European Communities

Commission

Directorate-General for Economic and Financial Affairs

The economic situation in the Community

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1971

Quarterly survey

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

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EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

MARCH 1971

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Note :
This survey was completed around mid-March 1970. As regard the most recent developments and where it has not been possible to take them into account because of the pace at which national statistics are prepared and the time it takes to publish the survey in five languages, the latest issue of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

In the past few months, the main features of the economy in the Community have been a still considerable expansion of overall demand in money terms, a slowdown in real economic growth, and a persistently strong upward thrust of wages and prices.

Seasonally adjusted, visible exports to non-member countries as a whole hardly rose any more at all in the fourth quarter and at the beginning of 1971. The main reason for this was economic weakness in some major importing countries, particularly those belonging to EFTA, Spain, Japan and the State-trading countries. In part, however, it may also reflect a loss of competitive strength due to the sharp rise of costs in the Community.

Internal demand in the Community, by contrast, continued to advance fairly briskly. This applies most of all to private consumers' expenditure, which climbed at a faster pace in almost all member countries, mainly in response to the unusually steep increase in incomes, particularly wages. The propensity to invest of entrepreneurs, on the other hand, declined, as the tendency for stocks to be run down continued until the turn of the year and corporate spending on plant and machinery also slowed down, with Italy the only exception.

The growth of production slackened. From the third to the fourth quarter, industrial production in the Community as a whole went up by 1%. At the beginning of 1971, however, the rise may have gathered some momentum again. Imports have continued to expand vigorously in recent months.

While the number of persons in paid employment has been rising further, the strains on the Community's labour market have eased somewhat. In the past few months, unemployment has gone up slightly almost everywhere, and there has been more short-time working. In addition, the number of unfilled vacancies has fallen in most member countries.

Although the discrepancy between overall demand in money terms and supply of goods in real terms narrowed, the upward thrust of prices remained very vigorous, both at producer and at final consumer level. This was mainly because of the sharp rise in costs, which it was possible to pass on to prices as the economy's liquidity margin was still substantial and as private consumer demand was climbing rapidly. Widening interest rate differentials on the international market attracted massive flows of money and capital to the Community, where they created additional liquidity.

Economic growth is likely to continue in the months ahead. Although the rise in the Community's exports to non-member countries may remain very slow, internal demand will still give a vigorous boost to incomes, production and employment.

Private consumers' expenditure is likely to remain buoyant, even though income expansion will probably settle down to a calmer pace as the year goes on. Current investment plans suggest that corporate spending on plant, machinery and building will again go up in 1971 ; in most member countries, however, the increase is expected to be distinctly less fast than last year. The stockbuilding policy of firms, a dampening factor in the second half of 1970, may also become somewhat more expansionary again. Furthermore, it can be expected that public spending on building and construction will go up appreciably throughout the Community and that residential construction will revive in several member countries.

Supply from inside and outside the Community is likely to expand appreciably. Industrial production may well rise by 4 to 4½% in 1971, and the real gross Community product by some 4½%.

Although the pressure of demand on supply can be expected to ease, prices are likely to remain under heavy strain, particularly since the rise in wage costs will probably still be rather sharp. To stabilize costs and prices therefore remains an urgent task for short-term economic policy if real incomes rises, job security and the maintenance of satisfactory economic growth are to be safeguarded in the longer run.

A. The economic situation: problems and short-term policy

In almost all member countries the underlying strains in demand and supply have eased further in recent months. Orders on hand in industry have fallen and the very high degree of capacity utilization has reverted to more normal levels.

This overall picture masks fairly sharp differences from one member country to another. The flow of new orders and output growth, for instance, are least vigorous in Luxembourg and Germany, while in Belgium the slowdown in the expansion of production has been less pronounced, and also began later. In France, production was sluggish in the summer, but then revived as the expansion of consumption gathered speed. In Italy, production growth is still severely affected by the consequences of the changed social climate. In the Netherlands, the strains have remained considerable and expansion was held back mainly by major bottlenecks in capacity.

The slowdown of economic growth in the Community as a whole was accompanied by a slight easing of the pressures on the labour market. These pressures are still comparatively heavy in most member countries, however, and relief is unevenly spread. Even in countries where unemployment is rising again, for instance, there is still an acute shortage of skilled labour. Although in almost all member countries the peak of the boom was passed in 1970, wages and prices have still been soaring until very recently. Wage increases far outstripped productivity gains, forcing up labour costs per unit of output to an extent so far unparalleled in the Community. The price climate therefore remains very unfavourable at producer as well as private consumer level. Given the strong cost push, even a further easing of strains in the economy may well fail, for the time being, to produce any tangible signs of prices settling down. This is particularly true of retail prices, which usually take some time to react to a rise in producer prices. In addition, it is becoming more and more plainly necessary to adjust public utility charges and other administratively controlled prices to the higher level of costs.

Restoration of adequate cost and price stability therefore remains the overriding task for economic policy. Otherwise implementation of the guidelines for the period 1971 to 1975, as set down in the Third Medium-term Economic Policy Programme adopted by the Council on 9 February 1971, would be seriously jeopardized—and this applies not only to the price trend, but also to growth and employment.

Given the special character of current inflationary tendencies, which are increasingly of the cost-push kind, it would appear inadvisable at the moment to take any additional action to curb demand. But there is no case, either, for too rapid a relaxation of the measures limiting the growth of internal demand, for this would weaken the spontaneous tendencies that dampen the rise of prices and costs and would foster fresh expectations of further fast inflation. The consequent strengthening of inflationary behaviour would be particularly baleful for the Community, for it would undermine the achievement of simultaneous, balanced and satisfactory growth with full employment and stability throughout the Community, which is one of the aims of the plan to establish, by stages, an economic and monetary union. If to boot economic behaviour patterns were to diverge sharply from one country to another, this could create such disturbances as to jeopardize economic and monetary union as such.

In the circumstances, the case for particularly careful budget management remains as strong as ever, especially since in most member countries there is considerable scope for expansion under the budget decisions for 1971. In fields or regions where the boom has spent itself and there are manpower reserves, more expansionary public spending is not precluded, subject to the authorities' keeping their overall boost to the economy in the months ahead within the limits laid down by parliaments in their budget decisions

The contribution of budget policy to the stabilization effort is all the more important as the latest trend of interest rates on the international money and capital markets once more directly or indirectly narrows the manoeuvring space of monetary and credit policy in the countries of the Community. The rise in the money supply resulting from the massive inflow of money and capital from abroad has led to a comparatively high level of liquidity in the economies of the Community; this encourages the persistence of price and cost rises and may entail an unduly sharp expansion of internal demand and thus revive imbalances.

Those responsible for short-term economic policy cannot, however, hope to succeed in their efforts to ensure a sufficient consolidation of the basic equilibria if employers and workers do not go along with this objective, and for the sake of short-term advantages knowingly or unknowingly accept longer-term risks for the maintenance of satisfactory economic growth, job security and the steady increase of real incomes.

B. Recent developments

1. Demand

The slowdown in the expansion of overall demand in the Community continued in the closing months of 1970 and at the beginning of 1971. For one thing, external demand provided little if any additional impulse. For another, internal demand lost impetus as a result of a weaker rise in investment. All in all, supply and demand in the Community tended to be in better equilibrium, even though the situation varied fairly sharply from one country to another.

The seasonally adjusted foreign trade statistics show that the Community's exports to non-member countries rose little in the fourth quarter. In part this was merely a reflection of export prices rising less fast and therefore doing less to inflate export values. The main cause, however, lay in the increasing slackening of expansion in a growing number of buyer countries, including in particular the industrialized countries of Europe.

In the United States, the expansionary forces in the economy have been weak in recent months. The level of economic activity was considerably affected by the strike in the motor industry, which lasted from the middle of September to the end of November. In the fourth quarter, real gross national product was therefore 0.8% lower than in the third. But even without this special factor, growth would have been fairly weak, to judge by the latest trend of employment and the various components of demand. In January, industrial production had not yet returned to its pre-strike level. The seasonally adjusted number of unemployed remained high; in February it was almost 6% of the labour force.

Private consumption, which was expected to provide a major boost to expansion, was sluggish. The high level of unemployment and the fall in the number of hours worked, coupled with the effects of the strike, considerably curtailed the rise in personal incomes in the fourth quarter. In addition, the propensity to save of households has risen further, presumably because of the persistently unfavourable business situation. As on the other hand the price rise hardly slackened, private consumption in real terms even fell by 0.5% between the third quarter and the fourth. In addition the investment climate deteriorated further. Corporate investment, for instance, fell distinctly between the third and fourth quarters of 1970. Only in residential construction was there a lively upswing.

Despite the sluggish trend of overall demand, imports in the fourth quarter were appreciably more buoyant, after virtual stagnation.

In the United Kingdom, where economic activity had picked up in the third quarter, growth has been only moderate in the past few months, despite more buoyant exports and private consumption and despite the distinct upswing in residential construction. Rising wage costs and falling profit expectations led firms to cut their investment spending. Economic activity continued to be appreciably impeded by strikes. The social climate indeed deteriorated further; it was marked by extraordinarily high wage claims and a persistent rise in unemployment. In January, the number of unemployed was 3% of the labour force. The upward movement of prices was still vigorous; between October and January, the retail price index showed a seasonally adjusted rise of 2.1%. Although the foreign trade figures are considerably distorted by special factors (repercussions of the dock strike, abolition of the import deposit scheme in December), the balance of trade appears to have improved as the growth of imports tended to slacken. The restrictive course of credit policy was maintained and indeed tightened; in November, special deposits were raised by another 1%, and measures were taken at the beginning of 1971 to curb short-term borrowing on the Eurodollar market and stop the resulting and rather uncontrollable expansion of the domestic money supply.

In most other industrialized countries, economic expansion has slackened unmistakably.

Visible exports to non-member countries

(Values and % changes on preceding year)

	1969		1970				
	million u.a.[1]	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
All non-member countries	39 228	+ 11	+ 16.5	+ 15	+ 15	+ 14.5	+ 15
of which :							
Industrialized countries[2]	25 596	+ 12	+ 20	+ 15.5	+ 16.5	+ 15	+ 16.5
including :							
United States	5 958	+ 3.5	+ 22.5	— 1.5	+ 10	+ 17	+ 11.5
EFTA	12 779	+ 13.5	+ 18.5	+ 21	+ 14.5	+ 12	+ 16.5
United Kingdom	3 367	+ 7.5	+ 4.5	+ 10	+ 7	+ 14	+ 9
Developing countries[3]	10 218	+ 9.5	+ 8.5	+ 15.5	+ 12.5	+ 16	+ 13
including :							
Associated overseas countries and territories	2 295	+ 11	+ 10.5	+ 16.5	+ 29	+ 22.5	+ 19.5
Other countries[4]	3 414	+ 10	+ 18	+ 12.5	+ 12.5	+ 4.5	+ 12

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

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

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

[3] Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

[4] Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other exports.

In the Scandinavian countries in particular, the slower growth of domestic demand curtailed imports, stagnating since their fall in the middle of 1970. In Japan and Austria, too, the slackening of expansion was reflected in their imports. Even imports by Switzerland, where the business situation has remained very buoyant, have shown little if any upward tendency in recent months.

This general trend of import demand was clearly reflected in the Community's exports to non-member countries. Although sales to the United States revived somewhat, those to EFTA countries hardly changed and those to Spain and Japan definitely declined. Exports to the State-trading countries also fell sharply in the past few months.

Internal demand in the Community maintained its brisk expansion, under the clear lead of private consumers' expenditure.

In most member countries, the growth of gross fixed asset formation slackened in fairly distinct measure in the past few months.

Here, the main factor was the slower expansion of investment in plant and machinery, to judge by sales of the capital goods industries in the Community and by imports. This is particularly true of Germany and to a certain extent also of the Benelux countries. In France, the trend was similar in the private sector, while purchases of plant and machinery by public enterprises gathered speed again. In Italy, investment in plant and machinery appears to have resumed a more lively rate of growth.

The upward trend of building investment continued almost unabated in the fourth quarter of 1970. In contrast to corporate spending on plant and machinery, the vigorous growth of expenditure on industrial building barely slackened, and in residential construction, where activity had been stagnating at a low level, there was, if anything, a recovery. At the beginning of 1971, the mild weather may even have allowed accelerated completion of building projects in large parts of Europe. Alone in the Community, Italy definitely had a building slump.

Producers, processors and wholesale trade still tended to run down stocks of raw materials and semi-manufactures. At retail level, on the other hand, it would appear that of late the trade has been replenishing the sharply depleted stocks of finished products, given the consumer boom in several member countries.

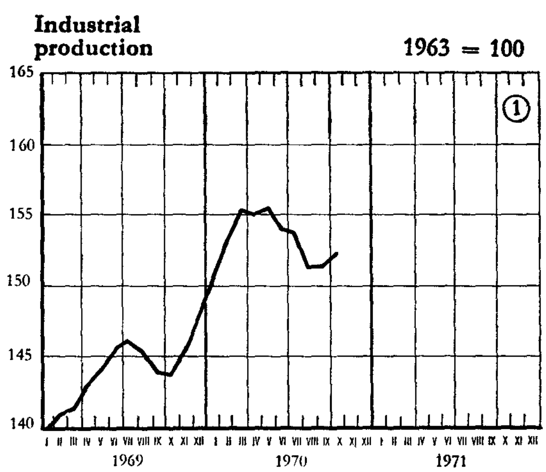
The rise in private consumption gathered appreciable momentum in the fourth quarter of 1970 in all member countries except Italy. At the beginning of 1971, however, there may have been a slight, and probably passing, decline in its rate of expansion.

In France, the recovery begun in the summer gathered considerable speed in the fourth quarter, and in Germany, the Netherlands and the Belgo-Luxembourg Economic Union, consumption expenditure continued to rise appreciably. In the Netherlands and Belgium, this was in part due to a spending spree ahead of the pending increase in the value added tax or its introduction. Italy is the only country in the Community where the trend of private consumption appears to have been comparatively quiet in recent months, in part no doubt because of the persistence of social unrest, coupled perhaps with delivery difficulties for certain consumer durables.

Generally, the expansion of private consumers' expenditure was boosted by the sharp rise in incomes, particularly from paid employment, which went up at a very vigorous rate in all countries. While in Germany and probably also in Italy the propensity to save of households showed a distinct upward tendency, it fell in France and, until the end of 1970, probably also in the Netherlands and Belgium, for the reasons set out above. In France, tax reliefs for households were an additional factor making for higher incomes, though French wages rose less than those elsewhere in the Community. In the Netherlands, where wage rises accelerated sharply in the autumn of 1970, the government not only put up VAT as mentioned before but from the beginning of this year raised the tax rates on wages and incomes by 3% and in addition placed a ceiling on increases in wage rates during the first half of 1971.

2. Production and employment

The expansion of internal supply in the Community has slackened in recent months. This was most evident in industry, but barely visible so far in agriculture (especially output of livestock products) and in the services.



The seasonally adjusted index of the Statistical Office of the European Communities (excluding construction and food, beverages and tobacco) shows that from the third to the

Industrial production in the Community[1]

(% change on preceding year)[2]

	1968	1969	1969		1970			
			3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Community as a whole[3]	+ 11.7	+ 6½[3]	+ 9.6	+ 6.4	+ 9.7	+ 5.9	+ 4.6	+ 5[3]
of which:								
Germany	+ 14.1	+ 6.0	+ 12.0	+ 11.6	+ 10.9	+ 7.5	+ 5.1	+ 1.2
France	+ 13.5	+ 5.5	+ 9.0	+ 4.5	+ 8.5	+ 4.7	+ 4.1	+ 4.5
Italy	+ 2.8	+ 6.4	+ 1.2	— 8.3	+ 5.4	+ 1.2	+ 3.9	+ 6.3
Netherlands	+ 12.6	+ 10[3]	+ 13.6	+ 13.2	+ 14.9	+ 10.7	+ 9.5	+ 7[3]
Belgium	+ 10.7	+ 8[3]	+ 9.0	+ 10.0	+ 13.2	+ 7.9	+ 4.3	+ 6½[3]
Luxembourg	+ 13.5	+ 0.4	+ 11.1	+ 11.1	+ 6.5	+ 5.1	— 1	— 9

[1] Excluding construction, food, beverages and tobacco.
[2] Calculated on the basis of the unadjusted indices of the Statistical Office of the European Communities.
[3] Estimates.

fourth quarter of 1970 industrial production in the Community rose only by about 1%. Consequently the growth of production from 1969 to 1970 was not 7½%, as estimated in the last Quarterly Survey, but 6½%. In the first quarter of 1971 the slight upward tendency of industrial production probably continued.

During the fourth quarter of 1970 the growth of industrial production slowed down particularly in Germany, mainly because of slackening corporate investment and stockbuilding. Owing to weakness on international steel markets, at least until the beginning of the winter, Luxembourg too registered a distinct slowdown in production activity. In Italy, production recovered less quickly than had been expected, given that persisting labour disputes kept delaying supplies of producer goods and disturbing the flow of production and sales. In the Netherlands, capacity bottlenecks were the main factor limiting the expansion of production. In France, on the other hand, industrial activity gathered momentum at the end of 1970, boosted by the vigorous revival of consumer demand. In Belgium, industrial production continued to expand quite fast.

The growth of value added in the services sector was probably still fairly rapid, at least in fields near or at the consumer stage.

Because of developments in the last quarter of 1970, the whole year's growth of real gross Community product will probably work out at about 5½%, a little less than had been suggested in the last Quarterly Survey (No. 3/4-1970) on the "Economic Situation in the Community".

While the number of persons in paid employment is on the whole still rising unmistakably, the strains on the labour markets are showing signs of easing. In almost all member countries, seasonally adjusted unemployment at the beginning of 1971 was higher than around the middle of 1970. In several countries short-time working increased, and the number of unfilled vacancies in Germany, Italy and Belgium declined. Nevertheless, the discrepancy between manpower requirements and available manpower reserves is still large in most member countries, since many industries, even when faced with a decline in demand, are at present not willing to release workers.

Visible imports from non-member countries

(Imports and % change on preceding year)

	1969		1970				
	Million u.a.[1]	Full year	1st quar-ter	2nd quart-ter	3rd quar-ter	4th quar-ter	Full year
All non-member countries	39 253	+ 17	+ 17.5	+ 17.5	+ 16	+ 14.5	+ 16.5
of which :							
Industrialized countries[2]	22 245	+ 19.5	+ 23.5	+ 19.5	+ 17	+ 15,5	+ 18,5
including :							
United States	7 335	+ 14.5	+ 41	+ 19.5	+ 17	+ 20.5	+ 23
EFTA	9 468	+ 20.5	+ 11.5	+ 16.5	+ 15	+ 10.5	+ 13
United Kingdom	3 589	+ 19.5	+ 11.5	+ 17.5	+ 9	+ 9	+ 11.5
Developing countries[3]	14 223	+ 13.5	+ 9.5	+ 14.5	+ 15.5	+ 14	+ 13.5
including :							
Associated overseas countries and territories	2 807	+ 12.5	+ 15	+ 9	+ 13	+ 1.5	+ 9
Central and South America	3 168	+ 18	+ 7	+ 23	+ 17	+ 7	+ 13.5
Other countries[4]	2 784	+ 15.5	+ 15.5	+ 13.5	+ 9	+ 9	+ 11.5

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

[1] 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US$1 at the official exchange rate.
[2] Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.
[3] Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.
[4] Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other imports.

3. Balance of the markets

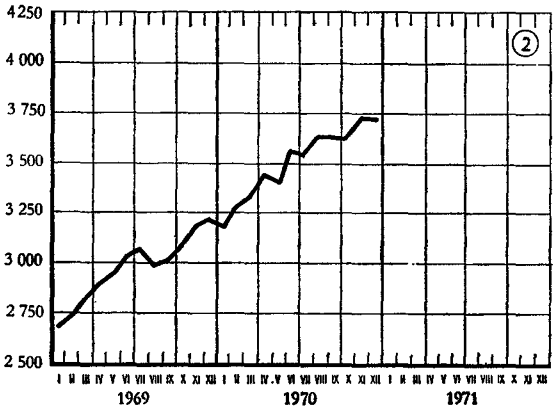
Although the expansion of overall demand tended to be more in line with productive capacity, the conditions of equilibrium remained very precarious, notably because of of the sharp rise in wage costs.

The growth of the Community's imports from non-member countries has shown little if any signs of slowing down in the past few months. According to seasonally adjusted foreign trade statistics, visible imports in the fourth quarter of 1970 still went up by 4%, compared with a decline of 2% in the third quarter and a rise of 8% in the second. This meant they were about 15% higher than in the fourth quarter of the previous year.

Imports from the United States, which had been declining in the third quarter, revived again in the fourth. Imports from the EFTA countries went up only little, and those from the developing countries, particularly the associated overseas countries, no longer went up as rapidly as before, because of the above-mentioned tendencies in stockbuilding.

Following lively expansion from the middle of 1968 to the beginning of 1970, intra-Community trade lost more and more of its vigour. In the fourth quarter, the seasonally adjusted increase in terms of value was down to 1.7%, compared with 2.2% between the second and the third quarter. In Germany, sluggish demand for raw materials and intermediate products curbed the expansion of imports from other Community countries, but imports of agricultural products have gone up again unmistakably since the autumn. French purchases from other Community countries remained stationary until the end of the year, as they had been since the middle of 1970. Italian imports stagnated after their vigorous growth in the first half of the year. Purchases by the Belgo-Luxembourg Economic Union were curtailed mainly by the depletion of stocks prior to the introduction of the value added tax. Only Dutch imports rose rapidly, owing to the growing imbalance between supply and demand.

Trade between member countries **million u.a.**



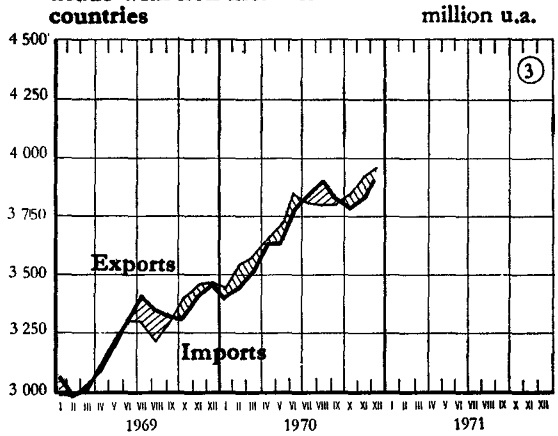
Leaving aside the Netherlands, it would appear that the expansion of intra-Community trade, which in the past few years had a very considerable stabilizing influence, now does little to this effect. This, too, suggests that the remaining imbalances are attributable not so much to discrepancies between the expansion of demand and the real supply potential, as to the very sharp increase in costs, to which imports and exports react with a certain time-lag only.

The price trend generally remained distinctly upwards at the beginning of 1971, mainly because costs have been rising sharply. First and foremost, labour costs per unit of output continued to climb steeply, not only because wages kept on rising very strongly, but also because productivity hardly improved.[1]

In the Benelux countries, the price rise was reinforced by changes in indirect taxation. In Belgium, value added tax has been levied since 1 January at the four rates of 6%, 14%, 18% and 25%, and this has increased the incidence of indirect taxation on private consumption. The Belgian authorities put the price increase due to the purely mechanical effect of the tax at 2% or so. In the Netherlands, the standard VAT rate was raised from 12 to 14%, though certain consumer goods and services were reclassified and shifted into the category subject to the lower rate of 4%. On balance, however, this still left a price-raising effect estimated at ½% by the Central Planning Bureau. In Luxembourg, VAT rates were put up from 4 to 5%, and from 8 to 10%.

Seasonally adjusted, the Community's balance of visible trade with non-member countries (cif-fob), which in the summer of 1970 had chalked up surpluses for a while, was back in deficit in the fourth quarter and at the beginning of 1971. The surplus on the Community's balance of payments on current account therefore fell again.

Trade with non-member countries **million u.a.**



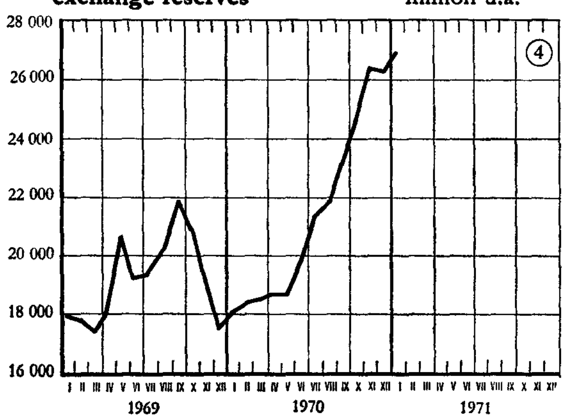
The overall balance of payments nevertheless continued to show high surpluses, mainly owing to the divergent credit policies pursued

[1] The trends in industrial labour costs in 1970 are discussed in an Annex to this Quarterly Survey.

in the Community on the one hand and in the United States on the other. The expansionary line taken by the monetary authorities in the United States since the spring of 1970 and the resulting new situation on the Eurodollar market have in recent months again caused substantial inflows of money and capital into the Community. This led the monetary authorities of almost all member countries to reduce domestic interest rates, but the effects on the inflow of money into the Community were limited.

On balance, the official gross reserves (gold, foreign exchange, position with the IMF, special drawing rights) of the Community rose by more than $5 200 million between the end of September 1970 and the end of January 1971, compared with a fall of close on $4 800 million a year earlier. This increase in the reserves owed $585 million to the second allocation of special drawing rights on 1 January 1971. At some $2 700 million, the rise in gross reserves was sharpest in Germany.

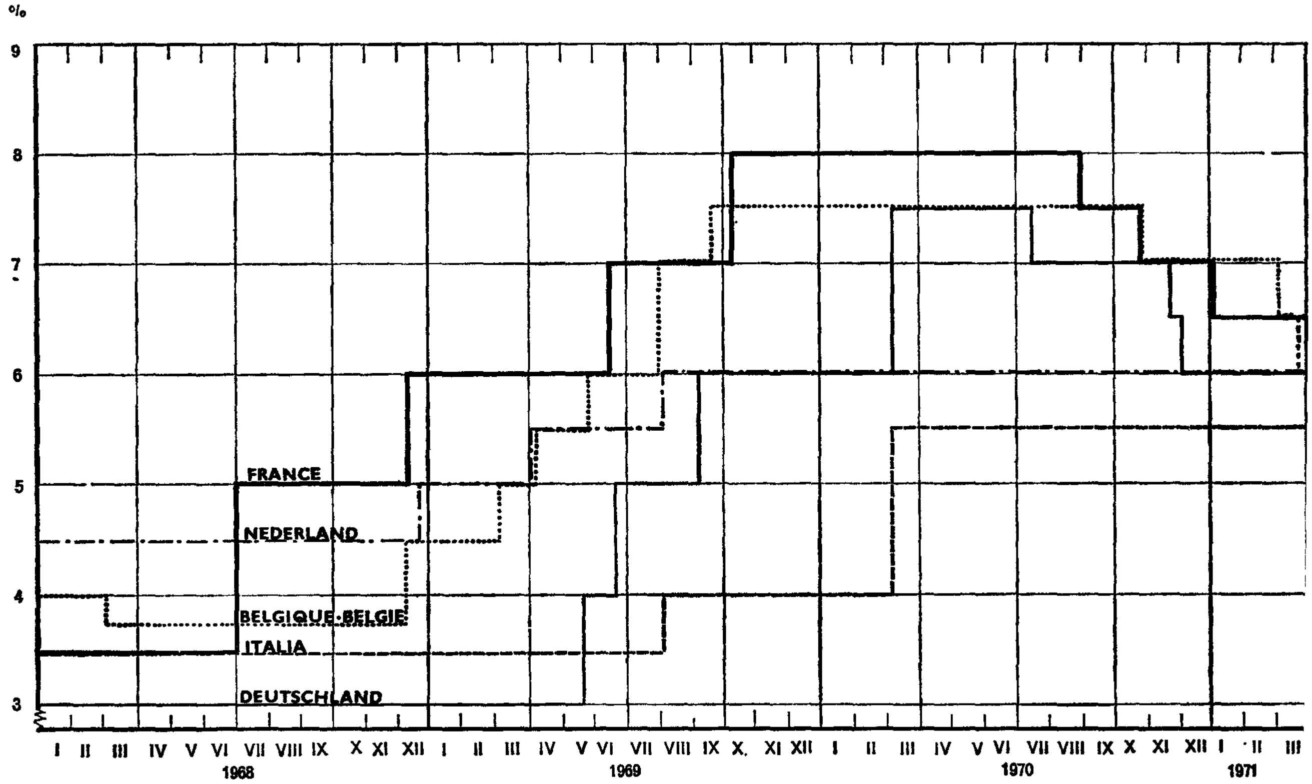
Gold and foreign exchange reserves million u.a.



In addition to the large surpluses on the overall balance of payments, liquidity was generated in most member countries by the cash transactions of the public authorities. In France, there were probably fairly heavy cash deficits in the first quarter of 1971, arising in particular from the release of appropriations from the economic contingency fund. In Italy, cash spending by the Government largely exceeded revenue in the closing months of 1970, notably as a result of payments made in October to the social insurance funds under the decree law passed at the end of August; the major part of the deficit was probably financed by drawing on balances with the Central Bank. In Germany, the cash deficit on the Federal budget in the fourth quarter was, at about DM3 300 million, somewhat heavier than a year earlier. It was covered mainly by cash resources of the Federal Government, and in part by current account advances from the Bundesbank. In computing the cash deficit no account is taken of reserves with the Bundesbank in an amount of about DM1½ thousand million, built up over the same period from the countercyclical surcharge on wage, income and corporation tax. At DM3 700 million the cash deficit of the Länder was very heavy in the fourth quarter of 1970. Belgium got through the period October-December with a somewhat smaller budget deficit than in 1969, thanks to revenue rising much more than expenditure. The deficit was largely financed by loan issues. In January 1971 the Belgian Government's temporary fall in revenue resulting from the changeover to VAT was easily covered by a highly successful loan issue. This indeed gave the Treasury so much extra cash that it was able to redeem all its debts with the Central Bank and build up Central Bank balances for the first time since 1968. The Netherlands budget was the only one to show a cash surplus in the fourth quarter of 1970, and indeed a higher one than is usual for the season. Most of it was added to the balances with the Central Bank.

Bank lending to the private sector generally expanded fairly briskly in the closing months of 1970. In France, there was a considerable rise particularly in short-term bank credits. With quantitative credit restrictions completely abolished in October, much of the direct lending among firms was probably replaced by heavier borrowing from commercial banks. In the other member countries, the Central Banks equally maintained their restrictive credit policies, but there have been signs of a gradual easing here and there. In Germany and Belgium, as incidentally also in France, several cuts were made in the discount rates so as to adjust them to the level of international interest rates; in the Community this brought a further narrowing of the spread of discount rates, which now all range from 5½% to 6½%, compared with 4%

BANK RATE



to 8% at the beginning of 1970. In Belgium, the Banque Nationale in addition widened the permissible margin of credit expansion in the fourth quarter, but at the same time instructed the commercial banks to exercise moderation in granting consumer credit. Until the end of December, actual lending stayed below the ceiling authorized. With effect from 1 January 1971, restrictions on investment credit were completely abolished in Belgium, but the other credit restrictions are still in force. As of 1 October 1970, the Banca d'Italia eased the compulsory reserve requirements for special credit institutes lending mainly to small and medium-sized enterprises. Demand for credit nevertheless remained within bounds, even though company profits fell sharply. In the Netherlands, on the other hand, credit policy was made more restrictive. Quantitative credit restrictions were tightened for the fourth quarter of 1970 and then also for the first two months of 1971. One of the reasons why actual lending for the first time stayed below the credit ceilings probably was that companies were borrowing abroad on a large scale. In Germany, the Bundesbank, which in September had introduced a minimum reserve against additional domestic liabilities of banks, abolished this provision with effect from 1 December, but simultaneously raised the minimum reserve ratio in respect of total bank liabilities by 15%. On balance, these measures resulted in a certain tightening of the minimum reserve requirements.

In the aggregate, the above- mentioned factors caused the money supply to rise sharply. In the Community, money supply increased by about 10% in the fourth quarter of 1970 to a level some 17% up on the corresponding period of the previous year.

On the capital markets of the Community it was not until the turn of the year that the situation started to ease distinctly. Since November, the previously very high bond yields have been declining in most member countries. As the rise in prices has not slackened as yet, this implies a corresponding fall in real interest rates. The easing of strains on the money markets had obviously generated expectations of long-term rates following suit. Many investors therefore rushed in to buy bonds while yields were still high. Issuers immediately adjusted to the downward trend of interest rates. First-class German loans which as recently as November had an 8.5% coupon, in February were floated at a nominal interest rate of 7.5%. Much the same happened in the Netherlands, where at the end of January it was likewise possible to float a 7.5% government loan. In Belgium, two government loans issued in January, at 8.25% and 8.5% respectively, proved so popular that subscriptions had to be closed ahead of schedule. In France, too, new loan issues were in great demand. Even in Italy, declining interest rates restored some life to the previously almost totally unresponsive capital market.

Share prices in the Community touched their 1970 low in December, but after the turn of the year they again moved ahead strongly.

Demand for and supply of goods and services

	1968[1]	1969[2] [5]		1970[3] [6]		1971[4] [6]
	At current prices in '000 million u.a.[7]	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	88.9	+ 9.7	+ 15.8	+ 8½	+ 19	+ 4½
Public current expenditure on goods and services	54.2	+ 3.9	+ 11.0	+ 3½	+ 11½	+ 4
Private consumers' expenditure	228.9	+ 6.9	+ 11.4	+ 6½	+ 11½	+ 5
Gross Community product	384.2	+ 7.1	+ 12.4	+ 5½	+ 12	+ 4½
Balance exports less imports (in '000 million units of account)[7]	+ 7.1		+ 5.3		+ 4.2	+ 3.1

[1] Statistical Office of the European Communities (SOEG) ; National Accounts 1959-1969, 1970 Edition.
[2] Actual results.
[3] Estimates.
[4] Forecasts.
[5] Based on Community totals of the aggregates of the individual member countries at official exchange rates 1963.
[6] Based on Community totals of the aggregates of the individual member countries at official exchange rates 1970.
[7] 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US$1 at the official exchange rate.

Note :

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

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

C. Outlook

The prospects for world business conditions are much the same as those outlined in Quarterly Survey No. 3/4-1970. The slowdown of world trade, in evidence since the middle of 1970, is likely to continue for a while. In many industrialized countries the propensity to import may well decline in response to measures to restore internal and external equilibrium, but developments may vary fairly sharply from one country to another. The Community as a whole may step up the aggregate volume of its imports less fast, as and when demand ceases to race ahead of supply. These decelerating tendencies may to some extent be offset by economic recovery in the United States.

After its sluggish performance in 1970, economic activity in the United States is likely to pick up now. The Administration recently took a number of reflation measures. Credit policy has for some time followed a more expansionary line, and now budget policy, too, has shifted to deliberate reflation. The deficit in the federal budget for the fiscal year 1970/71 is put at some \$18½ thousand million, and under the budget estimates for the fiscal year 1971/72, beginning on 1 July 1971, the deficit is \$11 600 million. In contrast to the current budget year, total expenditure is to go up again appreciably, by more than 7½%. Social welfare expenditure is to increase most, but military expenditure, which was cut in 1969 and 1970, is also to rise again slightly. The deficit for 1971/72 may indeed turn out to be a good deal heavier if receipts fall short of the expected increase of some 12%. To stimulate investment activity, the Administration furthermore introduced diminishing balance depreciation, but it remains to be seen how quickly this will be reflected in corporate investment decisions. The latest survey of investment intentions in industry, carried out jointly by the Securities and Exchange Commission and the Department of Commerce, suggests that enterprises plan to raise their spending on capital goods in 1971 by no more than 1.5%, in terms of value; in terms of volume, this would mean virtually no increase at all.

