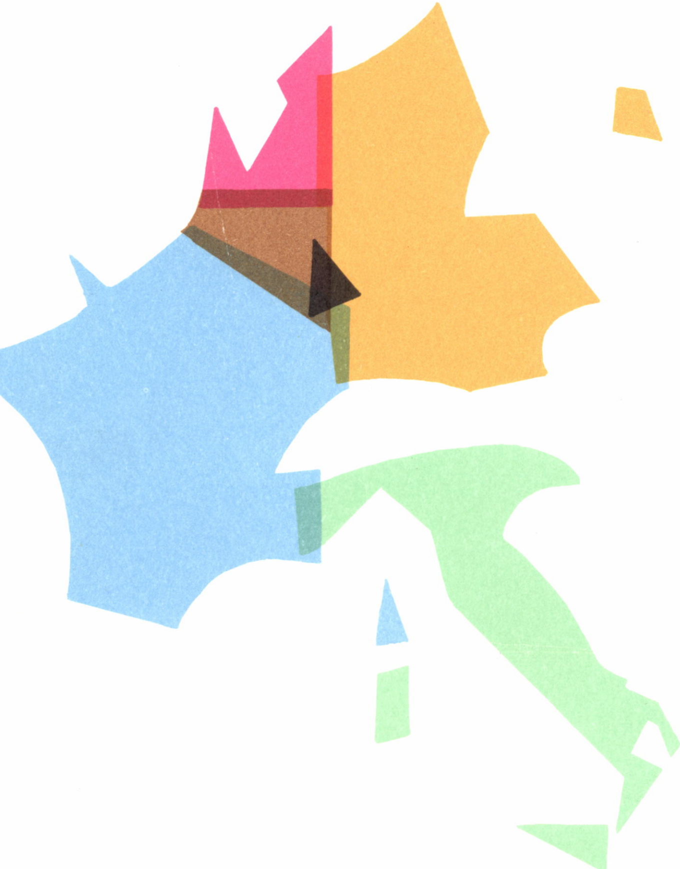

European Communities

Commission

Directorate-General for Economic and Financial Affairs

The economic situation in the Community

2

1970

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

JUNE 1970

Contents

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

I. THE OVERALL SITUATION

The economic upswing in the Community was still very vigorous during the spring. In most member countries utilization of capacity remained extremely high and inflationary pressures were still very marked.

Owing largely to the cooler business climate in the United States, demand from non-member countries made very little progress, but the drive imparted by internal demand gained still further in strength. Private consumers' expenditure, in particular, expanded briskly, mainly as a result of massive wage increases. The growth of gross fixed asset formation, too, was very rapid. The Commission's investment survey, made in the spring, showed that firms' investment schedules, which were already very heavy as planned at the end of 1969, have been revised upwards in all member countries. Despite an appreciable degree of elasticity due to the effects which the liveliness of investment activity has had on production capacity, internal supply has failed to match the expansion of demand. The stresses affecting the labour markets in the Community have grown more severe. The pace at which imports are growing has gained speed and the trade balance has deteriorated further. With the high level of demand making it fairly easy for managements to pass on to their customers the sharp increases in costs they had been experiencing for some time past, the already very lively rise in prices gathered further momentum.

In the light of most of the indicators available, no great change in the trend is to be expected during the second half of 1970. Export demand will remain weak: internal demand will grow vigorously. The very high rate of increase of private consumers' expenditure will be maintained. The propensity to invest is still lively, so there can be little doubt that actual outlay on investment will continue to rise *strongly. There is a very serious risk that strains will persist on the markets in production factors, goods and services, and, consequently, that prices will tend to rise further. At consumer level this rise could, for the full year, be as much as 4½ % to 6 % in almost all member countries. The growth rate of the gross Community product can be estimated (in real terms) at 6 %.*

The further outlook—for 1971—depends primarily on how long it will take for the policy measures now in force to restore the basic equilibria. If the growth of internal demand and the sharp rise in costs cannot be curbed firmly enough, and soon, it is by no means impossible that the business trend will dip fairly sharply later. This could be a serious threat to full employment. But if economic stability were promptly restored in the member countries, there would be a good chance of achieving next year a high level of employment and the optimum use of technical capacity, yielding a growth rate of 4.5 % in the real gross Community product for the full year. The drive to restrain inflation must therefore still take priority in all the Community countries.

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

The Community is enjoying a boom which has been longer, but has also given rise to more strain, than any other since the entry into force of the Treaty of Rome.

The longest period of uninterrupted upswing in production registered before lasted from January 1959 to December 1961, covering three years. In this period, industrial production went up by about one third. In spring 1970, the Community's industrial production was already 35 % higher than in April 1967, when the current phase of expansion began. Given the outlook for the second half of 1970, it is safe to assume that by December this key supply component will be about 40 % up on the level of April 1967.[1] Employment touched a new record in the spring of 1970 and unemployment in most countries had shrunk to its lowest point since 1958.

Inflationary strain, especially in the shape of mounting prices and costs, has assumed unprecedented proportions. In annual average terms, consumer prices in the Community will probably be more than 5 % up in 1970 on the level of a year earlier, having already risen very sharply (3 %) in 1969. In investment, the upward thrust of prices is much more vigorous still. Although there are differences in the rate of price increase from one country to another, inflationary pressures are at the moment very heavy throughout the Community.

Inflation is, however, not confined to the Community, for it is a problem in almost all the western countries. In some of them, the rates of price increase have also set new records. Economic trends in the western world have as a result become very unstable. Should there be sudden changes in the basic variables which govern the economic health of one or more important industrial countries, particularly in the field of production and employment, the system as a whole could suffer disruption and the effects of this could not fail to spread to the Community countries. It is true that economic activity in the Community is less sensitive than a few years ago to changes in the merchandise trade flows between non-member countries. But by 1969 the Community's trade account (cif/fob), which in 1967 and 1968 had closed with surpluses of $ 730 million and $ 1 500 million respectively, roughly balanced out. In view of the current outlook for external trade, 1970 is likely to bring a deficit of the order of $ 1 500 million. Another factor is that of late there has been less room for manœuvre to offset by internal economic measures the desirable impact of world business trends on growth in the Community. For instance, the net foreign exchange holdings of the monetary authorities and the commercial banks are believed to have contracted by roughly one third since the spring of 1968 while trade and capital flows have been expanding vigorously.

As a result of the persistent inflationary tendencies, however, the threats to future economic development have also been growing inside the Community. The longer the upward thrust of prices persists in a member country, the more acute is the danger of a sudden and sharp swing in the trend. Given the increased interdependence of the economies of the member countries, this would affect the other member countries much sooner and much more than in the past.

In therefore remains an urgent task for the Community to eliminate as rapidly as possible the sources of inflationary pressure : heavy excess demand and a rise in incomes that far outstrips the scope for increased production. This is the only way to prevent business activity once again getting out of hand, thus creating the danger of a recession—though not necessarily offering any immediate relief in the upward pressure on prices. In this respect current trends in other major trading countries are a warning to those responsible for economic policy in the Community.

The Commission has repeatedly drawn attention to the dangers entailed by the increase in strain. In the Memorandum which it submitted on 9 July 1969[1] to the Council on the "Main-

[1] Calculated on the basis of the indices of industrial production of the Statistical Office of the European Communities, adjusted for seasonal and fortuitous variations.

[1] Reproduced as an annex to Quarterly Survey 3/4-1969.

tenance of balanced economic growth", it emphasized that "top priority must be given to the removal of inflationary tendencies". In its Memorandum of 22 December 1969 on "The Community's economic policy in 1970",[1] it pointed out that inflationary strain was still severe or had even increased; it emphasized that "should it persist at its present level, expansion may fairly soon get completely out of control, and the authorities would then have to resort to a policy of almost Draconian restrictions". In the conclusions of the Memorandum of 9 July 1969, the Commission pointed out that energetic, rapid action had to be taken if the imbalances were not to grow even further and become a permanent feature. To this end it proposed a set of measures by means of which the Member States, acting together, were to bring the inflationary process under control as rapidly as possible. In the Memorandum of 22 December 1969, it called for the strengthening of these measures to bring about disinflation in all Member States by means of rapid and energetic measures mainly concentrated on the first half of 1970. In both instances the Council endorsed the conclusions of the Commission.

The following analysis of economic developments in the Community shows clearly that the results achieved are not satisfactory. In most Member States, the measures adopted in the past few months fell short of the guidelines drawn up by the Commission and endorsed by the Council. They were not sufficient to curb the expansion of domestic demand as much as was required in a situation in which the limited availability of factors of production made it impossible to step up supply fast enough in all sectors.

The spontaneous forces of expansion have remained extremely lively, particularly in the field of industrial investment. Industry's investment plans for 1970, which at the end of 1969 already implied an unusually sharp expansion of investment spending (from 15 to 57 % according to country) have in the past few months been revised further upwards in all countries. And so far there is no evidence of the upward movement in wages, registered since the autumn of 1969, losing pace to any significant extent. The rise in wage costs per unit of output has been considerably higher than feared at the end of 1969. The strong upward thrust of wage costs has so far not encroached very far on the profit margins available for ploughing back : the widening gap between demand and internal supply enabling firms to put up their prices considerably. The result is that on the internal economic scene there has been a very marked tendency for the upward trend to gather strength from its own momentum. The inflationary climate at world economic level has in its turn facilitated the upward thrust of costs and prices within the Community because price increases in the other industrial countries have kept the pressure of external competition down to much the same level and because the deterioration in the current account has generally given little cause for concern so far or has even, in Germany for example, been a policy aim.

There is a great danger of expansion getting still further out of control in the months ahead.

The problem of restoring the basic equilibria is certainly not the same in all countries, particularly as there are major differences in the speed and the vigour with which measures have been taken to combat inflation.

A contributing factor is that in some Member States the political situation or social problems have made full implementation of the guidelines proposed by the Commission and endorsed by the Council difficult to achieve. Indeed, in many cases the decisions taken in attempts to overcome social conflicts have made a return to the basic equilibria considerably more difficult.

At the moment there is therefore a particularly urgent need to apply an overall strategy that is aimed at bringing inflation under control as rapidly as possible. This must be done not only with a view to consolidating social progress but also to ensuring that the economic situation does not deteriorate at a later stage in such a way that job stability and improvement of the standard of living are jeopardized for the longer term. Under this overall strategy, each country should try hard to eliminate the causes of domestic disequilibria, so that the Community as a whole can become a centre of growth and stability.

In the second half of 1970, a rigorous budget policy is needed in the drive to bring expansion

[1] Reproduced as an annex to Quarterly Survey 1-1970.

into better equilibrium once again. Even more than in the past, public expenditure should be firmly held in check, taxes collected more rapidly, extra tax revenues frozen, and such budget deficits as still exist financed through long-term saving, despite the rise in tax revenues due to inflation. An increase in direct taxation and suspension of tax reliefs should also be contemplated.

Tax measures are all the more needed the smaller the contribution which saving by households makes to the non-inflationary financing of investment and the greater the danger of a further overheating of the boom.

The international setting still appears to favour the maintenance of the restrictive monetary and credit policy required within the Community. However, the Member States would be well advised to concert their policies at once, well ahead of any change in conditions on the international money and capital markets, particularly the Euro-market, as a result for instance of a relaxation of monetary policy in major non-member countries.

Preparatory work on the 1971 budgets should likewise be guided by a concern to restore the basic equilibria. To this end there appears to be a particularly strong need at the moment for more flexible deployment of the instruments of budget policy and particularly for the creation of a "strategic reserve" on the revenue as well as the expenditure side, for use to counter business fluctuations; this need is strengthened by the fact that it can by no means be taken for granted in present circumstances that the economy will have been sufficiently stabilized by the beginning of 1971 and it is also not impossible at the moment that economic activity may slow down significantly later in 1971.

For 1971 the principle should be to place a strict limit on the growth of expenditure over the expected level of actual cash disbursements in 1970. Provision should, however, also be made for "counter-cyclical spending programmes" which would have to be implemented if in the course of 1971 there were signs of an unduly sharp slowdown in economic activity and of appreciable threats to the level of employment. On the revenue side, tax concessions should in no circumstances be granted until prices have been stabilized sufficiently.

Policy for the second half of 1970 and early 1971 should therefore be concentrated on rapid disinflation of the economies of the member countries. The strategy used should be sufficiently flexible to permit at a later stage a prompt switch to policies ensuring growth, a high level of employment and stability.

B. Recent developments

1. Demand

The expansion of internal demand has been the main driving force behind the growth of economic activity.

By contrast, export demand, as reflected in exports of goods and services to non-member countries, is still advancing slowly. From the last quarter of 1969 to the first quarter of 1970, the value of visible exports showed a seasonally adjusted rise of 2 %. Given the persistent increase in export prices, it is quite likely that the volume of exports merely marked time. This slackening in the expansion of exports is mainly the result of the slowdown in trade between industrial countries, itself attributable largely to the cooling down of the business climate in the United States and to a lesser extent to weak economic activity in the United Kingdom and some other west European countries.

In the United States, the slowdown, which began in the autumn of 1969, has continued. In the closing quarter of 1969 real GNP was 0.1 % down on the figure for the previous quarter. In the first quarter of 1970 it con-

Visible exports to non-member countries

(Values and % change on preceding year)

	1969						1970
	million u.a. [1]	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	39 236	+ 11	+ 3.5	+ 21	+ 9.5	+ 11	+ 16.5
of which :							
Industrialized countries [2]	25 605	+ 12	+ 2.5	+ 21	+ 11	+ 13.5	+ 20
including :							
United States	5 958	+ 3.5	— 15.5	+ 19	+ 1.5	+ 8	+ 22.5
EFTA	12 744	+ 13.5	+ 7.5	+ 17.5	+ 13	+ 15.5	+ 18.5
United Kingdom	3 364	+ 7.5	+ 2.5	+ 14	+ 7	+ 7.5	+ 4.5
Developing countries [3]	10 218	+ 9.5	+ 7	+ 19.5	+ 7	+ 6	+ 8.5
including :							
Associated overseas countries and territories	2 295	+ 11	+ 12	+ 39.5	+ 1	— 1.5	+ 31.5
Other countries [4]	3 413	+ 10	+ 3.5	+ 28	+ 4.5	+ 6	+ 18

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 destinations.

tracted by a further 0.75 %. Although private consumers' expenditure recovered slightly, the growth of domestic demand was again distinctly slower, particularly as a result of the weak trend in stockbuilding. Following a short remission in March, mainly due to the end of a strike in electrical and mechanical engineering, the index of industrial production fell again in April; it is now more than 3 % lower than in July 1969. The unemployment rate rose to 5 % in May while prices continued to move upwards. Consumer prices were some 6 % higher than a year earlier. Wage costs also rose sharply (in the first quarter of 1970 they were 8.4 % up on a year earlier). Although the trade balance improved, the overall balance of payments closed with a heavy deficit in the first quarter.

