth rate of private consumers' expenditure may have become somewhat weaker, total incomes from wages and salaries having risen at a slower rate than previously; one reason for this slower rise is that the increase in hourly wage rates has for some months past proved to be more modest, another is that the sliding wage scale came into play less frequently. In addition, the total number of hours worked is unlikely to have increased in recent months. Finally, personal incomes from entrepreneurship and property will have expanded less than hitherto. There was, on the other hand, a distinct increase in transfer incomes due to an appreciable rise in January in family allowances and unemployment benefits.

Despite the slackening in the growth of overall demand in terms of money, domestic production—adjusted for seasonal variations—may if anything have shown a somewhat more distinct increase, particularly as a result of a lively upward trend in construction. For the fourth quarter industrial production as shown in the INS Index was, it is true, only about the same as a year previously; attention should, however, be drawn to the fact that production of plant and machinery showed a further increase and, even more important, that a part of what is produced by new, often foreign-owned, establishments (which on the whole are developing quite favourably) is not covered by the Index.

The relatively favourable trend of domestic production despite the slower expansion of overall demand in money terms may be explained by the fact that imports have been distinctly quieter and that the rise in prices has slackened. Imports of goods and services, which in the early months of 1966 had shown a particularly brisk upward movement, fell off in the fourth quarter. According to the foreign trade statistics, the value of visible imports was only some 5 % higher than a year earlier, whereas in the third quarter the year-to-year rise had been 12.5 %.

In January/February, the unemployment rate, unadjusted and expressed as the percentage of fully or partially employable persons receiving unemployment benefit and seeking employment in the civilian labour force, was 1.9 % as against an average of 1.4 % for the fourth quarter of 1966 and 1.5 % in January/February

1966. In addition, the movement towards a shorter working week appears to be spreading.

The slackening that has occurred since mid-1966 in the pace at which general price levels have been rising may be attributed to various factors. The imposed prices for goods and services up to the end of December 1966 and the strict watch the authorities have kept on consumer prices since January 1967 have undoubtedly helped the price curve to flatten out. Then again the slower rise in unit labour costs, the drop in the prices paid for imported raw materials and the stabilization of wholesale prices for agricultural commodities all had a favourable effect. The general retail price index in the fourth quarter of 1966 was none the less 3.5 % higher than in the corresponding period of the previous year. In January-February 1967 the year-to-year growth rate fell back to 2.9 %; this, it is true, reflects in part the steep rise recorded in the same period of the preceding year.

Customs returns show that as a result of the change in import and export trends the deficit on trade for the fourth quarter of 1966 was not as high as that for the previous quarter. This improvement meant that the current payments deficit, which had stood at Bfrs. 2 900 million in the third quarter, was considerably reduced. Although there was a surplus on official capital transactions, a slight deficit on capital transactions as a whole meant that the overall balance of payments showed a deficit of Bfrs. 400 million, against Bfrs. 3 800 million in the previous quarter.

Domestic liquidity continued to expand. Bank lending increased briskly in the fourth quarter of 1966; although the increase did not exceed on 31 December 1966 the upper limit imposed by the National Bank. There was, furthermore, practically no deficit on foreign payments, and substantial short-term borrowing by the public authorities to meet budget deficits tended to increase liquidity.

As before, the cash deficit remained fairly high, and this may explain why the tendency for interest rates to fall, which began in November of last year, was not very marked in the period under review. The National Bank paved the way for lower interest rates by reducing the discount rate from 5.25 % to 5 % with effect from 2 February 1967.

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 | + 4.5 |
| 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 | + 6.5 |

⁽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.

2. Outlook

Although the first half of 1967 may be characterized by a fairly unstable economic situation, the business trend may become more favourable during the second half of the year.

This assumption is based on the likelihood that exports of goods and services will gain in strength. Since mid-1966 exports have been affected by the weakness of demand for Belgian produce evinced in certain countries, but the importance of this factor can be expected to diminish gradually. Furthermore the export situation should benefit considerably from the increase in production capacity planned in several important sectors (the iron and steel industry, chemicals, motor vehicles), from the further reduction in intra-Community duties which is to take place in the middle of the year, and

from the extension of measures to promote exports. The growth implied in this forecast is however based on the assumption that Belgian exports will be able to retain their share of foreign markets in 1967, and is therefore conditional on elimination of the tendency for the competitive position of Belgian industry to deteriorate.

The contribution made by domestic demand is unlikely to change much in the months ahead, but some slight slackening cannot be ruled out here.

Gross fixed asset formation will presumably increase further. Investment in the form of expenditure by enterprises for the completion of several important industrial projects may be expected to contract; against this, the regional subsidies provided for in the Law of July 1966,

the growing propensity to invest in non-industrial sectors and, finally, the probable fall in interest rates, should have a favourable effect; all in all, these factors should ensure the continued expansion of investment by enterprises. Furthermore, the Government intends to introduce new measures to stimulate economic activity—the effect of which is likely to be limited in 1967. While investment in housing could lose some of its buoyancy in the second half of 1967, public investment should increase further at a considerable, perhaps even a somewhat accelerated, pace.

The trend in stocks could well tend on balance to reduce production and imports in the months ahead, since towards the end of 1966 and early in 1967 stocks of finished goods had reached a level that was excessively high in relation to the growth rate of production. Once normal conditions have been restored, however, investment in stocks will, if anything, favour an increase in production.

Since the Government is concerned to reduce the rate at which its ordinary expenditure is expanding, and since it is possible that the sliding wage scale will come into play again only once, some time towards spring, public current expenditure on goods and services may increase somewhat less rapidly than in 1966. The expansion of private consumers' expenditure too may also be somewhat slower. The slower rise in the total wages bill and in income from entrepreneurship and property will inhibit the growth of disposable incomes of households. Transfer incomes alone may maintain a growth rate comparable with that registered in 1966.

Production will certainly continue to advance in the months ahead. Industrial production will benefit in particular from the continued expansion of building activity and the probable marked increase in agricultural production which will affect the food industry.

Until the current adjustment of stocks has been completed, imports of goods and services are likely to grow at a fairly sluggish pace.

As the tempo at which domestic production is likely to expand is relatively slow, the tendency for the situation on the labour market to ease may well persist. The unemployment rate could reach a level that might be considered to repre-

sent equilibrium—in overall terms at any event—and the introduction of counter-cyclical measures might be required should the rate rise beyond this level.

Although the relative slackness of demand and the probable lessening of pressure on costs mean that prices should develop at an easier pace than in 1966, it appears that the rate of increase will still be substantial, especially if the heavier indirect taxes and higher charges for public services which have been provisionally announced are in fact introduced. Inasmuch as these increases lead to a reduction in existing deficits, they need not be regarded as inflationary; but, in view of the existence of sliding wage scales which have not as yet been adjusted in the light of short-term economic policy, they do of course involve a risk of yet further price increases.