To judge by the number of building permits and of building projects started at the end of 1970, the recovery in residential construction, on the other hand, is likely to gather momentum, notably since it is precisely in this field that the fall of interest rates on the capital market may provide additional encouragement.

Investment spending by the States and local authorities is also likely to go up appreciably. In addition, private consumption can be expected to pick up again. The latest wage settlements in the private sector foreshadow further and fairly rapid wage increases. The rise in welfare payments in its turn should put more money in a lot of people's pockets. Private consumption finally may be boosted if the savings ratio settles down.

With consumer demand more buoyant and corporate stockbuilding perhaps due for some increase, production is likely to resume a somewhat more vigorous upward movement. It remains to be seen, however, whether this will lead to an early and significant fall in unemployment, since productivity gains tend to be high, particularly at the beginning of an upswing. For the same reason the price climate may be less strained than in 1970.

In the United Kingdom, economic growth cannot, for the time being, be expected to be anything but slow. Although private consumption in the months ahead will be stimulated by the sharp rise in personal incomes, business investment will still be subject to the heavy pressure of costs and the effects of the credit squeeze. According to the latest investment surveys of the Confederation of British Industry, manufacturing industry intends to keep investment spending in 1971 below the 1970 level. In residential construction, on the other hand, recovery is likely to continue. Given this outlook for domestic final demand and also the prospect of export expansion slackening in the context of less vigorous world trade, production is likely to grow at a comparatively slow pace. With wage costs soaring, the price climate will continue to be most precarious, and the external surpluses on current account may well be less substantial than in 1970.

In most other EFTA countries economic growth will probably slacken in the months ahead. This applies particularly to the Scandinavian countries, where economic activity has been slowing down since the second half of 1970. In Austria and Switzerland, too, the pace of growth may be less rapid, with inevitable repercussions on their imports.

Allowing, finally, for a decline in Japan's propensity to import, Community exports to non-member countries will go up rather slowly in the months ahead.

Internal demand in the Community, on the other hand, will still be expanding fairly vigorously in the further course of 1971, though less so than hitherto.

As suggested in the last Quarterly Survey (No. 3/4-1970), gross fixed asset formation will probably proceed more slowly than in 1970. The end-1970 EEC investment surveys confirm that enterprises still plan to step up capital expenditure. The rise in their investment spending, however, is likely to slow down appreciably in almost all member countries, as more and more previous investment programmes come to their end; now, managements are more reluctant to embark on new programmes. Even if some investment plans were revised downwards in the months ahead, this would be no cause for particular concern, since in all member countries except Italy the rate of investment, i.e. the proportion of gross national product going into investment (excluding residential construction), was higher in 1970 than ever before since the inception of the Common Market.

Building investment will continue to rise fairly vigorously in 1971. Budget estimates suggest that public spending on building will expand appreciably in all Member States, and residential construction, too, can be expected to pick up in some member countries, notably in France and the Netherlands. The only in this respect is Italy, where building output may indeed decline owing to the weak private demand.

Investment in stocks, which in 1970 had an appreciable dampening effect on economic

Industrial investment

(% change on preceding year's value)

	Actual outlay in 1969	Plans for 1970	Estimated outlay in 1970	Plans for 1971
Germany[1]	+ 28	+ 17	+ 23	+ 5
France	+ 25	+ 21	+ 32	+ 16
Italy	+ 15	+ 42	+ 38	+ 40
Belgium[2]	+ 40	+ [3]	+ 50	+ [3]
Luxembourg	+ 94	+ 57	+ 64	+ 17

* Compiled from the results of the business investment survey in the Community. The survey covers most branches of industry but generally excludes investment by public enterprises such as railways, postal services and electricity companies. The definition of investment is that of the national accounts.

[1] Excluding mining and quarrying.
[2] Excluding mining, quarrying and food.
[3] Investment plans are expressed only in terms of "more" (= +) or "less" (= —).

activity, may perform better this year. For one thing, the tendency for stocks of raw materials and semi-manufactures to be run down will probably come to a halt, and for another, the distributive trades in most member countries are likely to replenish their depleted stocks of consumer goods.

The trend of private consumers' expenditure will certainly continue to be distinctly upward, but perhaps less steeply so in the Community as a whole. There is reason to believe that wage rises, which last year had a highly expansionary influence on incomes in all member countries, will gradually slacken somewhat. In addition, the propensity to save is likely to increase in several member countries, particularly Germany and Italy. In Germany, however, disposable household incomes will be given an additional fillip in mid-1971, when the counter-cyclical surcharge on wage and income tax comes to an end.

Supply is likely to grow at a comparatively modest pace. This is particularly true of industrial production in the Community, which is not expected to be more than 4 to 4½% higher than in 1970. The real gross Community product should increase by some 4½% in 1971.

As pointed out before, imports as a whole will probably be less buoyant in the months ahead. Nevertheless, they are likely to expand a good deal faster than internal production and presumably also exports, which would mean a further reduction in the Community's balance of exports less imports (as defined for the national accounts). This is partly because the terms of trade will probably deteriorate, notably in connection with the sharp price increase for petroleum imports, which account for a comparatively large part of the Community's total import bill.

Despite the easing of the strains between demand and supply, the price climate may remain unfavourable in most member countries, mainly because wage costs will still go up fast and because it is becoming more and more necessary to adjust public utility charges to the higher level of costs. Particularly retail prices, which generally take quite some time to react to changes in the business situation, are unlikely to slow down very appreciably in the near future. In the Community as a whole retail prices may well go up as much as in 1970 (4½%), and in the Netherlands and Belgium, possibly a good deal more.

Major economic policy measures

February

On 8 and 9 February the Council adopted a plan for the establishment, by stages during the next ten years, of economic and monetary union. In connection with this plan the Council adopted:

(1) *A decision on the strengthening of coordination of the Member States' short-term economic policies: the Council is to meet three times a year with a view to examining the economic situation in the Community and laying down, on a proposal from the Commission, the guidelines for short-term economic policy to be followed by the Community and by each Member State in the interest of achieving harmonious economic development.*

(2) *A decision on the strengthening of cooperation between the Central Banks of the Member States, inviting the Central Banks, within the limits of their powers and within the framework of their own responsibilities, to coordinate, within the Committee of Governors of Central Banks, their monetary and credit policy and to draw up general guidelines to be followed by each Central Bank, particularly in respect of the development of bank liquidity, credit allocation terms and interest rates.*

(3) *A decision setting up machinery for medium-term financial assistance, according to which the Member States from 1 January 1972 shall place a total of 2 000 million units of account at the disposal of the system.*

On 8 and 9 February the Council adopted the Third Medium-term Economic Policy Programme ; this covers the period 1971-75 and, for the first time, lays down quantitative guidelines for medium-term economic development.

TABLE 1: **Basic data 1969**

	Community	Germany	France	Italy	Netherlands	Belgium	Luxemburg (1)
Total area ('000 sq. km.)	1 167.5	248.5	551.2	301.2	33.5	30.5	2.6
Total population ('000)	188 147	60 842	50 345	54 090	12 873	(9 660)	(337)
Density of population per sq. km.	161	245	91	176	384	(317)	(129)
Numbers in employment ('000)	74 196	26 822	19 967	18 871	4 625	3 772	138.8
Numbers in employment, breakdown by main sector (%) :							
Agriculture	13	9.5	15.0	21.3	7.4	5.1	12.1
Industry	44	48.2	40.6	42.7	40.2	42.5	45.3
Services	43	42.3	44.4	36.0	52.4	52.4	42.6
Share of gross domestic product (%) :							
Agriculture	.	4.3	5.8	11.3	7.0	5.3	5.3
Industry	.	52.1	47.7	38.9	41.6	41.6	52.0
Services	.	43.6	46.5	49.8	51.4	53.1	42.7
In % of gross domestic product :							
Private consumers' expenditure	.	55.4	60.5	63.4	56.1	62.6	59.3
Public current expenditure on goods and services	.	15.6	12.3	13.4	15.7	14.2	11.8
Gross fixed asset formation	.	24.3	25.4	20.5	25.6	21.4	22.9
Total exports	.	23.5	14.5	20.5	45.1	41.7	78.6
Total imports	.	21.0	15.2	18.1	45.2	41.5	73.2

(1) 1968

TABLE 2: **Key indicators**

	% change by volume on preceding year					Volume indices (1963 = 100)
	1965	1966	1967	1968	1969	1969
Gross Community product	+ 4.9	+ 4.3	+ 3.2	+ 5,9	+ 7.1	136
Industrial production	+ 4.1	+ 5.0	+ 1.4	+ 8.8	+ 11.6	144
Visible imports	+ 5.0	+ 6.8	+ 0.6	+ 11.5	+ 16.0	156
Private customers' expenditure	+ 5.0	+ 4.7	+ 3.7	+ 4.9	+ 6.9	134
Gross fixed asset formation	+ 3.2	+ 4.5	+ 1.0	+ 7.1	+ 9.6	140
Visible exports	+ 11.0	+ 8.4	+ 7.7	+ 13.1	+ 6.9	171
Intra-Community visible trade	+ 12.2	+ 10.9	+ 6.1	+ 18.9	+ 22.6	218
Gross product per capita	+ 3.6	+ 3.4	+ 2.6	+ 5.3	+ 6.3	129

Community

TABLE 3 : **Basic monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1968	120	126	131	133	121	130	119	106	136	141	148	146
	1969	138	142	146	150	151	152	135	115	145	150	158	154
	1970	150	156	160	160	163	157	142	118	155	160	166	160
Imports from non-member countries (cif, million u.a.)	1968	2 694	2 606	2 811	2 709	5 408		2 850	2 608	2 790	2 991	3 061	3 008
	1969	3 175	2 793	3 105	3 283	3 321	3 376	3 259	2 858	3 365	3 637	3 407	3 636
	1970	3 664	3 397	3 608	3 959	3 735	4 000	3 780	3 376	3 812	3 892	4 099	4 280
Exports to non-member countries (fob, million u.a.)	1968	2 781	2 771	3 025	2 848	5 323		3 206	2 772	2 784	3 297	3 171	3 286
	1969	2 886	2 745	3 261	3 306	3 295	3 296	3 584	2 801	3 225	3 729	3 425	3 658
	1970	3 285	3 349	3 742	3 828	3 589	3 949	3 984	3 322	3 703	4 099	3 853	4 432
Balance of trade (million u.a.)	1968	+ 87	+ 165	+ 214	+ 139	− 85		+ 356	+ 164	− 6	+ 306	+ 110	+ 278
	1969	− 289	− 48	+ 156	+ 23	− 26	− 80	+ 325	− 57	− 140	+ 92	+ 18	+ 22
	1970	− 379	− 48	+ 134	− 131	− 146	− 51	+ 204	− 54	− 109	+207	− 246	+ 152
Intra-Community trade (million u.a.)	1968	2 123	2 162	2 371	2 287	4 248		2 479	2 085	2 409	2 773	2 658	2 724
	1969	2 696	2 727	3 057	3 043	3 013	3 101	3 157	2 415	3 089	3 554	3 144	3 242
	1970	3 140	3 284	3 604	3 782	3 247	3 861	3 655	2 949	3 719	3 900	3 847	3 630

NOTES TO GRAPHS AND TABLES

Sources: Community: Statistical Office of the European Communities (SOEC).
Germany: SOEC; Statistisches Bundesamt.
France: SOEC.
Italy: Relazione generale sulla situazione economico del Paese (1969).
Netherlands: SOEC; Ministerie van Sociale Zaken en Volksgezondheid; Centraal Bureau voor de Statistiek.
Belgium: SOEC; Ministère de l'emploi et du travail;
Luxembourg: SOEC.

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US$1) at the official exchange rates.

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Table 1

Total population at mid-year; for Germany, estimated average for year; for Italy, average for year.

Resident population in employment at mid-year; for Germany, estimated average for year; for Italy, average for year less persons temporarily working abroad.

Breakdown by agriculture, industry and services at factor cost; for Luxembourg, 1967 figures.

Shares of the major aggregates in the gross domestic product at market prices.

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

Table 2

Industrial production: index of the Statistical Office of the European Communities, excluding construction, food, beverages and tobacco.

Imports (cif) from non-member countries, as shown by foreign trade statistics.

Exports (fob) to non-member countries, as shown by foreign trade statistics.

Trade between member countries, as shown by foreign trade statistics on imports.

Table 3

See note to Table 2.

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Germany

Economic growth in Germany has slowed down distinctly in recent months. Supply and demand are in better balance. There has been less pressure, especially, from the propensity to invest of enterprises, while expenditure on consumption has continued to soar. The tendency for the business climate to return to normal, however, has not yet had any notable effect on the wage and price trend, and inflationary behaviour persists.

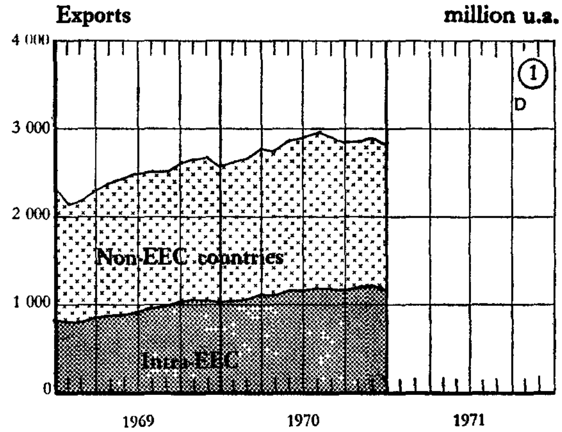
Should wages and prices fail to react soon to the change in the business climate, the prospects for further growth may be seriously jeopardized. In present circumstances, a radical easing of restrictive economic policy does not appear to be possible until the economy gives clear evidence of greater stability.

1. Recent developments

Business conditions in the Federal Republic have calmed down further in the past few months. This applies in particular to industry, where capacity utilization has fallen from its extremely high level and the time for which orders are on hand has shortened. Generally speaking, business conditions have begun to vary more sharply from one economic sector to another. The movement of wages and prices, however, displays no significant reaction as yet to the change in the business climate. The price rise is still very pronounced both at producer level and at the level of private consumption, mainly owing to wage rises far in excess of productivity gains.

Exports did nothing further in recent months to stimulate the economy as a whole. Seasonally adjusted export values in November-January were only 0.7% up on the preceding three months, and at constant prices they even declined slightly. Exports to the other Community countries have of late been rising at higher than average speed. Exports to the EFTA countries, too, have done well enough in recent months, but those to the United States have stagnated at a high level.

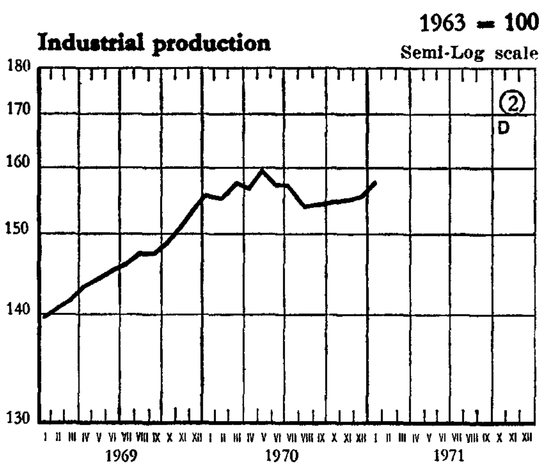
The expansion of domestic demand has slackened further in recent months, mainly owing to the trend in investment in plant and machinery. With sales expectations deteriorating and profit margins shrinking fast, firms were reluctant to step up investment expend-



iture on the scale of the first half of 1970, though the deceleration did not go beyond a return to normal. Building investment, by contrast, has picked up, if anything. This is particularly true of residential construction and building for public account, but even building investment by firms has still been fairly buoyant.

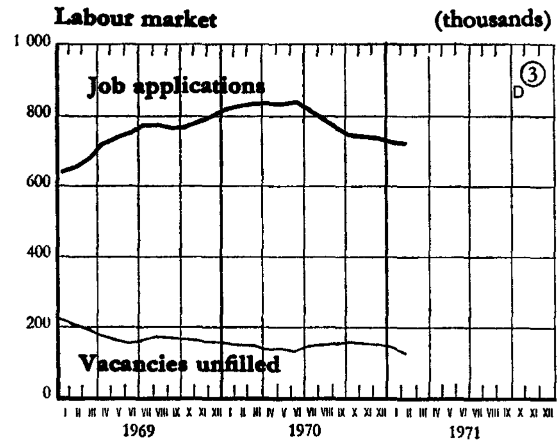
There has been a growing shift to consumption as the mainspring of economic activity. Rising incomes had strong effects on private consumers' expenditure. In February, hourly wage and salary rates in the economy as a whole were still 13.8% higher than a year earlier. The gap between wage rates and actual earnings, however, has narrowed a little, notably as a result of less overtime working. In addition, the propensity to save has been rising again, after an appreciable decline in the first half of 1970.

On the supply side, the tempo of production has weakened. Industrial production has expanded little since the middle of last year. Initially this was mainly because of capacity bottlenecks, but of late demand has probably also been a major factor. While capacity utilization as a whole was back to a more nor-



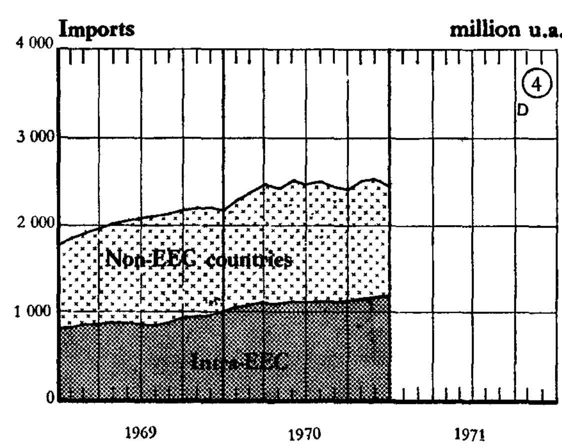
mal level, some firms were even running below capacity. Seasonally adjusted, production in November-January was 1.3% up on the preceding three months and only 2.3% higher than a year earlier. Since over the same period the number of persons employed had gone up by 1.8%, productivity—in terms of output per person employed—rose only slightly during the year. Elsewhere in the economy, by contrast, and, particularly in services, expansion probably continued to be fairly vigorous.

On the labour market, strains eased only slowly. At the end of February, the unemployment rate, at 1.2%, was the same as a year earlier. The inflow of foreign workers was relatively vigorous until very recently. But, as mentioned before, overtime working became less excessive and in certain branches, where the slowdown was more marked, some workers were put on short time; in mid-February, they numbered 63 000. The most striking sign of the changed situation on the labour market is the fall in industry's demand for manpower. In the services sector, on the other hand, great efforts were still being



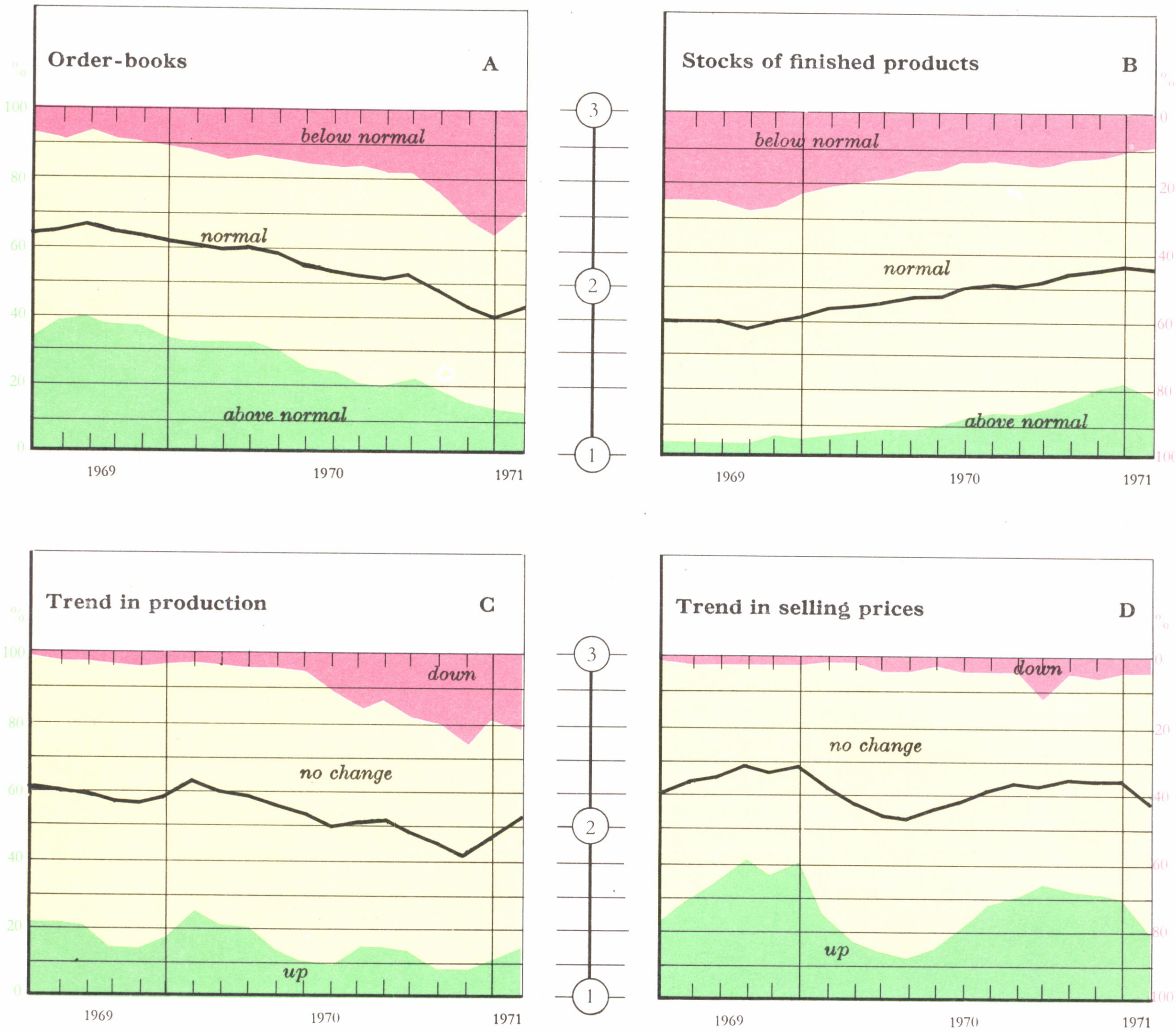
made to recruit additional labour. All in all, there were still five vacancies at the end of February for each unemployed person, on a seasonnally adjusted basis. In the spring of 1970, when the strains on the labour market had been heaviest, the ratio had sometimes been 6.5 to 1.

In spite of the easing domestic supply/demand situation, imports were still rising comparatively steeply in recent months. To some extent this was due to food imports, which kept on expanding as fast as ever, but the main



reason was the continued vigorous growth of imports of capital goods and consumer durables. Of late, imports appear to have been

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

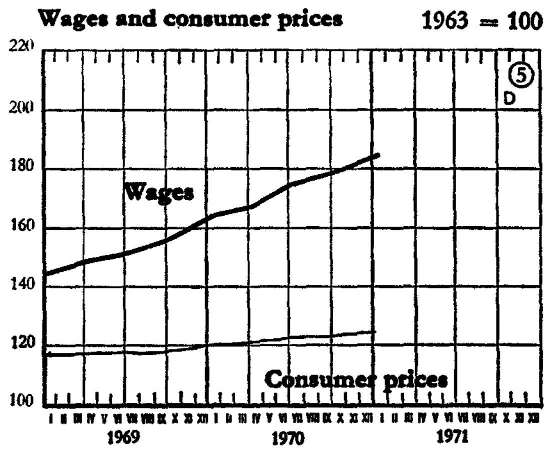
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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

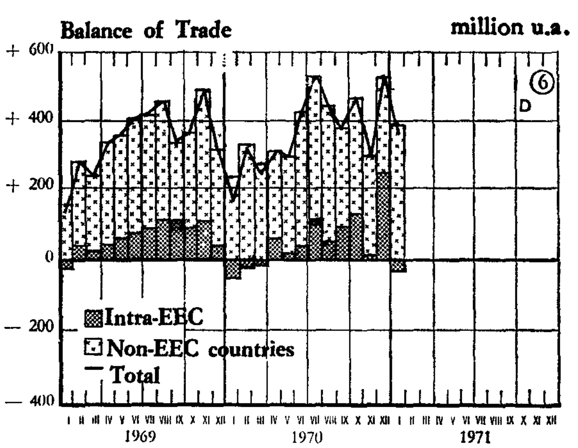
by 0.03 for the answer "above normal", or "up";
by 0.02 for the answer "normal", or "no change";
by 0.01 for the answer "below normal", or "down".

stimulated not only by the ability of foreign suppliers to offer better delivery terms but also by price competition. In November-January, the seasonally adjusted value of imports was 4.2% up on the preceding three months.

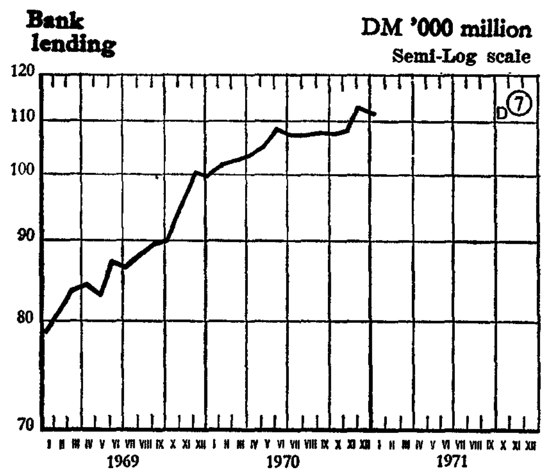
Prices maintained their steep rise. On producer markets in particular there was a further vigorous spurt of prices at the beginning of the year. In February, the index of industrial producer prices was 4.9% higher than a year earlier. Retail prices, too, climbed no less fast than before, and in February were 4.3% higher than a year earlier.



Foreign trade surpluses remained high. Although a large part of the surplus on visible trade and services was offset by transfer payments, notably remittances sent home by foreign workers employed in the Federal Republic, the current account closed with a surplus of nearly DM1 000 million for the period November to January, compared with



DM200 million in the preceding three months. While there were fresh outflows of long-term capital, a substantial volume of short-term funds was attracted by the persisting difference between interest rates and liquidity in Germany and abroad; this movement was reflected mostly in the net errors and omissions item of the balance of payments. The overall foreign exchange position of the Bundesbank and the commercial banks rose by DM6 800 million between November and January. Monetary developments have been decidedly espansionary, partly because of the heavy inflow of liquidity from abroad. In January the money supply was more than 20% higher than a year earlier. Banks in their turn appreciably expanded medium- and long-term credits to enterprises. The public authorities similarly turned to the banks in increasing measure to cover a shortfall of tax receipts. On balance, the cash trans-



actions of the Federal Government in November-January closed with a smaller surplus than a year earlier.

Until the beginning of the year, the capital markets displayed a distinct fall in interest rates. Particularly on the bond markets, the interest and investment climate changed significantly. Falling yields attracted an appreciable volume of funds to the bond market, sicne many investors tried to buy bonds carrying a high coupon while they were still obtainable. Although the new mood did spill over into equity markets as well, share prices rose less because company profits were expected to fall.

Demand for and supply of goods and services

	1968[1]	1969[1]		1970[1]		1971[2]
	At current prices (in DM '000 million)	% change on preceding year				
		Volume[4]	Value	Volume[4]	Value	Volume[5]
Exports[3]	123.8	+ 12.6	+ 14.5	+ 9.0	+ 11.9	+ 6
Gross fixed asset formation	124.8	+ 12.1	+ 17.2	+ 10.7	+ 23.1	+ 3
Public current expenditure on goods and services	84.4	+ 4.2	+ 11.7	+ 2.9	+ 12.8	+ 4½
Private consumers' expenditure	301.1	+ 8.0	+ 10.8	+ 7.3	+ 11.4	+ 4½
Gross national product	538.9	+ 8.1	+ 11.9	+ 4.9	+ 12.6	+ 3
Imports[3]	106.2	+ 16.7	+ 19.4	+ 16.1	+ 15.9	+ 7

[1] Federal Statistical Office, "Wirtschaft und Statistik", No. 2/1971.
[2] Forecasts.
[3] Goods, services and factor income.
[4] At 1962 prices.
[5] At preceding year's prices.

Note :

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

2. Outlook

The economy is cooling down on a scale and at a pace which suggest that the process will continue. In the event that it should, contrary to expectations, go beyond a return to normal and turn into a recession, there is plenty of scope for giving short-term economic policy an expansionary bias.

A renewed stimulating effect can reasonably be expected from foreign demand. Export orders have been tending to rise in recent months, and firms may well put more effort into their export drive again in case the home market loses some of its buoyancy. The prospects of demand elsewhere in the Community and in the world at large certainly make room for export expansion. More particularly, an upswing in the United States should have its bearing on Germany's foreign sales.

Investment activity will be of crucial importance for the economy's further course in 1971. There are, to be sure, some factors which should tend to improve the investment climate, such as the reduction of investment tax from 6% to 4% on 1 January, the reintroduction, as of the beginning of February, of the option for firms to depreciate by the diminishing balance method, and the expiry, in mid-year, of the counter-cyclical surcharge on income and corporation tax. Nevertheless the propensity of enterprises to invest in plant and machinery must, if anything, be expected to decline further in the immediate future, under the direct impact of mounting costs and more subdued sales expectations. Another contributing factor is that the pressure of unused capacities will probably have a stronger bearing on the investment decisions of some enterprises. Coming after several years of unusually vigorous rise, a temporary slackening of investment activity would, however, be no cause for concern as long as it does not generate a tendency for the downturn to be self-accelerating. In this context it should not be overlooked that the share of corporate investment (excluding residential construction) in the gross national product (the investment ratio) touched a new high in 1970. For enterprises, 1971 should therefore be a year of consolidation and internal rationalization. Non-industrial investment in plant and machinery should, for the rest, still expand appreciably. Building investment too will stimulate economic activity. This is particularly true of residential construction, but also of civil engineering, where there is obviously a substantial margin of unused capacity, and where the fairly expansionary bias of current budget plans suggests a boost from public investment.

Expenditure on consumption will undoubtedly maintain its relatively rapid growth in the next few months. Public current expenditure on goods and services may indeed accelerate somewhat. Private consumers' expenditure, too, should still expand at a vigorous, if slower, rate, to judge by the latest indicators. Disposable wage and salary income, one of the main determinants of consumption, has been rising considerably until now, and the increase in actual earnings is likely to slow down only gradually in the months ahead. Personal incomes will also benefit from the ending, in the summer, of the counter-cyclical surcharge on income tax. The rising propensity to save, however, may have a dampening influence.

The future course of production is very hard to predict in the rather unstable business situation of the moment. On balance, the Commission services expect industrial production to show a slight upward tendency in the months ahead. In the services sector, supply will probably expand vigorously in response to rising incomes. The real gross national product may therefore rise by 3% or more.

In this situation, narrow limits are set to an acceleration in import growth, confining it mainly to consumer goods.

The movement of prices in the months ahead will probably adjust only gradually to the changed trend in supply and demand. The price situation may not improve until later in the year, starting on the producer markets. For this to happen, however, labour costs per unit of output will have to give evidence of more stability.

In the last Quarterly Survey it was pointed out that in the current phase of transition in the business cycle, when the growth of demand tends to slacken, there is danger of the general business climate deteriorating considerably under the influence of sharply rising wages and prices. Stress was laid on the urgent need for workers and employers to keep their wage and price demands within limits compatible with the requirements of the economy as a whole. Even though in certain sectors, including public administration, the latest wage settlements appear to have been more consonant with recent economic development, wages in other fields must be expected to go up considerably more.

In the circumstances, the Federal Government and the Bundesbank, in line with the views of the Commission, did not think it advisable to switch to deliberate relaxation in their short-term economic policy. In any case, the authorities have considerable scope for stimulating expansion via the public finances, given the current budget decisions especially in respect of public investment. Expenditure should for the time being still be handled very cautiously, particularly in view of the stimulating effect of the above-mentioned tax reliefs. Should it become apparent, particularly from the further trend of investment, that later in the year economic activity slackens beyond the measure that constitutes a return

The Federal Budget

	1970		1971	1970	1971
	Budget[1]	Provisional results	Budget	Budget	Budget
	DM '000 million			% changes on the preceding year's budget	
Expenditure[2]	89.3	87.2	100.1	+ 8.2	+ 12.1
of which:					
current expenditure	73.3	71.1	80.6	+ 8.5	+ 10.1
capital expenditure[3]	16.1	16.0	19.5	+ 7.0	+ 21.4
Revenue	90.5	88.2	96.3	+ 15.1	+ 6.4
of which :					
direct taxes	30.6	28.4	32.1	+ 59.8	+ 4.9
indirect taxes	55.8	55.4	59.2	+ 1.0	+ 6.3
Net borrowing requirement[2]	+ 1.1	+ 1.0	− 3.9	—	—

[1] Including items blocked.
[2] Disregarding debt extinction.
[3] Including participations and loans.

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

to normal, there would still be time to consider reflation measures. These should not so much provide a direct and fresh boost to private investment, which rose sharply in 1969 and 1970, but rather encourage public investment, held back by the restrictive budget policy of the past two years. There should be no major problems in financing additional expenditure by the Federal Government and the Länder, since the counter-cyclical equalization fund built up under the stabilization policy can be drawn on and capital market resources should become more plentiful. But steps will need to be taken to make sure that local authorities, too, can obtain the funds they need to finance their investments.

In the light of persisting inflationary pressures, the monetary authorities will be well advised to keep their monetary and credit policy restrictive for the next few months. At the same time, however, the recent liquidity-creating influence of capital inflows from abroad will no doubt continue to be the dominating factor, especially if international interest rates go on falling. This may call for further adjustments of the instruments of interest and liquidity control.

3. The economic situation in West Berlin

1970 was another year of full employment and vigorous growth for West Berlin's economy. Provisional calculations put the increase of the gross domestic product over the previous year at 4.1% in real terms and at 11.0% in money terms. The economy is cooling down at much the same pace as in the Federal area, or possibly, since the middle of 1970, at a marginally quicker pace. There are some indications to this effect, but not enough to mark a real divergence.

West Berlin's deliveries to the Federal area were still rising fast. Over the whole of 1970, the increase was 10%, and it was not until the last quarter and the early months of this year that the calmer business situation worked its way through to the pace of deliveries. The rate of export expansion lagged a little behind that of the Federal area, with the share of exports to the EEC countries going up further.

The main feature of economic developments in 1970 was the rapid growth of gross fixed asset formation, but when investment activity slowed down in the Federal area during the second half of the year this made a fairly sharp impact. The expansion of building investment last year was impeded by bad weather; as a very large number of building projects were carried over into the new year, however, demand should continue to be buoyant, particularly in residential construction.

Private consumers' expenditure throughout the year reflected the very vigorous rise in disposable incomes. Public current expenditure on goods and services expanded even more, notably as a result of wage and salary increases in public administration.

The situation on the labour market eased progressively. The number of unfilled vacancies has been declining since the middle of the year, and at the end of February 1971 was 27% down on a year earlier. At 1% however, the unemployment rate was only marginally higher than a year earlier. Thanks to the continuing inflow of labour, particularly foreign workers, the number of persons employed again rose last year. The growth of production slowed down, with industrial production rising by only 3.3% in 1970.