In the United Kingdom, the main feature of the economy until April was a very favourable trend of the balance of payments. Actual growth, however, remained weak. In April, industrial production was only 3.5 % higher than a year earlier while unemployment went up further, reaching the highest level registered in this month for 30 years. Export demand was again almost the only source of substantial stimulus, though private consumers' expenditure also picked up slightly. There has been a particularly appreciable rise in prices. From December to May the consumer price index rose by no less than 4 %. The greater vigour of imports discernible lately is probably in part the result of special factors but in considerable measure also the reflection of the sharp rise in import prices.

While the trend of Community exports to the United States and the United Kingdom remained unfavourable, the Community's deliveries to the continental EFTA countries—notably Switzerland, Sweden and Austria—climbed sharply, helped by the persisting boom in most of these countries. Exports to Japan also developed along very favourable lines. Sales to Canada and Spain, by contrast, where the restrictive measures are beginning to have increasing impact, have expanded slowly since the end of 1969. Deliveries to the developing countries have grown only modestly while the past few months have seen a lively growth in sales to the state-trading countries.

The growth of internal demand in the Community, which had slowed down somewhat at the beginning of 1970, largely under the influence of special factors, has gathered distinct momentum again in the past few months.

Gross fixed asset formation, particularly purchases of plant and machinery by firms, continued to expand vigorously. The investment boom may even have gathered a little more momentum, notably in chemicals, mineral oils and metal working: the industries manufacturing plant and machinery and consumer durables are the growth leaders here. In agriculture and most branches of mining/quarrying, however, investment activity was weak.

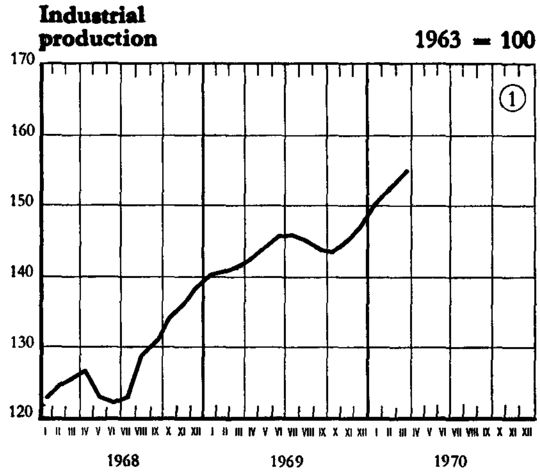
Following unusually heavy production losses during the winter, building investment was gathering momentum in the spring. To judge from the trend of building starts, however, seasonally adjusted growth does not appear to be particularly fast, at least in terms of volume. There has been a sharp rise in industrial building, but the growth of investment in residential construction in the Community has probably tended to slow down further, at least to judge by what for several months has been a slack trend in building starts. The main reasons for this slowdown are probably the credit restrictions, the high interest rates on mortgages, the impact of the more restrictive budget policy on subsidized housing and the appreciable rise in building costs in all Member States. Adjusted for seasonal variations, public expenditure on building also appears to have risen only slightly in the Community as a whole.

The tendency for stocks of raw materials and semi-manufactures to build up, noted in some industries at the end of 1969, appears to have continued. In Italy, where stocks dropped sharply as a result of the stoppages, they have swollen again. The results of business surveys and the trend of delivery periods, particularly for consumer durables and plant and machinery, by contrast, suggest that in most industries of the Community stocks of finished products have remained comparatively low.

In the past few months, the faster expansion of demand has been mainly a matter of growing private consumption. Private consumers' expenditure continued to expand vigorously in all member countries, particularly as a result of the rapid rise in wages. With the social unrest subsiding, the growth of this demand component in Italy, where there were substantial wage increases, seems to have spurted sharply. In France, the firmer trend of expenditure on consumption appears to be mainly due to the faster rise in wages.

in the Community was some 2 ½ % up on the closing quarter of 1969 and 9 ½ % higher than in the corresponding period of the previous year.

2. Production and employment



The expansion of internal supply gathered momentum in the spring of 1970. This was partly because of special factors such as the sharp fall in the number of working days lost through strikes in Italy and the drive to make good the production losses suffered in the winter, especially by the building industry, owing to the particularly bad weather. Production still showed an unexpectedly great measure of flexibility, partly as a result of the commissioning of new plants.

The index of the Statistical Office of the European Communities (adjusted for seasonal and fortuitous variations but excluding construction and food, beverages and tobacco) shows that in the first quarter of 1970 industrial production

The indicators available suggest that economic activity in the services sector has continued to expand at a lively pace.

Industrial production in the Community

(% change on preceding year)[1]

	1968	1969	1969				1970
			1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
Industry as a whole [3]	+ 8.8	+ 11.7	+ 13.0	+ 18.2	+ 9.7	+ 6.3	+ 9.5
of which:							
Germany	+ 13.1	+ 13.8	+ 17.5	+ 14.8	+ 11.9	+ 11.6	+ 11.5
France	+ 4.0	+ 13.5	+ 10.8	+ 33.0	+ 9.0	+ 4.6	+ 5.6
Italy	+ 6.3	+ 2.8	+ 9.0	+ 7.9	+ 3.1	— 8.4	+ 3.7
Netherlands	+ 12.0	+ 13.5	+ 14.5	+ 12.9	+ 13.6	+ 13.4	+ 15.2
Belgium	+ 6.4	+ 10.9	+ 11.8	+ 12.7	+ 7.7	+ 10.8	+ 9.1
Luxembourg	+ 5.5	+ 13.4	+ 17.2	+ 12.9	+ 12.6	+ 11.5	+ 12.5
of which:							
Mining and quarrying	+ 4.3	+ 4.1	+ 3.5	+ 8.1	+ 2.6	+ 2.2	
Textiles	+ 9.2	+ 9.0	+ 10.8	+ 15.4	+ 5.2	+ 4.9	
Paper and paperboard	+ 7.6	+ 10.7	+ 10.9	+ 14.1	+ 9.5	+ 8.4	
Leather	+ 9.9	+ 5[2]	+ 12.1	+ 11.4	— 0.3	— 2.5[2]	
Metalworking	+ 7.3	+ 14.1	+ 15.5	+ 23.3	+ 11.8	+ 6.8	
Iron and steel	+ 9.7	+ 8.8	+ 8.5	+ 17.0	+ 6.9	+ 3.7	+ 3.5
Electricity	+ 8.4	+ 10.2	+ 9.2	+ 14.7	+ 9.3	+ 8.4	

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

After several years of economic upswing, production is still expanding at a very rapid pace; this is all the more remarkable as the heavy strain on the Community's labour market has mounted further. As a result of the excess demand prevailing in the Community generally, of the definite underlying tendency—after allowance has been made for the special factors just mentioned—for the increase in production per person in paid employment to decline, and of the shortening of agreed working hours, there has been a further rise in firms' manpower requirements, particularly in industry and the services sector. In Italy, where productivity has no doubt gone up again appreciably now that the social unrest has subsided, the drive to make good the losses of production caused by the strikes is likely to have entailed a heavier demand for labour. As a result, the numbers in paid employment in the Community as a whole increased; in some member countries, particularly in Italy, the extra labour was recruited from domestic manpower reserves, while in other countries, especially Germany, there was only very limited scope for doing so, given the very low level of unemployment. Generally, the number of unemployed tended to decline further in all Community countries except France. The increased labour shortage has in the past few months encouraged immigration of workers from non-member countries; in some member countries, particularly in Italy, workers have, as a result of the shortage, probably also shown a stronger tendency to move to the more heavily industrialized parts of the country. The number of unfilled vacancies has nevertheless risen further in most member countries. Indeed, in Germany and the Netherlands, the seasonally adjusted ratio of the number of unfilled vacancies to the number of unemployed set a new record in May.

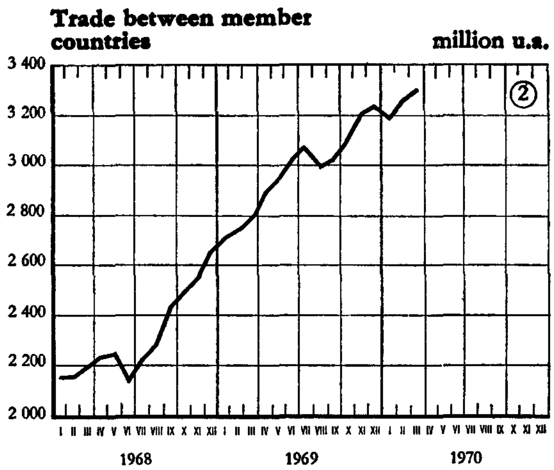
3. Balance of the markets

After the slight slowdown from October to January. which was partly attributable to fortuitous factors, in particular the strikes in Italy, the expansion of the Community's imports from non-member countries has gathered momentum again. Seasonally adjusted and in terms of value, visible imports from February to April are estimated to have been running 4.5 % ahead of the figure for the November-January period. In April they were 17 % higher than a year earlier.

In the past few months the unusually rapid rise in investment by firms has led to a lively growth in imports of plant and machinery. Industrial production has been gathering momentum and stocks of input products in some countries, particularly Italy, have been well below normal levels, so that purchases of raw materials have also shown a further vigorous rise. Food imports, which had been marking time in the period up to the autumn of 1969, have risen once again appreciably (value figures).

Almost all supplier countries have benefited from the lively growth of demand from the Community, and indeed the boom in the Common Market is at the present time the most important single factor maintaining world business and the expansion of world trade. The EFTA countries have again benefited most from the trend. There has also been a vigorous increase in imports from countries in the Mediterranean, particularly Spain, Yugoslavia, Greece and Turkey, and in imports from the associated overseas countries and territories.

The slowdown in intra-Community trade observed at the end of 1969 has not continued in the past few months; since February growth has been gathering momentum again. From February to April, trade between the member countries showed a seasonally adjusted rise of about 8 % over the period November-January.



Visible trade in the Community has been more buoyant partly because unfavourable fortuitous factors such as the strikes in Italy are now no

Visible imports from non-member countries

(Values 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	1st quar-ter
All non-member countries	39 242	+ 17	+ 12	+ 22.5	+ 14.5	+ 18	+ 17.5
of which :							
Industrialized countries [2]	22 236	+ 19.5	+ 11.5	+ 26	+ 17	+ 22	+ 23.5
including :							
United States	7 326	+ 14.5	— 2.5	+ 25	+ 13	+ 21	+ 41
EFTA	9 450	+ 20.5	+ 16.5	+ 25	+ 18	+ 21.5	+ 11.5
United Kingdom	3 588	+ 19.5	+ 15	+ 24	+ 17.5	+ 21.5	+ 11
Developing countries [3]	14 222	+ 13.5	+ 13	+ 18.5	+ 11	+ 12	+ 9.5
including :							
Associated overseas countries and territories	2 807	+ 12.5	+ 9	+ 23	+ 7	+ 10.5	+ 31.5
Central and South America	3 166	+ 18	+ 14	+ 18	+ 21.5	+ 18.5	+ 7
Other countries [4]	2 784	+ 15.5	+ 9	+ 18	+ 18.5	+ 15.5	+ 15.5

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 sources.

longer operative. Purchases by Italy, for instance, have soared as economic activity has gathered momentum again. The rapid pace of growth has, however, also been determined by essential factors inherent in the business situation. German imports, for instance, continued to rise vigorously as a result of the very heavy strains on the domestic market and the effects of the revaluation of the mark. In the Belgo-Luxembourg Economic Union, purchases from the other member countries, which had ceased rising since the autumn of 1969, picked up appreciably and the growth of imports gathered momentum in the Netherlands, too. In France, imports have also been reviving since the spring, after having fallen significantly for a time immediately following the devaluation of the franc.

The lively growth of German imports was particularly beneficial to Dutch exports — deliveries to Germany account for about 50 % of Dutch sales to the other five Community countries The faster expansion of purchases by Italy was in the main reflected in a vigorous rise in French sales. By contrast, the expansion of exports by the Belgo-Luxembourg Economic Union, inhibited by strikes in the motor industry, slackened for a time.

The fears expressed in the last Quarterly Survey that in most member countries the price climate

Changes in consumer price indices[1]

(%)

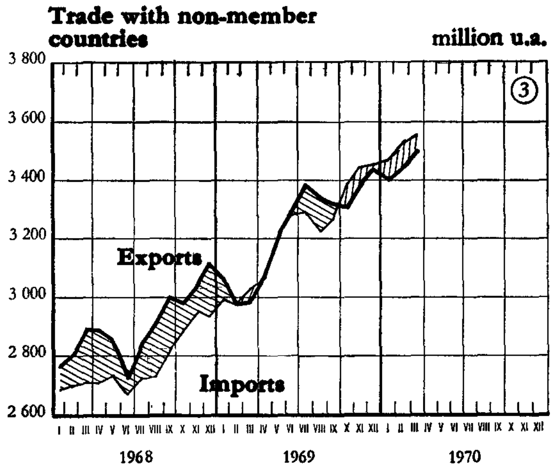
	April 1969 August 1969	August 1969 December 1969	December 1969 April 1970	April 1969 April 1970
Germany	+ 0.1	+ 1.5	+ 2.1	+ 3.8
France	+ 1.5	+ 1.9	+ 2.2	+ 5.7
Italy	+ 1.5	+ 1.4	+ 2.1	+ 5.1
Netherlands	— 0.5	+ 0.9	+ 2.7	+ 3.1
Belgium	+ 1.1	+ 1.5	+ 1.7	+ 4.4
Luxembourg	+ 0.5	+ 1.6	+ 2.3	+ 4.4

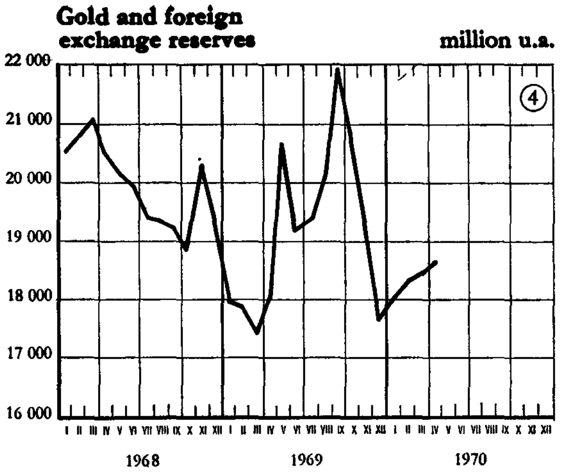
[1] The figures in this table can be used only as a guide. For statistical reasons, the accuracy with which they reflect changes is not the same for every country.

may in the immediate future fail to improve to any significant extent, have unfortunately not proved groundless. In the spring, the upward thrust of prices was still very strong everywhere. In some countries, particularly in Italy, the gap between supply and potential overall demand has indeed tended to widen further, while the rise in costs and particularly in wages has gathered additional momentum, especially in Germany, Italy and France. The very vigorous rise in producer's prices for industrial products shows particularly clearly how strong the pressure on the whole price system is.

The upward thrust of prices was strengthened by an extremely sharp rise in farm prices owing to the unusually long winter. In France there was the additionnal factor that some farm prices which had been temporarily detached from the common level of farm prices in connection with the devaluation were later brought back into line. Some other more or less autonomous factors also strengthened the essential trends. This applies to France, the Netherlands and Belgium, where the cost-of-living index was forced up by the increase in public service charges and a review of certain officially-controlled prices. In Luxembourg, the introduction of VAT entailed only a comparatively modest rise in consumer prices.