The trends forecast for imports and exports should lead to a further improvement in the trade balance and in the current balance of payments, which will, however, probably continue to show a deficit for the time being.

On the whole, recent developments and the outlook for the trend of economic activity are in line with the outlook for the full year 1967 given in the last Quarterly Survey (4/1966). Forecasts dealing with changes in the most important factors of demand require only slight downward revision, mainly in the case of stock-building. In 1967 the real gross national product may be some 2.5-3 % higher than in 1966.

As far as short-term economic policy is concerned, considerable relaxations in the sphere of monetary and credit policy were proposed for the first half of 1967. The quantitative restriction on credit expansion was indeed maintained—at the end of June 1967 the total amount of credit granted was not to be more than 118 % of the total figure at the end of 1965; but several types of loan for capital investment and export acceptance credits are now being left out of account. Furthermore, as already mentioned, the discount rate was reduced from 5.25 % to 5 % on 2 February 1967.

Furthermore, at the end of January the Government submitted for approval by Parliament a programme designed to stimulate economic expansion, to speed up structural improvements

and to place the central budget on a somewhat sounder footing.

Provision has been made for strengthening industrial investment, particularly through the creation of a special industrial adaptation fund, by placing additional funds at the disposal of the SNI (National Investment Company) and by offering incentives to fresh investments undertaken in the coming three years. Provision has also been made for increased export promotion by means of increased grants to the national export guarantee institution—"Office national du Ducroire"—interest subsidies, tax reliefs and so on.

Another section of the programme deals with increased taxation, higher charges for various services, and certain cuts in government expenditure to offset the shortfall in revenue caused by the economic situation and to release funds for the promotion of economic expansion. The increases in taxation which according to Treasury estimates should bring in at least Bfrs. 5 000 million in additional revenue in a full year, will however be staggered. Some of them will come into force immediately—increases in certain stamp duties and fees, an increase in the luxury tax, the removal of fire insurance premiums from the list of items deductible for income tax purposes. On the other hand, the timing of heavier taxation of corporations and individuals and higher taxes on cigarettes will depend on the trend of economic activity. Finally, an attempt is to be made to curb State expenditure by limiting government subsidies to health and invalidity insurance and expenditure from the budget on school-buildings and education.

At the time of writing, it is not possible to foretell when or to what extent this government programme will be put into effect. It is therefore impossible to estimate its effect on the economic situation in 1967.

Nevertheless, there is no denying that action of the kind envisaged in the government programme has become even more necessary in view of the slowdown in the growth of the GNP in terms of money. It should be remembered in this connection that when the 1967 budget estimates were first presented by the Government, the Commission expressed certain doubts in

these Quarterly Surveys particularly with regard to the estimates of how revenue would develop. On the expenditure side too, it was considered that steps might have to be taken if the very rapid expansion of current expenditure, which in 1966 amounted to some 15.5 %, was to be sufficiently held in check.

The line adopted in the Government's new programme appears to meet the requirements of the short-term economic policy that would seem to be appropriate in the light of the prospects outlined above—and to be consonant with the Council's recommendation to Member States concerning the guidelines for short-term economic policy in 1967. Implementation of the programme would reduce the deficit on the ordinary budget and ensure that overall government expenditure would be concentrated more on investment and measures to promote investment.

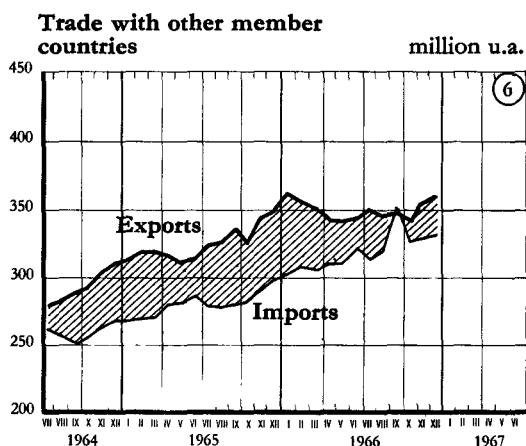
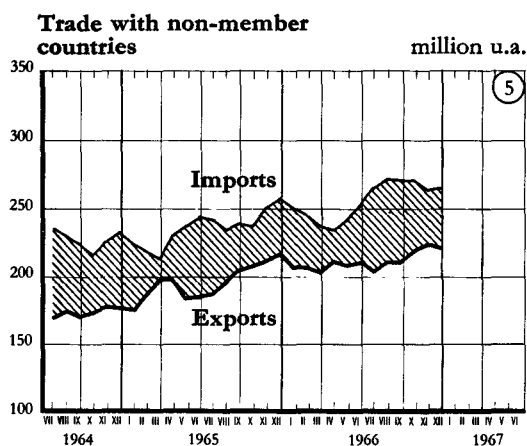
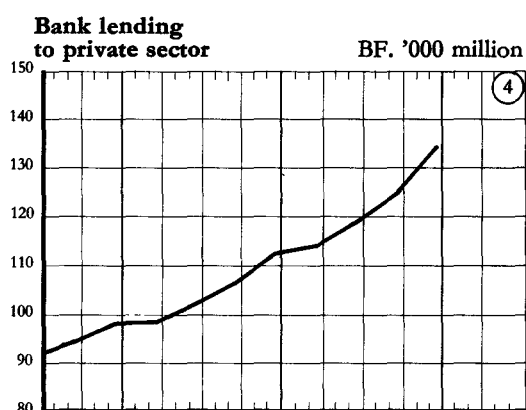
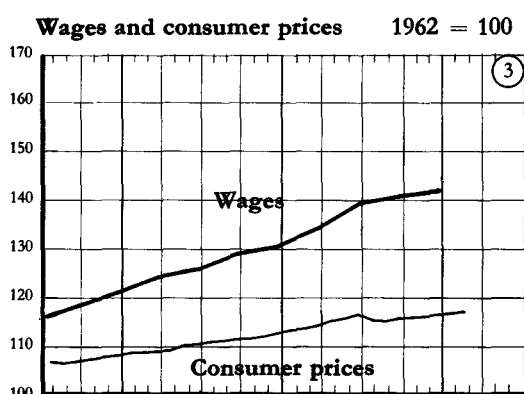
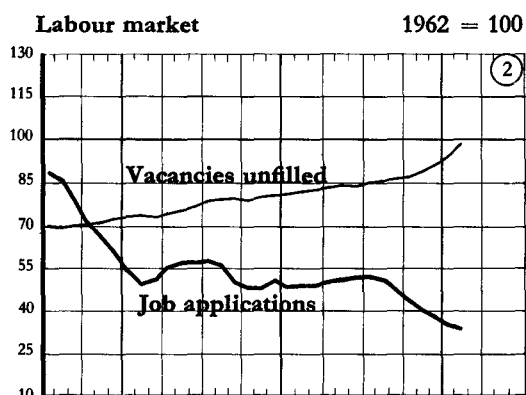
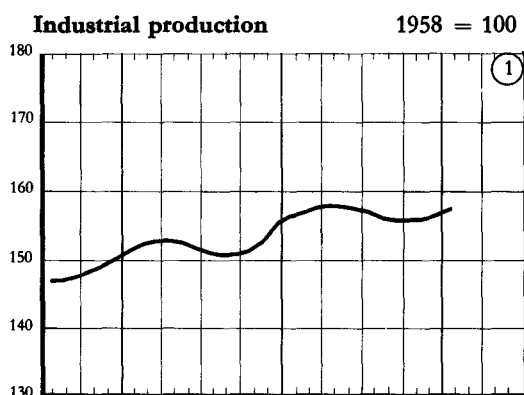
It might perhaps have been more appropriate, it is true, to introduce more stringent limitations on the growth of ordinary expenditure than those which apparently are proposed. It is open to question whether, in the absence of more stringent cuts in this expenditure, the measures proposed in the Government's programme, in so far as they improve the budget situation, will set free sufficient funds to finance the other part of the programme. All in all, it could well turn out that the budgetary situation is little different from that of the previous year. Expenditure which contributes directly or indirectly to consumption could continue to increase at a relatively rapid pace; but at least its financing will be assured by some of the measures proposed. Investment expenditure and measures to promote investment, on the other hand, will still have to be financed in the main by borrowing; how much is spent in this way will depend by and large on the ability of the capital market to supply the funds required.