The economic outlook for West Berlin is that the next few months will bring a further easing. Although in some branches of the capital goods industry and in the clothing industry there may be a major decline in the degree of capacity utilization, the pace of economic activity is not likely to differ significantly from that in the Federal area, because West Berlin's links with the latter and with the EEC countries have strengthened so much in recent years. In the field of economic policy, the system of turnover tax preferences was improved from 1 January 1971, with the effect that value actually added in West Berlin is now one of the determinants of the preferential rate. At the same time, the wages tax preferences were modified so as to make greater allowance for family size and make the system more intelligible to the taxpayers.

Major economic policy measures

November

(1) *In mid-November the Bundesbank lowered the discount rate from 7% to 6.5% and the Lombard rate from 9% to 8%. The minimum reserve requirements for the growth of the banks' domestic liabilities were abolished with effect from 1 December 1970 whereas the minimum reserve ratio for total bank liabilities was raised by 15% with effect from the same day; the overall result was a slight further reduction in bank liquidity.*

(2) *On 19 November 1970 the Council of Experts on the Assessment of the General Economic Trend published its 1970 Annual Report.*

December

The Bundesbank lowered the discount rate from 6.5% to 6% and the Lombard rate from 8% to 7.5% with effect from 3 December 1970.

January 1971

(1) *Public administration employees were granted a linear increase of 7% in their wages and salaries*

with effect from 1 January 1970. Including an extra DM27 a month for all wage- and salary-earners in public administration, the actual increase ranged from 7.9 to 10.8%, depending on the wage or salary group. Civil service salaries were to be put up by about the same rate, equally with effect from 1 January.

(2) *On 22 January 1971 the Federal Government published the 1971 Annual Economic Report, giving an outline of the economic and financial aims of the Federal Government for 1971 (annual projection), as well as of the policy measures to be taken to achieve these aims. According to its annual projection, which is based on the "target figures for general economic development in 1971" adopted on 22 October 1970, the Federal Government aims at a 3 to 4% rise of the gross national product in real terms.*

February

On 12 February 1971 the Bundestag adopted the 1971 Federal budget. On latest estimates, tax revenue for 1971 will probably fall a good DM1 000 million short of the amount entered in the draft budget. The volume of expenditure remained unchanged at DM100 000 million. All in all, expenditure in 1971 is to be 12.1% higher than provided for in the 1970 budget and 14.9% higher than actual outlays in 1970. Net borrowing is to go up from DM2 900 million to DM3 900 million.

March :

On 9 March 1971 the Bundesbank raised the selling rates for non-interest bearing treasury bonds by 0.25%, rescinding the cut of 17 February 1971 in the selling rates for this type of open-market paper.

TABLE 1 : **Key indicators**

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

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

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

Germany

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million u.a.	% of totals
	1965	1966	1967	1968	1969	1969	1969	1969
Visible exports								
Total	+ 10.3	+ 12.5	+ 8.0	+ 14.3	+ 16.9	199	29 053	100.0
Intra-EEC	+ 6.7	+ 16.0	+ 9.4	+ 16.7	+ 23.9	212	11 571	39.8
To non-EEC countries	+ 12.4	+ 10.6	+ 7.2	+ 12.9	+ 12.8	191	17 481	60.2
Exports of food, beverages and tobacco								
Total	+ 25.0	− 2.0	+ 26.6	+ 21.8	+ 27.0	290	836	2.9
Intra-EEC	+ 22.6	6.6	+ 61.2	+ 32.8	+ 31.0	447	496	1.7
To non-EEC countries	+ 26.6	− 7.3	+ 2.6	+ 9.4	+ 21.6	191	340	1.2
Exports of raw materials, fuel and power								
Total	+ 3.4	+ 7.1	+ 1.3	+ 10.7	+ 4.2	131	1 635	5.6
Intra-EEC	+ 4.1	+ 8.5	+ 1.5	+ 10.6	+ 5.4	132	1 009	3.5
To non-EEC countries	+ 2.3	+ 5.0	+ 0.4	+ 11.5	+ 2.4	129	627	2.1
Exports of semi-finished and finished industrial goods								
Total	+ 10.1	+ 13.8	+ 6.6	+ 15.9	+ 17.5	203	26 581	91.5
Intra-EEC	+ 5.3	+ 18.9	+ 4.7	+ 21.6	+ 25.8	220	10 066	34.6
To non-EEC countries	+ 12.7	+ 11.3	+ 7.6	+ 13.0	+ 13.0	194	16 515	56.9
Visible imports								
Total	+ 19.6	+ 3.2	− 3.7	+ 16.1	+ 23.7	192	24 933	100.0
Intra-EEC	+ 30.7	+ 4.2	− 1.0	+ 21.7	+ 30.0	250	10 862	43.6
From non-EEC countries	+ 13.6	+ 2.5	− 5.4	+ 12.5	+ 19.3	162	14 071	56.4
Imports of food, beverages and tobacco								
Total	+ 21.6	+ 2.4	− 4.2	+ 3.7	+ 16.7	156	4 333	17.4
Intra-EEC	+ 28.0	+ 6.8	+ 0.1	+ 11.9	+ 26.8	212	2 045	8.2
From non-EEC countries	+ 18.1	− 0.1	− 6.9	− 1.9	+ 9.0	127	2 288	9.2
Imports of raw materials, fuel and power								
Total	+ 4.6	+ 2.8	− 0.6	+ 15.8	+ 12.2	162	5 825	23.3
Intra-EEC	+ 8.3	+ 8.1	+ 9.4	+ 18.1	+ 23.3	218	1 195	4.8
From non-EEC countries	+ 3.9	+ 1.8	− 2.5	+ 15.3	+ 9.7	152	4 630	18.5
Imports of semi-finished and finished industrial goods								
Total	+ 27.2	+ 3.6	− 5.0	+ 21.1	+ 31.4	222	14 775	59.3
Intra-EEC	+ 35.7	+ 2.8	− 3.0	+ 25.4	+ 32.0	270	7 623	30.6
From non-EEC countries	+ 20.0	+ 4.3	− 6.9	+ 16.8	+ 30.7	187	7 153	28.7

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	138.9	141.8	144.1	142.7	145.9	146.4	144.6	150 6	146.1	148.7	157.6	153.6
	1970	154.8	156.4	159.7	152.6	164.8	150.8	154.6	156.6	151.5	155.4	156.5	153.3
	1971	164.0											
New orders received (1963 = 100)	1969	163.0	161.6	166.2	169.3	168.0	166.1	176.6	174.8	177.6	179.6	171.9	170.9
	1970	176.6	185.3	179.5	184.3	169.0	182.4	178.5	176.1	180.3	173.6	177.6	185.2
	1971	180.0											
Unemployed (1 000)	1969	197.0	203.3	186.8	156.0	161.6	170.7	177.6	176.2	166.4	160.7	148.0	149.4
	1970	156.1	132.5	152.5	121.2	135.4	144.9	158.6	163.3	165.4	166.8	160.2	130.6
	1971	150.5	117.3										
Construction: permits for residential construction (1 000)	1969	43.4	47.2	44.8	45.6	47,2	48.1	48.4	45.6	47.0	49.5	48.7	44.1
	1970	48.8	50.7	46.0	52.7	47.3	51.4	55.3	54.4	54.4	49.4	50.6	46.8
	1971												
Private consumers' expenditure: department store turnover (1963 = 100)	1969	164.1	155.7	162.3	159.4	170.5	167.0	170.1	173.2	176.7	180.5	177.9	176.9
	1970	184.7	175.2	185.4	180.6	185.6	198.5	202.8	190.2	199.7	208.4	198.9	198.0
	1971	207.0											
Consumer prices (1963 = 100)	1969	115.1	115.4	115.5	115.7	115.9	116.2	116.1	115.8	116.1	116.5	117.0	117.6
	1970	119.1	119.3	119.8	120.1	120.3	120.7	120.7	120.6	120.6	121.2	121.8	122.3
	1971	123.5											
Visible imports (million u.a.)	1969	1 933	1 880	1 974	2 071	2 021	2 038	2 144	2 045	2 122	2 391	2 125	2 127
	1970	2 338	2 458	2 384	2 630	2 350	2 607	2 537	2 373	2 508	2 503	2 560	2 558
	1971	2 366											
Visible exports (million u.a.)	1969	2 073	2 155	2 219	2 403	2 380	2 445	2 558	2 478	2 456	2 786	2 616	2 480
	1970	2 497	2 767	2 656	2 935	2 650	3 024	3 083	2 808	2 883	2 954	2 844	3 085
	1971	2 884											
Balance of trade (million u.a.)	1969	+ 140	+ 276	+ 245	+ 332	+ 360	+ 407	+ 414	+ 434	+ 335	+ 395	+ 492	+ 354
	1970	+ 159	+ 308	+ 271	+ 305	+ 300	+ 416	+ 546	+ 435	+ 375	+ 451	+ 284	+ 527
	1971	+ 358											
Official gold and foreign exchange reserves (million u.a.)	1969	6 229	6 169	5 926	6 473	9 326	7 738	7 762	8 322	9 664	8 165	6 889	5 679
	1970	5 951	6 112	6 241	6 354	6 633	7 594	8 538	8 740	9 767	10 341	11 948	11 834
	1971	12 029	12 839										
Money supply (DM '000 million)	1969	89.2	89.2	90.7	90.3	91.5	92.2	93.2	94.3	94.3	93.7	95.0	93.2
	1970	96.1	95.9	97.5	96.6	97.1	97.8	99.7	99.5	99.2	98.4	100.6	101.9
	1971												

Germany

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

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

Graph 6

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

Graph 7

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

Table 1

Gross national product at market prices.

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

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

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

Table 2

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

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

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

Table 3

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

Table 4

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

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

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

Construction: seasonally adjusted number of dwellings authorized.

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

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

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

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

Official gold and foreign exchange reserves: gross reserves of gold and convertible currency with Bundesbank at end of month.

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

B. France

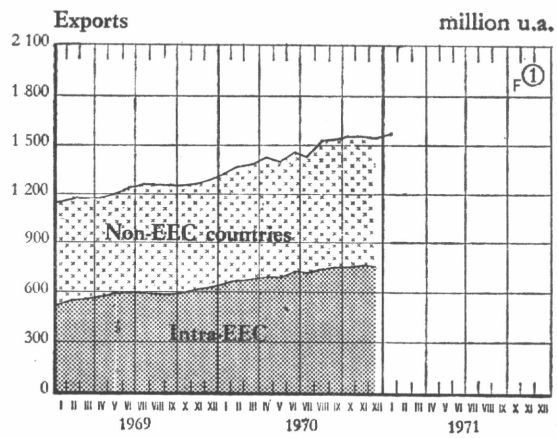
In the last few months there has been a new pattern of demand for the products of the French economy: exports are making a markedly smaller contribution to the growth of production and employment, and investment by private firms is unmistakably levelling off. As against this, expenditure by private consumers is again very buoyant and the management of government expenditure clearly reflects the fact that the economic policy-makers are now going for growth.

The prospects of a further, rapid consolidation of the fundamental equilibria are not particularly good: the upward movement of wages seems to be showing no loss of momentum to speak of for the moment, the price atmosphere is deteriorating again if anything and external surpluses are shrinking. The amount of slack in the economy which can be taken up to ensure faster, stress-free growth may well be less than suggested by the powerful investment boom of the last three years and by labour market statistics. There seems to be a case for a specially cautious approach to steps to support domestic demand.

1. Recent developments

The state of the French economy in early 1971 clearly reflects the change in the pattern of demand since the autumn of 1970. Until then, the pace and vigour of economic growth had been determined by exports and investment by firms. But now the decisive upward push comes from the way in which government expenditure is being managed and, above all, from the sharply increased propensity to consume of households. With the growth of domestic expenditure resuming speed, hardly any further progress is being made towards consolidation of the fundamental equilibria.

The non-seasonal growth of exports has lost a lot of momentum, although the value (fob) of aggregate deliveries of goods was still 14.5% greater in December/January than in the corresponding period of the previous year. Not only do the benefits of the 1969 parity changes seem to be gradually wearing off, but a certain cooling of the business situation is unmistakably beginning to make itself felt on some major export markets. Federal Germany is alone among EEC coun-



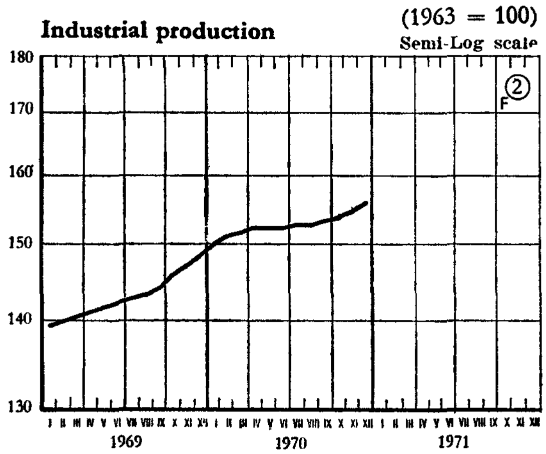
tries to have markedly increased its purchases of French goods in the last few months. Demand from non-member countries, barring the United States, was also less lively than before.

Within the forces making for expansion, there has been a clear shift to domestic demand. Admittedly, investment by private firms is probably no longer making quite such a strong contribution to the growth of production and employment as in 1970; to judge by the EEC survey of November 1970, plans for 1971 seem to have been revised downwards slightly in some industries. As against this, all the signs are that gross fixed asset formation by public enterprises and the Government is increasing at a faster pace. In view of the release of additional sums from the economic contingency fund which began halfway through 1970 and continued in early 1971, and the bunching of budget expenditure in the early months of the year, it is reasonable to assume that State-subsidized housing in particular is expanding more quickly. Private residential construction, too, is probably recovering somewhat, thanks in large part to the easier financing terms of the last few months.

Investment in stocks also seems to have been picking up of late. The distributive trades in particular must have started to rebuild their stocks, which were considerably depleted at the close of 1970.

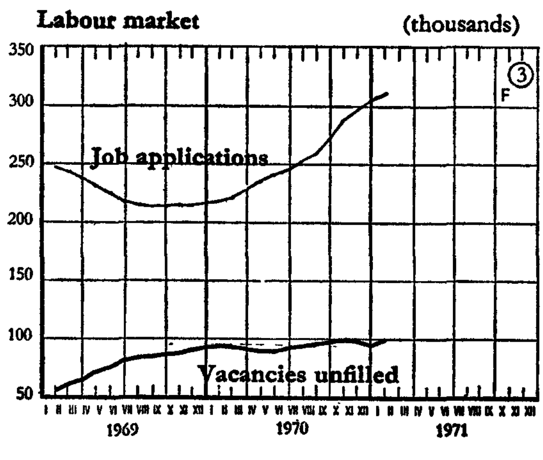
The main factor behind the business trend of the last few months has doubtless been the fast and powerful fresh upswing of private consumers' expenditure, an upswing which had already begun in the summer but really got going only in the fourth quarter: seasonal variations apart, consumption expenditure was about 4% higher than in the third quarter. While it cannot be assumed that this tempo was kept up in early 1971, everything points to continuing buoyancy of consumption expenditure by households. The increase of personal incomes probably gathered momentum if anything, owing to the continuing rapid rise of hourly wage rates, the back-dated payments for 1970 which were made at the turn of the year, the sometimes considerable increases in social security benefits and the improving employment situation, more especially in the consumer goods industry. The incomes of the self-employed probably increased more quickly too, thanks to higher turnover. The incidence of taxation is less than a year ago and, finally, the reversion to normal ot hire-purchase terms may be still exerting an effect.

The faster expansion of domestic demand has already affected industrial production. Certain seasonal and fortuitous factors (longer works holidays, unusually severe winter, strikes) admittedly had an inhibiting effect at the turn of the year and in early 1971, but the underlying trend probably again corresponds to an annual growth rate of



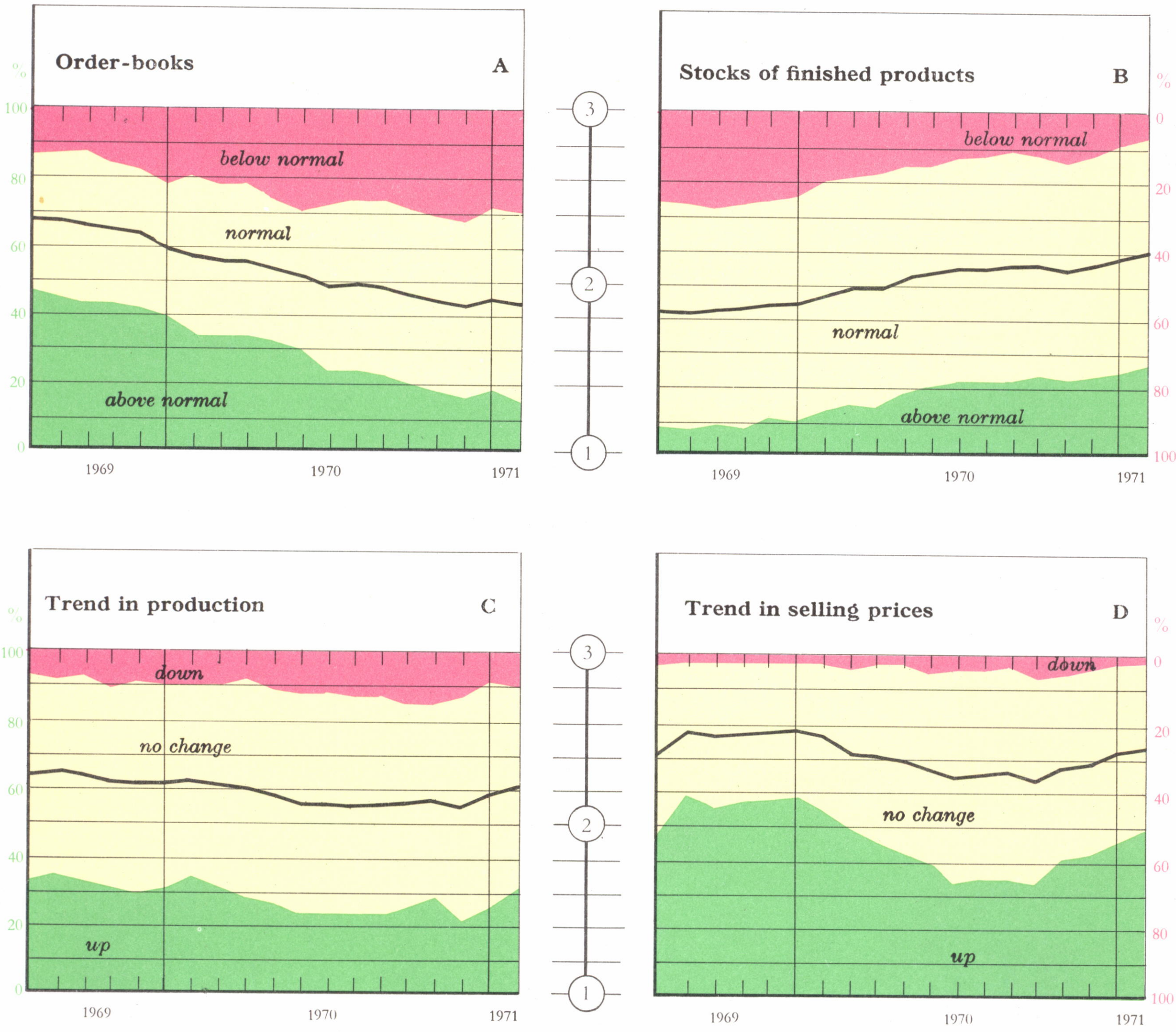
about 6 to 7%. In particular, there was a noticeable increase in the output of the consumer goods industries, where the inflow of orders is larger and order books have started to lengthen again.

Initially, this quicker rate of production was probably attributable to renewed productivity improvements. In the meantime, however, it will have led to a certain increasse in employment too. The scope for lengthening working hours is fairly closely limited by psychological factors and collective agree-



ments, and so the number of workers in paid employment rose especially in the industries near the consumer stage. Although there had been a marked increase in the number of

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

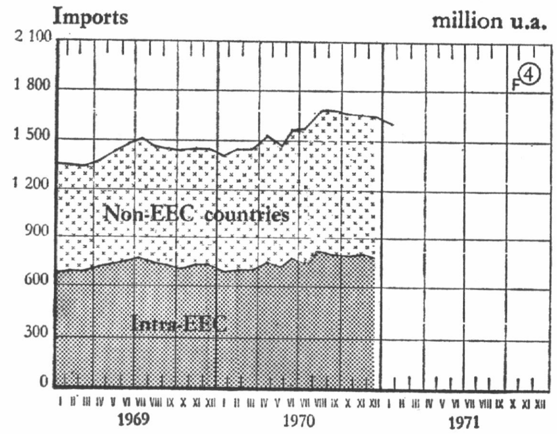
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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

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

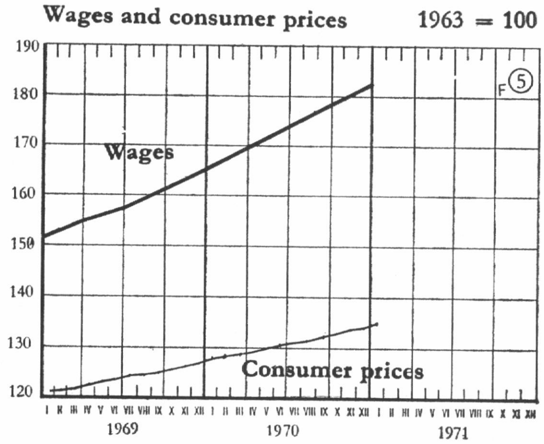
persons seeking employment in the course of 1970,[1] large segments of the economy—including building and construction—seem to be having difficulty in finding suitable labour. Total vacancies are again showing a slight upward trend, while the rate of increase in the number of job-seekers has fallen off very substantially.

The upsurge of imports in the spring and summer of 1970 was followed by a marked lull towards the end of the year, owing to a cutback in food imports and a temporary levelling off of imports of raw materials and semi-finished products. But of late there



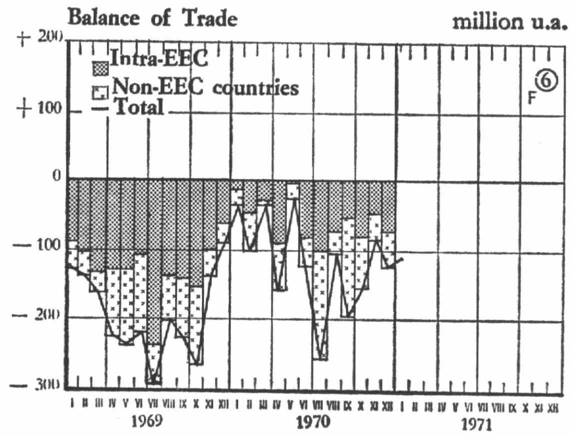
seems to have been a fresh, sharp upturn in the trend of imports. Imports of consumer goods, in particular, are again increasing appreciably. The total volume of merchandise imports in December/January was about 9-10% up on the figure twelve months earliers.

No further progress has been made in the last few months towards stabilizing the domestic price level, despite the considerable volume of imports and the virtual absence of change in import prices—those for raw materials and semi-finished products even declining if anything. The upward movement of wholesale and retail food prices definitely lost momentum towards the end of 1970, but the prices of manufactures which are sensitive to the business situation continued to rise steadily. Businessmen say that producers' prices—especially for consumer goods—even started climbing faster again in the winter. Of late, retail traders, too, have been reporting greater price increases. The movement of



prices for services at the beginning of 1971 was determined by the increase in various public service charges. All in all, the cost of living—as measured by the INSEE index of 259 items—rose by 1.7% between September and January, that is to say somewhat more than in the previous four months, to 5.2% above the figure for January 1970.

The external balance seems to be deteriorating again. Visible trade is still in deficit; the swing of the leads and lags in favour of

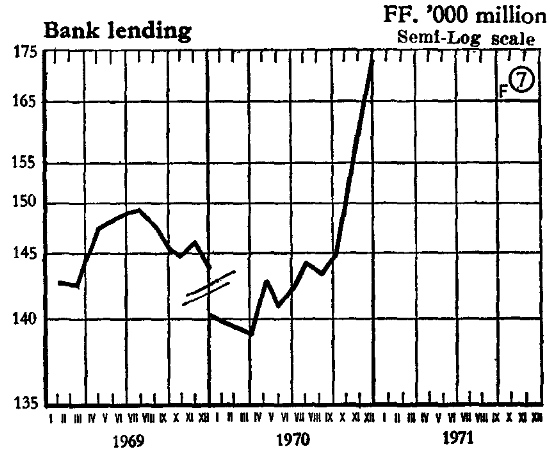


France, which set in after devaluation and continued well into 1970, has obviously not persisted. There was also an outflow of

[1] About half the increase is due, however, to improved statistical records resulting from greater activity by the national employment agency.

short-term capital, so that the balance of payments was barely in equilibrium in the closing months of the year, after having shown a surplus of $1 300 million in the first half of 1970 and one of about $200 million as late as the third quarter. The net foreign exchange position of the monetary authorities admittedly improved once more, but this obviously meant a reduction in the net foreign exchange assets of the commercial banks.

Monetary expansion picked up remarkable speed in the last few months; after a—seasonally adjusted—increase of 2.7% in the third



Demand for and supply of goods and services

	1968[1]	1969[1]		1970[2]		1971[3]
	At current prices (in FF '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports[4]	90.8	+ 14.9	+ 20.4	+ 15½	+ 25½	+ 8
Gross fixed asset formation	157.2	+ 10.1	+ 17.1	+ 8	+ 15½	+ 6
Public current expenditure on goods and services	79.9	+ 3.6	+ 11.6	+ 3	+ 11	+ 3½
Private consumers' expenditure	383.5	+ 7.2	+ 14.3	+ 4½	+ 10½	+ 5½
Gross national product	628.5	+ 7.9	+ 15.5	+ 6	+ 12	+ 5½
Imports[4]	90.3	+ 18.2	+ 25.9	+ 7	+ 18	+ 9

[1] Statistical Office of the European Communities, "National Accounts 1959-1969", 1970.
[2] Estimates.
[3] 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 the experts from member countries but are established and published on the sole responsibility of the Commission.

quarter, the money supply grew no less than 7.4% in the fourth quarter. The main cause was the very sharp expansion of lending—especially short-term lending—to business and private clients which began after the abolition of the quantitative credit controls, towards the end of October. Within a mere three months, loans outstanding—seasonally adjusted—rose by 11.8%; at the end of 1970 they were 19.5% higher than a year previously. In addition the change in budget policy had an impact on domestic liquidity—the cash deficit was probably fairly substantial, especially in early 1971, owing to selective increases in expenditure.

The money market eased markedly, helped by very active intervention on the part of the Banque de France and by a reduction in the discount rate on 8 January from 7% to 6.5%. The day-to-day money rate dropped to 5.75% by the beginning of March. Interest rates seem to have been easing slightly of late on the capital market too.

2. Outlook

The recent business trend in France is broadly as predicted in Quarterly Survey No. 3/4-1970 on the economic situation in the Community. So there seems no need to amend the forecasts made at the time for 1971.

Export demand will continue to advance but without any particular dynamism. It will probably be held back, in particular, by the progressive settling down and return to normal of the business situation in certain major importing countries in Europe, and the keener international competition which should result. In comparison, the expected improvement in economic activity in the United States and Great Britain may well only have a marginal effect. At all events, businessmen took a fairly reserved view of the inflow of orders from abroad in the previous few months; the volume of foreign orders on the books, however, was still considered to be very large.

[1] Notes and coin in circulation, sight and time deposits.

The growth of production and employment will depend mainly on domestic demand. Overall, investment is continuing to increase. While corporate investment may not expand as fast as it did during most of 1970, its growth will still be substantial, if only because industry, in particular, will be led to invest more in plant and machinery in the course of a rationalization drive induced by costs rising sharply under the impact, especially, of the wage trend. As against this, plans to increase capacity in 1971 seem to be less expansive; however, there is some evidence that the industries which are near the consumer stage and whose propensity to invest had flagged markedly in 1970, will revise their plans upward in the course of the year. Investment in building and construction will probably continue to climb fairly steeply, thanks in particular to higher public expenditure and a certain recovery in private residential construction.

Consumption will expand rapidly. On the one hand, public expenditure on consumption—expecially wages and salaries—certainly seems to be rising faster than expected. On the other hand, the propensity to consume of households will probably remain high—not least because of people's once more growing fear of sharper price rises. According to the last INSEE consumer survey of November 1970, in fact, the percentage of households expecting a "large" price rise was even higher than after the currency crisis of 1968 or after the devaluation of 1969. A continuing appreciable increase of incomes is to be expected. Employment is doubtless tending to rise and for the moment the upward movement of wages will probably lose hardly any impetus to speak of—especially as employers apparently see no need to resist trade union claims particularly strongly, in view of present sales and profit expectations. Furthermore, an increasing number of collective agreements now include a sort of sliding wage scale, in the form of a "purchasing power guarantee", and this may well have an expansionary impact in the course of the year.

The growth of demand will ensure that domestic production increases fairly strongly in the months ahead. Lengthening order books have led industry, in particular, to take a much more optimistic view of the future: a stronger upswing is expected for consumer goods, recovery for basic material industries and continuing expansion for the manufacture of capital goods. As a result the degree of technical capacity utilization will rise again. The trend towards shorter working hours is likely to continue and thus give an added fillip to the increasing demand for labour.

Imports may well increase. In particular, imports of consumer goods are likely to gather momentum. Together with export prospects, this suggests the possibility of new obstacles to the consolidation of the external equilibrium.

The prospects for rapid stabilization of the domestic price level are not particularly good either, especially as the domestic upward pressures on prices do not seem to have lost momentum. These pressures undoubtedly come mainly from the cost situation in industry and commerce, that is to say primarily from the continuing discrepancy between wage and productivity rises, though demand pull may once more have been playing a greater role

The Central Government Budget

	1970		1971	1970	1971
	Original Budget	Revised Budget	Budget	Original Budget	Budget
	FF '000 million			% charges of the preceding year's original budget	
Expenditure[1]	162.5	167.0	177.2	+ 5.7	+ 9.0
of which:					
current expenditure	138.6	141.6	151.6	+ 7.8	+ 9.4
capital expenditure[2]	23.9	25.4	25.6	− 5.2	+ 7.2
Revenue	162.5	167.0	117.2	+ 10.3	+ 9.1
of which :					
direct taxes	50.1	51.8	54.7	+ 22.8	+ 9.3
indirect taxes	97.4	98.8	106.1	+ 6.1	+ 9.0
Net borrowing requirement[1]	0	0	0		

(1) Disregarding debt extinction.
(2) Including participations, advances and loans.

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

of late. It is surely not by accident that proportionately many more managements are planning to raise their prices now that the expansion of private consumption has resumed a markedly more rapid pace.

The renewed deterioration of the price climate and the increased instability of the external balance are clear pointers to the limits set at present in France to the pursuit of a short-term economic policy directed at encouraging growth. The basis for a faster expansion of domestic demand and for growth free of stress in the long run is still very precarious. The margin of idle capacity at any rate is very narrow—narrower than the powerful investment boom of the past few years and the labour market statistics would suggest. In November, after all, one third of the businessmen replying to INSEE questionnaires said that they could not increase their production because of the lack of technical capacity and suitable labour. This should prompt the policy makers to exercise extreme prudence when it comes to measures to support domestic demand.

In its memorandum on the economic situation in the Community, submitted to the Council on 2 December 1970, the Commission expressly mentions France as one of the countries where budget policy still needs to be kept in line with the requirements of stability. This means that, to the extent that the expansion of domestic private demand gains further momentum, it is essential to keep public expenditure—which has recently been soaring and has led to cash deficits—within the limits of the appropriations of the 1971 finance law, and to make sure that for the year as a whole the budget is in overall balance.

The liquidity explosion of recent months seems to call for special vigilance on the part of the monetary authorities. Sufficient means of indirect action remain even after the complete abolition of the quantitative credit controls, whose long-run effectiveness may have been dubious anyway. The recent improvement of the minimum reserve system, in particular, should provide an effective method for limiting bank liquidity. The decline in domestic interest rates—witness two reductions in the discount rate, from 7.5% to 6.5%, since last autumn—should in no case exceed the strict minimum which seems needed, in view of the international interest trend, to shield the domestic economy against an undesired inflow of foreign money. In particular, as long as fears of further marked price increases are not durably dispelled, a reduction in deposit would hit private saving, the promotion of which should remain a priority aim.

It should be emphasized that, in the final analysis, the endeavours of short-term economic policy to ensure simultaneously a greater expansion of domestic demand, more stability and external surpluses on current account, will be frustrated if employers and workers fail to go along with these aims and if, for the sake of short-term advantages, they knowingly or unknowingly accept the longer-term risks which continuing cost and price rises imply for growth and employment.

Major economic policy measures

November

Halfway through November, the Government approved a draft supplementary budget for 1970: additional expenditure of approximately FF5 000 million—about 3% of the original estimate—including FF2 700 million for current non-military expenditure such as wages, salaries, social security benefits, and FF1 700 million for non-military capital expenditure. At the same time, however, the estimates of tax revenue for 1970 were revised upward by a substantial amount—the FF1 600 million shortfall on the original estimate for income tax revenue is more than offset by the FF3 900 million increase in corporation tax revenue alone. Allowing for other increases in revenue, aggregate budget expenditure and receipts remain in balance.

December

(1) *In early December the Minister of Economic Affairs and Finance announced a reform of the export credit system. In particular, credit facilities are to be standardized and administrative provisions are to be simplified. It is also intended to get commercial banks to play a larger part in export financing and to fix the cost of credit to foreign buyers at about 7%.*

(2) *In early December Parliament definitively approved the draft finance law for 1971, with only minor changes to the bill tabled by the Government (cf. Quarterly Survey 3/4-1970, p. 62).*

(3) *To help small and medium-sized firms finance their investment expenditure, it was decided halfway through December to ease certain conditions for the grant of medium-term bank loans and, in particular, to create new facilities for long-term investment credit.*

(4) *As a measure against unemployment, the Government decided at the end of December to speed up the training of young people by establishing mobile training centres and by making direct arrangements with enterprises.*

(5) *The arrangements and agreements made within the framework of the Government's price policy in the last few years were renewed at the end of December for a further twelve months. In particular, the "programme contracts" concluded with individual branches of industry, which expired on 31 December 1970, and the agreements made with retail trade, remain valid in 1971.*

January 1971

(1) *Exchange controls were eased on 1 January, more particularly in order to help French companies set up subsidiaries abroad. The maximum sum which may be transferred for this purpose without special authorization was increased from FF2.5 million to FF5 million. In addition, companies which in 1970 had repatriated more than FF5 million of the profits of their foreign subsidiaries will be entitled to invest a corresponding sum abroad.*

(2) *The statutory minimum growth wage (SMIC) was increased as of 1 January by 3.7% from FF3.50 to 3.63 per hour. Considerable improvements in various social-security benefits (social insurance and retirement pensions, old age pensions, maternity allowances, refunds of sickness expenditure) came into effect at the same time.*

(3) *Some public service charges were increased at the beginning of January (including railway goods and passenger transport rates, road transport rates, post office letter and telegram rates).*

(4) *The Government decided to dampen the upward movement of retail prices by reducing the value added tax rate for certain foods and beverages from 17.6% to 7.5%: with effect from 1 January in the case of pasta, sweets and ice cream; with effect from 18 January on the case of tea, coffee and chicory. This should allow a reduction of some 8½% in the retail price of these times, and cost the Treasury almost FF650 million in 1971.*

(5) *In view of the sharp downturn of interest rates on major international markets, the Banque de France on 8 January cut its discount rate (already reduced twice since the end of August 1970, from 8% to 7.5% on 27 August and to 7% on 20 October) to 6.5% and the Lombard rate by 0.5% to 8%. A 0.5% cut was also made in the discount rate for short-term claims arising from foreign transactions, and for medium-term claims arising from foreign transactions with EEC countries. But the preferential discount rate for medium-term claims arising from foreign business with non-member countries remained unchanged at 4.5%.*

(6) *At the beginning of January the Government decided to support economic growth by speeding up public investment expenditure. Approximately one third of the 1971 budget appropriations are to be spent in the first quarter, as against only one fifth in the same period of the previous year. In addition, authorizations to spend almost FF300 million from the economic contingency fund in 1971 were released halfway through January. This sum included FF171.5 million for State-subsidized housing and FF100 million for education.*

February

(1) *The collective agreements for various public enterprises (railways, gas and electricity, Régie Renault, collieries etc.) concluded after the beginning of the year generally included a kind of sliding wage scale—workers being guaranteed a specified increase in real wages (mostly 2 or 2.5%) in 1971, and an increase of more than 4% in retail prices in 1971 automatically leading to an additional increase in money wages.*

(2) *In mid-February the Government announced a tax concession for the lower income brackets. Exemption from income tax was granted to persons whose total income does not exceed the statutory minimum wage and whose income from wages and salaries and from pensions does not exceed 50% of this total income.*

(3) *A decree of 23 February authorized the Conseil national du crédit to extend the compulsory minimum reserve system for banks by calculating reserve*

requirements in future on the basis of the banks' advances as well as on their sight and time deposits which had previously been the sole criteria, and also to require other financial institutions to hold minimum reserves at the Central Bank (cf. Survey 3/4-1970, p. 63). The Conseil national du crédit thereupon increased the top rate for minimum reserves, calculated on the basis of sight and time deposits, from 10% to 15%; it also fixed the top rate for minimum reserves, calculated on the basis of advances, at 10%. It was decided, however, not to apply this novel minimum reserve system for the time being. The Banque de France left the minimum reserves which commercial banks are required to hold unchanged at 7.5% of sight deposits and 2.5% of time deposits. It did not instruct other financial institutes to hold minimum reserves.