The Community's balance of visible trade with non-member countries tended to deteriorate further. In the first quarter it probably showed a deficit (cif-fob) of about $ 300 million. The result was that the current account closed in the first quarter with an appreciably lower surplus than in the previous quarters. The Community's capital account, by contrast, improved considerably as exports of long-term capital, particularly from Germany, fell. At the same time the Community registered a substantial inflow of short-term capital. As the difference between Community interest rates and interest rates on money markets outside the Community, particularly on the Euro-dollar market, was widening, placing money in the Community became more attractive again. In addition, companies—especially German companies—were borrowing heavily abroad. On balance, it is probable that there has been a slight payments deficit in recent months. The gross gold and foreign exchange reserves of the monetary authorities nevertheless rose by some $ 800 million as the commercial banks, particularly in Germany, stepped up their foreign liabilities under the pressure of the domestic liquidity squeeze. The central gross foreign exchange reserves were also influenced by special transactions. The Bundesbank, for instance, exchang-





ed US Treasury bills for foreign unrestricted securities while the Banca d'Italia made substantial use of swap facilities granted by the Federal Reserve Bank of New York. France, by contrast, repaid by the end of April all of the short-term debts it had contracted with foreign central banks.

In most member countries the cash transactions of the public authorities had little if any expansionary effect on domestic liquidity. In the first quarter, the German federal budget closed with a cash surplus that was higher than usual for the season, as tax receipts had mounted vigorously, moving in line with the trend of incomes and turnover. The French budget too may have shown significant surpluses as a result of high tax receipts and strict budget management. In the Netherlands, the cash deficit was much smaller than a year earlier. It was financed exclusively by loans. The Belgian budget too showed a comparatively small deficit, mainly accounted for by short-term borrowing. In Italy, by contrast, government spending was heavy enough to engender a very high deficit, although tax receipts had been rising vigorously; short-term government indebtedness went up sharply in this country.

Bank lending to business and private customers has expanded appreciably almost everywhere. In the Benelux countries the volume of credit, which until the turn of the year had risen only slightly as a result of substantial inflows of liquidity from abroad (in Belgium there was an actual decline), is now expanding more firmly once again. In March and April, the Dutch commercial banks exceeded the credit ceilings and were therefore again required to maintain interest-free deposits with the Central Bank. The Belgian monetary authorities maintained the limit on credit expansion in March but at the same time struck medium-term export credits from the list of items to which the ceiling applies. In Italy, the already very lively expansion of credit has continued since the turn of the year. In Germany, demand for credit remained vigorous but was in part met from foreign sources. In France, where the volume of credit was marking time at the beginning of the year, lending was probably rising again at the beginning of the spring; sometimes lending again appreciably exceeded the Banque de France ceilings. Since 31 March the Banque de France has required banks which exceed the credit ceilings to maintain interest-free deposits with it; at the beginning of June it also increased the minimum reserve ratios.

Under the influence of the trend obtaining outside the Community, interest rates on the money markets of several member countries declined for a time. The three-month rate on the Euro-dollar market, which was still 10.5 % at the beginning of 1970, was down to 8 % by mid-April but subsequently rose again to about 10 %. Only in Germany have interest rates gone up persistently, mainly as a result of the restrictive monetary and credit policy. By raising Bank rate from 6 % to 7.5 % on 9 March, the Bundesbank put up the cost of credit further. To ensure that this widening of the difference between German and foreign levels of interest rate does not lead to increased inflows of money from abroad, the Bundesbank introduced on 1 April an additional minimum reserve of 30 % on the increase in liabilities to non-residents. With effect from the end of May, the rediscount quotas of the credit institutions have also been reduced by an amount equivalent to the increase in their liabilities to non-residents arising from *en pension* transactions, i.e. operations involving the lending of funds against securities as collateral. Also on 9 March the Banca d'Italia increased Bank rate from 4 to 5.5 %, with the actual rate running at 7 % for most transactions. Both countries at the same time also put up the rate for loans against securities.

On the capital markets of the Community interest rates continued to drift upwards. In all member countries the yields of fixed-interest securities rose (though not everywhere at the same pace), either because investors exercised very great caution or because the public authorities floated comparatively large loans, for instance in the Netherlands and of late also in Belgium. After having been comparatively stable in the first quarter, share prices in almost all member countries dropped sharply from the middle of April onwards as a result of the weak trend at the New York Stock Exchange.

Demand for and supply of goods and services

	1967 [1]	1968 [1]		1969 [2, 4]		1970 [3, 4]	
	At current prices in '000 million u.a.[5]	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Gross fixed asset formation	81.5	+ 6.6	+ 8.7	+ 9½	+ 16	+ 8½	+ 17½
Public current expenditure on goods and services	50.3	+ 2.5	+ 7.7	+ 4	+ 11	+ 3½	+ 10½
Private consumers' expenditure	212.0	+ 4.7	+ 7.6	+ 6½	+ 11½	+ 7	+ 12
Gross Community product	352.8	+ 5.7	+ 8.7	+ 7	+ 12½	+ 6	+ 12
Balance exports less imports (in '000 million units of account) [5]	+ 5.9		+ 7.0		+ 5.1		+ 4

Source :
[1] Statistical Office of the European Communities, National Accounts 1958-1968.
[2] Estimates.
[3] Forecasts.
[4] Based on Community totals of the aggregates of the individual member countries at official exchange rates obtaining in 1963.
[5] 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 the experts of the member countries but are established and published on the sole responsibility of the Commission.

C. Outlook

The expansion of trade between the industrial countries is likely to slow down further in the next few months, mainly as a result of weak economic activity in the United States and the restrictive measures adopted in most industrial countries. The stimulus to world trade deriving from economic activity in the Community and the United Kingdom will not suffice to offset the inhibiting influence of these factors.

In the United States the economic outlook is particularly uncertain. The wave of price increases continues although the business climate has cooled down very appreciably. There are, however, reliable indications that the trend will recover in the second half of the year. Private consumers' expenditure in particular can be expected to pick up appreciably. The 15 % increase in social security benefits, paid out in April with retroactive effect, and the wage increases for public-service officials have generated a substantial increase in the incomes of households. Further stimuli to the expansion of private consumers's expenditure will come from the tax reform adopted at the end of 1969 and more particularly from the abolition of the income tax surcharge on 1 July 1970 and the gradual reduction of the tax burden on incomes of households.

The slight easing of credit policy already under way may also have a favourable influence on the business climate. In particular, the trend of building permits and building starts in residential construction point to a revival, fairly moderate though it may still be, of activity in the building sector. Official cash transactions will also make a substantially stronger contribution than originally expected. The Federal budget for fiscal 1969/70, for instance, which was to have yielded a surplus of more than $ 6 000 million, will close with a deficit of some $ 2 000 million, largely because of smaller tax receipts. A heavy deficit is at the moment also expected for the new fiscal year beginning on 1 July 1970 unless taxes are increased.

There is nevertheless not much chance of production reviving very sharply in the immediate future. As prices have still been rising rapidly in the past few months, the authorities will probably be careful not to ease credit restrictions on too generous a scale in the near future. To judge by the trend of orders in the industries manufacturing plant and machinery, fixed investment by enterprises is also likely to expand only very sluggishly in the second half of 1970. The results of the latest investment survey by the Department of Commerce show that investment plans in manufacturing industry have already been revised downwards very appreciably.

Even if the economy expands again in the second half of the year, real GNP for 1970 will probably show little if any advance over the previous year or may even decline slightly. Visible imports are therefore not likely to expand compared with the previous year and, after the usual time-lag, they will probably tend downwards in the second half of the year.

In the United Kingdom, economic activity is likely to gather momentum in the second half of the year. Given the current wage claims and the reduction in direct taxation decided upon under the 1970-71 budget, disposable incomes of households can be expected to go up appreciably, probably leading to faster expansion of private consumption and stimulating production. The expansion of private consumption in terms of volume may, however, be curbed by an appreciable rise in prices. To judge by the latest trend of orders and given the easing of credit policy, private investment should continue to point upwards. The acceleration of general economic expansion expected in the second half of the year should entail a significant increase in GNP for 1970—of the order of 3 % in real terms—and lead to increasingly dynamic import demand.

In other EFTA countries, by contrast, economic expansion may slacken appreciably in the months ahead. This is true of the Scandinavian countries, where the expected slowdown in export demand may be accompanied by a weaker trend in domestic demand due to the more restrictive economic and financial policy. In Sweden, for instance, most components of domestic demand will, in volume terms, grow less rapidly than in 1969; private consumption in particular may well be curbed by the tax increases decided upon in February. In Denmark, the restrictions introduced at the beginning of the year in the fields of credit policy and public finance policy have been tightened of late with a view to restoring the balance of payments and the domestic economic and financial situation. The measures taken comprise in the main an increase in the VAT rate from 12.5 % to 15 % from 1 July 1970 and an immediate increase from 9 % to 15 % in VAT on imports. The economic trend in Austria and Switzerland, by contrast, will probably remain dynamic in the months ahead; towards the end of the year, however, it may well lose a little momentum as a result of the measures taken to combat inflation.

In Japan, where prices are still rising, economic expansion will continue at a rapid pace despite restrictive monetary and credit measures. The draft budget for 1970 submitted at the beginning of February provides for a sharp increase in social expenditure. The tendency to dismantle obstacles to foreign trade, reflected in the liberalization of imports of some 60 items at the beginning of April, may spur on Japanese imports. In Spain, general economic expansion and particularly the rise in imports (subject since the end of 1969 to a 20 % compulsory advance deposit) will again be held firmly in check.

Imports by the developing countries will probably go on expanding in the second half of the year as the foreign exchange reserves of these countries have risen in the past few years and new international instruments of finance have become available to them, while the trend of world market prices for major raw materials has held firm and demand for their products, particularly in the Community and Japan, has remained vigorous. The growth of imports may well, however, slow down before the end of the year, especially in the countries which are most heavily dependent on trade with the United States and whose trade balances were already tending to deteriorate during 1969.

As numerous new trade agreements have of late been concluded between the Community countries and the state-trading countries, trade with eastern Europe can be expected to expand fairly vigorously.

Given these assumptions as to the world economic trend and in view of the volume of trade with the various countries and groups of countries mentioned and of the very high degree of capacity utilization in major export industries of the Community, it is likely that in the period up to the end of the year, Community exports to non-member countries will, taken as a whole, expand only moderately.

Almost all economic indicators available suggest that the growth of internal demand in the Community will remain very brisk in the second half of the year. In particular the strong tendency for gross fixed asset formation to expand will continue in the second half of 1970, despite previous assumptions to the contrary.

The first results of the Commission's investment survey carried out in the spring suggest that the propensity to invest will remain unusually strong; indeed investment plans for 1970, which at the end of 1969 were already very expansionary, have been revised upwards in all Community countries. The flow of new orders for plant and machinery has also again increased appreciably throughout the Community, leading to a further lengthening of order books and of delivery periods in the capital goods industries. Neither the events of 1969 in the monetary field nor the substantial wage increases appear to have entailed any appreciable slowdown of the trend of corporate profits, particularly as in most cases demand has offered scope for major price adjustments. Nor has entrepreneurial drive in the Community so far been curbed to any important extent by the deteriorating export outlook, sales potential inside the Community remaining unusually good. The pressure of internal demand on the resources, the rise in production costs, labour shortages and competition within the Community have continued to spur on investment. What is less clear is whether firms have always given proper attention to longer-term profitability and whether in some industries the favourable trend of profits and demand at the present juncture may not have prompted managements to investments that may prove misguided. If the expected trend for the second half of the year is taken into account, expenditure on plant and machinery at current prices could well grow by 20 % for the full year.

Building investment, adjusted for seasonal variations, is also likely to go on expanding. The key to this trend lies mainly in the persistently dynamic development of industrial building, where

*Investment survey**

(% change in expenditure on preceding year)

	Actual investment in 1969	Investment plans for 1970	
		autumn 1969 survey	Spring 1970 survey
Germany [1]	+ 36	+ 16	+ 22
France	+ 23	+ 19	+ 27
Italy	+ 15	+ 41	+ 42
Belgium [2]	+ 35	+ [3]	+ 56
Luxembourg [2]	+ 108	+ 57	+ 68

* The survey covers most industries 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] For this survey, investment intentions in Belgium were expressed only in terms of "more" (= +) or "less" (=).

the number of projects being executed and the level of orders on hand are very high. Investment in residential construction, by contrast, should rise only modestly, although several member countries such as the Netherlands and France have adopted building incentives. With the expansion of public investment comparatively weak as a result of the restrictive budget policy, expenditure on building investment in 1970 will, on balance, certainly rise less rapidly than expenditure on plant and machinery; nevertheless it will still expand considerably and be at least 13 % up in terms of value. The growth of building investment in terms of volume, however, will, as a result of the sharp price increase, probably be considerably smaller and range around 5 %.

Private consumers' expenditure will maintain its very strong upward movement in the second half of 1970, mainly as a result of the continued lively rise in incomes of households. In addition, the propensity to save may well decline in some countries, given the persistent inflationary climate.

The rise in incomes, particularly from paid employment, will continue to be very vigorous. As in most member countries future wage negotiations will probably be conducted against a background of inflationary strain, there is reason to fear that the wage increases will considerably outstrip the scope for productivity gains and will thus themselves strengthen and extend in time the upward price trend.

In most member countries, particularly the Benelux countries and Italy, the repeated activation of the sliding wage scale may well lend additional vigour to the upward movement of wages. Only in France may the upward thrust of wages slacken somewhat, but the impact of this will probably be offset by the tax reductions which are to be granted for lower incomes under the 1970 budget. These reliefs will make themselves felt mainly in the second half of year.

Benefiting from the vigour of domestic demand, production will remain distinctly expansionary in all member countries. Its growth will however be curbed, to an extent varying with the industry and the country, by the shortage of manpower and of technical production capacities. There is therefore little chance of industrial production in the second half of the year growing from quarter to quarter, seasonally adjusted, by more than 1 ½ to 2 %.

In 1970, the index of industrial production in the Community (excluding construction and food, beverages and tobacco) will probably be about 8 to 9 % higher than in 1969.

If the harvests are normal—this assumption can apparently still be made despite the bad winter—the real gross Community product may well rise by some 6 % for 1970, i.e. somewhat more rapidly than assumed in the last Quarterly Survey.

The buoyancy of internal demand and the tendency, typical of a persistent boom, for productivity gains to weaken, will continue to exert an appreciable influence on the labour market; in almost all Community countries it will probably remain under very heavy strain. With the number of school-leavers tending to rise very slowly in some member countries, overall domestic labour reserves appear to be very limited. The persistently growing number of unfilled vacancies is in fact already several times higher than the number of persons seeking employment. The number of wage- and salary-earners will go up by some 2 % in 1970, but this increase will in large measure be attributable to immigration of labour from non-member countries.

In the Benelux countries and Germany, unemployment is down to a "hard core" level, for long periods are needed for the vocational retraining without which such unemployed as are available cannot acquire the necessary special skills.

In Italy, manpower reserves will still be fairly high, but here—as incidentally also in France—the distribution by region and industry and the skills offered pose problems which cannot be solved overnight.