There is a dilemma here. An increase in public investment and in aids to private investment would be opportune, for reasons both of short-term and of structural policy. At the same time, the opportunities for enterprises to borrow from outside sources must not be lessened by excessive government calls on the capital market; on the contrary, these opportunities must if anything be improved.

The task facing the authorities remains, then, a very delicate one, made all the more difficult by the fact that economic conditions vary from region to region, that the current payments account will certainly show a deficit once more in 1967, and that the trend of unit costs and prices is still far from satisfactory. Nevertheless, the economic trend and the development of the

labour market situation seem to bring closer the moment when a further relaxation of monetary and credit policy may be possible; this in turn would pave the way for increased public and private investment; but there will be very little room for manoeuvre in credit policy until the public budgets have really been put on a sound footing.

ECONOMIC INDICATORS



NOTES :

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

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

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

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

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

Graphs 5 and 6. B.L.E.U., series adjusted for seasonal and accidental variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rates. 1 unit of account = 0.888671 gm. 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) | 9 464 |
| Density of population per sq. km. | 310 |
| Numbers in employment ('000) | 3 765 |
| Numbers in employment, breakdown by main sector (%) | |
| — Agriculture | 5 |
| — Industry | 42 |
| of which : Construction | 8 |
| — Services | 53 |
| Percentage share of gross domestic product : | |
| — Agriculture | 6.2 |
| — Industry | 41.7 |
| of which : Construction | 6.9 |
| — Services | 52.1 |
| 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 |
|--|---|-------|-------|-------|-------|-------|-------|--------------------------------------|--|
| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1965 | 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 | + 7.6 | + 4.9 | +10.8 | + 2.3 | | |
| Total imports | +12.2 | +12.4 | + 7.0 | + 6.8 | + 8.0 | +11.1 | + 7.8 | 186 | 38.0 |
| Private consumers' expenditure | + 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 | + 2.8 | + 5.7 | + 4.3 | + 4.2 | + 4.1 | + 5.7 | + 2.2 | 133 | — |

TABLE 3: Foreign trade (at current prices)

| | % change on preceding year | | | | | | | Indices (1958 = 100) | Million u.a. | % of the total |
|--|-------------------------------|-------|-------|-------|-------|-------|-------|----------------------------|-----------------|----------------------|
| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1965 | 1965 | 1965 |
| Visible exports | | | | | | | | | | |
| Total | + 7.9 | +14.7 | + 8.9 | +10.2 | +11.9 | +15.5 | +14.2 | 209 | 6 882 | 100 |
| Intra-EEC | +10.5 | +25.2 | + 9.7 | +17.7 | +19.6 | +19.0 | +12.8 | 287 | 3 947 | 61.8 |
| To non-EEC countries | + 5.7 | + 5.3 | - 1.7 | + 1.9 | + 1.6 | +10.3 | +16.5 | 145 | 2 435 | 38.2 |
| Exports of food, beverages and tobacco | | | | | | | | | | |
| Total | + 0.5 | + 6.3 | +15.6 | +29.6 | +29.6 | + 3.2 | +31.5 | 281 | 480 | 6.7 |
| Intra-EEC | +14.8 | +11.8 | +18.7 | +31.2 | +30.7 | + 5.2 | +31.6 | 361 | 318 | 5.0 |
| To non-EEC countries | -18.9 | - 4.4 | + 8.7 | +25.7 | +26.8 | - 2.1 | +31.3 | 174 | 112 | 1.7 |
| Exports of raw materials and manufactures | | | | | | | | | | |
| Total | + 8.4 | +14.9 | + 8.4 | + 9.2 | +10.9 | +16.4 | +13.1 | 205 | 5 952 | 93.3 |
| Intra-EEC | +10.4 | +26.1 | + 8.9 | +16.7 | +18.8 | +20.1 | +11.4 | 281 | 3 630 | 56.9 |
| To non-EEC countries | + 6.9 | + 5.6 | - 2.0 | + 0.9 | + 0.7 | +10.8 | +15.8 | 144 | 2 322 | 36.4 |
| Visible imports | | | | | | | | | | |
| Total | + 9.8 | +15.0 | + 6.6 | + 8.0 | +12.2 | +15.9 | + 7.6 | 203 | 6 373 | 100 |
| Intra-EEC | +10.9 | +16.8 | +12.7 | + 8.9 | +15.5 | +17.5 | +10.1 | 238 | 3 473 | 54.5 |
| From non-EEC countries | + 8.8 | +13.3 | + 1.0 | + 7.1 | + 8.8 | +14.0 | + 4.8 | 173 | 2 900 | 45.5 |
| Imports of food, beverages and tobacco | | | | | | | | | | |
| Total | + 6.6 | + 1.6 | + 0.1 | +11.0 | + 9.0 | +16.8 | +15.2 | 176 | 326 | 13.0 |
| Intra-EEC | +13.2 | + 4.2 | + 7.4 | + 8.2 | +17.2 | +16.3 | +22.5 | 217 | 339 | 5.8 |
| From non-EEC countries | + 3.4 | + 0.1 | - 4.0 | +15.9 | + 4.3 | +17.2 | +10.6 | 156 | 487 | 7.7 |
| Imports of raw materials and manufactures | | | | | | | | | | |
| Total | +10.4 | +17.1 | + 7.6 | + 7.6 | +12.7 | +15.7 | + 6.6 | 208 | 5 548 | 87.0 |
| Intra-EEC | +10.6 | +18.4 | +13.3 | + 9.4 | +15.4 | +17.6 | + 8.9 | 240 | 3 134 | 49.2 |
| From non-EEC countries | +10.2 | +15.9 | + 1.9 | + 5.6 | + 9.6 | +13.4 | + 3.7 | 177 | 2 414 | 37.8 |