(4) *At the end of February the remaining quantitative restrictions on low-interest loans of the Crédit agricole were eased, by allowing an increase of 12% in 1971 as against the previous 8%.*

March

Hire-purchase regulations for utility vehicles were eased by the Conseil national du crédit with effect from 1 March: the minimum downpayment was reduced from 30% to 20% of the purchase price. In addition, changes in certain rules for hire-purchase credits should reduce the effective cost to the borrower, previously 18 to 20%, by about 1½%.

France

TABLE 1 : **Key indicators**

	1965	1966	1967	1968	1969	1969
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 4.7	+ 5.6	+ 4.7	+ 4.8	+ 7.9	140
Industrial production	+ 5.1	+ 7.7	+ 4.3	+ 4.5	+ 9.6	147
Total imports	+ 3.4	+ 13.9	+ 7.8	+ 12.7	+ 18.2	191
Private consumers' expenditure	+ 4.4	+ 4.8	+ 5.0	+ 5.6	+ 7.2	137
Public current expenditure on goods and services	+ 2.7	+ 2.2	+ 3.9	+ 5.6	+ 3.6	124
Gross fixed asset formation	+ 7.2	+ 8.4	+ 6.1	+ 6.6	+ 10.1	165
Total exports	+ 11.8	+ 8.4	+ 7.2	+ 10.3	+ 14.9	178
Gross national product per head of population	+ 3.7	+ 4.7	+ 3.9	+ 4.1	+ 7.1	133
Gross national product per person in employment	+ 4.3	+ 4.8	+ 4.4	+ 5.2	+ 6.7	134
	% change by value on preceding year					
Gross income per employee	+ 6.6	+ 6.1	+ 6.8	+ 11.9	+ 12.0	165

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

	1965	1966	1967	1968	1969
Balance exports less imports					
in million u.a.	+ 1 012	+ 344	+ 425	+ 77	– 792
as percentage of GNP	+ 1.0	+ 0.3	+ 0.4	+ 0.06	– 0.6
Unemployment rate	1.3	1.4	1.8	2.1	1.7
consumer prices (% change on preceding year)	+ 2.5	+ 3.0	+ 2.8	+ 4.7	+ 6.6

TABLE 3 : **Foreign trade (at current prices)**

	% change on preceding year					Indices 1963=100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 8.3	+ 4.5	+ 11.4	+ 17.4	+ 18.8	219	17 676	100.0
Intra-EEC	+ 12.0	+ 2.0	+ 16.0	+ 30.6	+ 20.9	278	8 605	48.7
To non-EEC countries	+ 5.8	+ 6.3	+ 8.2	+ 7.5	+ 16.8	182	9 070	51.3
Exports of food, beverages and tobacco								
Total	+ 7.5	+ 2.9	+ 19.8	+ 20.8	+ 6.0	216	2 711	15.3
Intra-EEC	+ 19.4	+ 6.0	+ 26.5	+ 41.9	+ 1.7	341	1 625	9.2
To non-EEC countries	– 2.0	– 0.1	+ 12.8	– 3.3	+ 13.2	140	1 085	6.1
Exports of raw materials, fuel and power								
Total	+ 7.3	– 3.7	+ 1.6	+ 10.6	+ 11.7	149	1 390	7.9
Intra-EEC	+ 7.4	– 3.7	+ 0.9	+ 19.9	+ 13.7	184	926	5.2
To non-EEC countries	+ 7.2	– 3.6	+ 2.6	– 3.5	+ 7.9	107	464	2.7
Exports of semi-finished and finished industrial goods								
Total	+ 8.7	+ 6.1	+ 11.1	+ 17.5	+ 22,5	230	13 575	76.8
Intra-EEC	+ 11.2	+ 2.3	+ 16.2	+ 29.0	+ 28,7	287	6 054	34.3
To non-EEC countries	+ 7.2	+ 8.5	+ 8.1	+ 10.2	+ 18,0	199	7 521	42.5
Visible imports								
Total	+ 14.5	+ 4.5	+ 12.5	+ 27.7	+ 9.8	217	18 913	100.0
Intra-EEC	+ 20.8	+ 10.7	+ 23.1	+ 31.3	+ 6.5	295	9 252	48.9
From non-EEC countries	+ 10.5	+ 0.2	+ 4.4	+ 16.7	+ 13.2	173	9 661	51.1
Imports of food, beverages and tobacco								
Total	+ 8.4	– 2.6	+ 2.7	+ 19.6	+ 6.8	158	2 453	13.0
Intra-EEC	+ 1.3	+ 16.6	+ 31.8	+ 33.4	+ 3.9	295	814	4.3
From non-EEC countries	+ 10.3	– 7.4	– 6.4	+ 13.5	+ 8.4	128	1 639	8.7
Imports of raw materials, fuel and power								
Total	+ 5.9	+ 0.3	+ 3.6	+ 10.6	+ 4.5	136	4 202	22.2
Intra-EEC	+ 9.5	– 2.3	+ 14.2	+ 11.4	+ 8.7	146	730	3.9
From non-EEC countries	+ 5.3	+ 0.8	+ 1.7	+ 10.5	+ 3.7	134	3 472	18.3
Imports of semi-finished and finished industrial goods								
Total	+ 22.0	+ 9.0	+ 19.6	+ 30.3	+ 12.4	300	12 258	64.8
Intra-EEC	+ 25.0	+ 12.0	+ 23.3	+ 33.3	+ 6.5	328	7 708	40.7
From non-EEC countries	+ 17.7	+ 4.4	+ 13.3	+ 24.6	+ 23.9	261	4 550	24.1

TABLE 4 : **Selected monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production	1969	*144.1*	*140.5*	*139.4*	*142.2*	*142.0*	*132.5*	*145.4*	*139.4*	*143.9*	*145.5*	*143.4*	*150.0*
(1963 = 100)	1970	*154.8*	*152.9*	*152.9*	*151.6*	*146.3*	*139.3*	*150.4*	*139.6*	*154.4*	*152.9*	*151.9*	*155.4*
	1971												
Number of persons seeking	1969	*242.7*	*237.9*	*231.0*	*224.1*	*221.4*	*215.5*	*217.5*	*218.1*	*217.4*	*218.4*	*216.6*	*218.7*
employment	1970	*220.7*	*227.3*	*233.0*	*241.5*	*246.1*	*251.6*	*261.7*	*271.6*	*285.0*	*297.4*	*307.6*	*307.2*
(1 000)	1971	*316.5*											
Construction : building	1969	*51.0*	*46.9*	*44.1*	*46.5*	*50.6*	*51.9*	*56.2*	*50.0*	*58.1*	*53.5*	*39.1*	*50.2*
permits issued for housing	1970	*41.9*	*50.6*	*48.3*	*49.3*	*45.7*	*56.9*	*44.7*	*46.4*	*51.3*			
(1 000)	1971												
Private consumers' expen-	1969	*146.3*	*139.2*	*143.0*	*139.0*	*150.9*	*138.6*	*146.1*	*153.4*	*137.5*	*143.0*	*144.1*	*147.9*
diture : turnover of depart-	1970	*153.2*	*141.0*	*139.7*	*138.3*	*142.0*	*141.0*	*144.0*	*143.5*	*142.5*	*156.2*	*143.3*	
ment stores (1963 = 100)	1971												
Consumer prices	1969	121.1	121.5	122.1	122.7	123.2	123.6	124.2	124.5	125.1	125.9	125.5	125.9
(1963 = 100)	1970	127.9	128.5	129.0	129.6	130.3	131.0	131.5	131.7	132.3	132.8	133.3	133.6
	1971	134.6											
Visible imports	1969	*1 362.4*	*1 316.9*	*1 272.8*	*1 469.6*	*1 460.5*	*1 472.9*	*1 573.9*	*1 379.4*	*1 462.7*	*1 539.1*	*1 374.1*	*1 404.4*
(million u.a.)	1970	*1 434.9*	*1 485.5*	*1 397.2*	*1 659.6*	*1 335.0*	*1 685.8*	*1 670.9*	*1 664.2*	*1 621.8*	*1 628.8*	*1 655.1*	*1 658.1*
	1971	*(1 480)*	*(1 606)*										
Visible exports	1969	*1 229.1*	*1 179.0*	*1 107.7*	*1 237.8*	*1 231.6*	*1 249.7*	*1 282.3*	*1 203.4*	*1 240.2*	*1 266.9*	*1 237.7*	*1 298.9*
(million u.a.)	1970	*1 421.0*	*1 385.0*	*1 364.8*	*1 505.3*	*1 319.3*	*1 563.6*	*1 416.4*	*1 560.0*	*1 584.6*	*1 476.3*	*1 570.3*	*1 536.6*
	1971	*(1 595)*	*(1 576)*										
Balance of trade	1969	*– 133.3*	*– 137.9*	*– 165.1*	*– 231.8*	*– 228.9*	*– 223.2*	*– 291.6*	*– 176.0*	*– 222.5*	*– 272.2*	*– 136.4*	*– 105.5*
(million u.a.)	1970	*– 10.9*	*– 100.5*	*– 32.4*	*– 154.3*	*– 15.7*	*– 122.2*	*– 254.5*	*– 104.2*	*– 97.2*	*– 152.5*	*– 84.8*	*– 122.2*
	1971	*(+115)*	*(–30)*										
Official gold and foreign	1969	4 215	4 125	3 986	3 774	3 636	3 610	3 594	3 781	4 006	3 913	3 989	3 833
exchange reserves	1970	3 885	3 957	3 961	4 032	4 142	4 282	4 492	4 546	4 576	4 617	4 789	4 789
(million u.a.)	1971	5 007	5 057										
Money supply	1969	*207.9*	*210.6*	*212.6*	*214.5*	*211.4*	*212.4*	*212.4*	*213.3*	*213.6*	*211.8*	*213.2*	*209.2*
(FF '000 million)	1970	*204.6*	*205.8*	*207.5*	*209.1*	*208.1*	*208.4*	*209.1*	*211.2*	*212.8*	*219.7*	*223.8*	*228.4*
	1971												

France

NOTES TO GRAPHS AND TABLES

Source : Statistical Office of the European Communities (except as otherwise indicated). Conversion into units of account (1 u.a. = 0,888671 g of fine gold = US $ 1) at the official exchange rate.

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices (259 items).

Graph 6

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

Graph 7

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

Table 1

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

Industrial production: value added by industry.

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

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

Table 2

Source : " Rapport sur les comptes de la Nation 1969. " Ministère de l'Economie et des Finances — Paris.

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

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

Consumer prices: implicit price index of private consumption computed from the national accounts.

Table 3

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

Table 4

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

Number of persons seeking employment: seasonally adjusted figures, position at end of month.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: seasonally adjusted indices of department store turnovers, constant samples.

Consumer prices: national index of 259 items.

Imports cif, exports fob, adjusted for seasonal variations.

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

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 the end of month.

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

C. Italy

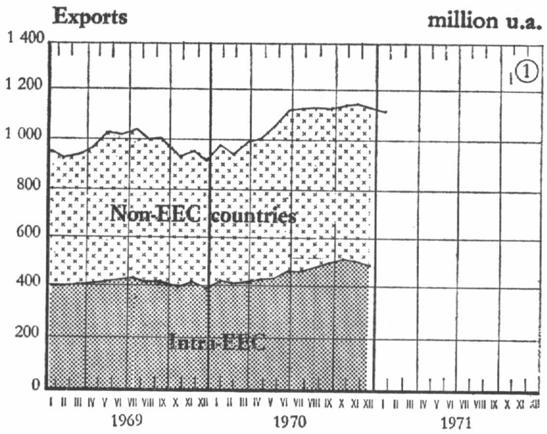
Industrial production recovered towards the end of last year as expected, but, owing to persistent strains in social relations, a good deal less than had originally been hoped. On the demand side, building and construction drifted distinctly further into the decline which followed the recent and, because of special factors, overheated boom. The pressure of rising costs strenthened the upward movement of prices. While the current account deteriorated further, the overall balance of payments for the final quarter of 1970 closed with a spectacularly high surplus, thanks to substantial imports of money and capital.

Economic growth will no doubt continue in 1971, but, given the difficulties of getting the flow of output back to full speed, may for some time yet be slower than would correspond to the production potential. The price climate is liable to remain precarious. Short-term economic policy still has the difficult task of restoring equilibrium to the disturbed economy and laying the foundations for optimum utilization of the factors of production. To this end, the return of normal relations between workers and employers is quite definitely of paramount importance.

1. Recent developments

Around the end of 1970 and the beginning of 1971, economic activity in Italy again fell far short of expectations, because productivity gains were still held back by industrial unrest and by difficulties arising from the collective wage agreements concluded since the autumn of 1969. Barring the early months of 1970, circumstances connected with the factors of production have now for virtually a year and a half caused far less than full advantage to be taken of the economy's growth potential, one of the effects being a decline in the degree of capacity utilization in industry. At the same time, company profits were squeezed also by extremely sharp wage increases. The discrepancy between the growth of expenditure and of output was at times considerable, but is probably a good deal smaller now.

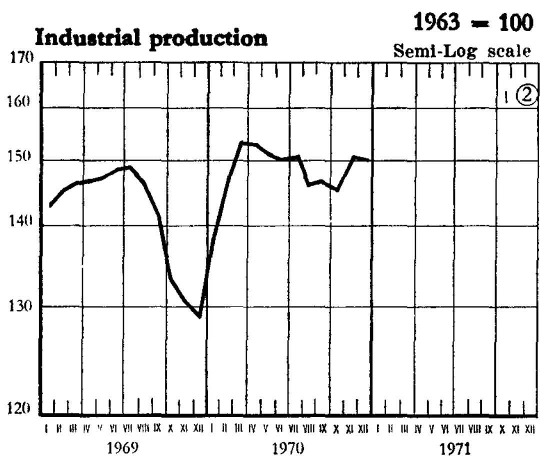
Exports were again weak in the fourth quarter of 1970 and in January 1971. This had less to do with foreign demand than with the above-mentioned production difficulties, although persistent uncertainty about delivery dates does seem to be having an increasingly distinct adverse effect on the flow of orders from abroad. At some 22½%, the year-on-year increase in the value of visible exports was nevertheless unusually sharp in the fourth



quarter; this was exclusively because exports in the corresponding period of the previous year had been abnormally low as a result of strikes.

As regards domestic demand, investment expenditure on building and construction probably no longer went up to any significant extent. In residential construction and industrial building, building starts in October-November were almost 15% down in terms of volume in comparison with October-November 1969, when the level had been depressed by special factors; in addition, they were considerably outnumbered by completions. Expenditure on public works, on the other hand, kept on rising. Investment in plant and machinery, after growing at a sharply reduced rate in the second quarter and actually declining in the third, may have picked up appreciably in the closing months of last year.

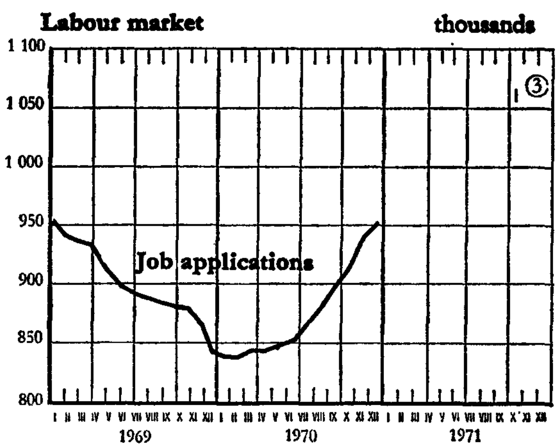
Private consumers' expenditure, which over the year as a whole expanded far more than in 1969, appears to have been rising comparatively little towards the end of 1970. Certainly the wage and salary bill, its main determinant, tended to be pushed up by a number of factors, such as new collective wage agreements at national level and at the level of individual enterprises, the further narrowing of the differential between the wage zones on 1 October, another rise of the cost-of-living bonus on 1 November under the sliding wage agreements. On the other



hand the expansion of consumption was held back notably by the lower average number of hours worked per person and by incomes other than wages.

On the supply side, the ISTAT index shows that in the closing months of last year and in January 1971 industrial production rose comparatively little, for the reasons set out above. As a result, the index was, in the fourth quarter, still below its level in the first quarter of 1970 and only a little (2½%) above the peak of 1969 (July). The only firms reporting vigorous output expansion were those making plant and machinery. Because of the losses of working time caused by strikes in the fourth quarter of 1969, the year-on-year rise in the index of total industrial production per working day was nevertheless 15% in the final quarter of 1970. In building and construction output was decidedly low, owing to weak demand.

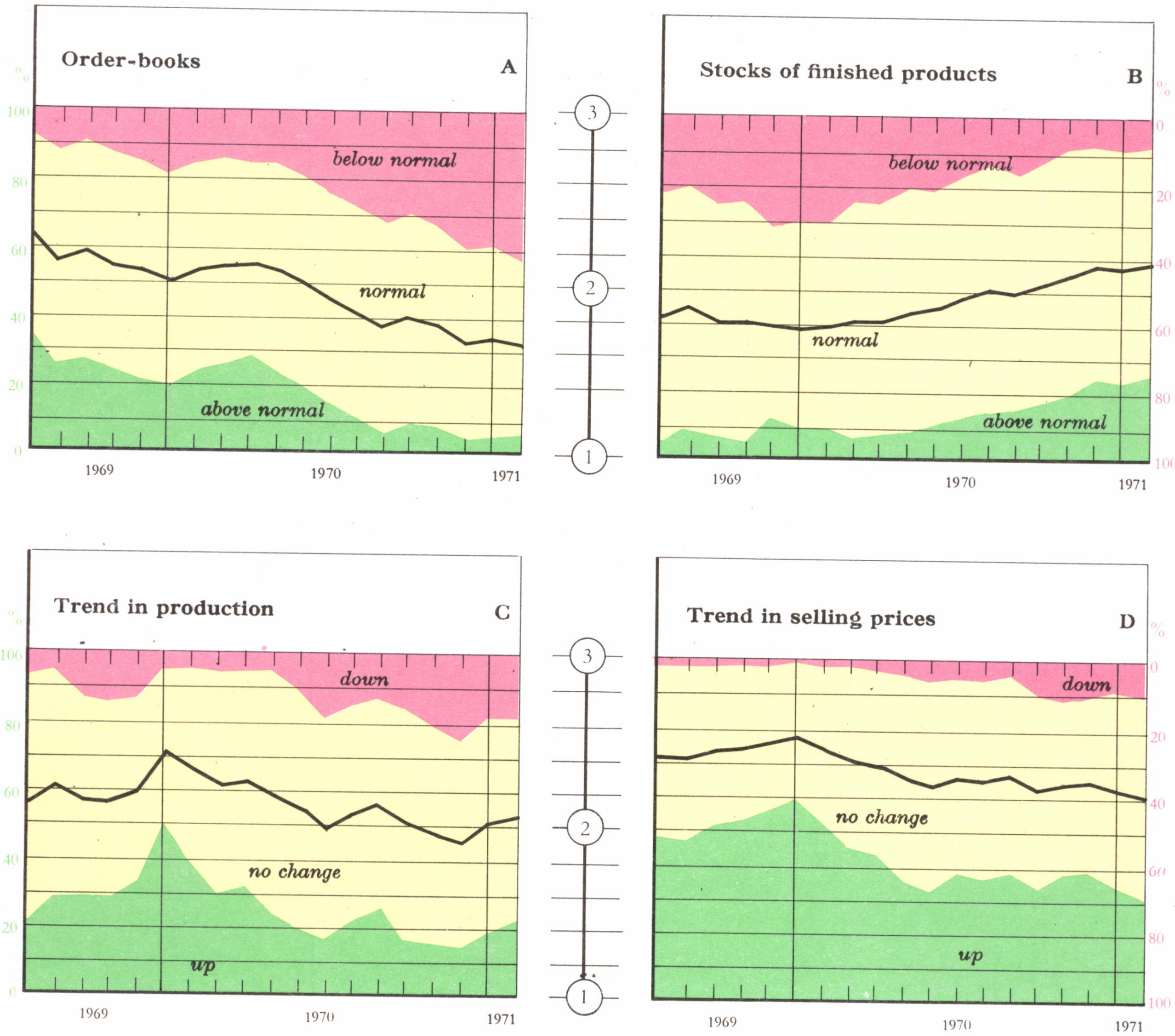
In the circumstances, the situation on the labour market eased appreciably. The number of wage and salary earners did indeed go up distinctly in the fourth quarter, but the rise was above average in services, a sector where in Italy there is a comparatively high



proportion of disguised underemployment. In its turn, the statistically recorded number of hours worked per person dropped distinctly. According to ISTAT, the number of persons on short time was 14.3% higher in October than a year earlier. Unemployment rose slightly.

Foreign supply, which during the greater part of 1970 expanded vigorously, likewise showed a weaker trend in the fourth quarter and at the beginning of 1971. In the fourth

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



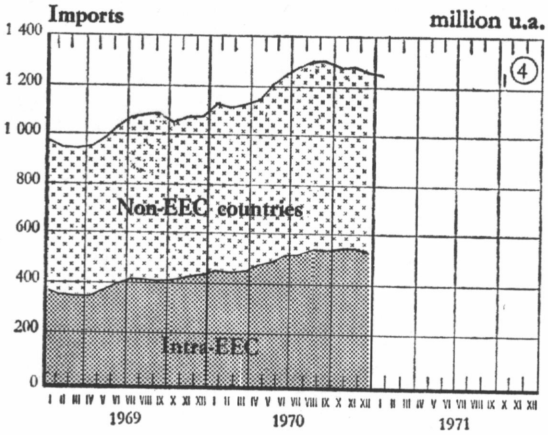
Answers to the questions in the EEC business survey, carried out in Italy by ISCO-Mondo Economico.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

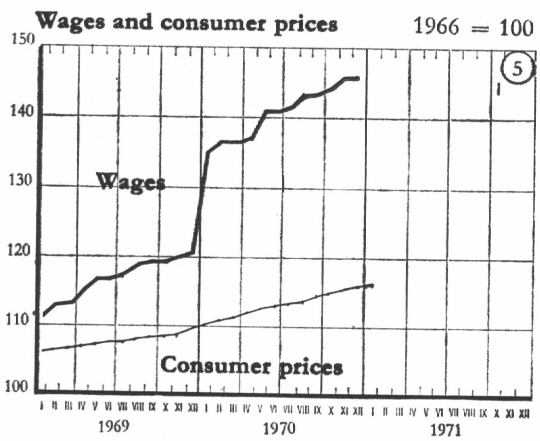
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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

quarter, the value of visible imports was nevertheless 16½% up on a year earlier.



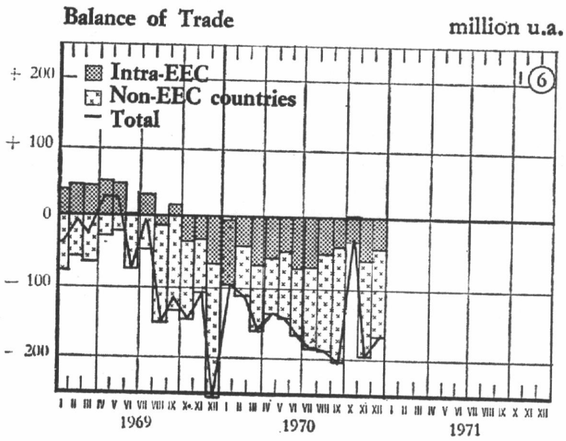
Following a temporary slackening towards the middle of the year, the price rise gained strength in the closing months of 1970 The acceleration was exclusively due to higher costs, including in particular a considerable increase in the price of imported fuel oil, wage rises in the textile industry under a new



collective wage agreement and an increase in numerous indirect taxes.[1] According to the old ISTAT index (1966=100), wholesale prices were 5.3% and retail prices 5.4% higher in December than a year earlier. For January 1971 the corresponding rates of increase, though based on a revised index weighted by the 1970 shopping basket, were 4.2 and 5.3%.

[1] See Quarterly Survey No. 3/4-1970, pp. 77 and 78.

The balance of payments closed with the largest surplus recorded in any fourth quarter of the post-war period ($599 million). While the statistics of the Exchange Office suggest that the deterioration in the balance on current transactions continued, though apparently at a reduced rate, this deterioration was far more than offset by an improvement in the capital account thanks to new Italian bond issues abroad. At $860 million, the rise of



net official gold and foreign exchange reserves was well in excess even of the balance of payments surplus, as the banks imported money on a substantial scale. In January, too, the reserves rose a lot because of the allocation of further special drawing rights and the floating of new bond issues abroad.

Domestic bank liquidity expanded very greatly towards the end of 1970, even though, with the public's demand for credit weak on the whole, the banks used much of the funds accruing to them for a further reduction of their refinancing liabilities to the Banca d'Italia. The chief sources of this flow of funds to the banks were payments transactions with abroad and, even more, the Treasury's unusually heavy cash deficit, swelled not least by transfers to social insurance funds and largely financed by monetary means. The ratio of loans to clients' deposits fell further, touching its 1970 low in November; subsequently, however, it appears to have tended to go up again, in response to somewhat firmer demand for credit.

Demand for and supply of goods and services

	1968[1]	1969[1]		1970[1]		1971[2]
	At current prices (in Lit '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports[3]	9 119	+ 13.8	+ 15.9	+ 6.0	+ 11.6	+ 6½
Gross fixed asset formation	9 322	+ 8.0	+ 14.7	+ 3.8	+ 15.3	+ 3
Public current expenditure on goods and services	6 382	+ 3.3	+ 8.3	+ 3.2	+ 7.1	+ 4½
Private consumers' expenditure	30 066	+ 6.3	+ 9.4	+ 8.0	+ 13.2	+ 6½
Gross national product	47 280	+ 5.9	+ 10.3	+ 5.1	+ 11.7	+ 5
Imports[3]	7 689	+ 20.6	+ 21.5	+ 17.2	+ 22.0	+ 9

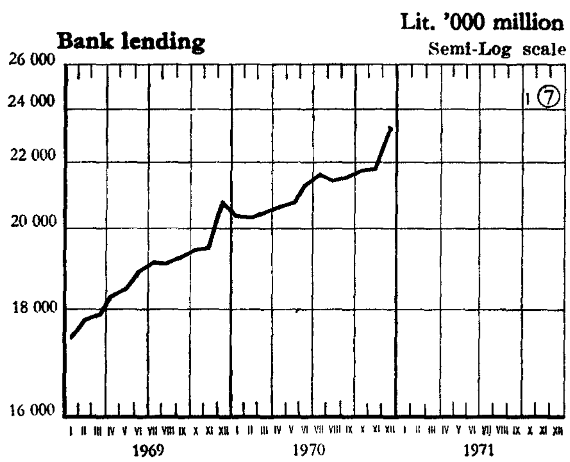
[1] "Relazione generale sulla situazione economica del Paese (1970)".
[2] Forecasts.
[3] Goods, services and factor income.

Note :

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

The money supply[1] again rose rapidly. In the fourth quarter of 1970, it was on average less than 25½% up on a year earlier.

On the securities market, share prices kept on drifting lower. Bond prices, on the other hand, featured a steady rise, helped by similar developments on major international financial markets and by the easier monetary and credit policy practised by the monetary authorities since the middle of 1970.



[1] According to the Banca d'Italia's definition (notes and coin, deposits on current account, and bank drafts, i.e. the "vaglia cambiari" issued by certain banks and "assegni circolari").

2. Outlook

The outline given in Quarterly Survey No. 3/4-1970 of the prospects for the Italian economy in 1971 was based on the assumption that relations between workers and employers would return to normal. So far, this has not happened in sufficient measure, and strained relations may well persist for some time yet. This is the main reason why production will probably grow less than was predicted in the last Quarterly Survey. [1]

Exports cannot now be expected to expand so fast, even though potential demand for Italian goods and services will no doubt continue to be substantial.

For domestic demand, too, the growth estimates have to be revised downwards. This applies especially to gross fixed asset formation. Investment in industrial building is bound to fall off sharply, because of the unfavourable trend of costs and the persistence of bad industrial relations. Despite the support measures planned by the Government, investment in residential construction, too, will probably still be weak for some time, if only because in the nature of things technical and administrative preparations take a particularly long time in this field. Expenditure on public works is expected to be stepped up fairly fast, but is unlikely to provide an effective counterweight to the above tendencies. Despite determined efforts by the authorities (more and cheaper credit supply, fiscal investment incentives, expansionary investment programmes of the State-controlled enterprises), there may be an appreciable decline in the pace of investment in plant and machinery, notably because of the prolonged absence of any thorough-going improvement in industrial relations, and because of the profit squeeze on many companies.

In constrast to 1970, expenditure on consumption will no doubt go up a good deal faster than investment, but even so less fast than in 1970. In public consumption expenditure, it is true, the pace of expansion will be quickened by the pending pay rise for civil servants, but household incomes cannot be expected to go up nearly as much as from 1969 to 1970, because there will be more slack in employment and wage awards are likely to be less substantial. Initially, there may also be some reticence on the part of consumers, before their propensity to spend goes up again, helped by the pending introduction of the value added tax system.

In the circumstances, the rise in the real gross national product is at the moment put at some 4½ to 5%. For industrial production, it seems reasonable to expect a growth rate of some 5%.

The rate of expansion of imports, which is likewise expected to be lower than suggested in the last Quarterly Survey, may again far outstrip that of exports.

The number of persons in paid employment is likely to increase once more, but the average number of hours worked per person will probably go on falling.

While these assumptions imply that the imbalances between money demand and production will deminish, there is reason to expect a further deterioration in current external payments and a further price rise—both marked, but less so than in 1970. Prices will in any case still feel the after-effects of costs racing ahead of productivity in the last two years.

These prospects for gross national product, the external balance and the price level diverge considerably from the guide figures laid down in the Medium-term Economic Policy Programme recently adopted by the Council. They place those responsible for short-term economic policy before the difficult task of restoring equilibrium to the disturbed economy, not least with a view to the preservation of jobs in the longer run. With business less booming in major countries and the value added tax system due to be introduced shortly in Italy, it is indeed a matter of urgency to get the economy back quickly into better balance. This would not only create an essential condition for the early resumption of more rapid and lasting growth of production and employment, but would also provide a sound basis for the large number of reforms planned. An optimum utilization of the available factors of production, with particular reference to exist-

[1] pp. 74 *et seq.*

ing margins of unused capacity, is an essential condition for obtaining this result.

Budgetary policy should aim at keeping the cash deficit down to the level of the previous year and financing it as fully as possible from genuine savings. A faster rise in investment-related expenditure would definitely be desirable. In particular building investment, which has a strong effect on employment while its import content is small, should be boosted by direct and indirect measures, especially since it meets urgent social needs. Another reason for active policy in this field is that building industry seems not to suffer, or at any rate to suffer less, from the troubles which impede production elsewhere in industry. For the rest, one of the points which might usefully be considered in the work now being done on the proposed tax reform is the need to give the budget more flexibility for purposes of short-term economic policy.

Saving should be encouraged not only through building premiums but also through other incentives, and the use of savings within the country should be promoted by providing for the widest possible range of attractive investment paper on the Italian

The Federal Budget

	1970		1971	1970	1971
	Original budget	Revised budget	Budget	Original budget	Budget
	Lit.'000 000 million			% changes on the preceding year's original budget	
Expenditure[1]	12.9	13.2	14.4	+ 15.8	+ 12.0
of which:					
current expenditure	10.1	10.2	11.5	+ 17.9	+ 14.1
capital expenditure[2]	2.8	3.0	3.0	+ 8.9	+ 4.5
Revenue	10.3	10.5	11.9	+ 13.0	+ 16.1
of which :					
direct taxes	2.8	2.8	3.1	+ 15.1	+ 9.5
indirect taxes	6.9	7.1	8.2	+ 13.1	+ 19.0
Net borrowing requirement[1]	– 2.6	– 2.7	– 2.5		

[1] Disregarding debt extinction.
[2] Including participations, advances and loans.

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

capital market. It would be most helpful if the proposed tax reform made room for the establishment of Italian investment or unit trusts, thus giving effect to a project which has been under discussion for some years past. A consistent and lasting stabilization of the price level would doubtless add much to the effectiveness of measures to promote saving and strengthen the capital market.

Monetary and credit policy need to be more watchful and flexible than ever just now, so as to avoid unduly large swings. What dampens the propensity to invest of entrepreneurs at the moment is surely not lack of access to sufficient credit, but such other factors as the persistence of strained social relations, the sharp shrinking of profit margins and, quite generally, uncertainty about future economic developments. Adjustments to the downward tendency of interest rates on the international financial markets should continue to be made cautiously, not least for balance of payments reasons.

Implementation of the short-term economic policies outlined above would be greatly facilitated if all those taking part in the production process were to give more thought to how one thing depends on another in the economy and to just how much stress it will bear—and more particularly if workers and employers were to resume constructive collaboration.

Major economic policy measures

December

At the end of December 1970, promulgation of several decrees initiating the reform of public administration decided upon some time ago: revised schedule of careers and categories; pay rise for employees in public service (averaging 14.5%); 10% increase in net pensions in advance of a new scale to be fixed; amended salary scales for judges.