In the circumstances, the lively growth of internal demand in the second half of 1970 will also entail a sharp expansion of imports. With the growth of exports probably only weak, the Community's balance of trade will tend to deteriorate further.

The outlook for the trend of prices in the second half of 1970 is unfavourable in most member countries.

The slackening in the pressure of demand at the end of 1969 has proved ephemeral; as expenditure on investment and consumption must be expected to go up rapidly in the second half of the year as well, there is little prospect of the wide gap between supply and potential demand being narrowed to any sufficient extent.

For the rest it must be feared that in most member countries supply will not be very elastic. Experience in the recent past has shown that the long investment boom has stepped up capacity in some sectors, but the pattern of capacity expansion is so uneven that more and more bottlenecks are obstructing growth, despite the scope for imports, particularly from member countries.

The persistently strained relationship between supply and demand is all the more disquieting because it is accompanied by a sharp rise in unit costs, particularly wage costs. As a result there is the danger of the most powerful price-wage spiral for twenty years.

All in all it must be feared that in 1970 consumer prices (as defined for the national accounts) will in annual average terms rise by 4 ½ % to 6 %, varying with the member country, except for Germany, where prices are expected to rise by about 4 %.

The prospect that the distinctly inflationary climate will continue in most member countries makes it difficult to work out the tentative forecasts for the coming year which the Commission usually makes at this time of year. Forecasts of the trend in the Community in 1971 are largely dependent on the efficacy of the anti-inflationary policy discussed in general terms at the beginning of this Chapter. This is particularly true of developments within the Community.

The prospects for the world economic trend, into which the economic trend of the Community is fitted, are relatively less uncertain, at least in respect of real trade flows. But developments within the Community will themselves have a major impact on the world economic trend, particularly in view of their influence on the business situation in some industrial countries which are important markets for the Community, and of import potential in the developing countries.

In any case, it is safe to assume that in the second half of the year the expansion of world trade will remain moderate. During this period its growth is likely to be curtailed by the trend of expansion in the Community, which must be expected to slow down although productive forces will continue to be fully employed. This factor can be offset only in part by the stimuli expected to come from a revival in the United States and faster economic growth in the United Kingdom.

For the second half of 1971 it is likely that the trend of world trade will be boosted by further expansion in the United States, the United Kingdom and some other industrial countries outside the Community. There is, by contrast, much uncertainty about the pace of growth in the Community and the indirect effects this will have, particularly on imports by the non-member countries.

In the United States, the revival of economic activity expected for the second half of 1970 is likely to continue in 1971 but the situation in respect of internal and external equilibrium will remain rather unstable. This will presumably lead the American authorities to maintain their cautious monetary policy, particularly as there is a danger of the expected budget surplus giving way to a heavy deficit. For the time being, the acceleration of general economic growth will in all probability stimulate employment and wages to only a modest extent. The trend of investment in plant and machinery is at the same time likely to be fairly moderate. All in all, it is estimated that real GNP will rise by some 3 ½ % in 1971. In the process, the propensity to import of the United States should grow.

Against the background of a "middling" world economic trend, economic activity in the United Kingdom will probably gather slight momentum. Calculated for the year as a whole, real GNP may be up by 3 ½ %. Imports are likely to grow more rapidly than in 1970, particularly if the import deposit scheme is abolished before the end of 1970.

In the other countries, the business trends are likely to develop along fairly diverse lines, but growth will probably be slower.

All in all, the world business outlook suggests that exports by the Community will accelerate somewhat in the course of the year, particularly in the second half. According to very tentative estimates, Community exports to non-member countries at current prices will grow by 8 % in 1971.

Certain components of internal demand in the Community, particularly investment by enterprises, will presumably expand a good deal more slowly than in 1970. Pointers in this direction are the heavier burden of wage costs, the pressure on profit margins, the deterioration in the self-financing ratio and the increase in the cost of borrowing. The same cannot, however, be said with similar certainty of household spending on consumption. Should the inflationary climate persist, gross incomes of households and particularly the wages bill must be expected to go on mounting rapidly. Assuming that the necessary steps will be taken to stabilize the level of prices rapidly, the Commission departments currently expect the real gross Community product to rise by 4 ½ %. This should help to safeguard a very high level of employment and do much to ensure optimum utilization of technical capacities.

Important economic policy measures

May

The Commission and the Council agree to extend until 31 July 1970 the suspension of common external tariff duties on certain iron and steel products, which otherwise expired on 31 May 1970. In 1970 import quotas for foundry pig iron were also increased.

June

(1) The Commission lays before the Council a proposal for the establishment of machinery for medium term financial support as between the Member States.

(2) At its 116th session the Council noted the joint resolutions taken by the Werner Committee on the establishment by stages of an economic and monetary union between the member countries. A concluding report is expected by September.

TABLE 1: **Basic data 1968**

	Community	Germany	France	Italy	Netherlands	Belgium	Luxemburg
Total area ('000 sq. km.)	1 167.5	248.5	551.2	301.2	33.5	30.5	2.6
Total population ('000)	185 806	60 184	50 188	52 778	12 725	9 619	335.5
Density of population per sq. km.	159	242	91	175	380	315	129
Numbers in employment ('000)	73 898	26 342	19 675	19 069	4 547	3 615	138.8
Numbers in employment, breakdown by main sector (%) :							
— Agriculture	14	10.1	15	22.3	7.7	5.6	12.1
— Industry	43	47.4	40	41.4	40.2	44.9	45.3
— Services	43	42.5	45	36.3	52.1	49.5	42.6
Share of gross domestic product (%) :							
— Agriculture	.	4.5	8	11.1	7.0	5.4	6.2
— Industry	.	50.8	41	38.6	42.2	40.6	50.0
— Services	.	44.7	52	50.3	50.8	54.0	42.9
In % of gross domestic product :							
— Private consumers' expenditure	.	55.9	60.9	63.6	56.4	64.0	61.1
— Public current expenditure on goods and services	.	15.5	12.8	13.5	15.5	14.3	12.0
— Gross fixed asset formation	.	23.2	24.9	19.4	26.7	21.3	25.1
— Total exports	.	23.1	14.3	19.5	43.0	38.2	81.2
— Total imports	.	19.8	14.3	14.1	43.1	38.9	78.9

TABLE 2: **Key indicators**

	% change by volume on preceding year					Volume indices (1963 = 100)
	1964	1965	1966	1967	1968	1968
Gross Community product	6.2	4.9	4.1	3.3	5,7	127
Industrial production	7.0	4.4	5.3	1.3	8.8	130
Visible imports	6.9	5.0	6.8	0.6	11.5	135
Private customers' expenditure	4.9	4.8	4.5	3.8	4.4	125
Gross fixed asset formation	9.4	3.9	4.7	1.1	6.5	128
Visible exports	9.3	11.0	8.4	7.7	13.1	160
Intra-Community visible trade	13.2	12.2	10.9	6.1	18.9	178
Gross product per capita	5.0	3.9	3.2	2.7	5.1	121

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)									
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	3 665	3 398	3 608									
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	3 741									
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	− 380	− 49	+ 133									
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	3 285	3 604									

NOTES TO GRAPHS AND TABLES

Source: Community: Statistical Office of the European Communities (SOEC).
Germany: SOEC; Statistisches Bundesamt.
France: SOEC.
Italy: Relazione generale sulla situazione economico del Paese (1968).
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

— Trend curve; estimate established on the basis of indices adjusted for seasonal and fortuitous variations (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

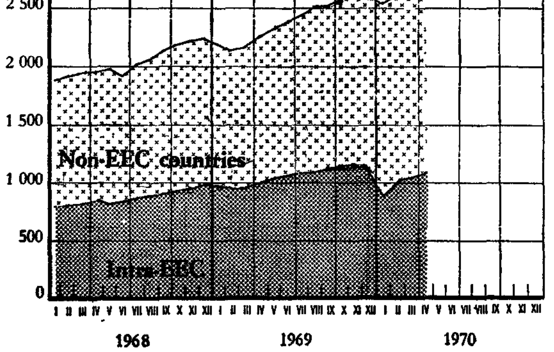
A. Germany

During the spring, business activity in Germany was still the object of various forms of pressure, the heaviest of them coming from investment activity and the further vigour developed by the consumer boom. Although business definitely lost momentum in certain countries that are major purchasers of German goods and although the revaluation made it harder for German firms to compete, exports have also increased once again. Production has proved surprisingly elastic, despite very serious bottlenecks; its expansion has failed, however, to keep abreast of the rise in monetary demand, with the result that the surplus on external account has diminished while the sharp upward pressure on prices has been maintained. The vigour of most components of domestic demand, the heavy backlog of orders and the long delivery dates being quoted by manufacturers are all factors which are likely to exert severe pressure on production capacity throughout the rest of the year. The establishment of satisfactory equilibrium conditions must therefore remain one of the priority aims of those responsible for economic policy.

1. Recent developments

Figures for the spring have once again confirmed that there has so far been little slackening in the pace of economic activity in Germany despite revaluation and the cooler business climate elsewhere in the world. The economy is still under severe strain, and excess demand is as heavy as before. One of the urgent problems of economic policy is therefore to contain the rise in domestic prices and costs.

Merchandise exports dropped when the mark was revalued, but since the beginning of this year they have once again been expanding—at least in terms of value. In the first four months of the year, deliveries were 12 % higher than in the same period of 1969. Their recovery was due primarily to the continued vigour of business activity in Europe, deliveries to the United States having tended to fall off since the summer of last year. Certain EFTA countries in particular have been buying more German goods. Within the EEC, the pattern of exports has been showing greater differences from area to area: demand from Italy has been stronger, while sales to France have tended to be slack.

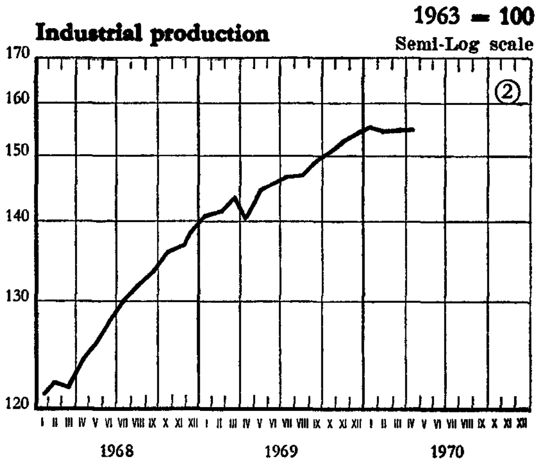


Unlike export demand, domestic demand has tended to overheat and this had a marked effect on the situation in Germany.

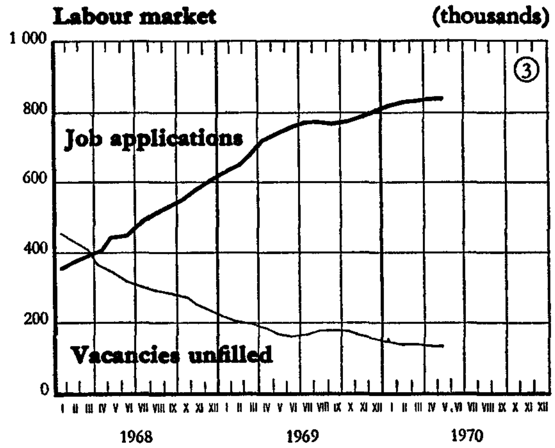
Investment activity is still very lively although in the winter months growth flagged for a time because bottlenecks were causing increasing difficulties. In building and construction, where expansion is in any case inhibited by a serious shortage of manpower, activity was also affected until April by this year's exceedingly unfavourable weather, while the sharper pressures on prices, especially for steel, have continued to hamper real growth. Generally, however, monetary demand rose again sharply in equipment investment and even more in building investment.

Autonomous factors exerted more and more influence on private consumers' expenditure. The upward thrust in incomes, particularly wage incomes, coupled with some slackening of the propensity to save, has given rise to an exceptionally lively consumption boom; this in turn has influenced the other sectors of the economy and so constitutes a major element in the momentum behind the general boom. Retail trade turnover in the first quarter was 11 % up on the corresponding figure for 1969. The trend of incomes reflected a continued favourable level of profits and the vigorous advance in wages and salaries. For the first quarter of the year the level of agreed wage and salary rates in industry as a whole was, on an hourly basis, 11 % higher than a year earlier, while actual earnings rose by no less than 14 %.

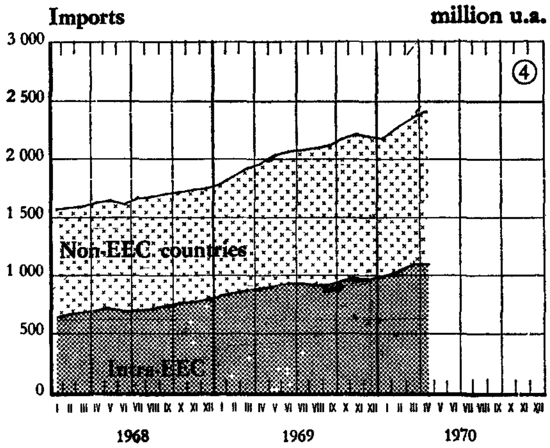
The reaction of domestic supply to the very vigorous pull exerted by overall demand was again relatively elastic. In the first four months of the year, industrial production rose (after seasonal adjustment) by 2.3 %; for April it was 5.1 % higher than in April 1969.



For the first time this increase in production was accompanied by a distinct slackening in productivity gains; it would certainly not have been possible had not the numbers in paid employment been increased by more extensive recruitment of foreign workers. The figure for these foreign workers rose between the beginning of the year and the end of March by nearly 95 000 to a total of almost 1 700 million, or 7.5 % of all persons in paid employment.