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 | 145 | 145 | 160 | 152 | 146 | 158 | 118 | 147 | 162 | 156 | 152 | 159 |
| | 1967 | | | | | | | | | | | | |
| 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 | 160.1 | | | |
| | 1967 | | | | | | | | | | | | |
| Construction (1962 = 100) | 1965 | 86.3 | 82.1 | 107.0 | | 111.4 | 121.4 | 79.9 | 116.8 | 121.4 | 120.5 | 96.9 | 102.3 |
| | 1966 | 68.1 | 97.3 | 117.6 | 117.5 | 106.9 | 118.9 | 71.1 | 117.8 | 122.6 | 112.7 | 109.8 | 100.7 |
| | 1967 | | | | 108.8 | | | | | | | | |
| Private consumers' expenditure (1961 = 100) | 1965 | 126.1 | 126.4 | 131.2 | 134.5 | 137.0 | 135.3 | 134.9 | 133.0 | 133.0 | 135.8 | 136.8 | 141.8 |
| | 1966 | 134.8 | 136.1 | 140.0 | 145.7 | 140.1 | 146.6 | 143.4 | 144.5 | 149.6 | 142.9 | 146.9 | |
| | 1967 | | | | | | | | | | | | |
| Total visible imports (million u.a.) | 1965 | 463 | 477 | 565 | 567 | 524 | 528 | 516 | 457 | 564 | 573 | 590 | 630 |
| | 1966 | 531 | 569 | 634 | 569 | 600 | 626 | 529 | 600 | 610 | 627 | 616 | 641 |
| | 1967 | | | | | | | | | | | | |
| Total visible exports (million u.a.) | 1965 | 482 | 519 | 571 | 507 | 484 | 551 | 513 | 432 | 586 | 552 | 576 | 612 |
| | 1966 | 493 | 528 | 625 | 560 | 558 | 629 | 523 | 476 | 621 | 601 | 594 | 621 |
| | 1967 | 574 | | | | | | | | | | | |
| Balance of trade (million u.a.) | 1965 | + 19 | + 42 | + 6 | - 56 | - 40 | + 23 | - 3 | - 25 | + 22 | - 21 | - 14 | - 18 |
| | 1966 | - 38 | - 41 | - 9 | - 9 | - 42 | + 3 | - 6 | - 124 | + 11 | - 26 | - 22 | - 20 |
| | 1967 | | | | | | | | | | | | |
| Official gold and foreign exchange reserves (million u.a.) | 1965 | 2 000 | 2 006 | 2 002 | 2 026 | 2 010 | 2 000 | 2 010 | 2 023 | 2 018 | 2 010 | 2 010 | 1 996 |
| | 1966 | 1 968 | 1 946 | 1 956 | 1 954 | 1 950 | 1 950 | 1 964 | 1 956 | 1 926 | 1 960 | 1 956 | 1 952 |
| | 1967 | (1 986) | (1 938) | | | | | | | | | | |
| Money supply | 1965 | 289.2 | 289.3 | 292.9 | 299.0 | 301.1 | 309.5 | 304.9 | 301.9 | 306.4 | 307.4 | 308.8 | 318.6 |
| | 1966 | 310.2 | 307.0 | 314.6 | 319.8 | 323.2 | 329.3 | 329.6 | 324.3 | 322.4 | 324.0 | 327.4 | 339.7 |
| | 1967 | 325.0 | | | | | | | | | | | |

() 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 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: 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

The expansion of demand clearly slowed down in the final months of last year. The fact that the development of domestic demand became less buoyant may well have been a decisive factor here. Demand from abroad on the other hand increased further, though at a relatively modest rate.

No noteworthy change in the trends shown by the overall demand can be expected in the months ahead, chiefly because of the rather unfavourable outlook for the future development of gross fixed asset formation.

1. Recent developments

Exports showed a further slight increase in the last quarter of 1966, after adjustment for seasonal and fortuitous variations. Iron and steel products, which had been particularly slack in the early months of the year, appear to have recovered steadily since then; the improvement, however, must have been achieved by running down the backlog of orders, as the flow of orders received was probably unchanged in the last quarter of 1966. Exports of chemical products and electricity also increased further. These tendencies—to judge at least from information available at the time of writing—may have carried through into the early part of 1967.

Of the elements constituting gross fixed asset formation, expenditure by the public authorities on construction and on plant and equipment has been slightly less buoyant in recent months; expenditure on housing, too, seems to have become more hesitant; on the other hand, the propensity to invest of enterprises may not have changed appreciably, and is likely to have been still comparatively weak in the fourth quarter of 1966.

Private consumers' expenditure continued to expand if at a somewhat more modest pace. Despite the fact that the total number of hours worked has been virtually unchanged for some time past, income from wages and salaries rose again under the influence of further increases—

now somewhat more limited—in wage and salary rates; besides, the sliding wage scale came into play again in September. Transfer incomes also increased once more.

Towards the end of 1966, production began to improve very slowly, largely because the underlying trend in the iron and steel industry does not seem to have deteriorated further. Nevertheless, overall industrial production in the fourth quarter of 1966—as defined for the official index, which does not include the output of certain newly-established enterprises, which are on the whole developing quite well—was some 3.7 % below that for the same period last year.

The growth of imports has slowed down distinctly since the summer, mainly because the heavier demand for raw materials caused by the establishment of new undertakings has levelled off.

The numbers employed in the longer-established sectors of industry (the steel industry and mining) fell again; for the first time the numbers employed in the new industries were also slightly down. The situation of the labour market therefore showed certain signs of easing in recent months, although the difficulties in certain skilled trades were still quite considerable.

The movement of prices towards the end of 1966 and at the beginning of 1967 was very limited; in the fourth quarter the official cost-of-living index was some 2.2 %, and in the first quarter no more than 1.8 % higher than in the

corresponding periods a year earlier; but here the relatively healthy situation was due to the fall in food prices, which had reached a peak in the summer months. As before there were fairly appreciable rises in the price of industrial goods and in the cost of services.

2. Outlook

A continued moderate expansion of exports may be expected in the months ahead, thanks in no small measure to the recent improvement in orders from abroad, particularly for iron and steel products.

Information regarding productive investments by enterprises and investment in housing which has come to hand since the publication of the last Quarterly Survey (No. 4/1966) indicates that no improvement in the trend of gross fixed asset formation can be expected. A slackening is also to be expected in the growth of public investment, and this too will militate against an improvement in gross fixed asset formation; how far this slackening goes will depend on the extent to which the restrictive budget policy announced in January is put into effect.