January 1971

(1) *With effect from 11 January 1971, the cost of refinancing credit from the Banca d'Italia, put up repeatedly since March 1969, was cut for the first time through a reduction of the Lombard rate from 5.5 to 5%. The surcharge (0.5 to 1.5 percentage points) introduced earlier for certain advances of fixed duration is still applied.*

(2) *Towards the end of January, government bill providing for important measures to promote economic development in southern Italy. For the period 1971-1975, the annual average target figures are Lit.1 200 000 million for industrial investment and 160 000 for job increases—easily twice as much in the first case, and more than three times as much in the second, as was achieved under previous government programmes. The provisions include: increase from 60% to 80% in the proportion of their total investment which State-controlled enterprises are required to locate in southern Italy; prolongation (until the end of 1980) and wider range of the arrangements by which, since August 1968, the Government makes itself responsible for part of the social contributions payable by craftsmen's and industrial enterprises in southern Italy and by their employees; as an indirect measure to promote the economy in southern Italy, a special levy on industrial enterprises which, after the entry into force of the law, make investment worth more than Lit.400 million in certain congested areas of northern and central Italy. These investments are to be subject to authorization. The special levy is Lit.1 million per newly recruited worker in excess of a personnel rise of 100, and the proceeds are to be used to improve the social infrastructure in the Region where the enterprise involved is located.*

TABLE 1 : **Key indicators**

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

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

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	1 723	1 235	2 274	1 963	637
as percentage of GNP	2.7	1.8	3.0	2.4	0.7
Unemployment rate	3.9	3.5	3.5	3.4	3.1
price index of private consumers' expenditure (% change on preceding year)	2.9	3.0	1.6	2.9	4.8

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million u.a.	% of totals
	1965	1966	1967	1968	1969	1969	1969	1969
Visible exports								
Total	20.7	11.7	8.3	17.0	15.3	233	11 736	100.0
Intra-EEC	27.6	12.8	3.3	20.9	22.2	278	4 986	42.5
To non-EEC countries	16.4	11.0	11.6	14.5	10.6	188	6 750	57.5
Exports of food, beverages and tobacco								
Total	20.5	1.5	4.7	– 3.7	15.7	146	1 006	8.6
Intra-EEC	31.4	0.4	– 1.7	– 1.3	21.4	169	550	4.7
To non-EEC countries	9.5	2.8	12.4	– 6.1	9.5	126	456	3.9
Exports of raw materials, fuel and power								
Total	18.7	10.6	9.1	14.1	1.1	189	895	7.6
Intra-EEC	34.2	21.5	15.9	14.7	– 2.0	262	334	2.8
To non-EEC countries	12.4	5.2	5.3	13.7	3.1	162	561	4.8
Exports of semi-finished and finished industrial goods								
Total	20.9	13.4	8.8	20.0	16.7	253	9 835	83.8
Intra-EEC	26.2	14.6	3.2	25.4	24.9	306	4 101	35.0
To non-EEC countries	17.8	12.6	12.4	16.7	11.5	225	5 734	48.8
Visible imports								
Total	1.6	16.7	12.9	4.3	21.5	165	12 453	100.0
Intra-EEC	– 3.1	21.6	21.5	9.1	29.9	195	4 819	38.7
From non-EEC countries	3.9	14.4	8.8	1.8	16.7	151	7 634	61.3
Imports of food, beverages and tobacco								
Total	18.9	9.7	0.7	8.5	14.9	167	2 118	17.8
Intra-EEC	20.6	13.5	26.6	29.0	26.8	328	789	6.3
From non-EEC countries	18.4	8.7	– 6.4	0.9	9.2	132	1 429	11.5
Imports of raw materials, fuel and power								
Total	8.5	15.1	13.7	1.0	13.0	161	4 170	33.5
Intra-EEC	18.7	18.2	14.2	– 3.0	20.6	187	597	4.8
From non-EEC countries	7.0	14.6	13.6	1.7	11.8	157	3 573	28.7
Imports of semi-finished and finished industrial goods								
Total	– 10.8	22.0	18.8	8.6	31.0	167	6 064	48.7
Intra-EEC	– 10.8	24.2	22.3	8.1	32.4	179	3 432	27.6
From non-EEC countries	– 10.9	19.4	14.5	9.2	29.1	154	2 632	21.1

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production	1968	*136.3*	*127.5*	*136.7*	*133.7*	*135.0*	*138.2*	*137.3*	*138.7*	*142.3*	*141.9*	*136.8*	*144.4*
(1963 = 100)	1969	*146.1*	*143.9*	*147.3*	*147.7*	*145.0*	*151.5*	*150.0*	*136.6*	*137.6*	*127.5*	*125.6*	*133.3*
	1970	*151.5*	*154.0*	*153.6*	*151.3*	*148.8*	*151.5*	*152.7*	*133.0*	*153.5*	*148.6*	*152.6*	*151.0*
Unemployed	1968	*970.4*	*963.8*	*952.7*	*943.7*	*962.1*	*958.2*	*962.3*	*962.9*	*975.3*	*976.6*	*952.1*	*931.3*
(1 000)	1969	*933.8*	*938.7*	*915.3*	*895.8*	*883.0*	*896.6*	*883.3*	*875.3*	*879.5*	*868.4*	*844.7*	*828.6*
	1970	*847.4*	*844.0*	*847.5*	*845.8*	*850.7*	*863.8*	*878.8*	*890.8*	*929.7*	*938.8*	*962.1*	*954.1*
Construction : permits for	1968	31.3	48.1	55.3	55.6	53.6	60.5	69.0	313.4	78.6	72.7	38.6	45.6
residential construction	1969	19.4	21.4	23.3	21.4	25.3	22.8	25.1	22.6	25.8	25.3	24.5	24.4
(1 000)	1970	17.0	22.3	24.6	25.3	27.5	24.8	27.0	21.5	23.2	24.5		
Private consumers' expen-	1968	*137.9*	*150.3*	*146.8*	*154.1*	*149.7*	*149.6*	*159.5*	*159.9*	*152.2*	*155.0*	*161.1*	*156.7*
diture : department store	1969	*155.1*	*150.6*	*164.4*	*159.7*	*182.0*	*162.7*	*174.6*	*182.2*	*183.2*	*174.3*	*169.2*	*185.5*
turnover (1963 = 100)	1970	*182.0*	*176.8*	*198.2*	*170.7*	*170.1*	*195.2*	*198.6*	*196.1*	*202.0*	*213.8*		
Consumer prices	1969	119.9	120.1	120.6	121.1	121.4	121.8	123.1	122.9	123.1	123.4	124.1	124.6
(1963 = 100)	1970	125.1	126.1	126.6	127.2	127.7	128.0	128.2	128.4	129.2	129.8	130.8	131.3
	1971	131.8											
Visible imports	1969	*972.8*	*940.1*	*934.1*	*995.7*	*1 046.7*	*1 078.2*	*1 093.4*	*1 076.2*	*1 108.8*	*1 007.4*	*1 110.8*	*1 114.2*
(million u.a.)	1970	*1 175.0*	*1 058.6*	*1 143.0*	*1 250.8*	*1 252.7*	*1 320.3*	*1 311.0*	*1 301.4*	*1 336.6*	*1 214.7*	*1 329.3*	*1 253.2*
	1971	*(1158.6*											
Visible exports	1969	*936.9*	*935.4*	*912.4*	*1 025.0*	*1 075.8*	*1 008.6*	*1 085.8*	*921.4*	*995.7*	*913.6*	*1 007.5*	*860.4*
(million u.a.)	1970	*1 079.2*	*943.4*	*986.0*	*1 118.8*	*1 113.7*	*1 155.9*	*1 133.0*	*1 120.4*	*1 135.0*	*1 191.2*	*1 134.7*	*1 088.3*
	1971	*(1125.6)*											
Balance of trade	1969	*– 35.9*	*– 4.6*	*– 21.7*	*+ 29.3*	*+ 29.1*	*– 69.6*	*– 7.6*	*– 154.8*	*– 113.1*	*– 93.8*	*– 103.3*	*– 253.8*
(million u.a.)	1970	*– 95.8*	*– 115.2*	*– 157.0*	*– 132.0*	*– 139.0*	*– 164.4*	*– 178.0*	*– 181.0*	*– 201.6*	*– 23.5*	*– 194.6*	*– 164.9*
	1971	*(–33.0)*											
Official gold and foreign	1969	4 727	4 636	4 493	4 571	4 366	4 514	4 582	4 686	4 547	4 566	4 668	4 696
exchange reserves	1970	4 457	3 943	3 947	3 923	4 368	4 233	4 130	4 226	4 411	4 776	4 903	5 271
(net million u.a.)	1971	5 652	5 816										
Money supply	1968	17 863	17 652	17 976	18 235	18 463	18 795	18 993	18 975	19 379	19 373	19 695	21 104
(Lit. '000 million)	1969	20 440	20 379	20 836	20 845	21 282	21 558	21 590	21 681	22 138	22 351	22 831	24 388
	1970	23 839	24 122	24 689	24 896	25 538	26 117	26 522	26 660	27 247	27 811	28 452	31 108

Italy

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

Industrial production (excluding construction, food, beverages and tobacco) : indices adjusted for seasonal variations; three months moving averages.

Graph 3

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

Graph 4

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

Graph 5

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

Graph 6

Merchandise trade balance : difference between the figures for seasonally adjusted exports and seasonally adjusted imports.

Graph 7

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

Table 1

Source for 1968 and 1969 : Relazione generale sulla situazione economica del Paese (1970).

GNP at market prices.

Industrial production : value added by industry at factor cost.

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

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

Table 2

Net exports : goods, services and factor income.

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

Price index : implicit price index for private consumption, computed from the national accounts.

Table 3

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

Table 4

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

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

Construction : dwellings authorized in the provincial capitals and in other communes with more than 20 000 inhabitants; figures not seasonally adjusted.

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

Consumer prices : unadjusted index.

Imports cif, exports fob; adjusted for seasonal variations.

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

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

Money supply : notes and coin in circulation excluding cash holdings of the Treasury. Sight deposits of non-banking sector with credit institutions, bank drafts in circulation (whether *vaglia* or *assegni*) issued by the Banca d'Italia and other banks and credit institutions; position at end of month.

D. Netherlands

At the end of the year the economy of the Netherlands still reflected heavy inflationary strains. The rise of domestic and export demand is no longer quite as rapid as in the autumn of 1970, but the growth of domestic production has equally lost vigour, mainly because of severe capacity bottlenecks and an acute manpower shortage. Prices at home have continued to go up appreciably in recent months, with a persistent cost push aggravating the supply/demand situation. Despite a heavier deficit on current account, the overall balance of payments continued to be in surplus.

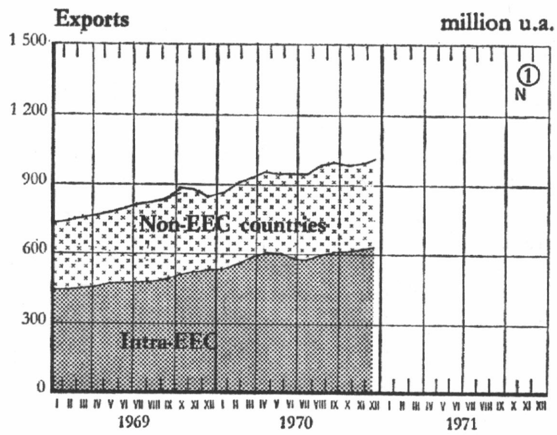
At the moment there is little sign of the economy cooling off in the near future. The main danger in the months ahead lies in the movement of prices and wages. Not least in the interest of preserving the competitiveness of the Dutch economy, the restrictive course of economic policy should therefore be maintained until there is sufficient evidence of the situation tending to stabilize.

1. Recent developments

The overheating that was apparent in the economy of the Netherlands throughout most of 1970 appears to have passed its peak. Although pressures continue to be very heavy, some signs appear to indicate that the pull of demand is losing strength. The tightening of the restrictive course of economic policy probably was a major contributing factor.

Exports in recent months have no longer provided quite such vigorous impulses to economic growth as previously. This is particularly true of exports to the other Community countries, where demand is now expanding less fast. While this was the main reason, there may also have been keener competition from other suppliers who can now quote shorter delivery dates. In addition, sales of certain agricultural products have been faltering. The customs returns show that in the fourth quater the value of visible exports was 15.7% up on the same period of the previous year.

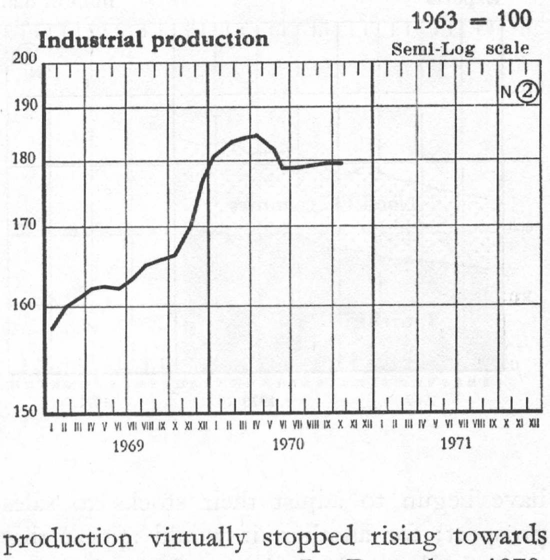
In the field of domestic demand, there are signs that the rise in the propensity to invest of entrepreneurs has slackened since the turn of the year. For one thing, many companies particularly in the consumer goods industries



have begun to adjust their stocks to sales prospect; for another, it would appear that gross fixed asset formation on the part of companies is no longer growing as rapidly as during the greater part of 1970. This is probably in part attributable to the restrictive line followed in issuing building permits to industry in some parts of the country, and also to the pressure on profit margins. Capital spending by the public authorities, particularly the Central Government, likewise seems to have hardly risen in recent months. In residential construction, on the other hand, the number of building starts appears to have climbed at a somewhat livelier rate of late, despite the industry's particularly acute manpower shortage.

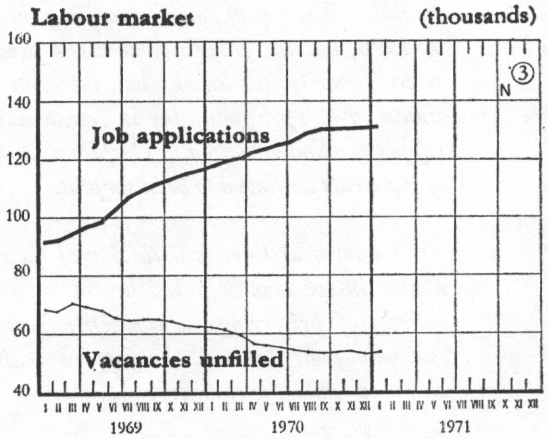
More and more clearly the Dutch economy bears all the marks of a pronounced consumption boom. The pending rise in VAT rates led to a spending spree in consumer durables towards the end of 1970, but this boom calmed down in the subsequent months. Total private consumers' expenditure went up vigorously in response, mainly to the sharp rise in wage incomes in the autumn of 1970; this was not checked until the beginning of 1971, when the Government placed a temporary ceiling on fresh wage awards. In addition, the increase in indirect taxation on 1 January skimmed off part of the purchasing power of households.

The growth of production has slowed down in recent months, chiefly because capacity is fully stretched in many industries. The seasonally adjusted CBS index of industrial



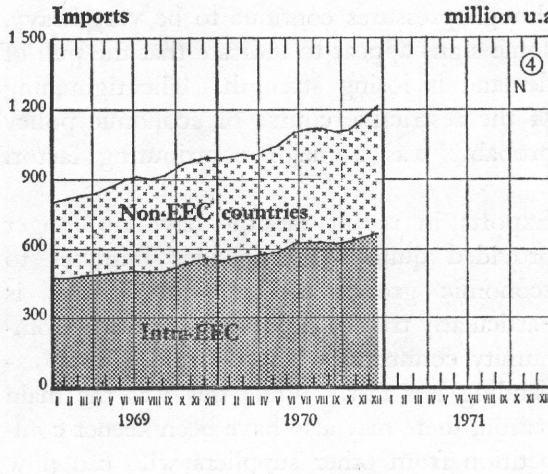
production virtually stopped rising towards the end of the year. In December 1970, industrial production was nevertheless still 5% higher than a year earlier. Elsewhere in the economy, particularly in services, production on the whole appears to have continued growing at a fairly lively pace.

While the strains on the labour market had been mounting continuously until the autumn of 1970, the turn of the year brought signs of a slight easing. For the first time since 1970, the number of unfilled vacancies ceased to go



up. In February, the seasonally adjusted unemployment rate (number of unemployed as a percentage of the civilian labour force) was 1.2%, a little higher than in the autumn.

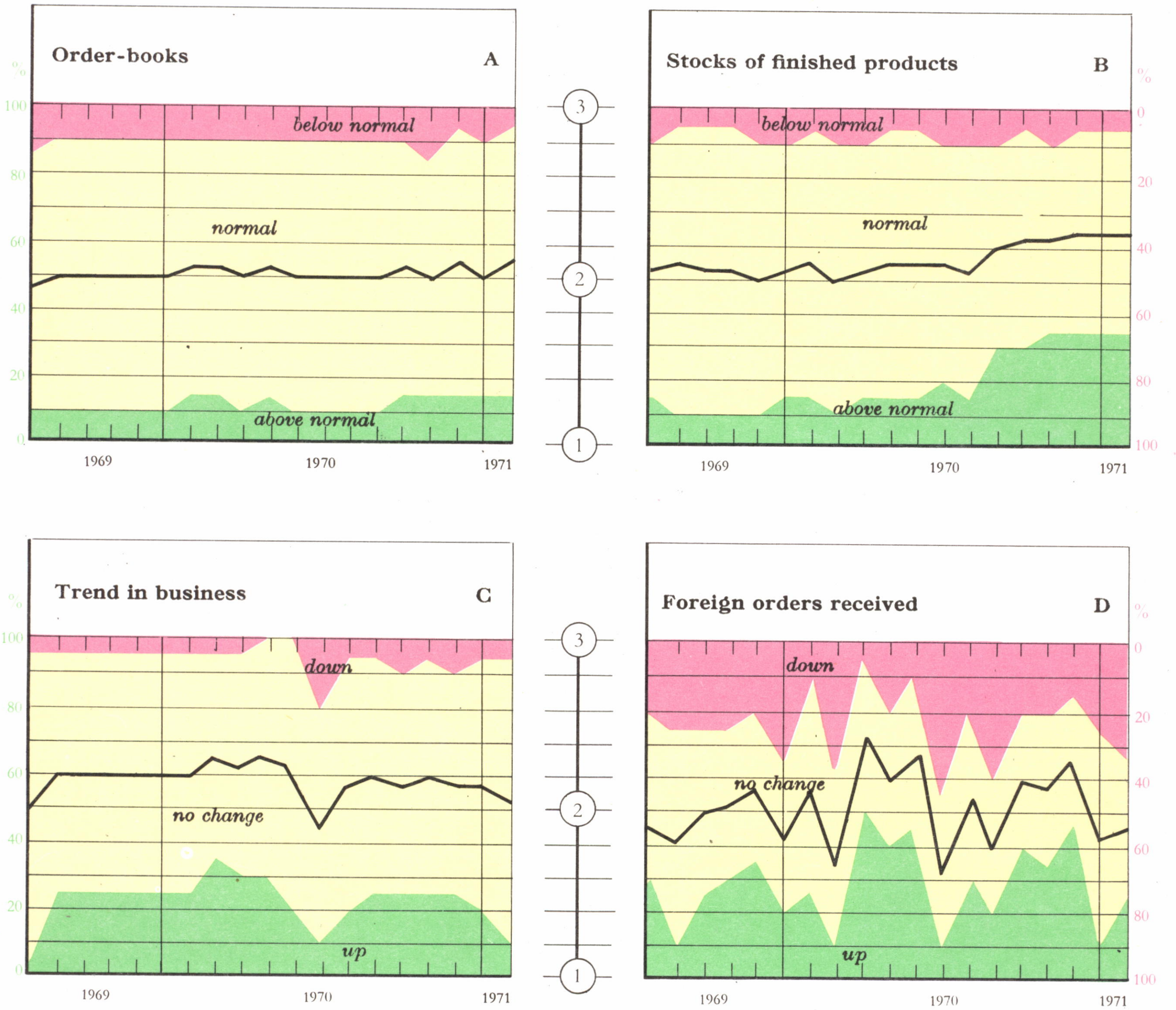
After soaring in the second half of 1970 owing to the vigorous increase in final domestic demand, imports must have tended to calm



down early in 1971. Customs returns show that in the fourth quarter the value of imports was 21% and their volume 16.5% up in year-on-year terms.

The price climate deteriorated further, owing to the persistently very wide gap between money demand and real supply and above all because of the very sharp rise in wage costs

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

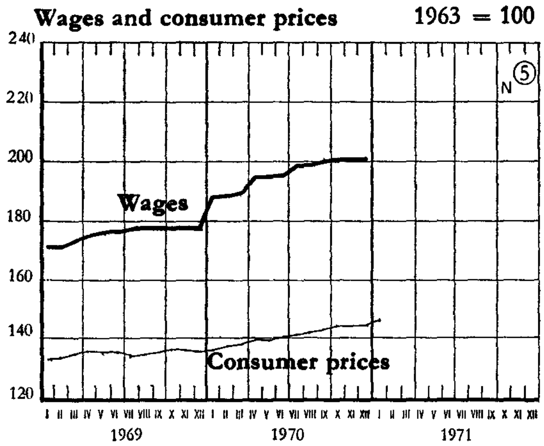
Note : The survey includes construction but not paper, petroleum, non-metallic minerals.

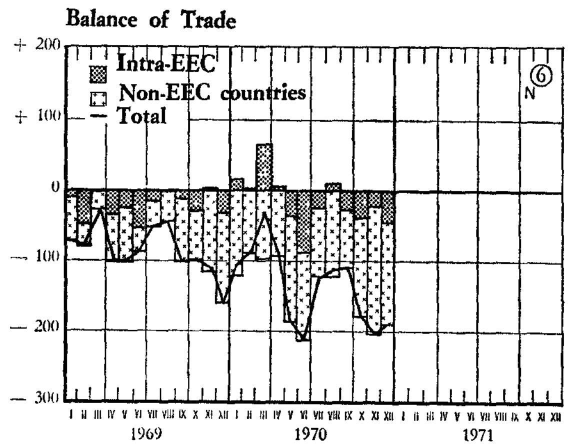
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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

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

last year. Retail prices were pushed up, in addition, by increases in VAT rates and in the charges for various public services. Between December and February, the retail price index went up by 2.4% to a level 6.9% above that of a year earlier.





Demand for and supply of goods and services

	1968[1]	1969[1]		1970[2]		1971[3]
	At current prices (in Fl. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports[4]	42.06	+ 15.6	+ 17.5	+ 12½	+ 18½	+ 8½
Gross fixed asset formation	24.18	+ 0.6	+ 7.9	+ 7	+ 15½	+ 6
Public current expenditure on goods and services	14.33	+ 1.7	+ 11.8	+ 3½	+ 12½	+ 3
Private consumers' expenditure	51.67	+ 4.0	+ 10.5	+ 7½	+ 11½	+ 5
Gross national product	91.87	+ 5.1	+ 11.4	+ 6	+ 11	+ 4
Imports[4]	41.47	+ 14.5	+ 18.4	+ 14½	+ 22	+ 8

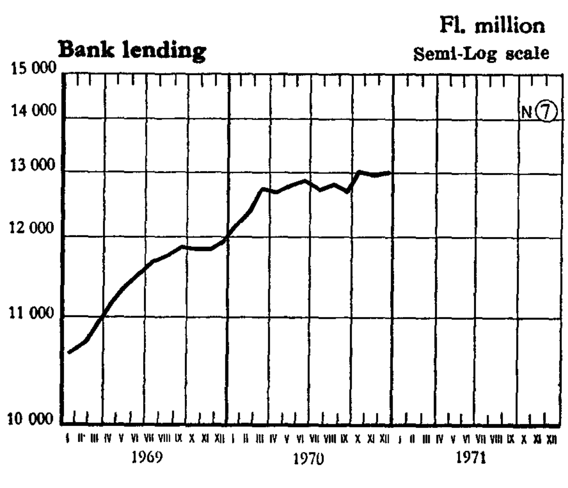
[1] Centraal Bureau voor de Statistiek.
[2] Estimates.
[3] Forecasts.
[4] Goods, services and factor income.

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

In external payments, the current account has been deteriorating very plainly since the middle of 1970, and did so again in recent months, mainly because of the heavy trade deficit. This does not show up in the overall balance of payments, however, because in the past few months capital inflows were still substantial, though smaller than in the autumn of 1970. The official net gold and foreign exchange reserves of the Nederlandsche Bank therefore rose again, and, including the allocation of special drawing rights in an amount of Fl.271 million, were Fl.2 380 million higher in January than a year earlier.

In the fourth quarter, the liquidity-raising effects of influences from abroad and of bank lending to business and private clients at home was offset in large part by the cash transactions of public authorities. Hence the liquidity ratio (ratio of the volume of money and quasi-money to national income) continued to decline, as it has been doing since the middle of 1970. Nevertheless, the money supply was 11.7% higher in December than a year earlier.

Since August the rise in short-term lending to the private sector has stayed within the credit ceilings, which for the rest were further reduced for January and February. On the



money and capital markets the downward tendency of interest rates continued, not least owing to the inflow of capital from abroad.

2. Outlook

At present, money demand and real supply seem to be expanding at less wildly divergent rates, but even if this tendency should continue in the months ahead, the boom is still so strong that there is every reason to fear fresh strains in prices, costs and the balance of payments. The danger will be all the greater if the removal of the temporary ceiling placed on wage awards at the beginning of the year should spark off an even faster rise in personal incomes in the second half of the year.

Given full factor utilization in many sectors of the economy, the vigour of domestic demand and the economic trends in the main buyer countries, there is little or no chance of Dutch exports picking up speed in the months ahead. This is all the more true as rising labour costs per unit of output are adding to the hitherto latent export difficulties that beset structurally weak industries such as textiles, clothing, leather and food.

The growth of domestic demand is likely to slow down further in the months ahead, exclusively because of a slackening in corporate investment. Stocks are very large, and little or no additional demand can be expected on this score. Except for a sharp rise in investment in transport equipment, especially aircraft, te trend in investment by enterprises is likely to flatten out, notably because of the effects of restrictive economic policy and of the heavy pressure of costs. Residential construction and public investment, on the other hand, will probably go on expanding; in residential construction, an important contribution will come from government assistance and in public investment from the building projects of the provincial and local authorities.

After calming down for a time early in 1971, private consumers' expenditure will probably rise more vigorously again as the year advances. Wages per person employed will go up comparatively little until the middle of the year, since a ceiling of 3%, plus one additional per cent after three months, has been placed on wage awards under newly concluded collective agreements. From the middle of the year, however, these restrictions will lapse for a large number of workers, so

The Central Goverment Budget

	1970		1971	1970	1971
	Original budget	Provisional results	Draft budget[1]	Original budget	Draft budget[1]
	Fl.'000 million			% changes on the preceding year's original budget	
Expenditure[2]	28.4	28.9	32.1	+ 11.2	+ 13.0
of which:					
current expenditure	20.7	21.1	23.8	+ 12.3	+ 15.0
capital expenditure[3]	7.3	7.4	7.7	+ 8.4	+ 6.5
Revenue	26.8	26.7	30.7	+ 15.6	+ 14.5
of which :					
direct taxes	13.4	13.2	15.5	+ 15.0	+ 15.5
indirect taxes	10.2	10.3	11.4	+ 10.1	+ 11.2
Net borrowing requirement[2]	− 1.6	− 2.3	− 1.4		

[1] No account taken of the stabilization measures proposed in September 1970 (limitation of expenditure and increase in taxation).
[2] Disregarding debt extinction.
[3] Including participations, advances and loans.

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

that pent-up wage claims must then be expected. Taking the average for the full year, the rise of wages per person employed will probably be much the same as last year (12.5%). The increase in disposable incomes of households, however, will lag appreciably behind the wage rise, owing to the comparatively weaker increase in non-wage incomes, other transfer incomes, and to the effects of progressive taxation.

As there are still major bottlenecks in production, domestic supply will remain fairly inelastic in the months ahead and will therefore hardly be able to keep abreast of rising demand. The labour market will in any case remain fairly tight, particularly since collective agreements provide for further cuts in contractual working hours. The last Quarterly Survey put the growth of the real gross national product for 1971 at 4% and this still appears to be a realistic estimate.

The comparatively heavy strains in the economy and the pending substantial purchases of aircraft will lead to a fairly vigorous rise in imports in the months ahead. The current account is therefore likely to remain in heavy deficit for the time being, with no recovery in sight until near the end of the year.

The price climate will remain unfavourable owing not only to the supply/demand situation, but above all to the increase in labour costs per unit of output, which is likely to be appreciably sharper than in 1970. Taking the average for the full year, the rise of the index of prices to the private consumer is at any rate likely to be distinctly steeper than envisaged under the medium-term guidelines contained in the Community's Third Medium-term Economic Policy Programme.

For the moment, demand prospects and notably the threat of a further upsurge of prices and wages rule out any relaxation of the restrictive line of economic policy.

Even if the expansion of demand slackened it must not be overlooked that supply in its turn has become more inelastic. This is why for the time being consolidation of the economy should remain the chief aim of economic policy in the Netherlands. With the Dutch economy therefore exposed to heavy pressures, maintenance of the restrictions that have been introduced progressively since September is fully justified for the time being. As the incomes policy measures are of a temporary nature only, there appears to be no case at present for an easing of monetary and of budget policy. This is all the more true as the latest official forecasts in the Netherlands suggest that without early and sufficient stabilization the current imbalances could easily become permanent.

In this context it is of special importance that the budget should be used to dampen economic activity on the scale envisaged at the moment. Additional expenditure should in all cases be covered by corresponding cuts in other programmes. Another important point is that the budget deficit should be financed by methods that have no inflationary effects.

The restrictive line of monetary and credit policy, too, should be maintained, at least as long as there is no abnormal decline in the propensity to invest of enterprises—bearing in mind that in the Netherlands, as in most other Community countries, the share of corporate investment in the gross national product has reached its highest level since the inception of the Common Market. However, it may turn out that the level of interest rates will have to be lowered somewhat in order to check the inflow of capital from abroad.

Early stabilization of the Dutch economy hinges not least on the behaviour of employers and workers. A race of wages and prices after the removal or relaxation of the measures which apply in these fields until the middle of the year would have serious repercussions on the competitiveness of the Dutch economy and on job security.

Major economic policy measures

November

(1) *The Economic and Social Council having unanimously advised against the application of Article 8 of the Wage Law enabling the Government to intervene in individual wage negotiations, the Government stated that it would not make use of this Article.*

(2) *The rise of advances by commercial banks and agricultural credit institutes to provincial and municipal authorities may not exceed 10% on an annual basis.*

(3) *The Economic and Social Council gave its opinion on the Government's stabilization programme of September 1970. It suggested tax increases of 4% instead of 3% as proposed by the Government, a cut of Fl.400 million instead of Fl. 140 million in the budget of the Central Government, and no raising of the VAT rates. Views on the proclamation of a wage pause under Article 10 of the Wage Law differed in the Economic and Social Council. The Government announced to the Second Chamber that it would not follow the suggestions of the Economic and Social Council.*

(4) *Unemployed persons and recipients of disability pensions were paid a non-recurrent bonus of Fl.400.*

December

(1) *Parliament adopted the Government's proposals to amend tax legislation. The standard rate of value added tax was raised from 12% to 14% with effect from 1 January 1971; a number of essential goods will in future attract a lower VAT rate; the rates of wage and income tax, corporation tax, motor vehicle tax and petrol tax were temporarily raised by 3%.*

(2) *The central financing system for provincial and municipal authorities was extended by another year.*

(3) *To consolidate their floating debt, municipal authorities received Fl.400 million from the provisional subscription accounts of the social security funds with the Treasury (these are accounts that serve to build up balances pending the issue of a new loan).*

(4) *Tabling of a bill under which loans against promissory (borrowers') notes (onderhandse leningen) and mortgage loans of Fl.250 000 and more will in future be covered by statistics.*

(5) *The Government proposed a wage pause. Following the debate in Parliament, the Government agreed to the non-recurrent bonus of Fl. 400 being incorporated in collective agreements when they come up for renewal; even then, the rule still is that wages may not be put up by more than 3% and after three months by an additional 1%.*

(6) *The subsidies for residential construction were raised.*

(7) *The limits placed on the expansion of short-term lending by commercial banks and agricultural credit institutions as well as the post office were extended to cover January and February 1971. The maximum rate of the admissible month-to-month increase was lowered from 1.5% to 1%. In contrast to earlier arrangements, the standard rates apply only for two instead of four months.*

January 1971

(1) *General old-age pensions, general widows' and orphans' benefits and children's allowances were put up by 7%. As from 1 January, the statutory minimum wage was raised from Fl.157.50 to Fl.166.20 per week. An increase to Fl.167.70 is envisaged for 1 april.*

(2) *A limit of 4% was placed on the increase in personal loans granted by banks and credit institutions in each of the two halves of 1971. The annual rate of growth is therefore 8%, as against 12% in the two preceding years.*

February

(1) *The customs formalities at the internal frontiers of the Benelux countries were abolished with effect from 1 February 1971. The only customs frontier remaining is the external frontier of the three countries involved.*

(2) *Decision of the Government to raise rents by 7% with effect from 1 april.*

March

The price policy pursued since November and initially intended to lapse in mid-March was extended for an unlimited period.