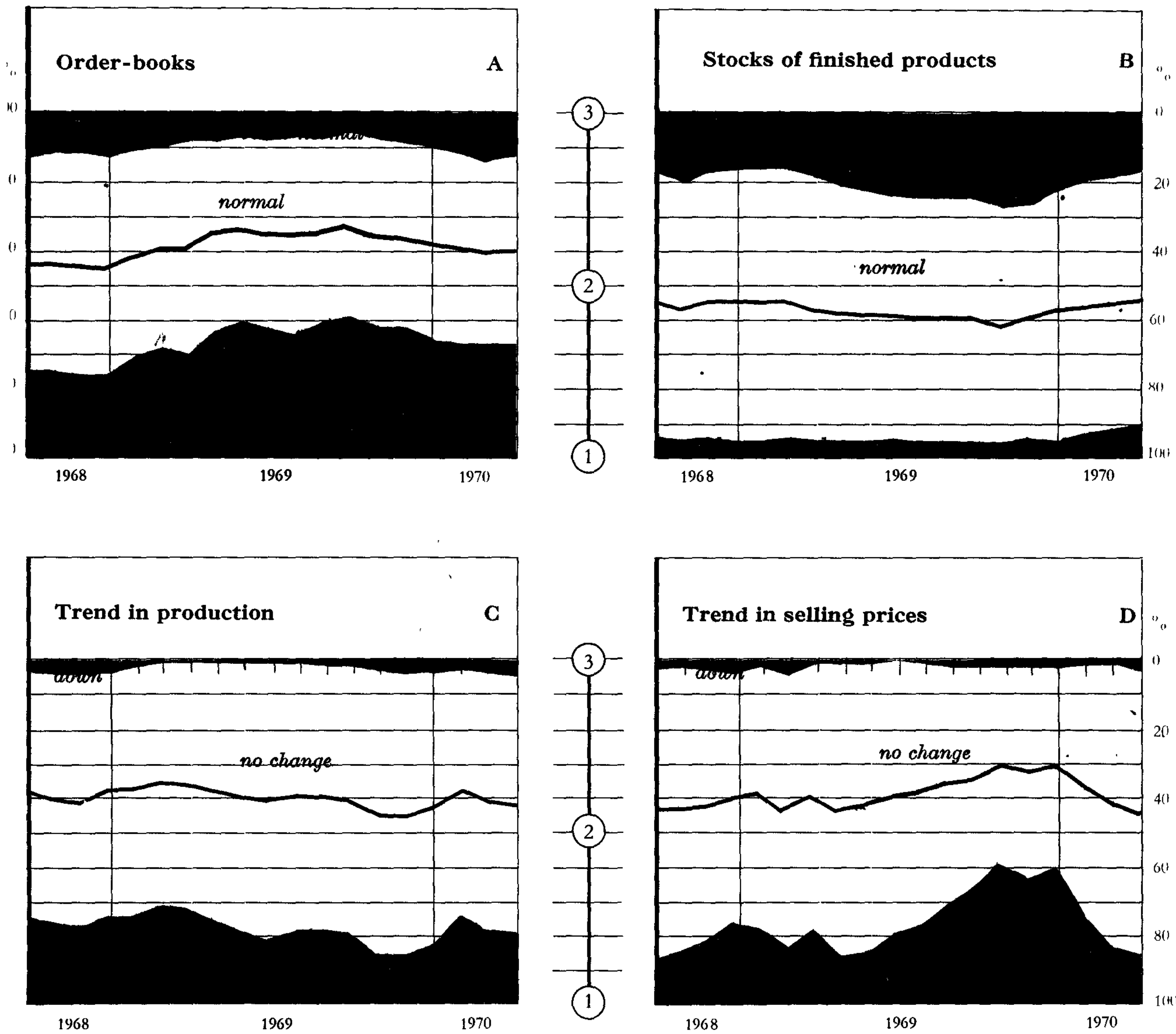


The unemployment rate at the end of May was down to 0.5 %. At the same time the number of unfilled vacancies again rose sharply, reaching a total of 860 000; this is a record for the season, and was 8 times as high as the number of unemployed.



The persistent strains, the keener marketing drive mounted by foreign countries and the revaluation led to an appreciable increase in imports, especially of capital goods and durable consumer goods. Imports of foodstuffs have also been rising again of late. On the other hand imports of raw materials have tended to decline. In terms of value, total imports for the first four months of the year were 13.7 % higher than for the same period of the preceding year.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



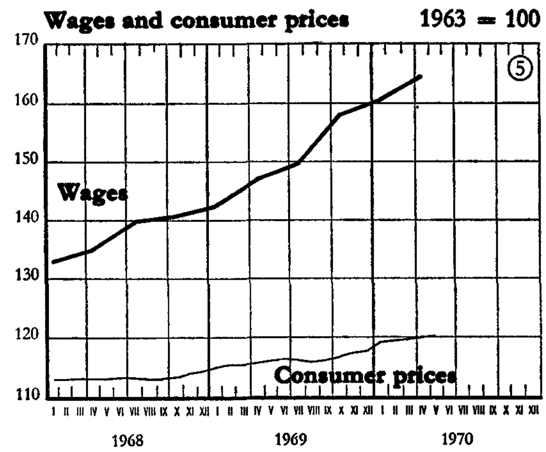
Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut.

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

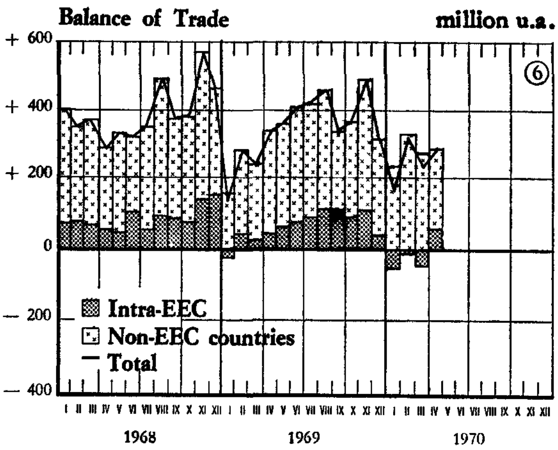
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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".

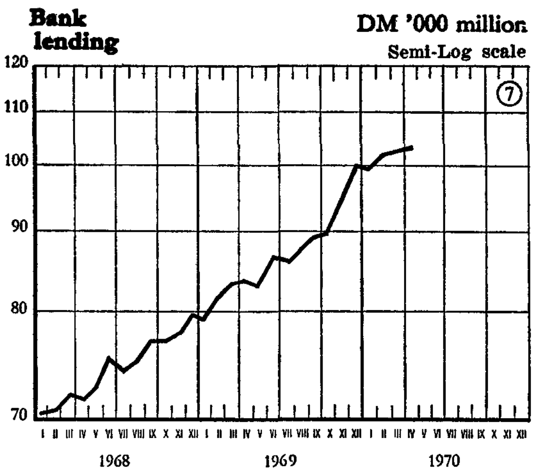
The pressure on prices has so far been maintained by the strain on the domestic markets for goods and services and the rise in wage costs. Industrial producer prices, which went up



1.4 % in January, rose by a further 0.9 % between February and May. The increases were particularly marked in building and construction. In February prices for residential construction were nearly 15 % higher than a year previously. In the middle of May the cost-of-living index was 3.8 % higher than a year earlier, or 4.4 % when foodstuffs and rents are excluded.



As a result of a reduction in the export surplus and of an increase in the deficit on services, the current account virtually balanced out for the first four months. Although, as regards the capital account, exports of long-term capital fell in the same period, they still amounted to DM 4 600 million; including the errors and omissions item, the inflow of short-term capital amounted to DM 5 300 million. Since—as a result of the shortage of domestic liquidity and rising interest rates in Germany—the commercial banks imported about DM 800 million, the central gold and foreign exchange reserves, which had contracted sharply immediately after the revaluation, rose, for the first four months of the year, by only about the equivalent of Germany's allocation of special drawing rights in the IMF (DM 738 million). If the Bundesbank's loss on revaluation, on the one hand, and the allocation of SRDs, on the other, are left out of account, a drop of DM 22 900 million (or $ 6 200 million) has occurred since revaluation in the net foreign exchange position of the Bundesbank and the commercial banks taken together.



The liquidity of the banking system has contracted further, mainly because in the early months of the year a sharp increase in tax revenue siphoned off large sums. Since February this has considerably curtailed bank lending, a development which suggests that by raising interest rates and reducing liquidity the current restrictive policy is now beginning to bite. It has also become appreciably more difficult to raise funds on the capital markets. Despite deliberate restraint in the floating of new issues, yields on the bond market had gone up to 8.6 % by the beginning of June. As a result of the combined impact of several factors—especially the contraction of domestic liquidity, the steep rise in interest rates, the rapid decline of prices on Wall Street—the equity market suffered a sharp setback.

Demand for and supply of goods and services

	1967 [1]	1968 [1]		1969 [1]		1970 [2]	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume[4]	Value
Exports [3]	110.5	+ 13.4	+ 12.5	+ 11.9	+ 13.8	+ 6½	8½
Gross fixed asset formation	114.4	+ 8.0	+ 9.0	+ 12.8	+ 17.7	+ 8½	19
Public current expenditure on goods and services	81.0	— 0.9	+ 3.3	+ 4.1	+ 11.4	+ 3½	11
Private consumers' expenditure	284.2	+ 4.0	+ 5.9	+ 7.7	+ 10.3	+ 8	12½
Gross national product	494.6	+ 7.2	+ 8.9	+ 8.0	+ 11.6	+ 5½	12
Imports [3]	94.3	+ 14.7	+ 12.8	+ 16.2	+ 18.8	+ 13	13

[1] Federal Statistical Office, „Wirtschaft und Statistik", No. 2/1970.
[2] Commission forecasts.
[3] Goods, services and factor income.
[4] 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 the experts of the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook

According to the expectations set out in the last Quarterly Survey, no appreciable cooling of the business climate was to be expected for some time to come. This prediction is supported by the latest figures on the economic trend. True, exports may very well lose more momentum if and when slacker economic activity in the United States in the second half of the year further curtails the volume of deliveries to North America. Even if there were a very early recovery of business in the USA, it would probably be some while before this boosted German exports. In several European countries where demand for German goods has been particularly strong in recent months, stabilization efforts may also affect the pressure of demand. On the other hand, German firms have of late been able to raise export prices expressed in DM despite revaluation, in several industries the export situation of German firms is being affected by bottlenecks, and the backlog of orders is comparatively high—the flow of orders from abroad during the first four months was 9 % higher than deliveries during the same period; there are therefore good grounds for assuming that in the second half of the year exports will rise further, at least in terms of value.

The decisive factor in maintaining the boom during the second half of the year, however, will be the rapid expansion that can be expected in domestic demand.

No appreciable slackening in the pace of investment is yet to be discerned. The serious bottlenecks in production, the comparatively healthy trend of profits (due in no small measure to the fact that heavy demand has enabled managements to pass on to the home market most of the rise in costs), the undiminished proceeds of exports even after revaluation and the drive to rationalize operations made necessary by the manpower shortage remain major incentives to investment. To date they have more than offset the direct and psychological effects of the cooler business climate in the United States and the severe contraction in the availability of capital for borrowing. The results of the Community business survey carried out in April show that managements have even made a slight upward revision in their already very expansionary investment schedules. The flow of domestic orders in the investment goods industries is in consequence still increasing. In the January-April period, orders in the capital goods sector were 18 % (in mechanical engineering taken alone, 20 %) higher than a year earlier. At the same time there has been a further rise in the backlog of orders, and delivery dates have again grown longer. Building investment on the other hand is being increasingly influenced by the growing cost of borrowing and the very steep rise in wage costs that is affecting this industry. This applies particularly to residential construction, where savings banks approved 12 % fewer mortgages in the first quarter than in the same period of the previous year.

Another reason why for the time being there is little prospect of the business climate cooling down rapidly is that there are indications that private consumer demand will, if anything, gather additional vigour. The pressure exerted on domestic resources by this demand component may therefore increase somewhat further in the months ahead: the already very expansionary trend of incomes is likely to be strengthened further by the latest wage and salary awards, especially if the upward thrust in wages persists in the autumn. After a wave of price increases it is not certain that the propensity to save will recover in the near future.

The main factor in the economic situation is therefore still the excess pressure of potential demand. Thus, the growth of GNP depends primarily on what scope there is for an expansion of supply. Having due regard to possible productivity gains, 1970 can be expected to bring an expansion in real terms of about 5 ½ %.

In the months ahead imports may well help more than in the past to ease pressure on the domestic markets. Import prices in terms of DM have been rising again of late, following an initial and comparatively short-lived decline as a result of revaluation; in finished products this was probably not only a reflection of inflationary tendencies abroad but also of the persistence of excess pressure on the domestic markets which induced foreign exporters to make the most of opportunities in the Federal Republic by charging more as well as selling more. On the whole revaluation has, at all events, considerably improved the relative position of foreign exporters with regard to prices and sales. The tendency for the balance of exports less imports (the "external contribution") to decline is therefore likely to continue in the coming months.

The future trend of prices is already determined to an appreciable extent by the spate of price increases at the beginning of the year and the rise in wage costs. With the level of important indices up considerably, there is great danger that the curve will cross a critical point and will be maintained for some time: the firm prospect of further price increases could well engender an inflationary mentality which would continue to make itself felt even when the strained supply/demand relationship had started to ease.

The current economic upswing being the strongest since the end of the war, developments in 1971 are particularly difficult to forecast. All that can therefore be done at the moment is to make rough assumptions about the likely trend of economic activity in the first half of the year. But even here there are considerable uncertainties, especially those attendant on any accurate prediction as to how far the propensity to invest may weaken and as to the effects of the tendency for world economic activity to slow down. The fairly lively trend of investment activity until the end of the year, coupled with buoyant consumer demand, can nevertheless be expected to contribute to a comparatively high rate of expansion of overall demand in the first half of 1971 as well. The degree of capacity utilization, which is extremely high at the moment, is however likely to be declining distinctly during that period. Later in the year the tendency for activity to slow down may make itself felt more strongly, particularly if there were a substantial fall in stockbuilding as a result of reduced profit margins and high interest rates. All in all, a growth in real gross national product of just under 4 % could be considered a good performance in 1971 if at the same time it proved possible to force down the average rate of price increase to 2-2½ %, which is the aim for the medium term; in view of the considerations set out above, however, this is by no means certain.

With imbalances and excess demand persisting, those in charge of economic policy must continue to concentrate on combating the increases in prices and costs. Rapid elimination of the inflationary effects of excess demand is all the more important as this would also help to prevent inflationary patterns of behaviour growing more rigid: experience shows that this could become difficult later. The faster the price increases are reduced to an unavoidable minimum and the weaker the impact of the rise in costs on the propensity to invest, the greater are the prospects of steering the trend into a phase where full employment and satisfactory economic growth continue to be safeguarded. In consequence, the authorities should not hesitate to tighten up current restrictions for a time.

In respect of public finance policy, which was intended to curb activity mainly in the first half of the year, this involves, before anything else, a continuation of the line currently pursued. Acting accordingly, the Federal Government decided at the end of May—as recommended in the last Quarterly Survey—to convert what so far has been postponement of expenditure almost completely into actual cuts. In addition, the Federal Government and the Länder are to freeze extra tax revenues voluntarily, as well as making compulsory contributions to the counter-cyclical equalization fund. Lastly, although the personal allowance free of wage and salary income tax was doubled on 1 July, this will not affect demand before the end of the year. In view of current strain, it goes without saying that the spending policy of Federal Government, Länder and municipal authorities, which in the first half of the year was not quite as cautious as desired by the Government, will have to be very restrictive. In addition, special measures of revenue policy should be contemplated: one way to increase tax receipts would be to bring forward the advance payment requirement.

To the extent that a more restrictive line of public finance policy would bring an improvement in the current "policy mix" while generally stepping up the degree of restriction, those responsible for monetary policy would be free to lower the very high interest rates to a level better related to balance of payments requirements and other needs: even if the further decline in international interest rates were only slight, high German rates are liable to defeat their own purpose by attracting funds from outside. Of late there has been some evidence that this is already happening.

If the authorities succeeded, by means of budget and monetary policy, in trimming demand growth more closely to real production potential, this would enhance the prospects of adapting the incomes trend to the requirements of the economic situation. Given the mounting pressure of costs, the main task will be to ensure that the largest possible part of future wage and salary increases takes the form of asset-creating benefits, since these are neutral in their effect on the economic trend. The law to improve asset-formation by wage- and salary-earners adopted by the Federal Government at the end of February is therefore highly relevant to current needs.