Private consumers' expenditure is likely, in view of the trends forecast for employment and for incomes, to increase further in the next few

Demand for and supply of goods and services

| | 1964 ⁽¹⁾ | 1965 ⁽²⁾ | | 1966 ⁽²⁾ | | 1967 ⁽²⁾ |
|--|-------------------------------------|----------------------------|-------|---------------------|-------|---------------------|
| | At current prices (in Lfrs million) | % change on preceding year | | | | |
| | | Volume | Value | Volume | Value | Volume |
| Exports ⁽⁴⁾ | 25 717 | + 4.5 | + 3 | + 3.5 | + 3 | + 4 |
| Gross fixed asset formation | 11 100 | — 18 | — 16 | — 6.5 | — 3.5 | — 0.5 |
| Public current expenditure on goods and services | 3 521 | 0 | + 6 | + 2.5 | + 9 | + 2 |
| Private consumers' expenditure | 18 736 | + 3 | + 7 | + 3 | + 7 | + 2.5 |
| Gross national product | 31 596 | + 1.5 | + 3 | + 2 | + 4 | + 2.5 |
| Imports ⁽⁴⁾ | 27 478 | — 0.5 | + 0.5 | + 2 | + 4 | + 2.5 |

⁽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.

months. Incomes from wages and salaries and other incomes of households should increase too, especially since the sliding wage scale may come into play again towards the middle of the year and the minimum wage rate is to be raised at the beginning of September; pensions and family allowances are also likely to be increased, though the exact date when this will happen is not yet known.

Production, especially industrial production, may well show only a moderate increase in the coming months. The expansion of the volume of imports too may prove to be decidedly sluggish.

In view of these prospects for economic activity in general, no great change can be expected in the overall situation on the labour market. In the building trades sector, however, the gap between unfilled vacancies and job applications may be reduced.

The slackening in the upward movement of import prices may indeed affect price trends as the year advances, but the internal factors which are pushing prices up may well remain pretty strong. In particular, the reduction of certain agricultural subsidies and the likelihood of heavier indirect taxes could lead to a rise in the cost of living.

All in all, a short-term economic policy directed towards the stabilization of prices and—even more important—of unit costs would seem to be indicated, as such a policy would improve conditions for the growth of the economy in general and of investment in particular. At the same time, it should aim directly—above all through the use of budgetary measures—at improving the pattern of expenditure in the economy as a whole, giving it an investment bias.

In February the Government published guidelines for its budgetary operations in 1967. These will entail certain changes in the budget estima-

tes; on the expenditure side, the estimates for ordinary expenditure have been cut by 2 % and those for extraordinary expenditure by 4.5 %; on the receipts side there is an increase in the tax on light mineral oil and fuel oil, and in certain road vehicle taxes. Finally, provision is made for higher postal and telephone charges.

Only part of the money made available by these measures is to be used to reduce the high overall deficit, which is to be financed by borrowing. The greater part of the available funds will be used to increase transfer expenditure, thereby improving family allowances and—in accordance with the decisions taken in 1964—pensions.

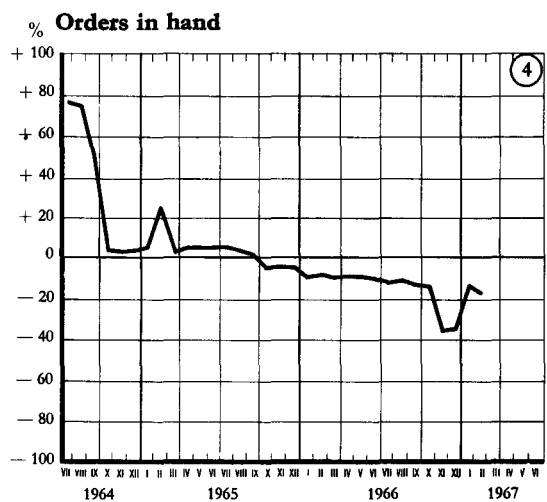
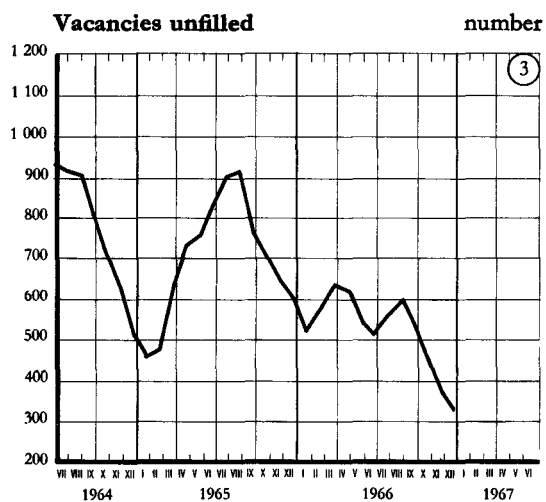
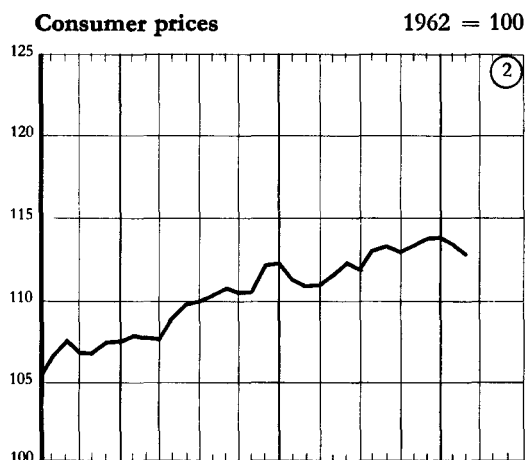
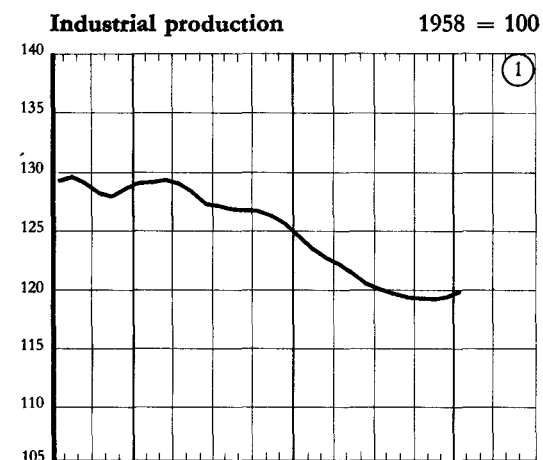
To the extent that these measures do in fact reduce the deficit on the overall budget, this policy is in keeping with the guidelines contained in the recommendation on short-term economic policy made by the Council on 22 December 1966.