Netherlands

TABLE 1 : **Key indicators**

	1965	1966	1967	1968	1969	1969
	% change by volume on preceding year					Indices 1963=100
Gross national product	5.4	2.6	5.8	6.7	5.1	140
Industrial production	6.3	5.9	5.7	10.6	8.2	158
Total imports	6.5	7.3	6.7	13.2	14.5	181
Private consumers' expenditure	7.4	3.4	5.2	5.9	4.0	136
Public current expenditure on goods and services	1.6	1.6	2.8	1.2	1.7	111
Gross fixed asset formation	4.9	8.5	8.1	11.6	0.6	163
Total exports	7.6	5.2	7.8	12.3	15.6	177
Gross national product per head of population	4.0	1.2	4.6	5.6	3.9	130
Gross national product per person in employment	4.5	1.8	6.1	5.8	3.6	132
	% change by value on preceding year					
Gross income per employee	11.7	11.1	9.2	8.7	11.2	191

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

	1965	1966	1967	1968	1969
Balance exports less imports					
in million u.a.	+ 76	− 135	+ 23	+ 163	+ 91
as percentage of GNP	+ 0.4	− 0.6	+ 0.1	+ 0.6	+ 0.3
Unemployment rate	0.8	1.0	2.0	1.9	1.5
prices to private consumers (% change on preceding year)	+ 4.2	+ 5.4	+ 3.4	+ 2.6	+ 6.3

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1965	1966	1967	1968	1969	1969	1969	1969
Visible exports								
Total	+ 10.1	+ 5.6	+ 7.9	+ 14.5	+ 19.6	201	9 973	100
Intra-EEC	+ 10.2	+ 5.3	+ 6.7	+ 19.7	+ 25.1	226	5 993	60.1
To non-EEC countries	+ 10.0	+ 6.0	+ 9.4	+ 8.2	+ 12.1	172	3 980	39.9
Exports of food, beverages and tobacco								
Total	+ 13.0	+ 0.3	+ 9.9	+ 15.9	+ 15.4	182	2 311	23.2
Intra-EEC	+ 19.7	– 0.2	+ 9.6	+ 22.1	+ 19.6	215	1 549	15.5
To non-EEC countries	+ 3.6	+ 1.0	+ 10.5	+ 6.1	+ 7.8	139	762	7.6
Exports of raw materials, fuel and power								
Total	+ 7.4	– 0.4	+ 10.1	+ 12.8	+ 20.0	177	1 649	16.5
Intra-EEC	+ 3.4	– 0.7	+ 10.7	+ 22.5	+ 26.0	197	1 004	10.1
To non-EEC countries	+ 12.3	– 0.1	+ 9.5	+ 1.7	+ 11.7	152	645	6.5
Exports of semi-finished and finished industrial goods								
Total	+ 9.7	+ 9.7	+ 6.6	+ 14.4	+ 21.1	219	6 013	60.3
Intra-EEC	+ 8.1	+ 9.8	+ 4.5	+ 17.8	+ 27.5	243	3 440	34.5
To non-EEC countries	+ 11.7	+ 9.6	+ 9.0	+ 10.6	+ 13.4	191	2 573	25.8
Visible imports								
Total	+ 5.9	+ 7.5	+ 4.0	+ 11.5	+ 17.3	183	10 900	100
Intra-EEC	+ 8.7	+ 8.7	+ 5.0	+ 13.2	+ 19.2	199	6 132	56.3
From non-EEC countries	+ 2.9	+ 6.0	+ 2.9	+ 9.5	+ 15.0	165	4 768	43.7
Imports of food, beverages and tobacco								
Total	+ 3.5	+ 3.9	+ 11.3	+ 9.7	+ 19.0	181	1 487	13.6
Intra-EEC	+ 13.1	+ 8.8	+ 22.7	+ 28.1	+ 49.4	387	578	5.3
From non-EEC countries	– 1.2	+ 2.5	+ 7.6	+ 3.2	+ 5.4	135	909	8.3
Imports of raw materials, fuel and power								
Total	+ 1.0	+ 0.9	+ 5.2	+ 8.6	+ 13.8	157	2 214	20.3
Intra-EEC	+ 5.7	+ 7.7	+ 9.9	+ 4.8	+ 3.0	145	445	4.1
From non-EEC countries	– 0.2	– 0.9	+ 3.0	+ 9.7	+ 16.9	160	1 769	16.2
Imports of semi-finished and finished industrial goods								
Total	+ 8.0	+ 10.5	+ 2.2	+ 12.8	+ 18.1	192	7 199	66.1
Intra-EEC	+ 8.0	+ 8.8	+ 3.3	+ 12.9	+ 18.1	195	5 109	46.9
From non-EEC countries	+ 8.1	+ 14.7	– 0.3	+ 12.6	+ 18.1	189	2 090	19.2

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	156.2	159.7	161.4	160.2	162.8	161.8	165.1	164.8	163.2	167.5	176.8	180.9
	1970	180.2	183.6	185.3	183.1	177.9	175.8	181.6	178.1	177.2	184.5	187.9	
	1971												
Unemployed (1 000)	1969	70.2	69.6	70.9	67.5	64.9	63.9	64.6	65.8	64.0	63.4	62.2	63.7
	1970	62.4	57.5	57.0	55.5	56.6	56.1	52.9	53.6	55.2	56.4	54.7	52.0
	1971	59.6											
Construction : permits for residential construction (1 000)	1969	9 893	8 959	12 663	11 359	10 793	9 869	6 864	14 422	11 121	9 424	10 450	12 821
	1970	10 988	7 495	12 478	10 472	10 370	11 772	12 539	14 330	13 628	12 242	9 910	9 155
	1971												
Private consumers' expenditure : department store turnover (1963 = 100)	1969	170	191	196	192	210	198	186	206	197	202	200	222
	1970	208	215	215	210	226	217	216	216	222	246	209	
	1971												
Consumer prices (1963 = 100)	1969	132.3	133.4	134.4	135.6	135.4	135.4	134.2	134.9	135.8	136.4	136.2	136.1
	1970	136.6	137.9	139.3	139.9	139.8	140.5	140.9	142.3	143.3	143.8	143.8	143.9
	1971	145.3											
Visible imports (million u.a.)	1969	816.8	845.9	821.4	883.5	916.5	907.5	894.3	912.5	976.0	1 015.2	9 66.2	1031.7
	1970	1 003.9	1 045.6	980.9	1 081.2	1 116.9	1 164.7	1 110.0	1 123.2	1 119.1	1 126.6	1 264.2	1 256.9
	1971												
Visible exports (million u.a.)	1969	745.2	766.4	797.6	780.3	815.9	823.7	839.8	864.2	873.7	916.3	851.9	875.0
	1970	900.3	952.1	946.4	944.3	928.7	951.8	991.0	1 013.3	1 012.4	949.8	1 061.6	1 065.0
	1971												
Balance of trade (million u.a.)	1969	– 71.5	– 79.1	– 23.7	– 103.2	– 100.6	– 83.8	– 54.4	– 48.1	– 102.2	– 98.9	– 114.2	– 156.7
	1970	– 103.6	– 93.5	– 34.5	– 86.9	– 188.2	– 212.9	– 119.0	– 109.9	– 106.7	– 176.8	– 202.6	– 191.9
	1971												
Official gold and foreign exchange reserves (million u.a.)	1969	1 892	1 937	1 954	1 981	2 046	1 965	2 031	1 999	2 005	2 502	2 235	2 090
	1970	2 126	2 096	2 108	2 046	2 018	2 038	2 131	2 267	2 359	2 622	2 593	2 552
	1971												
Money supply (million u.a.)	1969	6 066	6 065	6 076	6 071	6 175	6 191	6 163	6 197	6 234	6 465	6 414	6 486
	1970	6 505	6 482	6 641	6 698	6 843	6 807	6 920	6 935	7 057	7 141	7 195	
	1971												

Netherlands

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

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

Graph 6

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

Graph 7

Bank lending : short-term bank loans; end-of-period figures .

Table 1

GNP at market prices.

Industrial production: value added by industry.

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

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

Table 2

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

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

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

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, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production: adjusted for seasonal variations, excluding construction and foodstuffs.

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

Construction: seasonally adjusted number of dwellings authorized.

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

Consumer prices: not adjusted for seasonal variations.

Imports cif, exports fob; conversion at official exchange rates; figures adjusted for seasonal variations.

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

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange at end of month.

Money supply: notes and coin in circulation excluding cash holdings of monetary institutions, plus sight deposits with credit institutions; seasonally adjusted end-of-month figures.

E. Belgo-Luxembourg Economic Union

Belgium

On 1 January 1971 Belgium introduced the value added tax system. This has had an appreciable impact on economic behaviour. Prior to the introduction of VAT, for instance, industry and the distributive trades were running down some of their stocks, and private consumers went on a buying spree. After the turn of the year, these tendencies probably came to a halt. The expansion of foreign demand seems to have picked up somewhat. The conditions determining domestic economic equilibrium have deteriorated appreciably. More steeply rising production costs and the changeover to VAT caused retail prices to go up distinctly, but thanks to the Government's price policy their increase has so far remained within bounds. The balance of payments again closed with a large surplus.

Even though the economy seems to be heading for better balance in the months to come the upward movement of prices and costs is liable to persist. Stabilization of the level of costs and prices therefore remains an important task for short-term economic policy.

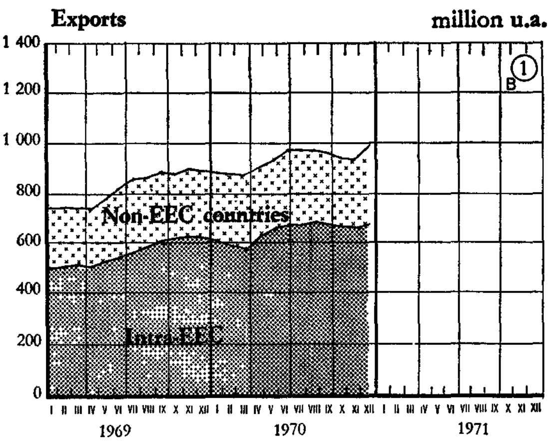
1. Recent developments

Overall demand has tended to accelerate slightly in recent months, largely owing to households stepping up purchases ahead of the introduction of the value added tax, and to a slight revival of export demand.

Exports have probably grown at a slightly faster pace in recent months, despite the slackening of the business trend in major buyer countries. The customs returns show that in November and December exports rose at an annual rate of 13.3%, in terms of value. This was probably in part the result of fortuitous factors, particularly of certain arrangements in connection with the introduction of the value added tax.

In the field of domestic demand, the still fairly rapid progress of final demand contrasted with weak stockbuilding by producers and traders prior to and immediately after the introduction of the value added tax.

The still comparatively high degree of capacity utilization, the continued fairly substantial supply of finance funds, and the drive for structural improvement in the economy remain major factors making for growth of fixed asset formation. Of late, the propensity to invest of enterprises has no longer been quite as strong as during the greater part of

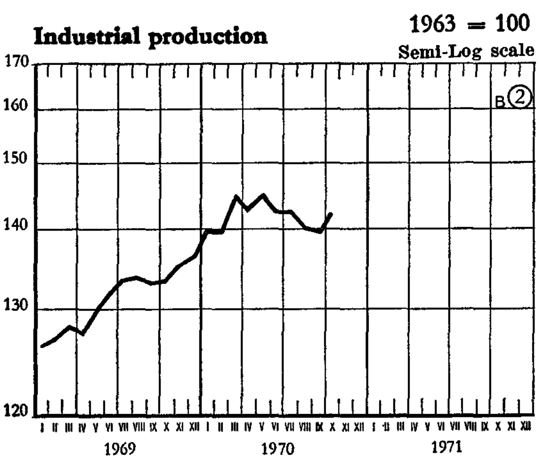


1970, which probably means a reaction of industry after the very pronounced investment boom of the past few years. In residential construction, where the pressure of costs and financing difficulties have been making more impression for some time past, the upward tendency has flattened out.

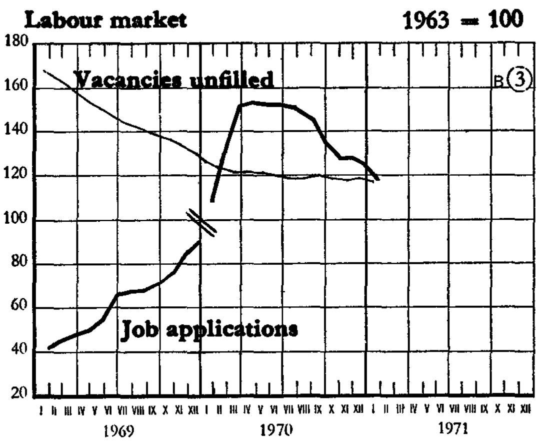
The changing pace of government orders for civil engineering work, that is an acceleration at the end of 1970 and a slowdown at the beginning of 1971, probably did little or nothing to affect the expansion of public investment; the slackening in investment spending by local authorities, however, had a dampening influence.

Private consumers' expenditure has been marked by conflicting tendencies in recent months. Before the end of the year, and mainly because of the impending introduction of the value added tax, there was a distinct upsurge in spending, particularly on consumer durables; this was followed by a no doubt only temporary slackening in the pace of expansion. Regardless of these short-term variations in the propensity to consume, the underlying tendency of expenditure on consumption continues to be distinctly upward, for the data available suggest that disposable wage incomes are still rising at a very vigorous, if not accelerated, rate. Chances are that other incomes—transfer incomes and to a lesser extent property incomes and profits—have also been rising fairly fast.

Even though the rate of expansion of the different demand components has become more uneven, the growth of domestic supply

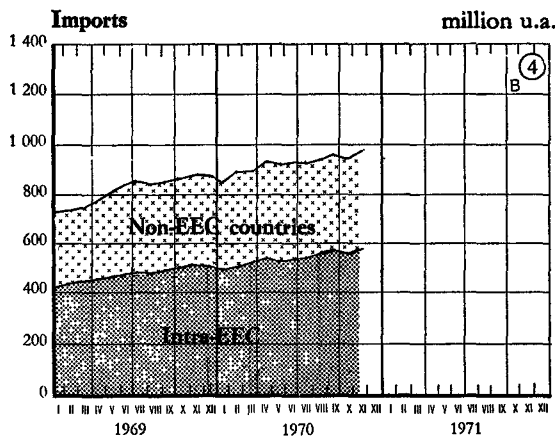


slowed down no further. Industrial production even gathered additional speed at the end of 1970, after the strikes in the steel industry had come to an end and several new plants, working mainly for export, had been put into operation. In November-December, industrial production as reflected in the INS index was 8.5% up on the level of a year earlier. However, the number of overtime hours worked in industry has declined and

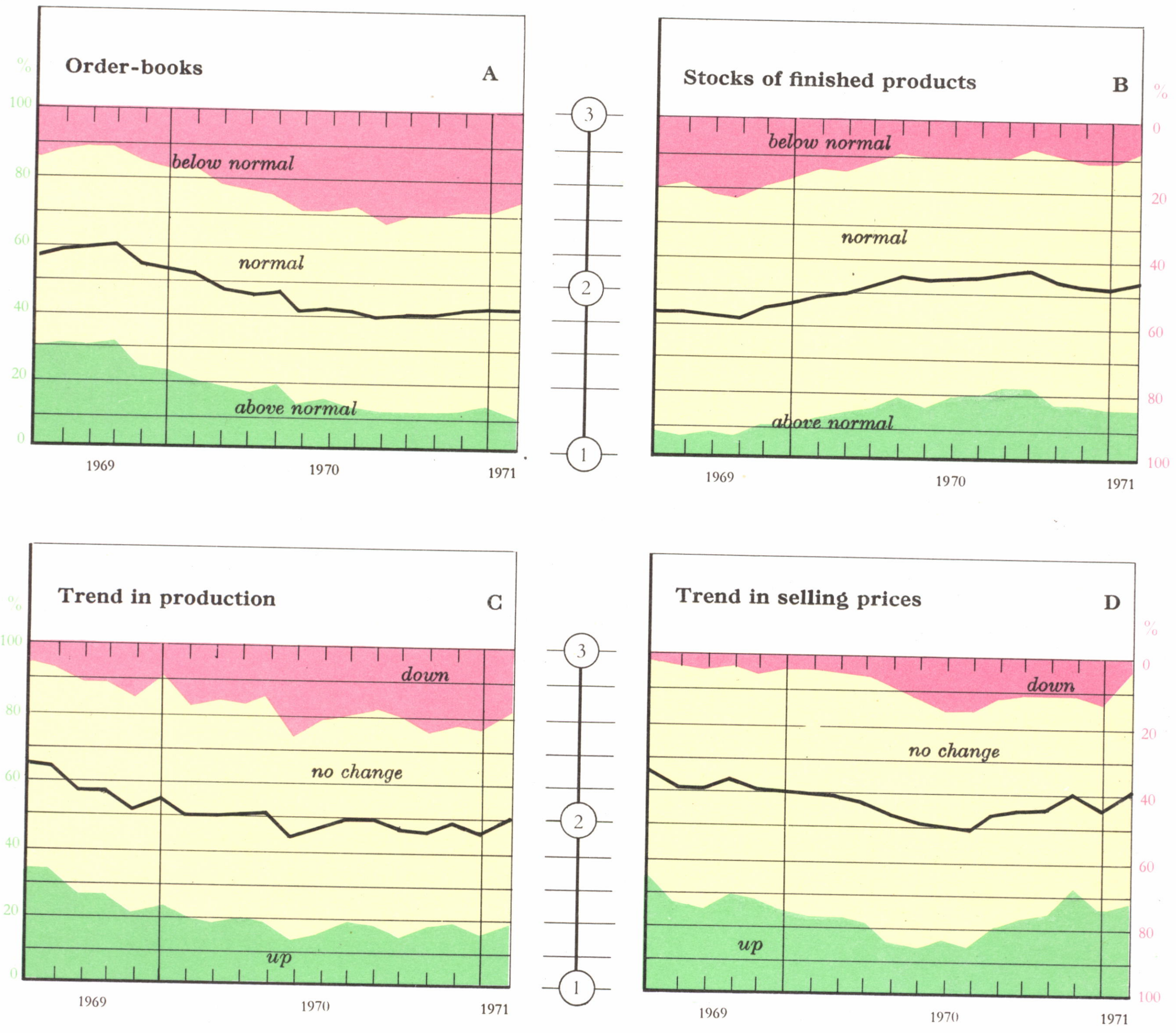


companies have become more reluctant to recruit new labour, so that pressures on the labour market have eased slightly. This is reflected in a fairly sharp fall of the number of unfilled vacancies. At the beginning of 1971, the unemployment rate (seasonally adjusted number of fully unemployed as a percentage of the labour force) touched a new low of 1.8%.

Imports have gathered momentum again after a comparative lull until the autumn under the influence, mainly, of the cautious stockbuilding policy of enterprises. Since



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

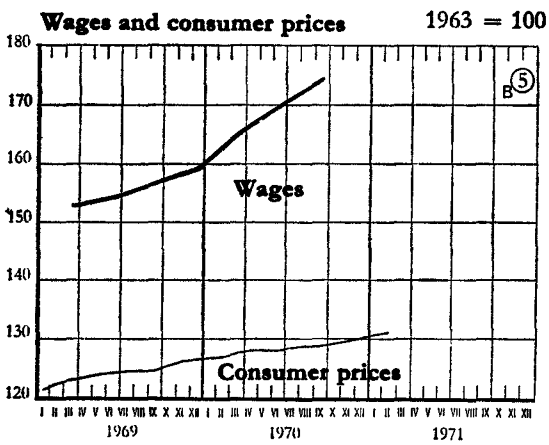
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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

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

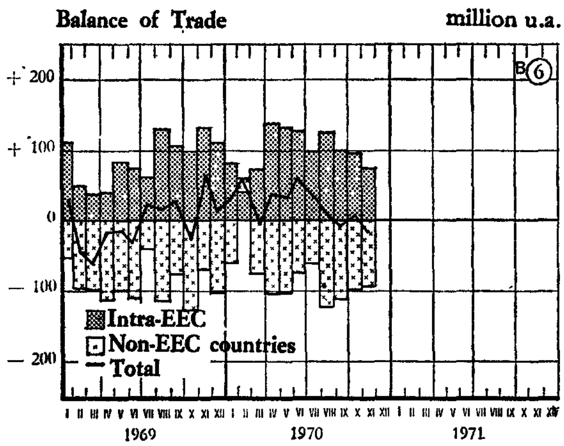
then, there has been a more rapid increase in imports of capital goods, notably aircraft. The customs returns show that in November-December the value of visible imports was 17.5% up on a year earlier.

The frequently expressed fears that the introduction of VAT would be accompanied by a considerable price spurt have not come true so far. This is all the more remarkable as demand and supply have continued to expand at widely differing rates, even though the divergence is narrower than before and than in most other EEC countries, and as the rise in labour costs per unit of output has

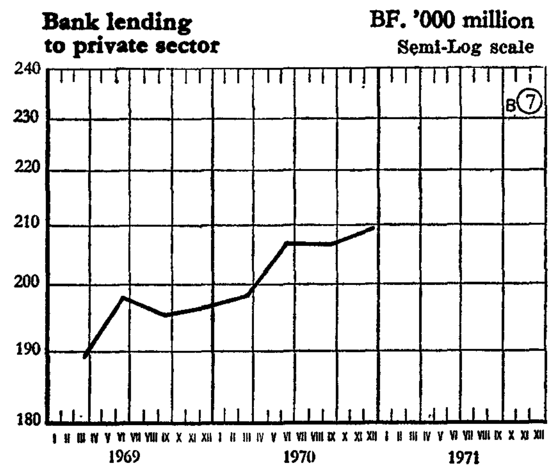


gathered speed. Strict price control enabled the authorities in the early months of this year to prevent sharp speculative reactions to the changeover to the new tax system. The rise in the retail price index, which was 1.3% between December and February, has so far fallen short of the purely mechanical effect of the changeover to VAT, which the Belgian authorities put at some 2%. In February, the index of retail prices was 3.7% higher than a year earlier.

In the fourth quarter of 1970, the balance of payments on current account (goods, services and transfers) again closed with a large surplus, on a cash basis (Bfrs.8 200 million compared with Bfrs.14 700 million in the fourth quarter of 1969). This brought the surplus for the full year to Bfrs.37 200 million, as against Bfrs.4 200 million for 1969. The tendency for the current account to be in surplus, which continued in January, is due both to short-term reasons (improvement in the terms of trade, cautious stockbuilding policy of enterprises, less imbalance between supply and demand than in other countries) and to the influence of longer-term trends, which are mainly connected with the country's improving competitive position. Despite the



deficit on capital account (Bfrs.1 600 million) the overall balance of payments was in surplus in the fourth quarter of 1970. During the same period, the net foreign assets of the monetary authorities rose by Bfrs.4 500 million and those of commercial banks and other financial institutions by Bfrs.800 million.



Boosted by the balance of payments surplus and a faster expansion of short-term lending to enterprises, the increase in domestic liquidity gathered speed again. At the end of December 1970, the volume of bank credits to business and private clients was 11.4%

up on the same date of the previous year. The cash transactions of the Government, on the other hand, did little to raise the economy's liquidity. With government receipts rising much more sharply than expenditure, the deficit was smaller than in the same period of the previous year.

On the money market, the fairly pronounced tendency for the situation to ease continued. To stem the undesired inflow of foreign capital, the Central Bank in December lowered the discount rate from 7 to 6.5%, following an earlier cut by 0.5% in October. On the capital market, ohwever, the downward tendency of interest rates was much slower to take effect. The government loans floated in January still carried coupons of 8.25 and 8.5%, but they proved so popular that subscriptions had to be closed ahead of schedule; the proceeds not only covered a temporary shortfall in tax receipts in connection with VAT but also enabled the Government to redeem its debts with the Central Bank and temporarily build up Central Bank balances for the first time since 1968. At the same time Belgium further reduced its foreign indebtedness.

Demand for and supply of goods and services

	1968[1]	1969[1]		1970[2]		1971[3]
	At current prices (in Bfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports[4]	422.0	+ 15.6	+ 21.1	+ 11½	+ 17	+ 9½
Gross fixed asset formation	218.2	+ 7.1	+ 11.4	+ 9	+ 15½	+ 6
Public current expenditure on goods and services	144.0	+ 7.5	+ 12.2	+ 5	+ 10½	+ 4
Private consumers' expenditure	660.7	+ 5.5	+ 7.7	+ 5½	+ 9½	+ 4
Gross national product	1 036.9	+ 6.5	+ 10.3	+ 5½	+ 10	+ 4
Imports[4]	418.8	+ 15.8	+ 19.8	+ 10½	+ 15	+ 9½

[1] Belgian Ministry of Economic Affairs.
[2] Estimates.
[3] 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

Industry and building firms still have long order books, the international competitiveness of the country is improving, and the budget of the Central Government is expected to do more to stimulate domestic economic activity than in 1970. In these circumstances, there appears to be little likelihood of economic growth slowing down to a dangerous extent in the months ahead. For the rest, the proposed easing of price controls will no doubt cause retail prices to resume a distinct upward movement.

Export demand will continue to provide a fairly vigorous expansionary impulse in the months ahead. The expected decline of import demand in a number of major buyer countries, including Germany, is likely to be offset in large measure by stronger demand from other countries inside and outside the Community. Special factors such as higher demand for steel in the United States may also come into play.

The expansion of domestic demand in money terms should barely slow down in the months ahead. Stockbuilding, especially by the distributive trades, may indeed be expected to provide fairly appreciable impulses again. The growth of fixed asset formation, on the other hand, may slow down further in the next few months. This applies in particular to industry, notably in basic materials and metallurgy, where investment spending spurted ahead unusually fast in 1970. The rise in the liquid resources of enterprises caused by the method of levying the value added tax, and the removal of restrictions on investment credit make it unlikely that the propensity to invest of enterprises will slacken too suddenly. There may be a further slowdown in residential construction. By contrast, public expenditure, particularly on roadbuilding, can be expected to rise again at a fairly rapid pace.

After a lull at the beginning of the year, private consumers' expenditure in terms of money will probably go up more rapidly again in response to a still vigorous increase in wages and transfer incomes—if only thanks to built-in cost-of-living clauses.

The slight tendency for the situation on the labour market to ease will probably continue despite fresh cuts in working hours, particularly since the latest investment spurt will improve the productivity of labour. Employment is therefore likely to rise at a somewhat slower pace.

The expansion of domestic supply, in the past severely curtailed by the factor shortages, should in future move more closely in step with demand. Industrial production in the months ahead might rise at an annual rate of some 5%.

Imports will probably increase faster again, mainly because stocks will have to be replenished in a number of sectors. As a result, the trade balance may no longer be quite so favourable, particularly since it is also likely to be influenced by an adverse swing in the terms of trade.

Even though demand now offers less scope for price increases, the price climate is still in great danger of further deterioration. The temporary measures taken to dampen the price rise will lapse in the spring, and there is reason to fear that the sharp cost increases will then show up more distinctly in domestic prices, particularly at retail level.

Given this outlook, the restrictive course of economic policy should be maintained for the time being. As long as the disturbances that are the direct result of the introduction of VAT have not subsided, no major change is advisable in the force with which the various economic controls are applied, particularly since the rise in costs threatens to accelerate.

The progress made in 1970 in putting the budget on a sound footing and improving the balance of payments widens the scope available to the Belgian authorities in working towards balanced economic growth, in the event that economic activity weakens unduly. This scope must not, however, be used up too quickly. Definitely the decline in government saving and the rise in the net borrowing requirement, which are expected for 1971, should, if possible, not be allowed to take effect until the second half of the year, and

The Central Government Budget

	1970		1971	1970	1971
	Original budget	Revised budget	Draft budget	Original budget	Draft budget
	Bfrs.'000 million			% changes on the preceding year's original budget	
Expenditure[1]	339.6	349.6	378.5	+ 11.2	+ 11.5
of which:					
current expenditure	278.5	285.0	312.4	+ 11.4	+ 12.2
capital expenditure[2]	61.0	64.6	66.4	+ 9.9	+ 8.9
Revenue	297.1	300.8	325.7	+ 11.9	+ 9.6
of which :					
direct taxes	121.9	122.0	138.0	+ 18.0	+ 13.2
indirect taxes	159.2	162.9	172.6	+ 6.4	+ 8.4
Net borrowing requirement[1]	– 42.5	– 48.9	– 52.8		

[1] Disregarding debt extinction and "contingency" appropriations.
[2] Including participations, advances and loans.

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

the contingency appropriations under the budget must be drawn upon only if and when there is a threat of insufficient utilization of the factors of production. Given the upward movement of prices, there is a general case against fiscal measures with direct effects on retail prices; this applies, e.g. to certain taxes on consumption.

In the field of credit policy, too, the restrictive measures still in force should be maintained as long as the business situation has not returned to normal.

If balances economic growth is to be fully safeguarded, however, it is imperative that employers and workers should act more in conformity with the requirements of the business situation, exercising restraint over price and wage increases and not pursuing short-term advantages to the dertriment of longer-term economic needs.

Major economic policy measures

December

(1) *On 10 December 1970 the Central Bank lowered the discount rate from 7 to 6.5%, following an earlier cut from 7.5 to 7% on 22 October 1970.*
(2) *The ceilings on the expansion of short-term bank lending to business and private clients were extended until the end of March 1971. Credit restrictions are maintained in respect of loans to finance stockbuilding and consumption; loans to finance fixed investment are in future no longer subject to restrictions. The banks are to keep the rise of credit for consumption purposes within 5% of its level at the end of September 1970 and to make sure that the loans granted are not used for speculation on price increases. For all types of credit as a whole, the permitted rate of increase is 15% in the first quarter of 1971, as against 22% in the fourth quarter of 1970. Similar measures were taken in respect of short-term lending by other in institutional investors.*

January 1971

(1) *On 1 January 1971 the provisions concerning value added tax entered into force. Only part of the tax burden on exports is removed. Until the end of 1971 an export charge of 0.5% is to be levied on all goods which until 31 December 1970 attracted a flat rate refund of turnover tax when exported; a rate of 1.75% applies to all other products, which represent 25% of total exports. The export charge is estimated to yield Bfrs.4 500 million, which is about half the tax borne by exports before the introduction of the value added tax.*

(2) *In connection with the introduction of VAT several measures were taken in the field of price policy, including a reduction of the VAT rates for coal, briquettes, lignite and coke from* 14% *to 6%, until 30 April 1971. The Government also fixed a maximum price for milk sold to consumers and an upper limit for price increases in hotels and restaurants. In addition, a gross profit margin was fixed for wholesalers in beef, veal and pigmeat, the retail prices of which were reduced by ministerial decree. The prices (including VAT) for branded pharmaceuticals are frozen at the level of 1 January 1971; in addition, the profit margins of wholesale dealers in pharmaceuticals and of dispensing chemists are fixed by the Government. Since November, incidentally, the period for giving advance notice of intended price increases is temporarily extended from one to three months, with the possibility of one further two-month extension.*

(3) *The law on economic expansion was published in the official gazette; it supersedes various laws and royal decrees on aids to regional development. The new law provides, amgon other things, for regional development incentives and aids and lays down criteria for delimiting development areas eligible for infrastructure aid; it also provides for "contracts for progress" (contrats de progrès) and for assistance to enterprises and research promotion; it outlines the tasks of the Société nationale d'investissement and of the regional investment companies, and introduces controls for the transfer of a major stake in a Belgian company to foreign interests.*

(4) *The law on incentives for company mergers was prolonged until 30 April 1971.*

(5) *The Finance Minister ordered interest rates on certificates of deposit (bons de caisse) and bonds to be cut by 0.5% and 0.25%, respectively; this is applicable to public credit institutes. Interest paid on short-term bank deposits is to be reduced by between 0.25% and 0.5%, depending on the period for which they are tied.*

February

The customs formalities at the internal frontiers of the Benelux countries were abolished as of 1 February 1971. The only customs frontier remaining is the external frontier of the three countries involved.

Belgium

TABLE 1 : **Key indicators**

	1965	1966	1967	1968	1969	1969
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 3.8	+ 2.9	+ 3.8	+ 3.6	+ 6.5	131
Industrial production	+ 2.7	+ 4.9	+ 2.1	+ 4.1	+ 8.1	137
Total imports	+ 6.6	+ 8.1	+ 3.4	+ 13.2	+ 15.8	173
Private consumers' expenditure	+ 4.4	+ 3.3	+ 2.4	+ 5.7	+ 5.5	127
Public current expenditure on goods and services	+ 5.6	+ 4.1	+ 6.0	+ 4.0	+ 7.5	136
Gross fixed asset formation	+ 3.9	+ 6.4	+ 2.5	— 2.2	+ 7.1	134
Total exports	+ 7.7	+ 3.8	+ 6.7	+ 11.8	+ 15.6	171
Gross national product per head of population	+ 2.9	+ 2.2	+ 3.2	+ 3.1	+ 6.2	126
Gross national product per person in employment	+ 3.5	+ 2.5	+ 4.3	+ 3.6	+ 4.8	127
	% change by value on preceding year					
Gross income per employee	+ 9.5	+ 8.9	+ 7.1	+ 6.4	+ 8.4	162

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

	1965	1966	1967	1968	1969
Balance exports less imports					
in million u.a.	+ 162	— 48	+ 176	+ 64	+ 186
as percentage of GNP	+ 1.0	— 0.3	+ 0.9	+ 0.3	+ 0.8
Unemployment rate	1.5	1.7	2.3	2.8	2.3
prices to private consumers (% change on preceding year)	+ 4.3	+ 4.3	+ 2.6	+ 2.1	+ 2.1

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1965	1966	1967	1968	1969	1969	1969	1969
Visible exports								
Total	+ 14.2	+ 5.2	+ 3.0	+ 16.0	+ 22.9	207	10 038	100
Intra-EEC	+ 12.8	+ 6.1	+ 3.2	+ 18.5	+ 29.2	231	6 786	67.6
To non-EEC countries	+ 16.5	+ 3.9	+ 2.5	+ 11.7	+ 11.7	171	3 252	32.4
Exports of food, beverages and tobacco								
Total	+ 31.5	+ 8.4	+ 18.8	+ 15.5	+ 21.6	245	778	7.8
Intra-EEC	+ 31.6	+ 5.4	+ 25.7	+ 24.6	+ 26.8	290	665	6.6
To non-EEC countries	+ 31.3	+ 17.1	+ 1.3	− 13.4	− 1.8	130	114	1.1
Exports of raw materials, fuel and power								
Total	+ 3.1	+ 0.5	− 2.4	+ 13.4	+ 20.7	142	835	8.3
Intra-EEC	+ 1.4	+ 1.5	− 3.6	+ 10.8	+ 21.1	140	500	5.0
To non-EEC countries	+ 5.9	− 1.0	− 0.5	+ 17.4	+ 20.2	144	335	3.3
Exports of semi-finished and finished industrial goods								
Total	+ 14.4	+ 7.7	+ 2.3	+ 16.4	+ 23.5	215	8 425	83,9
Intra-EEC	+ 12.7	+ 9.8	+ 1.9	+ 18.7	+ 30.4	239	5 621	56.0
To non-EEC countries	+ 17.1	+ 4.2	+ 2.9	+ 12.8	+ 11.6	179	2 803	27.9
Visible imports								
Total	+ 7.6	+ 12.6	0	+ 16.1	+ 19.8	195	9 986	100
Intra-EEC	+ 10.1	+ 15.4	− 0.6	+ 14.8	+ 25.2	213	5 731	57.4
From non-EEC countries	+ 4.8	+ 9.1	+ 0.6	+ 17.8	+ 13.3	175	4 256	42.6
Imports of food, beverages and tobacco								
Total	+ 15.2	+ 8.1	+ 10.0	+ 2.8	+ 14.8	189	1 159	11.6
Intra-EEC	+ 22.5	+ 10.6	+ 11.8	+ 24.0	+ 23.3	269	642	6.4
From non-EEC countries	+ 10.6	+ 6.4	+ 8.6	− 13.1	+ 5.8	138	517	5.2
Imports of raw materials, fuel and power								
Total	+ 1.5	+ 1.1	− 2.1	+ 22.8	+ 11.2	157	2 193	22.0
Intra-EEC	+ 3.1	+ 5.2	− 5.5	+ 17.6	+ 15.3	157	782	7.8
From non-EEC countries	+ 0.6	− 1.3	− 0.2	+ 25.7	+ 9.0	157	1 410	14.1
Imports of semi-finished and finished industrial goods								
Total	+ 8.8	+ 18.3	− 1.1	+ 16.7	+ 24.0	215	6 634	66.6
Intra-EEC	+ 10.3	+ 18.4	− 1.1	+ 13.0	+ 27.5	221	4 307	43.2
From non-EEC countries	+ 6.2	+ 18.1	− 1.2	+ 23.6	+ 18.0	204	2 329	23.3

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production	1969	*127.5*	*125.9*	*130.5*	*126.3*	*134.4*	*135.4*	*131.8*	*135.5*	*132.3*	*132.5*	*141.2*	*134.9*
(1963 = 100)	1970	*143.2*	*141.2*	*149.9*	*136.6*	*148.1*	*142.3*	*135.8*	*141.2*	*140.9*	*143.0*	*140.6*	
	1971												
Unemployed	1969	*95.3*	*93.8*	*90.4*	*88.5*	*86.3*	*84.2*	*84.1*	*82.1*	*81.0*	*79.1*	*76.8*	*76.5*
(1 000)	1970	*71.5*	*71.9*	*72.2*	*72.2*	*71.3*	*69.5*	*71.9*	*70.5*	*70.5*	*70.7*	*69.8*	*71.4*
	1971	*69.4*											
Construction : permits for	1969	*3 229*	*3 657*	*3 100*	*4 264*	*4 006*	*4 361*	*4 593*	*3 947*	*3 975*	*3 198*	*3 213*	*3 460*
residential construction	1970	*3 106*	*2 896*	*2 323*	*3 758*	*2 692*	*2 734*	*2 963*	*3 053*	*2 944*			
(1 000)	1971												
Private consumers' expenditure : department store	1969	*144*	*137*	*145*	*142*	*159*	*145*	*144*	*154*	*145*	*149*	*148*	*156*
turnover (1963 = 100)	1970	*157*	*154*	*148*	*156*	*165*	*162*	*163*	*157*	*153*	*174*		
	1971												
Consumer prices	1969	121.44	121.96	122.62	122.95	123.32	123.65	124.10	124.28	124.64	125.14	125.70	126.20
(1963 = 100)	1970	126.73	127.12	127.85	128.33	128.35	128.40	129.07	129.34	129.30	129.53	129.91	130.12
	1971	130.80	132.00										
Visible imports	1969	*773.7*	*736.8*	*765.4*	*811.8*	*833.0*	*861.1*	*893.2*	*809.6*	*868.0*	*915.4*	*829.7*	*860.6*
(million u.a.)	1970	*841.2*	*940.6*	*877.5*	*1 021.8*	*860.8*	*940.5*	*1 018.6*	*885.6*	*979.7*	*979.0*	*984.6*	*1 016.8*
	1971												
Visible exports	1969	*837.7*	*694.4*	*707.9*	*797.5*	*819.8*	*831.1*	*917.8*	*825.7*	*900.8*	*896.2*	*901.5*	*875.7*
(million u.a.)	1970	*872.6*	*873.7*	*877.1*	*1 061.8*	*895.3*	*999.3*	*1 053.0*	*894.0*	*975.0*	*987.0*	*971.4*	*1 045.8*
	1971												
Balance of trade	1969	*+ 64.0*	*− 42.4*	*− 57.5*	*− 14.3*	*− 13.2*	*− 30.0*	*+ 24.6*	*+ 16.1*	*+ 32.8*	*− 19.2*	*+ 71.8*	*+ 15.1*
(million u.a.)	1970	*+ 31.4*	*− 66.9*	*− 0.4*	*+ 40.0*	*+ 34.5*	*+ 58.8*	*+ 34.4*	*+ 8.4*	*− 4.7*	*+ 8.0*	*− 13.2*	*+ 29.0*
	1971												
Official gold and foreign	1969	1 898	1 890	1 880	1 950	2 000	2 024	2 032	2 100	2 106	2 202	2 200	2 232
exchange reserves	1970	2 240	2 232	2 250	2 270	2 178	2 196	2 280	2 302	2 360	2 406	2 458	2 250
(million u.a.)	1971	2 318											
Money supply	1969	*7 390*	*7 522*	*7 532*	*7 560*	*7 551*	*7 594*	*7 512*	*7 532*	*7 480*	*7 524*	*7 486*	*7 527*
(million u.a.)	1970	*7 710*	*7 742*	*7 886*	*7 964*	*7 931*	*7 956*	*8 016*	*7 910*	*7 988*	*8 024*	*7 968*	*8 182*
	1971												

Belgium

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

Wages and consumer prices: agreed wages for manual workers, all branches. Source: Ministère du Travail et de l'Emploi; consumer prices, source: Ministère des Affaires Economiques.