3. The economic situation in West Berlin

Vigorous economic growth continued in Berlin in the early months of this year. The virtually immediate transmission of demand from the Federal area, especially for capital goods, purchases of which have been soaring, and an expansion of consumption again stimulated by wage and salary increases were the decisive factors in the regional economic trend in Berlin.

In line with the lively trend of general economic activity, deliveries to the Federal area were 9 % higher in the first four months than a year earlier, despite difficult transport conditions due to the weather.

The lively rise in investment demand made a special contribution. Investment is now enjoying a boom in all sectors of the Berlin economy. The growth of investment in plant and machinery was probably only a little slower than in the Federal area. In addition there was the expansionary influence exerted by building demand, favoured by tax incentives. This winter, however, building was more heavily impeded by the weather than is usual for the season.

Meanwhile, after a short time-lag, private consumers' expenditure also started to mount very sharply, and the wage and salary increases granted to public employees at the beginning of the year led to an appreciable quickening of the pace at which public spending on goods and services was expanding.

On the whole supply has been comparatively elastic. Only the capital goods industries suffered from strain; the industries benefiting most from the current boom were electrical engineering and, above all, chemical engineering, which in the past few years had had to surmount rationalization and adjustment difficulties. In the consumer goods sectors, chemicals and plastics processing, both growth industries, made the main contribution to expansion. Industrial production as a whole advanced fairly vigorously in the first four months.

In the spring there were still more job vacancies than suitable job-seekers. In the first quarter, firms nevertheless stepped up further the number employed, bringing it to a level 3.3 % higher than a year earlier.

The outlook for the rest of the year suggests that the trend of economic activity in Berlin will remain lively. The flow of orders in the capital goods industries has been decidedly favourable until very recently, and the consumer boom, generally gaining in vigour, could well provide firm support to Berlin's consumer goods industries for a considerable period.

Major economic policy measures

March

(1) The Federal Government adopts a draft law abolishing the coupon tax (a withholding tax) on interest on fixed-interest securities owned by non-residents. The tax had been introduced at the beginning of 1965 for foreign exchange and economic policy reasons.

(2) In line with rising interest rates, Federal Treasury bills (Bundesschatzbriefe) issued since mid-March carry a higher rate of interest, varying with the life of the bills, from 6.5 % in the first year to 9 % in the sixth year.

(3) On 19 March 1970 the Federal Government adopts the draft of a supplementary budget for 1970 which takes account of the financial effects of the new distribution of responsibilities following the reorganization of the Federal Government. No increase over the original figure of DM 91 400 million (of which DM 2 700 million are provisionally frozen) is made, increases in certain budget estimates totalling DM 378 million being offset by cuts elsewhere.

(4) At the end of March the Federal Government decides to raise, as of 1 January 1971, pensions from the statutory Social Pension Insurance Fund and pensions to war victims by 5.5 % and accident insurance pensions by 9.3 %. This involves extra expenditure totalling DM 2 400 million for 1971, of which an amount of about DM 360 million is to be borne by the Federal Government.

April

(1) Given the serious and growing disequilibrium in trade between the Federal Republic and the German Democratic Republic (surplus on deliveries by the Federal Republic DM 500 million in 1969 already), the Federal Government decided at the end of April to levy, as of 1 July 1970, a 6 % value added tax on sales of manufactures and supplies of services by the Federal Republic to the G.D.R. For manufactures purchased from and services rendered by the G.D.R., the rate at which previous tax may be deducted is raised from 5 % to 11 % except in cases of re-export.

May

(1) On 9 May employers and employees in the metal-working industry concluded a collective agreement on asset-creating benefits under which, as of 1 July 1970, a sum of DM 312 is put aside every year for each employee. Meanwhile a similar agreement has been signed for the workers in the iron and steel industry.

(2) On 13 May the Bundesbank agreed on measures to curb the expansion of the volume

of funds raised abroad. By transferring securities abroad (*en pension* transactions), the banks have recently been procuring funds on a generous scale, thus partly by-passing current restrictions. In future the Bundesbank will reduce the rediscount quotas of the banks by the amount of these transactions.

(3) At the end of May, the Federal Government adopted an addition to the annual economic report for 1970, modifying the quantitative forecasts for 1970 in line with current economic trends. Given the persistent strain, the intention is to cancel altogether almost all the items blocked in the 1970 Federal budget (these items total DM 2 700 million). In addition, the Federal Government and the Länder are to freeze extra tax receipts voluntarily, in addition to the payments to be made into the counter-cyclical equalization fund. Furthermore, the doubling of the personal allowance free of wage and salary income tax, which entered into force on 1 July, cannot affect demand until the beginning of 1971.

TABLE 1 : **Key indicators**

	1965	1966	1967	1968	1969	1969
	% change by volume on preceding year					1963 = 100
Gross national product	5.6	2.9	− 0.3	7.2	8.0	134
Industrial production	7.3	2.5	− 2.4	9.5	10.4	141
Total imports	14.2	2.6	− 1.3	14.7	16.2	172
Private consumers' expenditure	6.7	3.7	0.6	4.0	7.7	131
Public current expenditure on goods and services	4.8	2.1	3.3	− 0.9	4.1	113
Gross fixed asset formation	4.6	0.9	− 8.4	8.0	12.8	132
Total exports	7.5	10.7	8.5	13.4	11.9	181
Gross national product per head of population	4.3	1.8	− 0.7	6.6	6.6	126
Gross national product per person in employment	4.9	3.2	2.7	2.7	6.0	134
	% change by value on preceding year					
Gross income per employee	8.9	7.5	3.4	6.5	9.5	153

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

	1965	1966	1967	1968	1969
Balance exports less imports					
in million u.a.	− 135	+ 1 613	+ 4 063	+ 4 063	+ 3 906
as percentage of GNP	− 0.1	1.3	3.3	3.3	2.5
Unemployment rate	0.5	0.6	1.7	1.2	0.7
prices to private consumers (% change on preceding year)	+ 3.2	+ 3.5	+ 1.7	+ 1.8	+ 2.5

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	26.9	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)	1968	*118.3*	*119.7*	*123.7*	*122.1*	*123.8*	*131.5*	*126.3*	*135.7*	*133.0*	*131.2*	*139.7*	*139.6*
	1969	*138.9*	*141.4*	*143.5*	*142.2*	*146.1*	*146.2*	*144.6*	*150.8*	*145.6*	*147.2*	*156.7*	*153.6*
	1970	*155.6*	*157.0*	*159.7*	*150.9*								
New orders received (1963 = 100)	1968	*128.2*	*132.3*	*127.0*	*135.2*	*145.5*	*127.4*	*140.9*	*143.2*	*143.9*	*155.0*	*149.7*	*147.8*
	1969	*163.0*	*161.6*	*166.2*	*169.3*	*168.0*	*166.2*	*176.6*	*173.7*	*177.6*	*179.6*	*172.0*	*170.9*
	1970	*176.5*	*184.2*	*178.7*	*180.0*								
Unemployed (1 000)	1968	*460.0*	*378.5*	*387.8*	*331.9*	*313.1*	*301.7*	*287.0*	*287.1*	*264.7*	*252.3*	*235.7*	*209.4*
	1969	*197.0*	*203.3*	*185.0*	*156.0*	*162.4*	*172.0*	*179.1*	*179.2*	*179.1*	*171.2*	*152.7*	*145.5*
	1970	*143.5*	*119.5*	*147.8*	*121.3*	*138.4*							
Construction : permits for residential construction (1 000)	1968	*43.3*	*48.5*	*49.7*	*47.7*	*43.9*	*40.7*	*42.4*	*45.3*	*45.5*	*43.6*	*42.6*	*44.0*
	1969	*43.4*	*47.2*	*44.8*	*45.5*	*47.2*	*48.0*	*48.4*	*45.4*	*46.9*	*49.3*	*48.7*	*44.2*
	1970	*49.4*	*52.0*	*46.0*									
Private consumers' expenditure : department store turnover (1963 = 100)	1968	*150.2*	*152.9*	*148.9*	*158.5*	*155.1*	*152.1*	*158.7*	*162.1*	*157.5*	*159.5*	*167.9*	*156.1*
	1969	*164.1*	*155.7*	*162.3*	*159.4*	*170.6*	*167.7*	*170.1*	*172.3*	*175.9*	*180.7*	*179.3*	*181.0*
	1970	*184.1*	*173.7*	*179.8*									
Consumer prices (1963 = 100)	1968	112.8	112.8	112.9	112.9	112.9	113.1	113.1	112.8	112.9	112.3	113.9	114.3
	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							
Visible imports (million u.a.)	1968	*1 530*	*1 618*	*1 606*	*1 638*	*1 686*	*1 504*	*1 829*	*1 686*	*1 674*	*1 833*	*1 732*	*1 694*
	1969	*1 933*	*1 880*	*1 973*	*2 071*	*2 021*	*2 043*	*2 144*	*2 043*	*2 122*	*2 374*	*2 115*	*2 113*
	1970	*2 339*	*2 492*	*2 375*	*2 403*								
Visible exports (million u.a.)	1968	*1 930*	*1 965*	*1 979*	*1 922*	*2 011*	*1 818*	*2 181*	*2 181*	*2 053*	*2 215*	*2 305*	*2 171*
	1969	*2 069*	*2 156*	*2 217*	*2 402*	*2 380*	*2 448*	*2 559*	*2 511*	*2 457*	*2 748*	*2 616*	*2 414*
	1970	*2 525*	*2 813*	*2 607*	*2 686*								
Balance of trade (million u.a.)	1968	*+ 400*	*+ 348*	*+ 373*	*+ 284*	*+ 325*	*+ 314*	*+ 352*	*+ 495*	*+ 379*	*+ 382*	*+ 573*	*+ 477*
	1969	*+ 137*	*+ 276*	*+ 244*	*+ 331*	*+ 359*	*+ 406*	*+ 415*	*+ 468*	*+ 335*	*+ 375*	*+ 501*	*+ 301*
	1970	*+ 186*	*+ 320*	*+ 232*	*+ 283*								
Official gold and foreign exchange reserves (million u.a.)	1968	6 486	6 749	7 030	6 842	6 732	6 733	6 721	6 695	6 962	6 665	8 543	7 497
	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	6 631							
Money supply (DM '000 million)	1968	*83.4*	*82.8*	*83.3*	*83.3*	*83.9*	*84.8*	*84.9*	*85.7*	*86.8*	*86.3*	*87.5*	*88.3*
	1969	*89.2*	*89.2*	*90.7*	*90.3*	*91.5*	*92.2*	*93.2*	*94.3*	*94.3*	*93.7*	*95.8*	*94.4*
	1970	*95.4*	*95.4*	*96.7*									

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 3

— Industrial production: trend curve; estimate established on the basis of indices adjusted for seasonal and fortuitous variations, excluding construction, food, beverages and tobacco.

Graph 2

— 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 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.

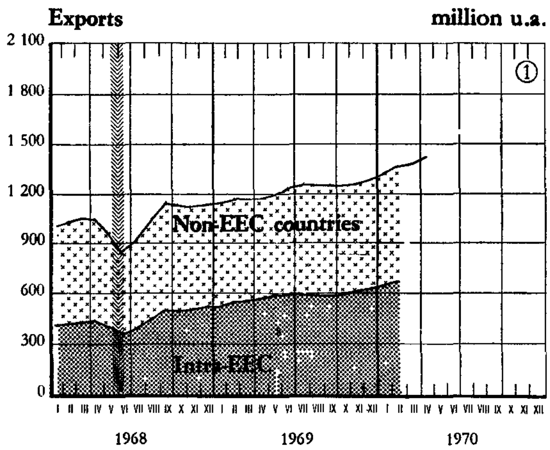
B. France

At the beginning of spring the conditions governing monetary and economic equilibrium had definitely improved: the signs of a shift in emphasis from domestic demand to exports and from consumption to investment were clearer than before; with industrial production slightly increased and imports rising faster once again, supply capacity expanded a little more quickly. Although the recovery of trade and international payments was well under way, there was still too much pressure on important home markets. Wage and price increases continued unabated. None the less, the outlook for growing consolidation of the economic situation in coming months is not unfavourable. The slowdown in export growth which is to be expected and a gradual loss of momentum in domestic investment might well serve to inhibit the expansion of monetary demand. The pressure on productive capacity will certainly weaken, and the tendency for the situation on the labour market to ease should become more marked. This is based on the assumption that the spontaneous market forces already working in this direction will be supported by policy measures giving the stabilization of costs and prices continued priority.

1. Recent developments

The improvements in the monetary and economic conditions governing equilibrium which began after devaluation became more marked in the spring; budget and credit measures introduced under the recovery programme had a good deal to do with this. Growth is now more and more a matter of exports rather than domestic demand, with a shift in the pattern of domestic demand from consumption to investment. But the overall situation still seems to be far from consolidated. Certain markets are still under excessive strain while the behaviour of producers, dealers and consumers continues to allow wage and price rises on a scale hardly consistent with the aim of a long-term, steady and non-inflationary growth of the French economy. External trade and payments have largely recovered, however.

Exports—which had already picked up around the turn of the year after a brief phase of adverse reaction to the devaluation—have gathered further momentum in recent months It is not just that more and more capacity seems to be available for exports, especially in industries near the consumer stage: French managements are manifestly much more anxious to secure foreign business, this being very profitable in relative terms thanks to continuing inflationary pressures in the main importing



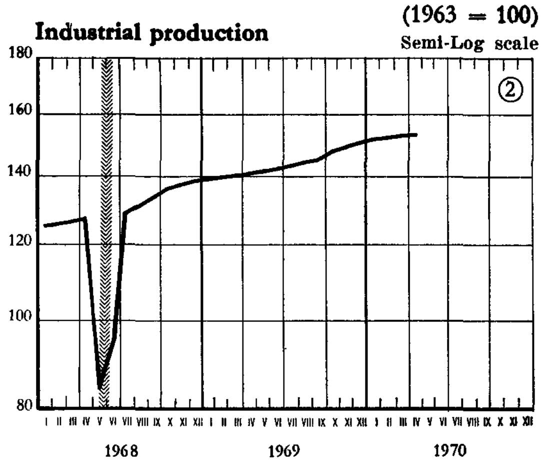
countries and the resultant scope for price adjustments. In April/May 1970, seasonally-adjusted visible exports were close on 10 % above the figure for the end of 1969; expressed in dollar values, they were more than 20 % higher than in April/May 1969. Sales of French products expanded in nearly all markets—the

United States being an important exception—but especially in the other EEC countries, where the year-to-year increment was 28 %.

The vigour of exports goes far to explain why the propensity to invest has, if anything, gained further strength, despite the recent credit squeeze. At all events, firms in private industry have revised their investment schedules for 1970 unmistakably upward, as indicated by the March results of the INSEE survey; they now expect to follow up the 23 % rise in their fixed investment in 1969 by spending no less than 27 % more on construction and plant and machinery. Such high rates of increase have not been reached since 1960-62. So far this year, implementation of investment plans has probably been hampered (if at all) only by delivery bottlenecks; at any rate, financing has hardly been a problem—firms have been able to borrow from sources not subject to the quantitative restrictions, funds have still been very easily obtainable on the capital market, and capital held abroad has been repatriated on a large scale. As against this, residential construction seems to have been fairly sluggish for some time. This is partially attributed to the exceptionally bad weather which persisted into the spring, but the basic reason is undoubtedly that the authorities have been hesitant in the allocation of public funds and that in general mortgages have been harder to find and more expensive.