Despite efforts to limit expenditure, the reductions now proposed may, however, prove to be ineffective, or only partly effective, since only some of the budget items having no upper limit have been withdrawn. Furthermore, it does not seem that the pattern of expenditure will be improved in a way that would be desirable on short-term economic policy grounds—that is to say, in favour of investment—unless of course this tendency is offset by increased expenditure from the “Fonds spéciaux”, with appropriate arrangements for its financing. In this connection, early action to extend the validity of the outline law on economic matters (“Loi cadre économique”) also seems to be desirable.

Finally, a watch must be kept on prices to ensure that their upward trend is not unduly reinforced by the proposed increases in indirect taxation.



ECONOMIC INDICATORS



NOTES:

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

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

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

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

Graph 4. Source: EEC business survey.

Grand Duchy of Luxembourg

TABLE 1 : Basic data (1965)

| | |
|--|------|
| Total area ('000 sq. km.) | 2.6 |
| Total population ('000) | 332 |
| Density of population per sq. km. | 128 |
| 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 | | | | | | | | | | | |
| Crude steel production ('000m.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 | | | | | | | | | | |
| Construction (1958 = 100) | 1965 | 48 | 55 | 82 | 103 | 110 | 102 | 105 | 100 | 96 | 93 | 76 | 58 |
| | 1966 | 45 | 53 | 91 | 99 | 101 | 101 | 96 | 95 | 94 | 87 | 73 | 54 |
| | 1967 | 39 | | | | | | | | | | | |
| 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 | | | | | | | | | | |
| 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 | | | | | | | | | |

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.

Trends in industrial wages, productivity and wage costs

Introduction

Every year since 1962 the Commission's Quarterly Surveys on the economic situation in the Community have included an Annex showing the trends of wages, labour productivity, wage costs per unit of value added, and the implicit price deflator for industry (including building and construction), not only in the member countries but also in the United States and the United Kingdom. The reader should therefore refer to earlier Surveys ⁽¹⁾ for explanations of the methods of presentation and calculation.

Here we need only recall that the statistical data have as far as possible been taken from national accounts, in order to ensure a sufficient degree of international comparability. In this connection, however, it should be remembered that, while trends in the indices can be compared from one country to another, their absolute levels cannot; the importance of this qualification is heightened by the fact that even the relationship between the various levels in the base year (1958) is not necessarily "correct". Moreover, the curves are based on calculations in national currencies, and some of the exchange rates have been altered since 1958.

The trend of wages is expressed as the change in gross income from paid employment per person employed, including the social insurance contributions paid by the employer. For the first time, this also applies to Germany—where the calculations for previous years had to be based on the gross figure paid out for wages and salaries. For Belgium, however, separate figures are still not available for incomes from paid employment in the various branches of

economic activity; the index given by the Banque Nationale de Belgique for the wage bill has therefore been used in this case.

Labour productivity has been reckoned as the gross value added at constant prices per person in paid employment. For the United States, however, the Federal Reserve Indices of industrial production have this time been taken as the basis, because no unbroken sequence of figures was available for value added. Unfortunately, the statistics on hours worked in the Community countries are still incomplete, so that neither the trend of wages nor that of labour productivity could be calculated per hour worked. In particular, this makes it more difficult to interpret the events of the last few years, in which variations in the level of business activity have caused considerable changes in the number of hours actually worked in most countries.

It should also be noted — and this applies not only to labour productivity but also to the other items—that the charts reflect the actual trend but offer no information as to the reasons for it. The increase in labour productivity, as expressed in the charts, is merely an arithmetical calculation based on the two factors, trend in value added at constant prices and trend of the numbers in paid employment. It remains, of course, extremely doubtful whether an improvement in labour productivity can reliably be ascribed to individual factors such as increased effort, better organization, technical progress, or the like.

Labour costs per unit of gross value added are also calculated from two factors, the trend in wages and the trend in labour productivity; to obtain the relevant figure, total incomes from paid employment are divided by gross value added (at constant prices) or, alternatively, income from paid employment per person employed is divided by gross value added (at constant prices) per person in paid employment.

⁽¹⁾ See, in particular, the Annexes to Quarterly Surveys Nos. 2/1962 and 1/1963.

The "implicit price index" reveals the extent of the difference between the trends in value added at current and at constant prices respectively. It should be borne in mind that this index cannot be regarded as representative for the price trend of the end-products, since it cannot express changes in the prices of goods and services supplied to industry from outside.

Developments in 1966 ⁽¹⁾

According to calculations and estimates possible at present labour costs per unit of value added continued to rise rapidly in Germany, Belgium and the Netherlands, whereas they began to slow down perceptibly in France, and showed a noteworthy stability only in Italy.

The favourable development in Italy was due less to the trend in wages ⁽²⁾ than to an extraordinary improvement in labour productivity (up by 9 %). ⁽³⁾ This increase is particularly remarkable because productivity had already gone up very steeply (by 8 %) in the previous year; its vigorous growth-rate was partly due to developments in the average number of hours worked per person in paid employment: the figure for this variable is estimated to have been 2 % higher than the—relatively low—level of 1965.

In France, the trend was also quite favourable. To be sure, wages went up by approximately 8 %, as in 1965, but here too the upswing in business activity led to a perceptibly faster advance in productivity (which reached 5.5 %), so that, on balance, labour costs per unit of value added rose relatively little.

In Germany, on the other hand, labour costs per unit of value added continued to mount vigorously, but their increase was even more vigorous in Belgium and the Netherlands. If the components of this increase (wages and labour

productivity) are considered separately, it is clear that wages in these countries have gone up about twice as fast as labour productivity. Wages rose by approximately 7.5 % in Germany, 8.5 % in Belgium and 10.5 % in the Netherlands, whereas the improvement in labour productivity during the same period was respectively only 3.5 %, 4 % and 5.5 %.

The above rates of change are the estimated averages for the full year 1966 compared with 1965. If the short-term trend, i.e. the development during the course of the year, is taken into account, it will be seen that there has been a more or less marked reversal of trends, particularly in Germany and Italy. In Germany, the advance of productivity eased in the second half of 1966, while the advance in wages eased even more noticeably. In Italy, the advance in productivity appears to have slackened more and more as the year went on, because limits were set to any further extension of working hours and the degree to which technical production capacities were utilized became more normal; it is therefore likely that in the second half of 1966 labour costs per unit of value added will again have tended to go up slightly.

In Germany, the Netherlands and Belgium, the rise in labour costs per unit of value added will probably continue to slow down, mainly as a result of some reduction in the upward thrust of wages. In France and Italy, on the other hand, the increase may perhaps be rather stronger than in the past year, chiefly because less progress is likely to be made in productivity and also because wages may start to rise slightly faster.

In 1966, developments in the non-member countries considered here—the United Kingdom and the United States—reflected the fact that wages went up more than productivity. In the United Kingdom there was, to be sure, a perceptible slackening in the upward trend of wages (approximately 5.5 %), but in view of the minute improvement in labour productivity (about 1 %) this was not sufficient to prevent labour costs per unit of value added from rising vigorously—as in 1965; the increase was about on the same scale as in Germany, Belgium and the Netherlands. In the United States, wages went up more rapidly than before (about 5 %), and the advance in productivity slowed

(1) The changes are given to the nearest half per cent.