Graph 6

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

Graph 7

Bank lending : loans made by monetary institutions; end-of-period figures.

Table 1

GNP at market prices.

Industrial production : value added by industry.

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

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

Table 2

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

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

Consumer prices: implicit price index of private consumption computed from the national accounts.

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, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

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

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

Construction: seasonally adjusted number of residential buildings authorized.

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

Consumer prices: not adjusted for seasonal variations.

Imports cif, exports fob; conversion at official exchange rates; figures adjusted for seasonal variations.

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

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange at end of month.

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

Luxembourg

Business conditions in Luxembourg were still fairly subdued at the beginning of 1971 even though the situation on the international steel market showed signs of slight improvement. There is reason to fear that inflationary pressures will persist in the months ahead even if the degree of capacity utilization falls further. Stabilization of the level of costs and prices therefore remains an important task for economic policy.

1. Recent developments

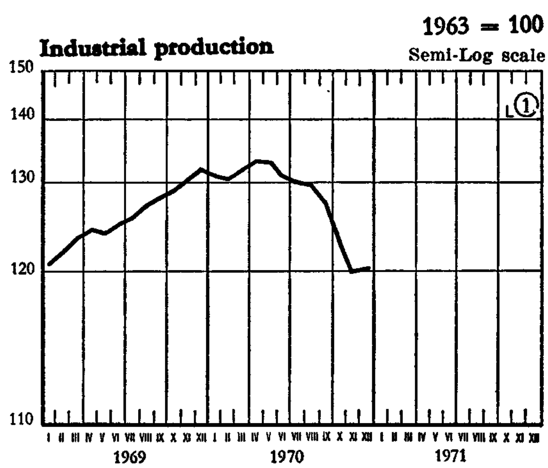
The slowdown of economic growth ever since the first quarter of 1970 appears to have come to a halt at the beginning of 1971, as export demand for steel picked up somewhat.

Exports, whose rate of advance had fallen sharply in the course of last year, have shown signs of improving again lately, thanks primarily to a slight revival of steel demand from non-member countries in connection, mainly, with fears of a strike in the American steel industry. The more favourable trend of demand was reflected not only in the volume of deliveries but also in export earnings.

Fixed asset formation has maintained its fairly vigorous rise in recent months; of late, however, there have been signs of a slowdown as several large investment programmes in industry were gradually nearing completion. Residential construction increased at a fairly lively pace until the summer, but since then has fallen off distinctly.

The growth of personal incomes lost momentum in the early months of this year. The volume of employment (total number of hours worked) probably ceased rising and wage incomes on average improved much less than in 1970, even though the new rules on overtime in some sectors probably led to additional wage increases. Income developments suggest that private consumers' expenditure must have been going up less fast since the turn of the year, to some extent also because, as in the other Benelux countries, households tried to beat the increase in VAT rates on 1 January (from 4 to 5%, and from 8 to 10%) by advancing to the fourth quarter of 1970 some of the purchases they had planned for later.

Supply responded comparatively fast to the changed situation on the demand side. While industrial production in the fourth quarter of 1970 was shown by the STATEC index to be



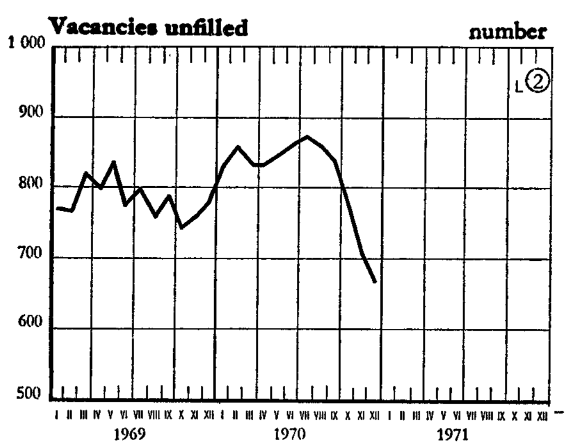
8.2% down on the corresponding 1969 figure, it now has the benefit of reviving steel demand and, in seasonally adjusted terms, has probably declined no further since the turn of the year. Imports, on the other hand, slackened because of lower requirements of raw materials and semi-manufactures and less buoyant demand for machinery and vehicles.

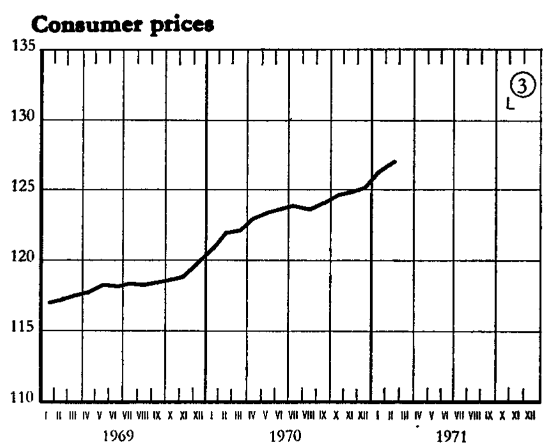
Demand for and supply of goods and services

	1968[1]	1969[1]		1970[2]		1971[3]
	At current prices (in Lfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports[4]	30 808	+ 13.0	+ 22.0	+ 2½	+ 12	+ 2
Gross fixed asset formation	9 528	+ 16.0	+ 24.7	+ 16	+ 28	+ 2
Public current expenditure on goods and services	4 546	+ 2.1	+ 5.7	+ 1½	+ 12	+ 2
Private consumers' expenditure	23 163	+ 5.0	+ 7.4	+ 8	+ 13	+ 4½
Gross national product	37 926	+ 7.0	+ 15.0	+ 3	+ 11	+ 2
Imports[4]	29 919	+ 14.5	+ 18.8	+ 11	+ 20	+ 4

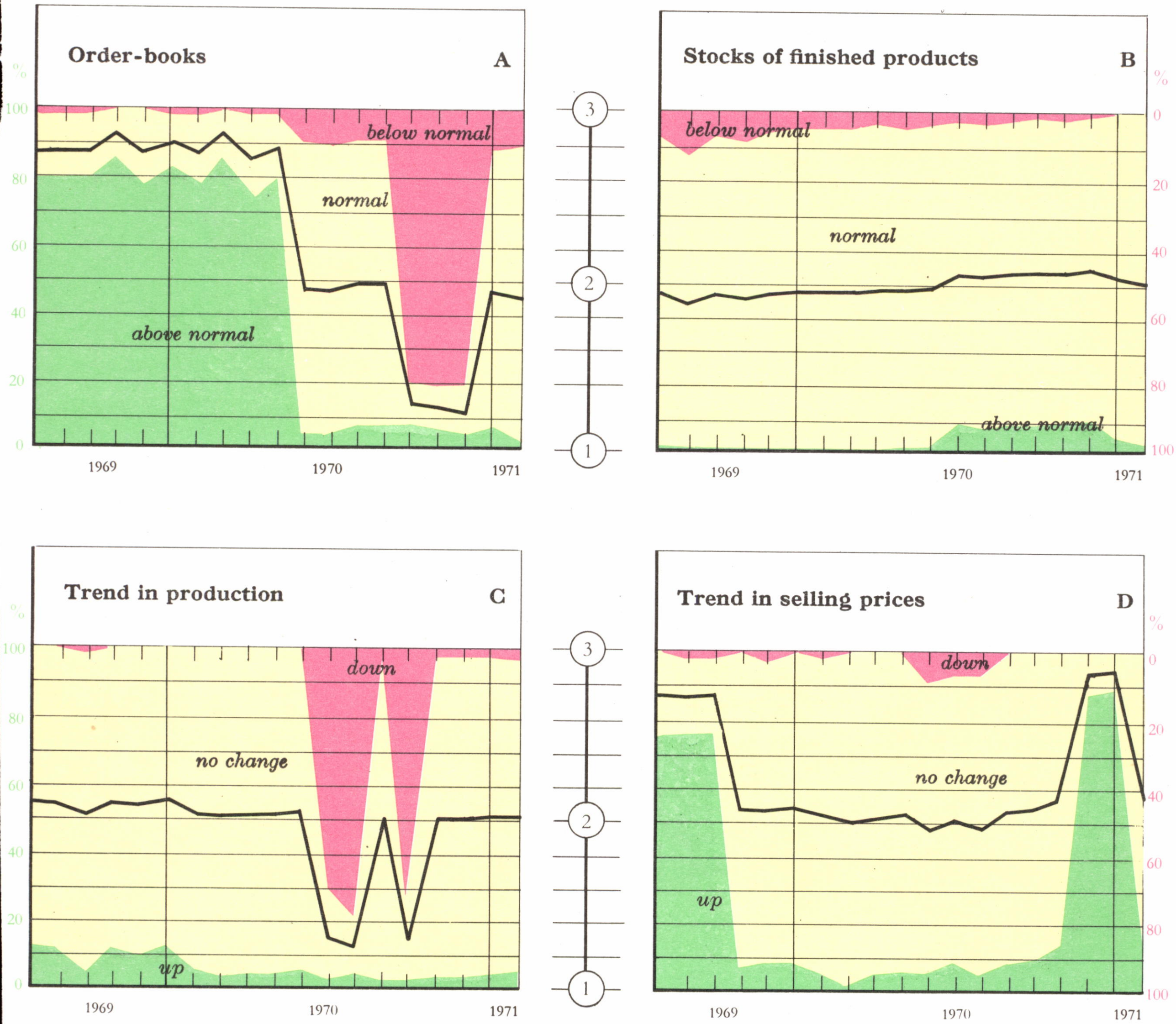
[1] Service central de la statistique et des études économiques (STATEC), Luxembourg.
[2] Estimates.
[3] Forecasts.
[4] Goods, services and factor income.

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





BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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

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

The number of persons employed hardly rose any further, so that the situation on the labour market showed some signs of easing. Demand for manpower has nevertheless remained strong since the new industries and the building sector are still recruiting a considerable number of additional workers.

Domestic prices went on rising, and, with higher indirect taxes in Luxembourg, the retail price index has indeed been climbing somewhat more steeply since the beginning of the year. In February the index was 4% higher than a year earlier.

The Central Government Budget

	1970	1971	1970	1971
	Budget	Draft budget	Budget	Draft budget
	Lfrs.'000 million		% changes on the preceding year's original budget	
Expenditure[1]	10.9	12.7	+ 6.8	+ 16.8
of which:				
current expenditure	8.8	9.8	+ 7.8	+ 11.8
capital expenditure[2]	2.1	2.9	+ 2.6	+ 37.4
Revenue	9.7	11.3	+ 9.1	+ 18.5
of which:				
direct taxes	4.9	5.9	+ 12.4	+ 19.2
indirect taxes	3.9	4.5	+ 10.1	+ 15.0
Net borrowing requirement[1]	– 1.2	– 1.4		

[1] Disregarding debt extinction.
[2] Including participations, advances and loans.

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

2. Outlook

Even though the pressure of demand is gradually easing, the conditions for a rapid stabilization of Luxembourg's economy are not yet at hand.

Exports will undoubtedly show a somewhat firmer tendency since the world outlook for steel sales, especially to non-member countries, is no longer quite so poor. The new industries, too, seem to have a continuing good market abroad.

Mainly owing to a weakening in the propensity to invest of enterprises, fixed asset formation is likely to slow down, but probably only to a limited extent, because the new industries are stepping up expenditure. Public investment spending, particularly by the road-building fund, is likely to go on rising vigorously.

The outlook for private consumers' expenditure points to a less expansionary trend. Wage rates are likely to go up at a slower pace even if allowance is made for the effect of the sliding wage scale. In addition, production bonuses particularly in the steel industry will undoubtedly be less high than in 1970.

Domestic supply will continue to expand, but less fast than on the average over the past three years. Industrial production is unlikely to advance significantly, despite the expected recovery in the steel industry. The manpower shortage should nevertheless remain fairly acute, particularly since the working week is being cut further in some sectors of the economy.

The upward thrust of prices will probably remain fairly strong, despite the measures taken by the Government. The inflationary tendencies derive not only from internal factors, including above all the persistent rise in the cost of production due in part to the cuts in the working week, but also from the higher prices that have to be paid for imports, particularly from Belgium.

This outlook suggests that in the next few months economic policy in Luxembourg will be faced with a situation where comparatively weak economic growth goes hand in hand with heavy inflationary pressures. The Luxembourg authorities have therefore decided to combine a less restrictive budget policy with rigid price controls. Admittedly, the Luxembourg authorities will in any case have very limited scope for combating inflation, since in large part the causes of the inflationary pressures lie abroad and since an unduly rigid price policy in the long run paralyses the machinery of domestic economic management.

Major economic policy measures

December

The 1971 budget law was published in the official gazette. Compared with the 1970 budget adopted by Parliament, expenditure is to rise by 12.9% and revenue by 16.1%. But it is expected that the budget estimates for 1970 will be exceeded, particularly on the revenue side, and hence the actual increase will certainly not be quite as high. The borrowing requirement is lower than in the 1970 budget as originally approved, but may turn out to be a good deal higher compared with the actual results of 1970. The following tax measures were taken: VAT rates to be raised from 8 to 10% and 4 to 5%; the preferential VAT rate of 2% for dairy products, bread, meat and branded pharmaceuticals to be maintained; a counter-cyclical surcharge to be levied on company profits, for the fiscal year 1970 only, in respect of any portion of taxable profits in excess Lfrs.10 million; tax-free allowances were fixed for recipients of social insurance pensions who are liable to income tax.

January 1971

(1) *The working week was shortened by one hour, in implementation of a scheme by which the working week is to be cut by one hour in each of the years 1971 to 1979. With effect from 1 January 1971, the normal working week was reduced to at most 44 hours, and with effect from 1 January 1975 to at most 40 hours. Additional hours worked are considered as overtime, for which an extra 25% must be paid. According to official estimates, the shortening of the working week entails an increase in wage costs of 11% in the sectors concerned (building, crafts and services).*

(2) *In agreement with the Belgian Government the prices (exclusive of value added tax) for goods and services from Belgium were frozen until 31 March 1971. From 1 January 1971, the prices of goods from Belgium, exclusive of tax, are to be treated as maximum prices for the calculation of retail prices in Luxembourg. The Belgian export tax may be added to the price. For a number of goods the Belgian export tax is only 0.5% if they go to Luxembourg instead of 1.75% otherwise.*

(3) *Price control was eased somewhat. Advance notice of at least 30 days must be given of price increases. This does not apply to increases resulting from the automatic passing on of higher indirect taxes, to prices for various goods traded on the world market, and price increases for seasonal goods. Any widening of the profit margins for these goods, however, must likewise be notified. The price increase notified is considered to be approved if the price board does not object within 30 days.*

(4) *From 15 January a special tax is levied on heavy and medium fuel oil.*

(5) *The law on bad-weather-pay was published in the official gazette. Under this law, building workers who between 16 November and 31 March were unable to work because of bad weather are paid an equalization wage. Beyond a standard 16 hours per month, the Luxembourg labour office pays the whole of the wage; of the balance, half is borne by the building worker and half by the employer.*

February

The Government fixed various prices (prices for pharmaceutical products imported from Belgium, "normal" prices for wallpaper, etc.).

Luxembourg

TABLE 1 **: Selected monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	*122.1*	*123.4*	*125.5*	*124.6*	*122.6*	*127.8*	*126.1*	*127.4*	*130.7*	*129.8*	*133.8*	*132.4*
	1970	*127.1*	*132.4*	*136.0*	*131.6*	*131.6*	*130.2*	*129.0*	*129.4*	*122.7*	*116.2*	*121.2*	*123.4*
	1971												
Unfilled vacancies	1969	*890*	*744*	*829*	*823*	*855*	*656*	*879*	*743*	*744*	*739*	*778*	*835*
	1970	*868*	*874*	*760*	*865*	*908*	*809*	*910*	*857*	*753*	*725*	*636*	*646*
	1971												
Construction : permits for residential construction	1969	*16*	*23*	*11*	*20*	*11*	*58*	*26*	*27*	*15*	*35*	*27*	*20*
	1970												
	1971												
Consumer prices (1963 = 100)	1969	116.96	117.08	117.30	117.57	118.08	117.94	118.26	118.11	118.31	118.39	118.77	120.03
	1970	121.21	121.98	122.21	122.74	123.38	123.72	124.20	123.84	124.35	124.74	124.95	125.23
	1971	126.06	126.91										

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

Consumer prices; source: STATEC.

Table

Industrial production: adjusted for seasonal variations, excluding construction and foodstuffs.
Unfilled vacancies: seasonally adjusted end-of-month figures.
Construction: seasonally adjusted number of residential buildings authorized.
Consumer prices: not adjusted for seasonal variations.

Brussels, 2 december 1970

Commission Memorandum to the Council on the Economic Situation in the Community

The last few years' boom in the Community is now past its peak. With the world economy on a course of moderate expansion and pressures in the international financial markets easing somewhat, the growth of economic activity has slowed down.

This is not, however, reflected in the development of costs and prices, which remains the most worrying aspect of the economic trend in the Community.

The measures taken by the Member States, in accordance with the guidelines approved by the Council in January and July 1970, enabled some progress to be made towards the re-establishment of the overall equilibria. In order to facilitate the transition to more balanced growth, this progress must be consolidated through appropriate policies and greater restraint by all concerned in their claims for higher incomes or prices. Only then will it be possible for the economies of member countries to begin, as from 1971, to align themselves with the target figures laid down in the draft of the Third Medium-term Economic Policy Programme, with a view to making the Community an area of growth and stability.

I. Economic developments and outlook

1. *International background*

The slowdown in the expansion of world trade continued in the second and third quarters of 1970. It was not very significant, however, among other things because imports by the United States and the United Kingdom remained high despite the weakness of economic activity at home, and because the Community's purchases from abroad again increased sharply.

In the *United States*, the decline in domestic production appeared to come to a halt in the middle of the year. There was even evidence of slight recovery during the summer, but this was subsequently checked for some time by the strikes in the motor industry, which affected a large number of other branches. In the second quarter, gross national product in real terms hardly changed at all, and in the third quarter it rose by 0.35%. Throughout the year industrial production fell from one quarter to the next; in October 1970, the index was 6% lower than twelve months earlier. The unemployment rate went up further; in October, the number of unemployed represented 5.6% of the civilian labour force, as against 3.8% a year earlier.

In the first half of the year prices hardly reacted to the easing of pressures due to sluggish business. In July and August, prices calmed a little, but in September and October the retail price index again rose as fast as in 1969 and the first half of 1970 (at an annual rate of 6%).

Imports tended to level out while exports went on rising. During the first eight months of the year, the value of goods sold by the United States to the Community was 28% up on the level of a year earlier. For the first ten months of 1970, the trade balance of the United States closed with a surplus of \$2 470 million, as against \$892 million for the corresponding period of 1969.

In the past few months, budget operations helped to raise incomes. The increase in total public expenditure gathered momentum. The fall in Federal expenditure, mainly attributable to cuts in the military and space programmes, came to a halt. Tax receipts were affected by the abolition of the income tax surcharge and by the repercussions of slack business. The monetary authorities have eased credit restrictions while continuing their efforts to contain the rise in the money supply. The discount rate was cut from 6 to 5.75% on 9 November 1970 and from 5.75 to 5.5% on 30 November 1970.

The mid-1970 recovery is expected to gain strength after the end of the strikes in the motor industry. These strikes undoubtedly caused income losses that cannot be made good, but production should have the benefit of the backlog effects. Beyond that, economic activity should feel the influence of a steady growth of private consumption and of the revival in residential construction. Expansion will, however, be held back by the comparative weakness of corporate investment, as foreshadowed especially by investment surveys among enterpreneurs.

In the *United Kingdom*, economic activity has picked up since the beginning of the summer, after a distinct decline early in the year. Industrial production remained stationary in the second quarter and rose by 0.8% in the third, ending up barely higher than in the corresponding period of 1969. The unemployment rate was 2.6% at the beginning of November 1970.

The upsurge of prices in the first half of the year, when retail prices rose by 4% between December 1969 and June 1970, weakened during the summer but gathered momentum again at the beginning of the autumn. In October, the retail price index was 8.2% higher in year-on-year terms. The heavy pressure of demand in terms of money caused imports to go up a good deal, so that the surpluses on current account dropped back from their exceptionally high level of late 1969 and early 1970.

Although business surveys suggest that corporate investment will be weak, economic activity will probably continue to expand at a moderate rate in the months ahead, backed no doubt by an increase in consumer spending, by revival in residential construction and by rising exports.

The other industrialized countries of western Europe continued to be exposed to inflationary pressures. In most of them, the authorities further tightened the restrictive course of economic policy. Overall, the rate of growth of imports by these countries has begun to slacken and may do so even more in the months ahead. *Developing countries* will suffer from the fall in world market prices for industrial raw materials and the foreseeable decline of their exports to industrialized countries; although their outside financial resources have increased in recent years, their import policy may have to become more cautious, particularly since they have growing commitments for repayments on earlier loans.

Under the influence of less vigorous credit demand in the United States, the situation on the *international financial markets* has eased somewhat since the end of the spring, even though certain Community countries at times made heavy claims on them. The continued relaxation of credit policy in the United States and the suspension, at the end of June 1970, of certain provisions of Regulation Q, which places an upper limit on the interest rates that banks may pay on time deposits, touched off a significant fall in interest rates on the Eurodollar market. Long-term interest rates on the Euro-bond market, on the other hand, have proved to be more resistant.

The overall balance of payments of the United States remained in heavy deficit in the third quarter. On a liquidity basis, the deficit in the first nine months of the year was \$3 700 million; on an official reserve transactions basis, the deficit was a good deal heavier (\$6 600 million), mainly because of the repayment of funds which American banks had borrowed on the Eurodollar market. On the other hand, the restrictive line of monetary policy pursued by the Community countries and fully warranted by the strains in the business situation, attracted a large inflow of short-term capital in recent months. The Community's overall balance of payments showed a surplus of \$5 500 to 6 000 million from January to September 1970, while the basic surplus was probably little more than \$1 000 million.

These tendencies are unlikely to change significantly in the near future. The decline of interest rates in the Community since the summer of 1970, together with the measures taken in the United States to check the repayment of Eurodollar loans by American banks, might discourage the inflow of hot money, but this depends also on other, less favourable, factors.

2. *The economic situation in the Community*

The heavy strains from which business conditions suffered throughout the Community have in recent months shown signs of easing in several member countries.

The flow of new domestic orders has slowed down in several industries, particularly in the basic materials sector, where the iron and steel industry even recorded a fall both in new orders and output, and in some countries also in the capital goods industries.

The slower pace of orders hardly shows up so far at the level of effective final demand; both household consumption and fixed investment advanced rapidly in all countries. The very incomplete information available on stocks, on the other hand, suggests that in most member countries stocks of intermediate goods and those held by the distributive trades have begun to decline.

Industrial production in the Community rose only little; in the third quarter, it was 3.8% up on the level of a year earlier. This near-stagnation is due to the combined effect of two very different factors; first, production is held back by capacity and manpower shortages in many branches and, secondly, other branches are affected by slower orders and the decline in stockbuilding. This tendency is not, however, representative of economic activity as a whole, for in the services sector, which in all member countries accounts for considerably more than 40% of the gross domestic product, expansion has apparently not slackened to any significant extent.

The labour market is a little less tight, but there is still an acute shortage of skilled labour. The abatement of the strains in the business situation has so far found little reflection in the movement of prices and wages. It is true that in all member countries except the Netherlands the retail price index went up less rapidly in the summer months than in the first half of the year. In large measure, however, this was due to seasonal influences, for at the beginning of the autumn the rise gathered momentum again. The wage increases granted in the autumn were much more substantial than before and far outstripped the distinctly declining productivity gains. For the full year, earnings per person employed in industry (including construction) probably rose by between 10 and 22% according to the country concerned, while output per person employed increased by no more than 3 to 7.5%.

Imports from non-member countries climbed very rapidly during the first nine months of the year. At 17%, their year-on-year growth almost matched that of 20% in intra-Community trade, while on the longer-term trend there should have been a big difference. The imports from non-member countries which rose most were those of consumer goods and capital goods, a circumstance which reflects the low elasticity of supply in the Community and already, perhaps, an incipient erosion of competitive prices.

The Community's trade balance deteriorated further even though exports were still rising appreciably. Current surpluses therefore diminished, but, mainly because of the inflow of short-term capital, the external assets of the monetary authorities have risen sharply since the spring. At the end of October 1970, their gross gold and foreign exchange reserves were about $6 000 million up on the level of six months earlier. In most member countries, transactions with abroad thus contributed to a considerable rise in the money supply.

Moreover, credits to the economy expanded distinctly in almost all countries, and in some of them the borrowing requirements of the Treasury were met by monetary or quasi-monetary means. In the first nine months of the year, all Community countries except France and Belgium experienced an appreciable if not very sharp rise in the money supply.

Provisional estimates for 1970 suggest that in all member countries the figures for growth, employment and, except for the Netherlands, the balance of exports less imports did not diverge from the quantitative guidelines laid down for the period 1971-1975 in the draft of the Third Medium-term Economic Policy Programme. The price trend, on the other hand, is still very disappointing.

3. *Situation and outlook in the member countries*

While prices and costs were rising at much the same rapid pace in all member countries, the demand and production trends varied somewhat from one country to another.

In *Germany*, the surge of overall demand has since the summer of 1970 given way to a more moderate rise. The rapidly increasing flow of exports orders has noticeably weakened since the DM revaluation, and domestic orders for the capital goods industries have apparently tended to stagnate for some months past.

Private consumption, on the other hand, is still expanding briskly, mainly as a result of the waive of wage increases. In the third quarter, actual earnings in industry were about 17% up on a year earlier.

The growth of industrial production slackened considerably. So far there has been little if any easing in the situation on the labour market.

The rise in retail prices abated for a time during the summer, owing to seasonal influences. In October, the cost-or-living index was 4% higher than a year earlier. The visible trade surplus, which had fallen until the spring, has since rising again, mainly because imports from other Community countries have been increasing less fast. Overall, the trade surplus (cif-fob) for the first ten months of 1970 was, at DM12 300 million, ot much the same order as in the corresponding period of 1969.

Higher net expenditure on services, particularly tourism, and increased unilateral transfers nevertheless kept the current account almost in equilibrium. Between the end of March and the end of October, the gross currency reserves of the monetary authorities went up by $4 500 million, owing to a very substantial inflow of private capital.

The considerable expansion of bank lending likewise contributed to a sharp increase in the money supply, which went up by 17% between the end of September 1969 and the end of September 1970. In contrast to original estimates, the Federal budget for 1970 will probably not show a surplus.

The months ahead may confirm the tendency for the growth of production to slacken. At the same time the uninterrupted rise of wage costs will continue to exert heavy pressure on prices and is liable to curtail the propensity to invest of enterprises.

In *France*, the growth of overall demand in the summer and early autumn owed most to domestic demand. The rise in exports, though still vigorous, has slowed down since the second quarter, owing to slackening foreign demand. The growth of private consumption gathered momentum in the third quarter, and corporate investment continued to climb. The pace of public expenditure gathered speed. Industrial production shows signs of recovery. The number of persons seeking employment has tended to rise faster in recent months, in part because of the increase in the disposable labour force, but to some extent simply because of improved recording of job applications by the Agence nationale pour l'emploi. The number of unfilled vacancies remained high, reflecting the persistence of strains in certain sectors and in respect of certain skills.

The rapid increase in wages during the first half of the year continued almost unabated in the third quarter. At the beginning of October, hourly wage rates in industry and trade were 10.5% up on a year earlier. After having slackened during the summer, the rise in retail prices gathered momentum again at the beginning of the autumn. In October, the retail price index was 5.5% higher than in the same month of the previous year.

In the third quarter the growth of visible imports gained speed. With exports slowing down, the trade deficit (cif-fob) rose slightly. However, an improvement in the pattern of leads and lags, the continued inflows of long-term capital and, to a lesser extent, of short-term capital, enabled the overall balance of payments to close in the third quarter with surpluses that were substantial though smaller than in the first half of 1970. The gross gold and foreign exchange reserves of the monetary authorities went up by $656 million between the end of the first quarter and the end of October despite foreign exchange repayments to private banks, foreign Central Banks and the International Monetary Fund.

The resulting effect on domestic liquidity was, until the middle of the year, largely offset by stringent public finance management, which is likely to show up in budget equilibrium for 1970, and by more moderate credits to the economy. Since then the money supply has been rising rather faster. In September, it was about 7.5% larger than in September 1969.

The months ahead should bring little if any significant change in these tendencies. While they suggest that external equilibrium and satisfactory growth of economic activity will be maintained, the persistence of the upward thrust of prices, mainly owing to the cost increases, continues to be a major problem.

In *Italy*, the improvement in the social climate enabled production to pick up at the beginning of the autumn. Nevertheless there remains a substantial volume of potential demand, despite increased recourse to foreign supplies.

In the third quarter, minimum hourly wage rates were 16% higher than a year earlier. The rise in retail prices slackened towards the middle of the year, partly for seasonal reasons; at the beginning of the autumn, it gathered speed again, notably as a result of the fiscal measures taken in August. In September 1970, the increase over the same month of the previous year was 5%.

The comparatively slow advance of exports until the beginning of the autumn and the acceleration of imports, both largely due to delivery difficulties at home, led to a very substantial deterioration in the balance of trade. For the first ten months of 1970, the deficit (cif-fob) was $1 300 million, as against $300 million in the corresponding period of 1969. The overall balance of payments, on the other hand, improved sharply; the first quarter's deficit gave way to surpluses, mainly because semi-public agencies floated large loans abroad and because the Central Bank modified its interest rate policy. At the end of October 1970, the gross reserves of the monetary authorities were $635 million higher than at the end of March.

The money supply increased appreciably and at the end of September was 23% up on the level of a year earlier. The rise in bank lending to the economy slackened a little. The Treasury's cash transactions under the budget closed with a heavy deficit which, because of the tight situation on the capital market, was financed mainly by monetary means.

The crucial condition for economic growth is a rapid and lasting restoration of normal industrial relations, which means in particular that certain structural reforms will have to be initiated. The pace of production could then gather considerable speed and permit the satisfaction of both domestic and export demand. Even then, however, costs and prices will have to be watched closely.

In the *Netherlands*, demand was still expanding briskly in the closing months of 1970; the slower advance of exports was more than offset by the rapid expansion of final domestic demand. Owing to the very high degree of technical capacity utilization and mounting strains on the labour market, the growth of industrial production slowed down appreciably.

The labour disputes in the port of Rotterdam at the end of August were followed by a fresh wave of wage increases. In the third quarter, hourly wage rates in industry were 10% higher than a year earlier. The upward movement of prices remained very vigorous; the rise in retail prices even gathered speed, lifting them, by October, to 5.5% above their level a year earlier.

With imports soaring, the balance of trade (cif-fob) for the first ten months of 1970 closed with a larger deficit ($1 265 million) than in the corresponding period of 1969 ($791 million). The current account moved into heavy deficit. As a result of considerable inflows of capital from abroad, the gross foreign assets of the Central Bank nevertheless went up by $513 million between the end of March and the end of October 1970. This inflow of liquid funds, combined with the expansion of credits to business and individuals, contributed to the maintenance of a high degree of liquidity in the economy. Although the budget deficit exceeded original estimates, distinctly less of it was financed by monetary means than in 1969. The money supply increased by about 13.5% between the end of September 1969 and the end of September 1970.

The boost which private consumption has received from wage awards since August, the continuation of a strong propensity to invest and the impact of certain autonomous factors associated especially with the increase in indirect taxes, are liable to perpetuate the fast price rise. Moreover, the balance of payments on current account is unlikely to improve in any significant measure during the next few months.

In *Belgium*, the expansion of foreign demand slackened while that of domestic demand gained strength, despite the more cautious line which enterprises were taking over stocks. The labour market remained rather tight, but the shortage of manpower has not grown any further since the middle of the year.

In September 1970, gross wages paid to workers in industry were 11.5% up on a year earlier. The retail price index remained virtually unchanged between April and October 1970, when it was 3.5% higher than in October 1969.

The balance of trade (cif-fob) moved into distinct surplus; for the first eight months of 1970, the surplus was $150 million, compared with a deficit of $100 million in the period January to August 1969. In spite of a net outflow of capital, the gross reserves of the Banque nationale went up by some $110 million between the end of March and the end of September 1970. In September, the money supply was 7% larger than a year earlier.

Although the value added tax system is being introduced in a business climate less strained than it was at the beginning of 1970, the persistent push of wage costs implies a danger for the trend of prices during the winter.

In Luxembourg, the increasing weakness on the world markets for iron and steel products since the spring has had a severe impact on exports. Although private consumer demand and fixed investment have still been rising briskly, production has fallen in recent months. Prices nevertheless continued to go up rapidly: in November 1970, the retail price index was 5.2% higher than a year earlier.

While economic activity will undoubtedly slacken further in the near future, equilibrium will remain fairly difficult to achieve.

II. Guidelines for the Community's short-term economic policy

In recent months, the overheated boom has cooled down somewhat in most member countries, under the influence of measures taken in accordance with the guidelines approved by the Council in January and July 1970, of calmer world economic conditions and of spontaneous market forces.

But everywhere in the Community inflationary pressures are so strong that it needs patient efforts to get rid of them. The policy required in all Member States, therefore, still is to stem the rise in costs and prices, lest prolonged inflation aggravate economic and social distortions in the Community and weaken its industry's competitive position. For the rest, if costs go on rising, they will exert strong upward pressure on prices and, in the longer run, impair investment no less than stable employment.