In recent months investments in stocks have obviously had an increased impact on production and employment, though to an extent varying from industry to industry and from product to product. For instance, dealers and industries near the consumer stage increased their stocks appreciably, while inelasticity of supply continued to hamper the re-establishment of normal stocks of capital goods and of certain producers' goods.

The propensity to consume of households had lacked vigour in the winter months, and this was an important factor in the progress made towards internal and external balance. It seems to have been picking up of late—a possibility foreseen in the last Quarterly Survey. At all events, available data indicate a sharper rise in private consumers' expenditure. The incomes of private households again increased relatively quickly—at an annual rate of more than 10 %.



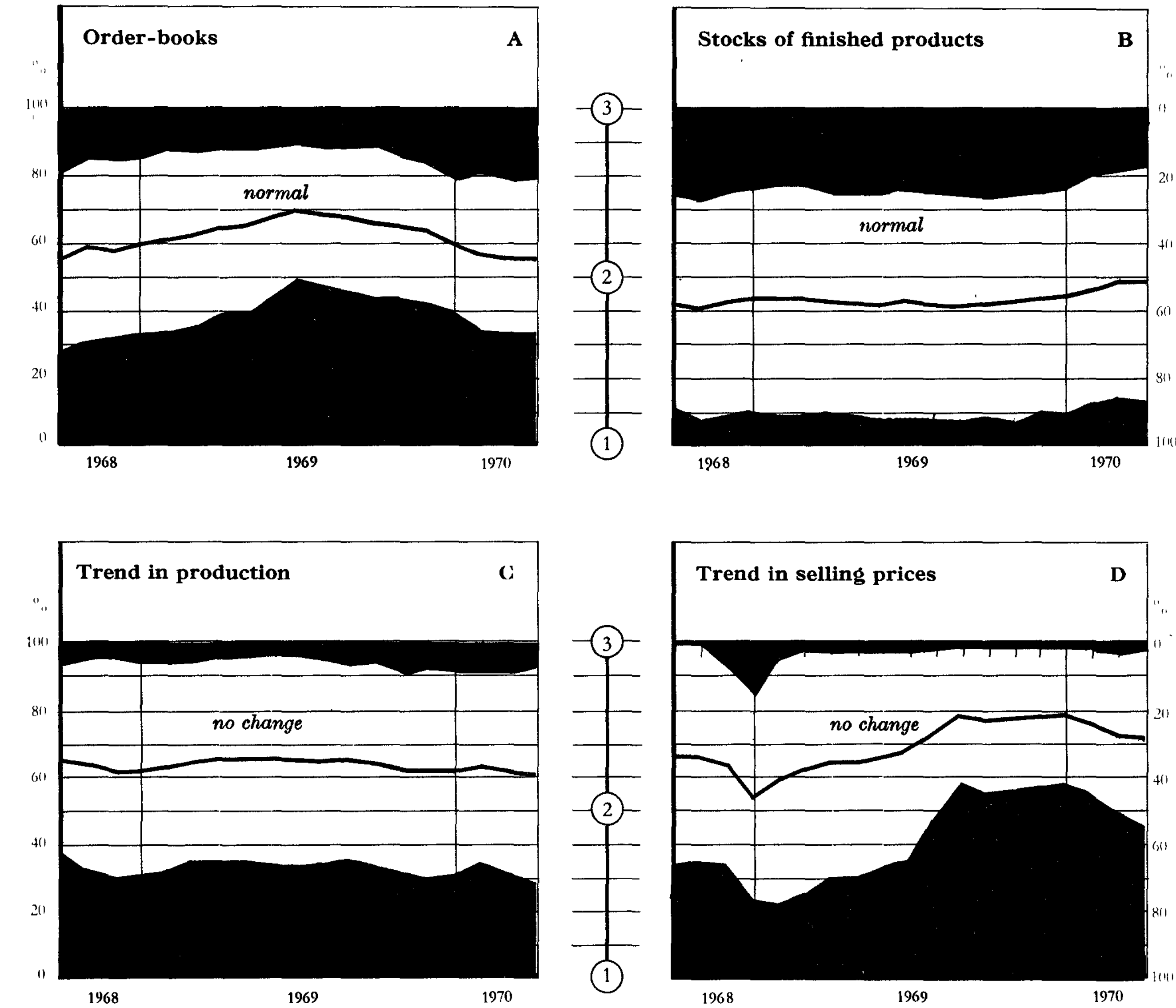
Mass incomes,[1] in particular, were pushed up markedly by the fairly strained employment situation persisting in large areas of the economy, the sharper rise of hourly wage rates—increasingly safeguarded by collective agreements with built-in purchasing power guarantees—in trade and industry, the additional increases in public service wages and salaries (including backdated payments for 1969) and in social security benefits. But the amounts withdrawn from their businesses by self-employed persons may well have been affected in recent months by a weaker profit trend.

The increase in domestic supply gathered momentum in response to the expansion of overall demand—which was once again a little faster, if anything, at the beginning of the spring—and thanks to the increased elasticity of production resulting from the completion of new investment schemes. Industrial production, in particular, showed a firmer upward trend. According to the seasonally-adjusted INSEE index (excluding building),[2] it was a good 2.5 % up in March/April on the figure for the end of 1969 and almost 7 % higher than a year previously.

[1] I.e. net incomes from employment plus transfer incomes deriving from public sources.

[2] This monthly index, recalculated on a 1962 = 100 basis and in use since the beginning of the year, probably reflects the actual pattern very incompletely at the moment since it relates only to the production of the basic materials and consumer goods industries, not that of the capital goods industries (apart from electrical engineering, given a weighting of 3.5 %) so that it covers only about 60 % of aggregate industrial production (excluding building). The quarterly index, which includes the production of the capital goods industries, was not available when this report was written.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

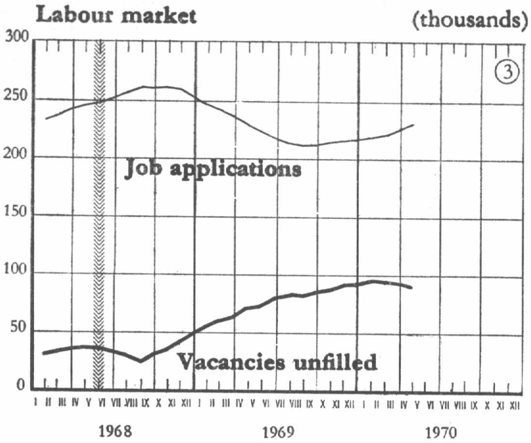


Answers to questions in the EEC business survey. carried out in France by INSEE.

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

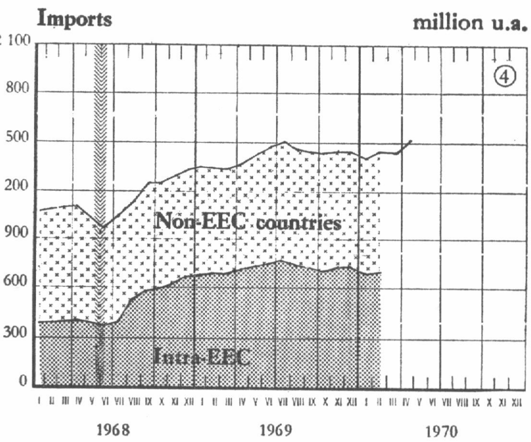
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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".

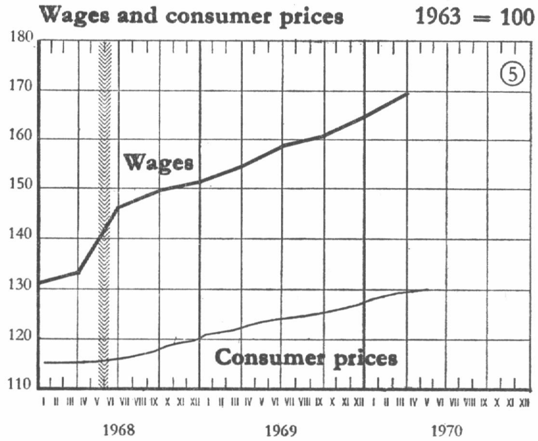


Growth was particularly vigorous in the capital goods industries, where the backlog of orders had shown a further marked increase in the winter months, and in major sections of the basic materials industry, especially metal production; the rate of increase rose slightly in the consumer goods industry, where the intake of orders was somewhat larger.

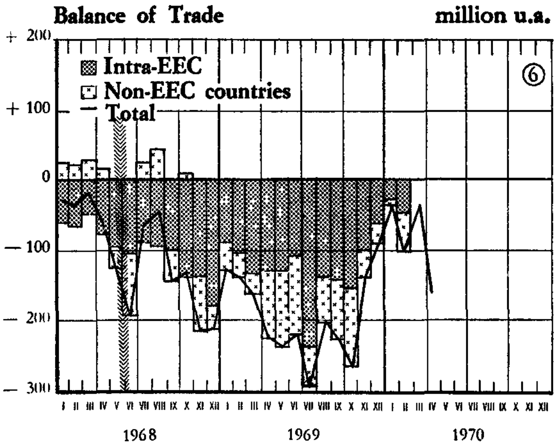
Productivity gains were modest, and production was expanded by further increasing the number of workers in paid employment. As before, unemployed French workers lacked the required skills or were not available in the areas where there were vacancies, and there was heavy recruitment of foreign labour. However, the manpower bottleneck seems a little less serious. The number of unfilled vacancies remained more or less unchanged after reaching a new (seasonally adjusted) peak at the beginning of the year, while the number of job-seekers tended to increase.



The beginning of the year saw a further decline in the proportion of overall demand met from imports. This could well be due—apart from the reversion to normal of domestic buyers' behaviour—to erosion of the competitive position of foreign producers because of their longer delivery dates, to the price movements dictated by the parity changes, and to worldwide cost increases. The initial fall in the import/overall demand ratio seems to have stopped and perhaps even given way to a reverse movement in the spring months. At all events, the adjusted volume of visible imports picked up unmistakably in April/May, rising to a figure about 6 % above that recorded in the corresponding period of 1969.



The price rise continued unabated at a rate corresponding to an annual 6 % increase in the cost of living. This is, of course, partly attributable to the fact that the devaluation is still affecting prices and to the worldwide inflationary pressures which are hard to exclude from an open economy. But domestic demand pull and wage cost push also remained very strong. Price rises were particularly pronounced at production level, notably for industrial producers' goods and capital goods. In April the INSEE wholesale price index for industrial products, which admittedly covers hardly any finished products, was 4.1 % up on December 1969 and 13.5 % higher than in April 1969. According to the INSEE index of 259 retail items, retail prices increased by 2.2 % in the first four months of 1970 and in April were 5.7 % higher than a year earlier. Food prices rose at well above the average rate, partly because phased alignment on the common agricultural prices was necessary after the devaluation. The same was true of services, a factor here being the increase in charges for public services. As against this, the increases in the prices of industrial consumer goods, which remain subject to official controls, were relatively small.



Very impressive progress was made towards external equilibrium. By the spring months the trade balance—disregarding seasonal and fortuitous factors—showed only a small deficit; indeed, on a fob/fob basis, there was a definite surplus. Furthermore, the "leads and lags" effect continued to swing in favour of France and considerable amounts of capital were repatriated, so that there were substantial surpluses on the balance of payments. Combined with the $ 485 million drawing on the International Monetary Fund for consolidation purposes at the end of January, the foreign exchange inflows were large enough not only for short-term debts to foreign central banks to be completely paid off, and for the bulk of foreign exchange debts contracted with the domestic commercial banks to be repaid but also for the gross gold

Demand for and supply of goods and services

	1967 [1]	1968 [1]		1969 [1]		1970 [2]	
	At current prices (in FF '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports [3]	82.4	+ 10.3	+ 10.2	+ 14.9	+ 20.4	+ 15½	+ 23½
Gross fixed asset formation	143.7	+ 7.3	+ 10.0	+ 8.8	+ 15.9	+ 8	+ 15
Public current expenditure on goods and services	70.6	+ 5.6	+ 13.2	+ 3.6	+ 11.6	+ 2½	+ 9
Private consumers' expenditure	346.7	+ 5.6	+ 10.6	+ 7.2	+ 14.3	+ 4½	+ 10½
Gross national product	573.2	+ 4.8	+ 9.6	+ 7.9	+ 15.5	+ 5½	+ 11
Imports [3]	80.3	+ 12.7	+ 12.6	+ 18.2	+ 25.9	+ 7	+ 16½

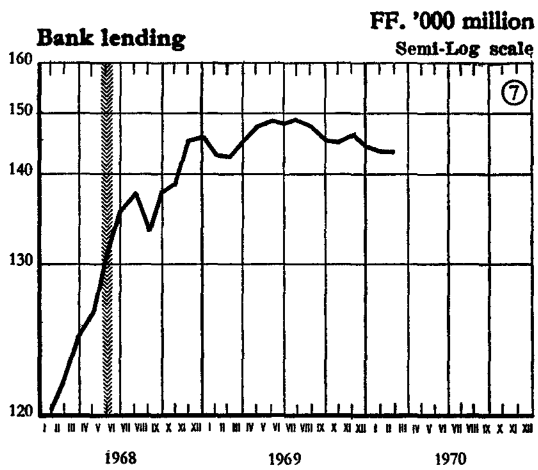
[1] Rapports sur les Comptes de la Nation 1969, Ministère de l'Economie et des Finances, Paris.
[2] Commission forecasts.
[3] Goods, services and factor income.

Note :

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

and foreign exchange reserves of the monetary authorities to be replenished somewhat.

The foreign exchange inflows did much to increase domestic liquidity, but their effect was probably offset to a large extent in the early months of 1970 by very strict budget management. The Treasury, with its cash position benefiting from heavy inflows of tax revenue and very moderate increases in expenditure, seems not only to have supplied the public financing agencies (correspondants du Trésor) with funds but also to have made a further substantial reduction in its short-term debts to the banking system. The commercial banks' business and personal advances, which had lost substantial momentum towards the end of 1969, seem to have increased slightly; the ceilings prescribed as part of the credit squeeze arrangements were substantially exceeded in some cases.



The situation on the money market eased slightly in March and April because bank liquidity was relatively plentiful and interest rates were tending to decline on leading international markets. The Banque de France cut its intervention rates several times, and call-money rates against commercial paper as collateral, which still stood at 9 7/8 % in early March, fell back to 8 ½ %. The situation tended to tighten thereafter, however. The main features of the capital market in recent months have been a continuing increase in the volume of issues, especially of bonds by the big savings institutions and of shares, and the virtual absence of change in the high level of interest.