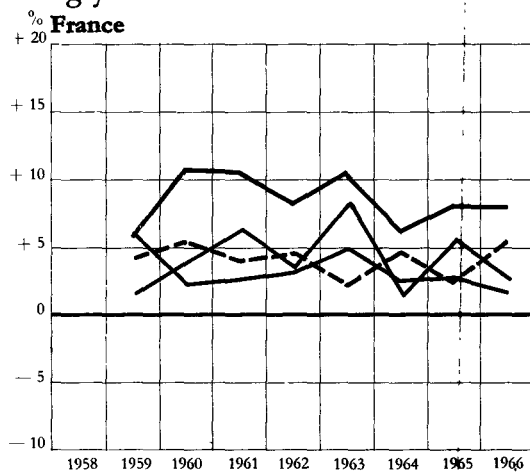
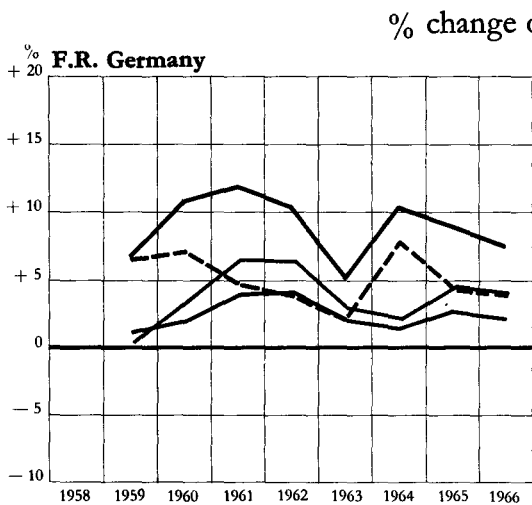
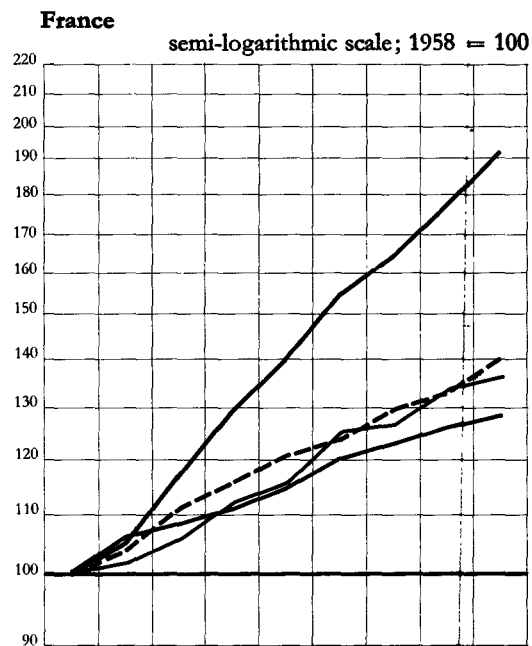
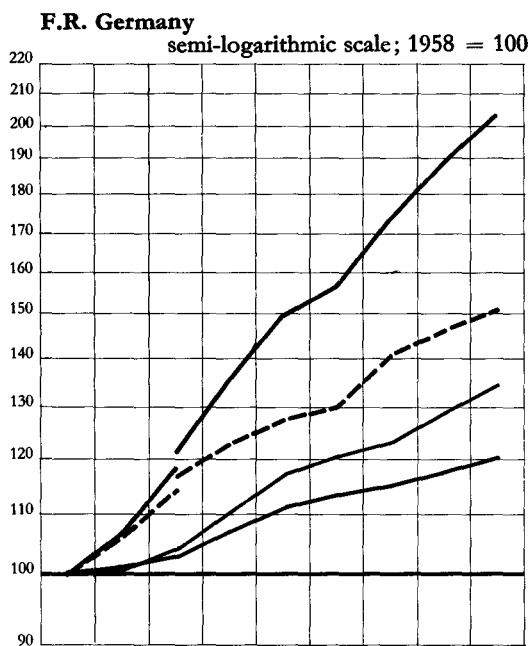
(2) In what follows, "wages" should be taken to mean incomes from paid employment per person employed.

(3) By "labour productivity" is meant the value added (at constant prices) per person in paid employment.

down (to approximately 3.5 %); this was, of course, largely due to the excessive demand that has been noticeable in this country at least

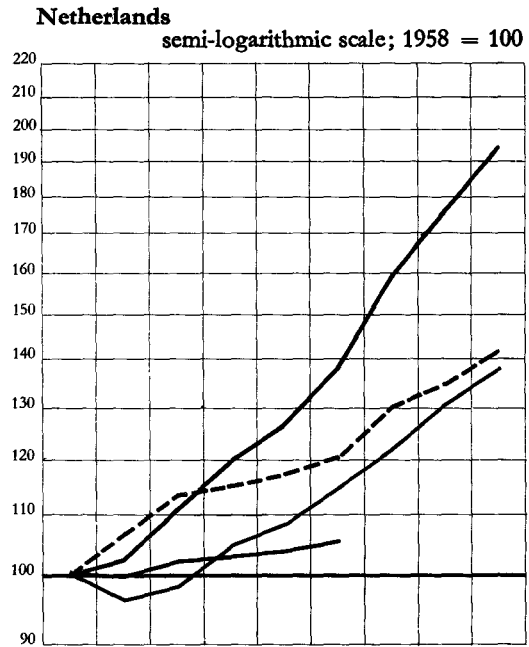
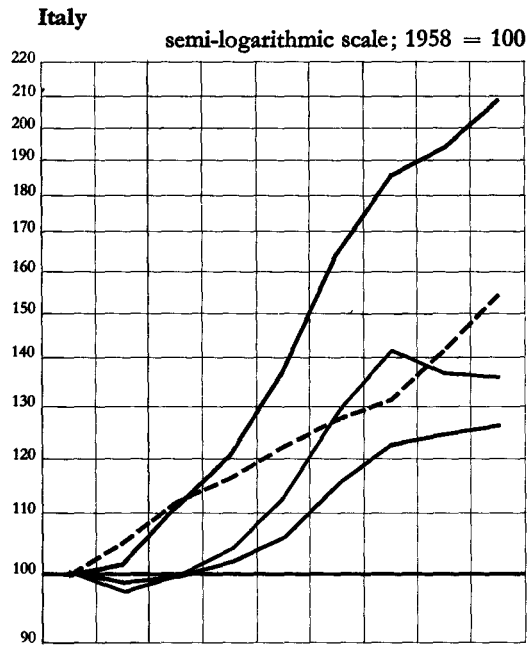
from time to time, and to the very high rate—the highest for twelve years—at which production capacity was being utilized.