In those Community countries where the restrictive measures taken so far have already caused demand to grow at a more moderate rate (Germany, France, Belgo-Luxembourg Economic Union), policy should be directed at ensuring stability by the harmonious adjustment of demand to potential supply.

In the Netherlands, the persistence of pronounced disequilibria still makes it imperative to cut excess demand.

In Italy, the main task is to get domestic supply to adjust rapidly to the expansion of demand, while making sure that domestic spending does not grow faster than is compatible with balanced growth in the medium term.

What needs to be done, therefore, is to foster, as of the beginning of 1971, a closer alignment of prices to the quantitative guidelines laid down in the draft of the Third Medium-term Economic Policy Programme, and to safeguard the achievement of the other objectives in the next few years. Measures to this end should be appropriately balanced to suit the special features of the business situation in each member country, and coordinated effectively, account being taken of the repercussions of national economic policies via trade and capital movements in the Community.

1. Developments on the international financial markets currently place severe constraints on the monetary policy of Member States. To stem the inflow of short-term capital, interest rates had to be brought down so as to reduce the gap which separated them from those developing on the international markets.

Should interest rates continue to fall at financial centres abroad, the progressive adjustment of rates in the Community would undoubtedly have to continue. The monetary authorities of the member countries should nevertheless endeavour to forestall excessive liquidity at home, which would encourage the persistence of inflationary behaviour.

Depending on each country's circumstances, therefore, there is a case for reducing bank liquidity or placing direct restrictions on credits to the economy. Comparatively more stringency will be required in the Netherlands and Italy, where the re-equilibration of supply and demand poses even greater problems than elsewhere in the Community.

2. Given the limits set to monetary policy, very great importance attaches to the regulating function of the budget. Its stabilizing influence should work not merely through the purely mechanical effects of budget policy on the flow of incomes and demand, but beyond that through the cues which prudent public expenditure gives to the business world.

In almost all Member States the restrictive effect of the budget in 1970 turned out to be weaker than been expected originally. The draft budgets for 1971 provide for a major increase in public expenditure, in several cases well beyond the expected growth of GNP at current prices calculated, even now, on the assumption of a sharp price rise. While in some member countries expenditure is covered by revenue, there are several others whose efforts to balance the budget are still defied by continuing and sometimes heavy deficits.

No doubt, it was inevitable to budget for increased public spending on this scale, if only because of new commitments in the field of social espenditure and because of the delays which have held up programmes for the improvement of social overhead capital sorely needed in our societies. Nevertheless, budget implementation should proceed with great caution during the next few months, with a view to keeping actual spending down to the moderate pace required by the still precarious conditions of equilibrium. In this connection, it would be well to give productive expenditure and infrastructures preference over less important and urgent items.

Caution, therefore, should be the watchword of public spending in the months ahead:

(i) in France, where the draft of the 1971 Finance Act limits the rise in definitive and temporary expenditure over the level of the 1970 budget to some 9%;

(ii) in Germany, where the drafts of the 1971 budgets of the Federal Government and the Länder provide in the aggregate for an expenditure rise of the order of 12% over the 1970 budgets;

(iii) in Belgium, where total expenditure under the 1970 budget is to be exceeded by almost 10%, or indeed by 12% if allowance is made for expenditure henceforth to be financed outside the budget, and where the introduction of VAT makes it imperative to avoid stimulating the economy too much from the side of the public finances.

Later in 1971, if and when the slowdown in the rise of costs and prices asserts itself more strongly, it may prove advisable to speed up public spending.

In the Netherlands, the stabilization programme announced in September implies a significant reduction in the budget deficit. The heavy strains in the Dutch economy call for strict application of this programme in 1971. In addition, greater restraint will have to be exercised in government spending, for which 13% more is budgeted than in 1970.

In Italy, wide use should be made of budget policy to eliminate the disequilibria which in the months ahead will persist between supply and demand. The measures which the Italian Government took in August will entail an appreciable reduction in the budget deficit: what remains should be financed by non-monetary means. A tax reform broadening the tax base under socially equitable conditions seems advisable in the interests not only of lessening current strains in the economy, but also of its structural improvement.

3. In all Member States, and first and foremost in those where costs are rising very sharply, it is more than ever of paramount importance that government, workers and employers should make a concerted effort to get the various income categories to develop along lines making room for an appreciable and lasting reduction in the rate of inflation. Unless all concerned reach a consensus on the aims to be achieved and keep to the lines of action jointly agreed, there is reason to fear that the race between wages and prices will continue and that at a later stage rising costs will depress investment, with adverse effects on economic activity as a whole and on the level of employment. Behaviour must not be based on the idea that a rapid increase in incomes can be absorbed by a "forward leap" into faster growth and higher prices. Unless income growth is aligned more closely to medium-term productivity gains, painful economic and social adjustments will sooner or later be difficult to avoid.

These efforts at concerted action will have to be accompanied by an active employment policy. Greater geographical and occupational mobility of labour and better protection for workers in the event of a temporary loss of earnings should help to reduce pockets of structural unemployment and to achieve better equilibrium on the labour market in socially acceptable conditions.

4. In certain member countries where demographic or regional factors create unemployment problems, it might seem tempting to resolve them by systematically stimulating overall demand. But experience shows that these problems cannot always be dealt with effectively by the mere endeavour to achieve rapid growth; the method may generate serious disequilibrium in prices and the balance of payments, and moreover does not guarantee lasting full employment unless energetic steps are taken at the same time to create new jobs and train manpower, so that growth can spread more widely throughout the various sectors of production and regions.

The Commission requests the Council to approve the guidelines set out above and to invite the Member States to shape their economic policies accordingly in the coming months.

ANNEX 2

Brussels, 11 December 1970

Opinion of the Short-term Economic Policy Committee on the Economic Budgets for 1971

1. At its meeting of 10 and 11 December 1970, the Short-term Economic Policy Committee examined the economic situation in the Community at the end of 1970, the outlook for 1971 and related problems of short-term economic policy. The Committee based its survey on information contained in the economic budgets transmitted by Member Governments and in addition took account of the latest forecasts made by the Commission's services.

2. In 1970, economic growth in the Community continued at a very vigorous but, in the second half of the year, steadily faltering pace. The slowdown was more pronounced in some member countries than in others and, generally speaking, had no corresponding effect on the movement of prices and costs. According to economic budgets, the year's growth of the real gross Community product may be estimated at 5.7% and the rise of retail prices at 4.7%.

3. Internationally, the likely prospect is one of moderate recovery in the United States and the United Kingdom and of slower expansion in the non-Community industrial countries of continental Europe. In this setting, the economic budgets of Member States suggest that they can look forward in 1971 to vigorous but slightly slower growth than in 1970, together with a weakening of the disequilibrating factors in their economies.

More moderate demand is expected mainly on the side of exports and corporate investment, but the pressures deriving chiefly from persisting cost inflation will remain very strong.

All in all, it is reasonable to expect that growth, employment and the balance of exports less imports will turn out to be generally compatible with the target figures laid down in the draft of the Third Medium-term Economic Policy Programme, while prices remain the chief problem.

4. In these circumstances, the Committee considers that although in most member countries there is no case for fresh measures to dampen demand, it would be dangerous to relax, too soon or too far, the restrictions forming part of the stabilization policies pursued in 1970 or planned for 1971.

In the face of declining interest rates on the principal international markets, the monetary policy of Member States should, by whatever means they choose, avoid contributing to excess liquidity at home.

With suitable adjustments to fit each country's circumstances, public finance policy should be more cautious in budget implementation, and do nothing to add to the pressure of demand or to cause it to revive.

Whatever else is done to contain the price rise, especially through measures affecting the conditions of competition, endeavours aiming at concerted action by workers, employers and government should be intensified, despite the difficulties they encountered in the recent past.

5. In the Netherlands, demand inflation persisted in 1970 and was reflected more particularly in a deterioration in the balance of payments on current account. The Committee took note of the Government's stabilization programme for 1971, which, if strictly adhered to, is likely to mitigate imbalances and check the rise of costs and prices.

In Italy, the main problem in 1971 consists in returning to balanced growth, by better utilization of production capacities and their extension, as well as by a more moderate rise in incomes. This requires first and foremost a rapid and lasting improvement in the strained relations between management and labour, and initiation of the reforms desired by great masses of the population. To this end, a special role will have to be assigned to budget policy, along the lines already decided by the Italian Government, and in particular to the implementation of the tax reform that is currently being worked out. Lastly, special attention should be given to the problem of equilibrium in finance flows.

In Germany, where the tendency for the situation to become normal again is still being counteracted by the persistence of strong inflationary pressures, the restoration of growth in conditions of satisfactory stability hinges on careful demand management. The main ingredient of such a policy should be restraint in public spending during the first half of the year, possibly to the point of not using certain budget appropriations. Any relaxation of monetary and budgetary restrictions in the course of the year presupposes that workers and employers bring their behaviour more closely into line with the requirements of the economic situation.

In Belgium, where the price trend in 1970 was comparatively more favourable than elsewhere, the risks associated with the introduction of the value added tax system prompted the public authorities to make arrangements for price control; the Committee has taken note of these arrangements. In the longer run, their success would seem to require some dampening of demand, perhaps, restraint on the part of workers and employers, and appropriate stringency in budget management and regulation of credit control.

In Luxembourg, where economic developments will be determined mainly by the very sluggish trend of world demand for iron and steel products, costs and prices are liable to remain a matter for concern in 1971.

In France, the year 1971 is expected to be one of sustained expansion, with the pattern of demand reaching a new balance compatible with the maintenance of the results achieved in the field of foreign trade. But the impact of inflation cannot be absorbed, nor the improvement in the balance of trade consolidated, without an active economic policy which, against the background of a balanced budget, aims mainly at bringing costs and prices under control.

6. Even though prices and costs promise to rise more moderately in 1971 than they did in 1970, the Committee, in conclusion, wishes to emphasize that there are still serious grounds for concern in this field. The expected increases exceed those considered acceptable in the draft of the Third Medium-term Economic Policy Programme, and it is far from certain that actual increases will remain within expectations. This, however, is a basic condition for the achievement of the medium-term objectives which Member States have set themselves with regard to growth and full employment.

Whether these forecasts come true hinges essentially on the effectiveness of the measures already taken or about to be taken. If it proved impossible to make them effective or if workers and employers failed to exercise restraint as expected, stringent measures would be required in the field of budget and monetary policy.

Trends in industrial labour costs

A. Introduction: methods

Every year since 1962 the Commission's Quarterly Surveys on the economic situation in the Community have included an Annex showing the trends of compensation of employees per head, productivity of labour, labour costs per unit of gross value added at constant prices, and the implicit price index for gross value added in industry (including construction), not only in the member countries but also in the United States and the United Kingdom.

The aggregates in this survey have been defined and calculated as follows:

Compensation of employees is defined as wages, salaries and social insurance contributions. For Belgium, however, separate figures corresponding to this definition are still not available for compensation of employees broken down by economic sectors; in this case, therefore, the index given by the Banque Nationale de Belgique for the wage bill has been used, corrected by the addition of the average figure for employers' social insurance contributions. It should be pointed out that this approximation probably understates the true trend of wages in Belgian industry. The figures for labour costs in Belgian industry therefore have to be treated with even more caution than those for the other countries.

In Italy and the United Kingdom, no market-price figures are published for gross value added at constant prices, broken down by economic sectors; for these countries, therefore, factor-cost data have been used. The prices taken as a basis for calculating gross value added at constant prices are those of 1963 in all cases except the United States, for which the prices used are still those of 1958.

It would have been better to use the trend of compensation of employees and gross value added at constant prices per hour worked, but this could not be done because the statistics on the number of hours worked in the Community countries are incomplete. Consequently, these two items could only be calculated per employee. This makes it more difficult to interpret the graphs, especially the results for the last few years, during which the number of hours actually worked has changed considerably in most of the countries.

Labour costs per unit of gross value added at constant prices were calculated by dividing the index of the wage bill by the index of gross value added at constant prices. These figures can also be obtained by dividing the wage bill per person employed by gross value added per person employed.

As last year, the survey again gives figures for the trend in labour costs adjusted for changes in official exchange rates. These calculations are based on the rate of exchange of the national currencies concerned in relation to the US dollar, as given by the SOEC in its publications on external trade.

The implicit price index shows the extent to which the trend in value added at current prices differs from the trend at constant prices.

In accordance with the convention that the Statistical Office of the European Communities has followed for a number of years, 1963 has been taken as the base year for the index figures in the graphs.

For all countries covered in this annex, the 1970 figures rest wholly or partly on estimates.

The following should be said about the significance of the series used here.

As far as possible the data have 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 are internationally comparable, the absolute figures are not. This qualification is all the more important in that even the relationship between the various levels in the base year 1963 is not necessarily "correct".

Use of the national accounts meant that only annual figures could be used. Changes in the course of the year are only partly reflected in the annual figures concerned and also affect the results for the following year. This makes it more difficult to judge short-term trends, in particular.

The concept of value added differs from that of industrial production as generally applied in calculating the monthly indices of industrial production.

This difference between value added and industrial production (as used for production indices) appears most clearly in the implicit price index for gross value added. In this index, two essential factors affecting actual market prices are left out of account, namely, firm-to-firm supplies within industry and supplies from other sectors, including abroad. The trend of the implicit price index therefore differs from the trend of market prices, to an extent which varies from country to country, since the proportion of value added in industrial output also varies.

Compensation of employees in industry does not include all wages contained in the market prices, i.e. it excludes wages paid in respect of goods and services supplied to industry by other domestic sectors.

These remarks should show that the series which follow must be used cautiously. They are not internationally comparable as they stand, and their development in time is different from that of series whose data are based not on value added but on gross production.

B. Developments in 1970[1]

In 1970, the trend of labour costs per unit of gross value added (at constant prices) expressed in national currencies continued to be fairly unfavourable in the Community's industry. The increase was particularly vigorous in Germany and Italy, where it reached something like 17½% and 14% respectively, compared with 4% and 4.5% in 1969. In the other Community countries (excluding Luxembourg), labour costs per unit of gross value added at constant prices by some 5% in 1970. In France and the Netherlands this increase was of much the same order as in 1969, but it was much worse than the previous year's in Belgium (+2.0%).

In most Member States, compensation of employees per head in industry went up more sharply in 1970 than in 1969. This applies especially to Italy and Germany, where the increase can be estimated at 22% and 16½% respectively, compared with 6.4% and 10½% in 1969. In Belgium, too, the rise was considerably steeper than in the previous year, probably reaching some 11% (1969: 7.9%); for the Netherlands it is put at 12½% (1969: 11.4%). Only in France was the increase in income per employee smaller than in 1969—probably around 10%, compared with 12.7%.

In Germany, the sharp rise in compensation of employees in manufacturing industry was accompanied by a considerable slowdown in output growth, which was mainly due to lack of production capacities and an acute labour shortage, and in some branches was conditioned also by demand. Gross value added at 1962 prices increased by only 5.4% in 1970, compared with 10.3% in 1969. The increase per employee is estimated at 2 to 2½% (1969: 6.2%).

In France, the growth of production in industry was, at 6½% or so, likewise less than in 1969 (9.5%). Gross value added (at constant prices) per employee probably rose by some 4½% in 1970 (1969: 7.5%).

In Italy, by contrast, industrial output grew more than in 1969 (by 6% compared with

[1] The calculation of the figures on which the graphs are based was completed on 9 March.

5.2%), since production was less curtailed by labour disputes than in the second half of 1969. The rise in gross value added (at constant prices) per employee is estimated at some 4% for 1970, compared with 1.9% in the previous year.

In the Netherlands and Belgium, the increase in gross value added (at constant prices) per employee in industry is estimated at 7% and 6% respectively, and thus much the same as in 1969 (6.6% and 5.8%).

In the two non-member countries covered in this survey, the trend of labour costs per unit of gross value added (at constant prices) in industry was likewise fairly unfavourable again in 1970. This is particularly true of the United Kingdom, where the year's increase of 9% or so compares with 4.3% in 1969. Production rose by about 1% in 1970, even less than in the previous year (2.6%). The rise in gross value added (at constant prices) per employee was, at 3%, probably much the same as in 1969. Income from employment per head, on the other hand, advanced at the much faster pace of 12½%, compared with 7.2% in 1969.

In the United States, labour costs per unit of gross value added (at constant prices) probably went up by 5%, much as they did in 1969. Industrial production was about 3% down on 1969. The fall in employment in industry is estimated at around 3½%. Hence the increase gross value added (at constant prices) per employee was, at ½%, probably still lower than in 1969 (1.2%). The rise in income from employment per head in industry equally was probably somewhat lower than the previous year (5½% compared with 6.5%).

The longer-term trend in labour costs per unit of gross value added is illustrated in the table below. The 1970 figures are compared with those of 1967, the year when most member countries entered the boom period of the past few years. Adjustments are made for intervening changes in the official exchange rates[1] of the currencies of the United Kingdom, France and the Federal Republic of Germany; this is done with a view to obtaining some sort of yardstick for assessing the trend of international competitiveness. More accurate assessment, of course, needs to be based on additional criteria other than the mere trend of labour costs.

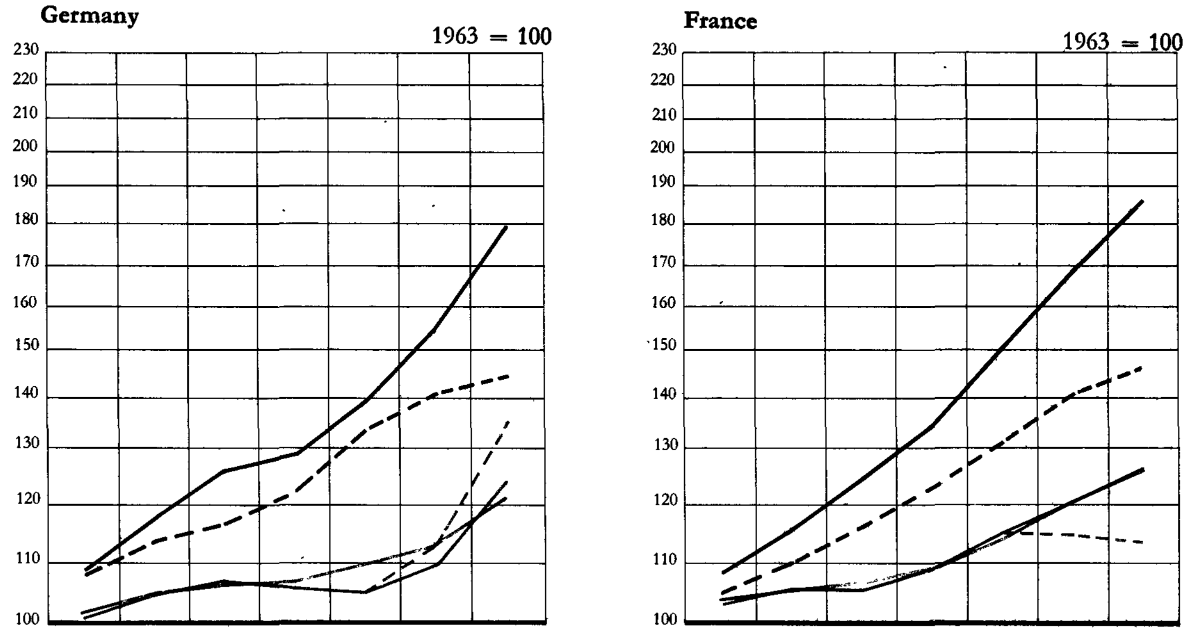
[1] United Kingdom: devaluation by 14.3% on 18 November 1967.
France: devaluation by 11.1% on 11 August 1969.
Germany: revaluation by 9.3% on 27 October 1969.

Labour costs per unit of gross value added (at constant prices) in industry

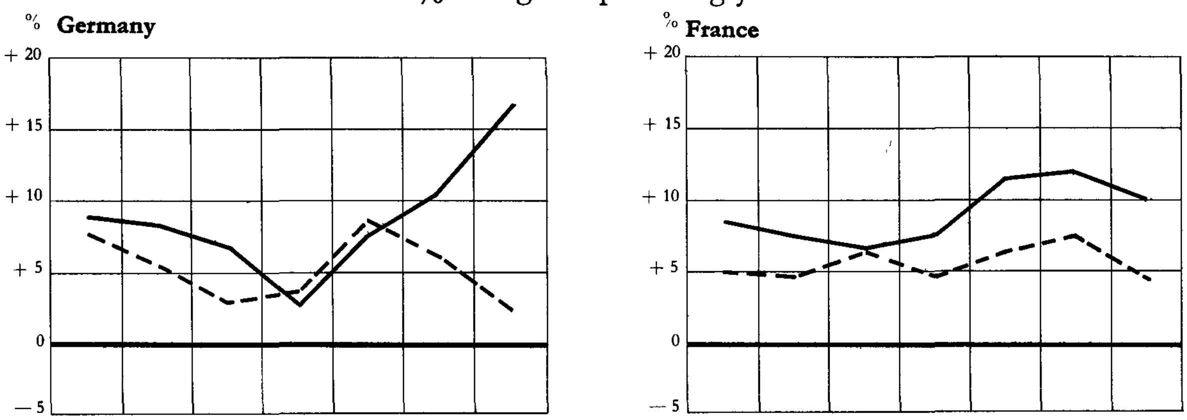
	1963 = 100					% change from 1967 to 1970[1]	% change from 1967 to 1970[2]
	1967[1]	1968[1]	1969[1]	1970[1]	1970[2]		
Germany	106.1	105.2	109.4	124.5	136	+ 17.5	+ 28
France	109.0	114.9	120.5	127	113	+ 16.5	+ 3.5
Italy	109.2	108.9	113.7	133.5	133.5	+ 22.5	+ 22.5
Netherlands	120.2	119.5	124.8	131	131	+ 9	+ 9
Belgium	112.3	111.3	113.5	119	119	+ 6	+ 6
United States	108.8	112.0	117.9	124	124	+ 14	+ 14
United Kingdom	113.7	115.8	120.8	131.5	113	+ 15.5	— 1

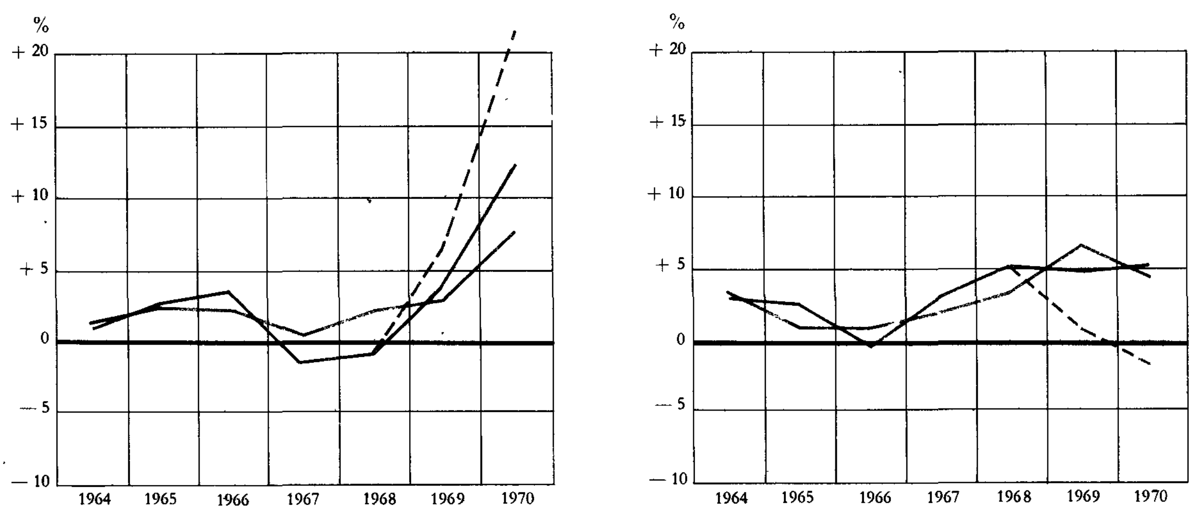
[1] In national currencies.
[2] Adjusted for parity changes.

LABOUR COSTS IN INDUSTRY



% change on preceding year





Income from employment per head

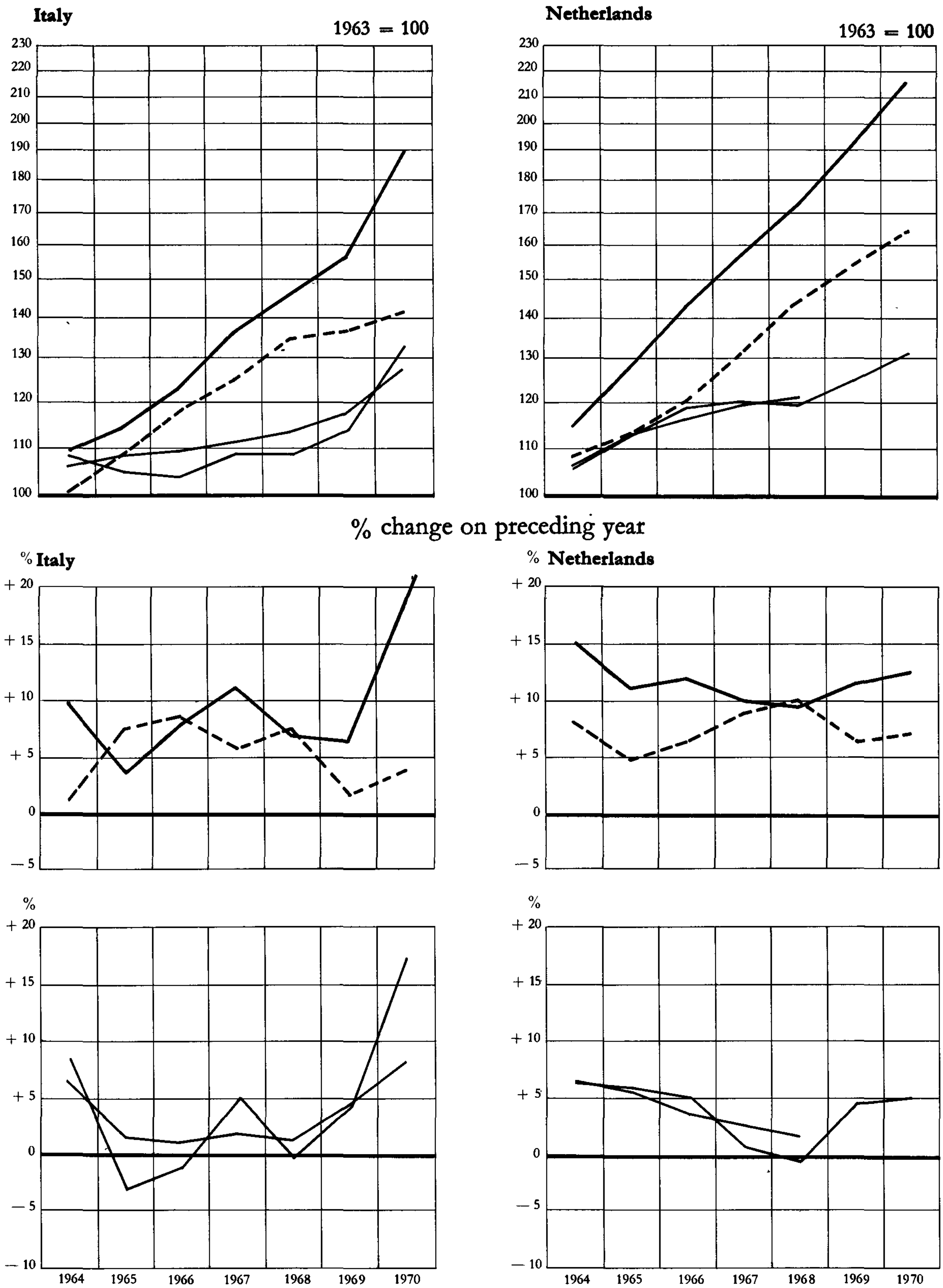
Gross value added (at constant prices) per employee

Labour costs per unit of gross value added (at constant prices)

Labour costs per unit of gross value added (at constant prices) corrected to account for changes in officiel exchange rates

Implicit price index of gross value added

LABOUR COSTS IN INDUSTRY



Income from employment per head

Gross value added (at constant prices) per employee

Labour costs per unit of gross value added (at constant prices)

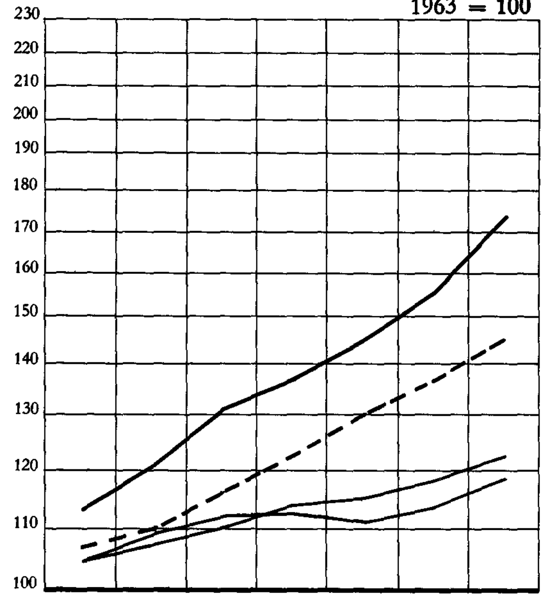
Labour costs per unit of gross value added (at constant prices) corrected to account for changes in officiel exchange rates

Implicit price index of gross value added

LABOUR COSTS IN INDUSTRY

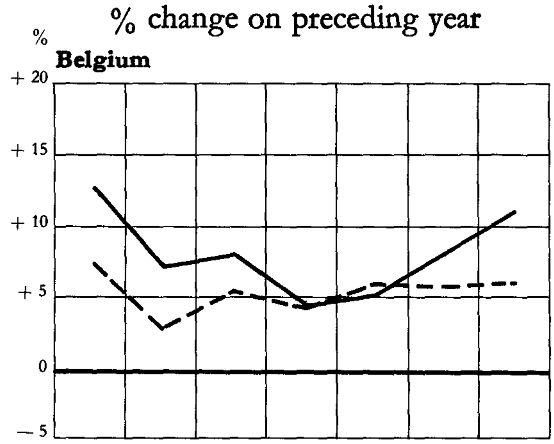
Belgium

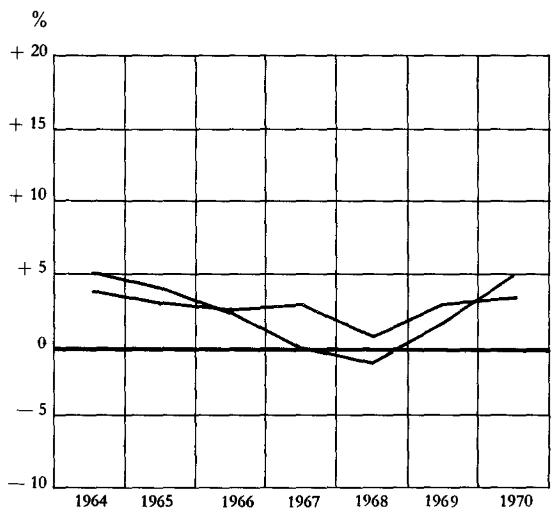
1963 = 100



% change on preceding year

Belgium





Income from employment per head

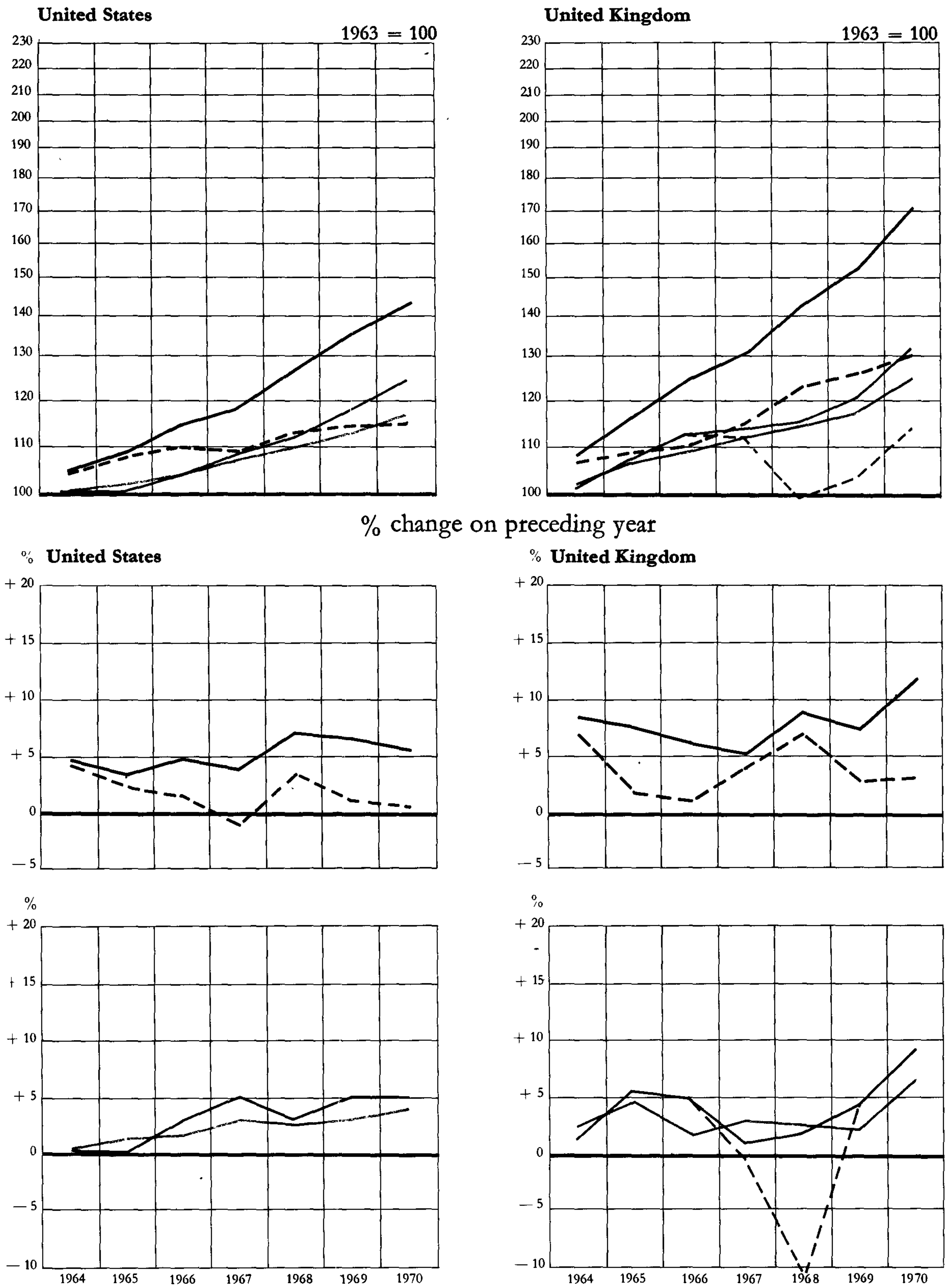
Gross value added (at constant prices) per employee

Labour costs per unit of gross value added (at constant prices)

Labour costs per unit of gross value added (at constant prices) corrected to account for changes in officiel exchange rates

Implicit price index of gross value added

LABOUR COSTS IN INDUSTRY



Income from employment per head

Gross value added (at constant prices) per employee

Labour costs per unit of gross value added (at constant prices)

Labour costs per unit of gross value added (at constant prices) corrected to account for changes in officiel exchange rate

Implicit price index of gross value added