WAGES, PRODUCTIVITY AND LABOUR COSTS IN INDUSTRY

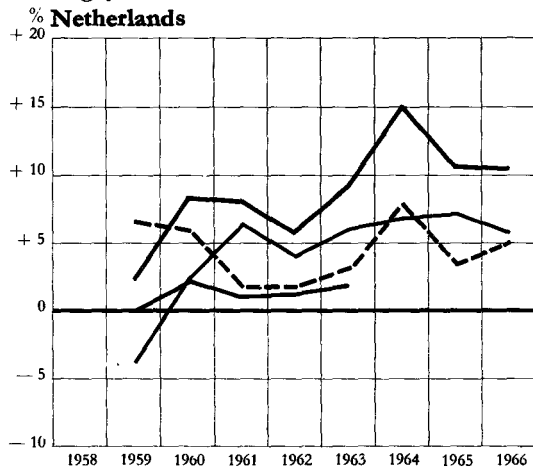
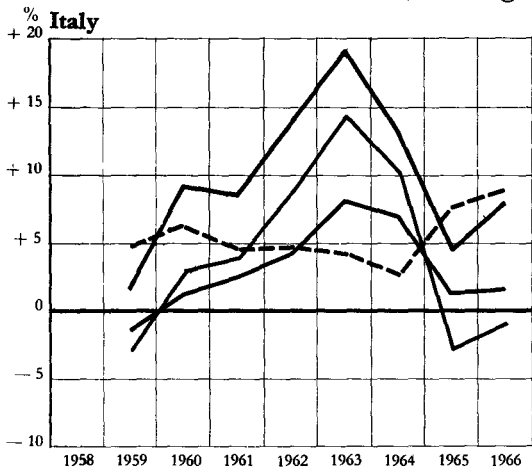


- Compensation of employees per head
- - - - - Gross value added (in 1958 prices) per employee
- Labour costs per unit of gross value added
- Implicit price index

WAGES, PRODUCTIVITY AND LABOUR COSTS IN INDUSTRY

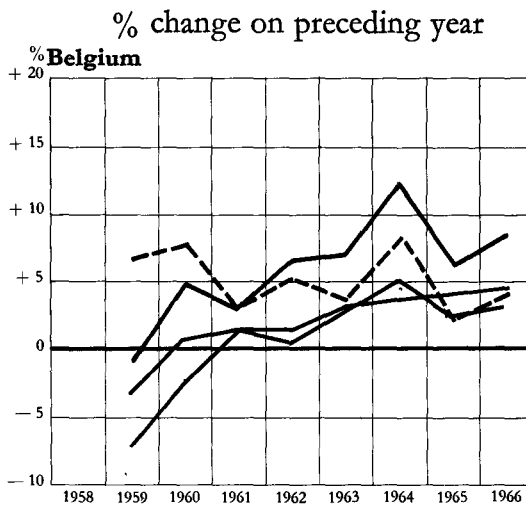
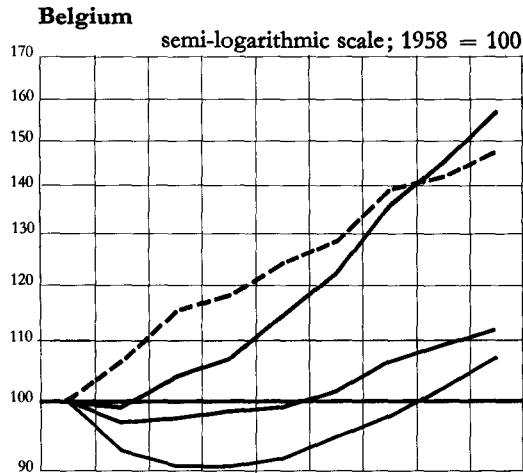


% change on preceding year



N.B. : The magnitudes represented in the graphs are expressed in national currencies.

WAGES, PRODUCTIVITY AND LABOUR COSTS IN INDUSTRY

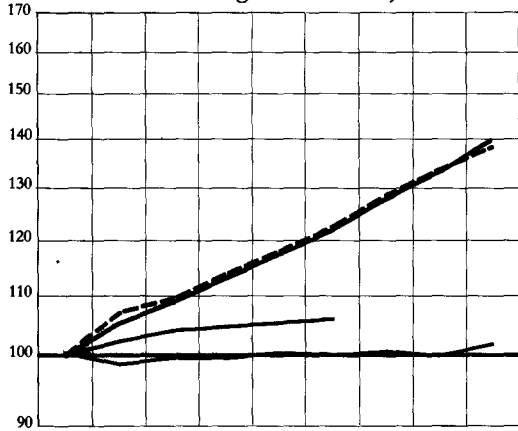


- Compensation of employees per head
- - - Gross value added (in 1958 prices) per employee
- Labour costs per unit of gross value added
- Implicit price index

WAGES, PRODUCTIVITY AND LABOUR COSTS IN INDUSTRY

United States

semi-logarithmic scale; 1958 = 100



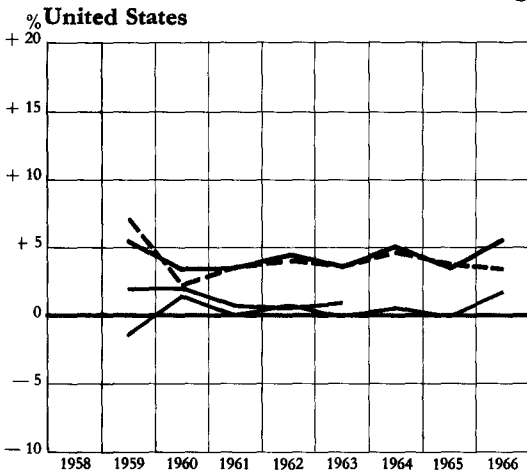
United Kingdom

semi-logarithmic scale; 1958 = 100

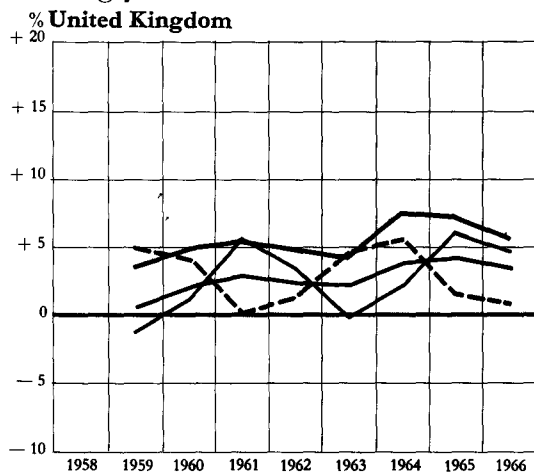


% change on preceding year

United States



United Kingdom



N.B. : The magnitudes represented in the graphs are expressed in national currencies.