2. Outlook

The feeling that the French economic situation will achieve increased consolidation in the second half of 1970 is not unjustified. There are many reasons for thinking that the expansion of monetary demand will slow down slightly, while supply capacity should increase at a faster pace, mainly thanks to the intensive drive since 1968 to expand and modernize production facilities. This would mean an appreciable easing of the still fairly considerable strain on important markets. However, it is thought that domestic equilibrium can be re-established quickly and without real growth losses harmful to employment only if the income trend is held down enough to restrain the upward cost movement and consequently the rising price trend.

The trend of exports should be one factor making for slower growth of monetary demand: the expansion of exports can be expected to decline gradually, to an extent depending on how far inflationary pressures ease in the other main EEC countries, how far the slowdown of the US economy persists and how far import demand in the developing countries is eroded by declining foreign exchange earnings. It may be added that the slowdown of export growth could affect the value more than the volume of sales, since export prices are certain to come under pressure under conditions of keener international competition.

Demand is unlikely to be buoyed up so much by domestic investment in the second half of the year either. The plans for 1970—as already mentioned—admittedly still entail an exceptionally large increase on 1969. But the adjusted curve for the growth of expenditure on building and equipment may soon pass its highest point. A cost squeeze of profits and a less optimistic assessment of future sales prospects—especially on foreign markets—is likely to engender a more cautious mood in the business community especially as a significant reduction in the cost of borrowing is not in prospect. So in the coming months investment expenditure will probably mark time at a high level and the inflow of orders for capital goods should dwindle slightly. Such a pattern should even be considered as desirable, in so far as it corrects an investment attitude which, in the boom of the last two years, has not always been geared to profitability criteria and the requirements of an optimum improvement in the performance of the economy.

The rise in the gross incomes of households is bound to be inhibited by a certain slackening of exports and investments. Wages and salaries, in particular, are unlikely to go on increasing quite so strongly in this eventuality. There are already signs that the economy is not going to need so much additional labour in the future and, given the expected reduction in the availability of finance for firms, managements are hardly likely to concede high wage awards as readily as in the past. The expansion of private consumers' expenditure will probably not be affected by this initially, however. The disposable income of households should go on rising at least as fast as in the past, since the tax reliefs adopted under the 1970 budget, mainly for the lower income brackets, will take effect mainly in the second half of this year. So private consumption will continue to expand at the present rate, unless there is a marked change in the propensity to save.

All in all, in the months ahead the expansion of overall monetary demand should not outstrip real supply potential as much as in the past. The pressure on internal resources will doubtless ease while order books and delivery dates will return to normal even on the markets under particularly heavy strain at the moment. Demand should nevertheless increase enough to ensure an appreciable expansion of production. Under these circumstances, the labour market as a whole will become appreciably less tight but manpower shortages will persist in some sectors.

Imports, which had already picked up in the spring months, will probably continue to rise in line with the trend of demand and the growth of production. So the trade balance is hardly likely to show a further substantial improvement, in view of the expected slower increase of exports. The surpluses on current account may settle roughly at the present level.

It is hard to predict how far prices will reflect a better domestic balance in the second half of the year. The last Quarterly Survey already referred to the persistence of upward pressures largely independent of the supply/demand relationship. France may also find that post-inflation price rises are often fairly substantial and continue for a period proportional to the effectiveness of official price controls in the previous overheating phase. So in the months ahead the slackening of the price rise may not measure up to expectations—which are very optimistic in some cases—especially if inflationary pressures are not brought under control soon in the rest of the world.

At all events, the above sketch of future development shows that the French economy will enter 1971 under much better conditions of balance. On the—admittedly still tentative—assumption that the world economic situation is expansive and in particular that the US economy will begin to recover before the end of 1970, a spurt in exports can be expected, though it will perhaps be no more than moderate since at precisely this juncture the imports of leading EEC trading partners are likely to reflect with particular clarity the transition to a period of slower growth. On the other hand, the expansion of domestic demand, and consequently of domestic production, may well pick up next year, after a slack spell. At the moment a rise of about 5 % on 1970 in the real gross national product seems to be compatible with the maintenance of a surplus on current account of approximately the same size as in 1970 and a further stabilization of the price level.

But this consolidation of the undoubtedly remarkable progress towards stabilization in the second half of 1970 and return to a more vigorous but balanced growth in 1971 will probably only be achieved if the spontaneous market forces already working in this direction continue to be supported by the right policy. If the recovery measures are dropped too quickly, the inflationary attitudes of those involved in the economic progress— a problem which has by no means been overcome—might be reactivated and the external financial situation again lose its stability. Even selective easing for specific groups of firms or markets where supply capacities already seem available are of dubious value if they hold up structural adjustments which are necessary anyway in the long run or hamper elimination of imbalances persisting on other markets by further stimulating employment and income. On the other hand it should, of course, be remembered that a restrictive policy maintained for a very long period may lead to unnecessary and socially undesirable losses in growth. Those responsible for economic policy therefore have a very tricky task, which continues to require extreme caution and a meticulous policy mix and balance.

The first point to remember here is that in the second half of the year the budgets, as they now stand, will have a much milder restrictive effect than in the past anyway. The effects of the income tax reliefs will be concentrated in this period, the additional revenue derived from previous swollen profits and sales will decline, and expenditure will climb the faster the more it has been held back in the early months of 1970—quite apart from the inevitable exceeding of certain appropriations, such as those for wages and salaries. Additional reflationary measures therefore seem hardly advisable. In particular, any massive release of funds from the Economic Action Fund would still be premature in present circumstances.

Monetary policy must be properly related to budget administration, the effects of which could well become expansionary once again. However, this certainly does not rule out a review of certain restrictive measures, especially those which are hardly consistent with the principles of a market economy and which it has not always been possible to enforce strictly anyway. The Government has already announced a phased elimination of the credit squeeze after mid-year. The danger of a pent-up demand for credit then appearing on a massive scale cannot be ruled out. It could be averted very effectively by increased use of instruments to control bank liquidity and interest rates, with the added advantage that this would bring profitability considerations more to the fore again, thus ensuring that scarce funds are better distributed from the point of view of the economy as a whole.

Elimination of the quantitative credit limitation, unless sufficiently offset by other overall monetary measures, could also prove unwise because the liquidity inflow from abroad is very likely to continue on a large scale. If this inflow attains an undesired scale, it could, if necessary, be dealt with by special measures like those adopted in Germany, for instance, in recent years.

Major economic policy measures

March

(1) At the beginning of March the Banque de France announced that any commercial bank exceeding the quantitative credit ceiling after 31 March will have to deposit with it for at least one month a non-interest-bearing sum of the amount by which the ceiling is exceeded.

(2) In mid-March the French Government examined a report submitted by a group of experts on the monthly payment of wages and recommended employers and employees to begin negotiations with a view to bringing this arrangement into force by 1975. In a joint statement at the end of April, the French National Employers' Federation (CNPF) and representatives of all the trade unions expressed their readiness to work towards early agreements on these measures. A gradual transition from hourly or weekly payment to monthly payment has already begun in some industries, although this involves an appreciable addition to costs.

(3) Credit restrictions, particularly on exports and investments, were somewhat eased during March; the permitted volume of short-term bank loans for financing export transactions will be retrospectively increased monthly from 3 February 1970 by 1 ½ %; exchange credits granted by the banks after 3 February 1970 to residents for financing investments or other expenditure abroad, and which have the approval of the Ministry of Economic Affairs, are not included within the credit restrictions. The extension of medium-term rediscountable credits for equipment, set at 6 % for the first half-year, may be fixed at 8 % for loans approved by the Crédit National and at 9 % for those provided under the guarantees of the Caisse Nationale des Marchés de l'Etat; the granting of long-term credits by a few special credit institutions (Crédit Agricole, Crédit National, Crédit Hôtelier, Sociétés de Développement Régional) has also been made easier.

(4) At the end of March, the Government appointed Mr Schlogel, General Manager of the Crédit Lyonnais, as chairman of the newly founded Institute for Industrial Development (IDI). The IDI's capital stands at FF 1 000 million, FF 200 million of which may be used in 1970 to finance viable companies which are short of capital, having due regard to the

Government's industrial policy priorities. Most of the Institute's twelve directors are businessmen from the private sector.

April

(1) Following the example of Renault, the first French company to distribute part of its share capital amongst its employees, in accordance with the law passed in the National Assembly at the beginning of the year, the Crédit Foncier, a state-controlled joint stock company which specializes in granting mortgage loans and loans to local authorities, distributed at the end of April 1 % of its capital amongst its employees in the form of free shares.

(2) The draft of a report on the most important points in the VIth plan was adopted in mid-April by the Government and submitted to the Economic and Social Council for its opinion. The annual growth of the gross domestic product is expected to reach about 6 % by 1975 (this means an increase of about 5.7 % in the gross national product as defined for the national accounts). At the same time, the external equilibrium should be strictly preserved and the rise in prices held down more than in France's most important trading partners. Despite trade union opposition, the Economic and Social Council accepted at the end of May the Government's draft report, which, after the Government had suggested certain changes, was submitted to the National Assembly at the beginning of June.

(3) During April certain exchange control regulations were eased on imports and exports, particularly the requirement to deposit with certain banks, documentary evidence on business transacted and the obligation on exporters to use their own foreign exchange earnings to settle their commercial debts.

(4) Hire purchase restrictions on furniture were eased in mid-April: the minimum downpayment was reduced from 40 % to 30 %, and the maximum repayment period raised from 18 to 21 months. In return, the furniture industry agreed to hold prices at their present level during the next six months.

(5) In order to limit bank liquidity available for short-term credits, the requirement to purchase medium-term bills was increased on 27 April from 15 % to 16 % of customers' deposits. But since the permitted limit for these investment obligations by the banks is raised from FF 20 to 50 million, the restrictive net effect on the liquidity of the banks will not be more than FF 500 million.

(6) The Banque de France has decided that in view of the continuing improvement in the monetary situation, from 30 April the commercial banks need deposit only 50 % of the dollar counter-value of their foreign assets, whereas since January 1969 they had been required to deposit the full amount of these with the Banque de France when their foreign assets exceeded a net amount equivalent to FF 1 million.

May

(1) With effect from 1 May the foreign currency allowance for travel abroad will be raised from FF 1 000 per person per annum—the figure since June 1968, excluding the period from the beginning of September to the end of November, when the limitation of the foreign currency allowance was temporarily lifted—to FF 1 500. The maximum amount of French bank notes which may be taken abroad remains at FF 200 per journey.

(2) At the beginning of May the distribution of premiums which were granted by the Ministry of Housing for building homes was allowed to go through. These had been held back in accordance with the measures aimed at reducing public expenditure. The expected number of premiums distributed in the first half-year of 1970 was thus raised from 55 000 to 87 600. At the same time the payments for direct expenditure on public building were brought forward from the first to the second half-year.

(3) In mid-May a special ministerial committee responsible for industrial policy was set up with the tasks of examining questions of general industrial policy, of coordinating the work of different authorities involved in determining industrial policy, and of suggesting measures for supporting industrial development in the medium and long term.

(4) At the end of May the Government approved four draft laws for modernizing land tenure arrangements. The following measures are planned: the setting up of investment companies for agriculture, the promotion of agricul-

tural cooperatives, tax concessions to encourage long-term leases, and better compensation for leaving the land.

(5) At the end of May new regulations against unfair competition were announced. These particularly concern "loss leading", under-pricing, discount selling and the use of "recommended standard prices".

June

(1) With effect from 5 June, the Banque de France increased the minimum reserves the commercial banks are required to hold: the rate for sight deposits is raised from 5 ½ % to 6 ½ %, and the rate for time deposits from ½ % to 1 ½ %. This should reduce bank liquidity, which has risen sharply in recent months owing to the heavy inflow of foreign exchange, by about FF 1 500 million.

(2) The hire purchase restrictions were further eased at the beginning of June: the minimum down-payment on household goods was reduced from 40 % to 25 %, although the maximum repayment period remained unchanged; the maximum repayment period for purchasing a caravan was extended from 18 to 21 months and the minimum down-payment reduced from 50 % to 40 %.

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	139
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	+ 2.1	+ 4.0	+ 5.6	+ 3.6	124
Gross fixed asset formation	+ 7.2	+ 8.9	+ 5.7	+ 7.3	+ 8.8	164
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	1.34	1.38	1.79	2.11	1.74
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
	1965	1966	1967	1968	1969	1969	1969	1969
Visible exports								
Total	+ 11.8	+ 8.3	+ 4.5	+ 11.4	+ 16.9	183	14 818	100.0
Intra-EEC	+ 18.0	+ 12.0	+ 2.0	+ 16.0	+ 29.9	229	7 082	47.8
To non-EEC countries	+ 7.8	+ 5.8	+ 6.3	+ 8.2	+ 7.1	155	7 736	52.2
Exports of food, beverages and tobacco								
Total	+ 11.4	+ 7.5	+ 2.9	+ 19.8	+ 20.1	203	2 543	17.2
Intra-EEC	+ 26.3	+ 19.4	+ 6.0	+ 26.6	+ 40.9	333	1 588	10.7
To non-EEC countries	+ 2.0	− 2.0	− 0.1	+ 12.8	− 3.6	123	955	6.5
Exports of raw materials, fuel and power								
Total	+ 4.4	+ 7.3	− 3.7	+ 1.6	+ 10.2	133	1 240	8.4
Intra-EEC	+ 8.9	+ 7.4	− 3.7	+ 0.9	+ 19.4	162	811	5.5
To non-EEC countries	− 1.8	+ 7.2	− 3.6	+ 2.6	− 3.8	99	429	2.9
Exports of semi-finished and finished industrial goods								
Total	+ 13.2	+ 8.7	+ 6.1	+ 11.1	+ 17.0	187	11 035	74.4
Intra-EEC	+ 18.3	+ 11.2	+ 2.3	+ 16.2	+ 28.4	222	4 683	31.6
To non-EEC countries	+ 10.3	+ 7.2	+ 8.5	+ 8.1	+ 9.8	168	6 352	42.8
Visible imports								
Total	+ 2.7	+ 14.6	+ 4.5	+ 12.5	+ 22.8	196	17 102	100.0
Intra-EEC	+ 6.7	+ 20.8	+ 10.7	+ 23.1	+ 30.0	275	8 600	50.3
From non-EEC countries	+ 0.3	+ 10.5	+ 0.2	+ 4.4	+ 16.3	152	8 502	49.7
Imports of food, beverages and tobacco								
Total	− 0.5	+ 8.4	− 2.6	+ 2.7	+ 19.1	147	2 287	13.4
Intra-EEC	+ 8.9	+ 1.3	+ 16.6	+ 31.8	+ 32.8	284	781	4.6
From non-EEC countries	− 2.8	+ 10.3	− 7.4	− 6.4	+ 13.0	118	1 506	8.8
Imports of raw materials, fuel and power								
Total	0	+ 5.9	+ 0.3	+ 3.6	+ 10.0	130	3 997	23.4
Intra-EEC	− 5.0	+ 9.5	− 2.3	+ 14.2	+ 11.2	134	670	3.9
From non-EEC countries	+ 0.9	+ 5.3	+ 0.8	+ 1.7	+ 9.8	129	3 327	19.5
Imports of semi-finished and finished industrial goods								
Total	+ 5.6	+ 22.0	+ 9.0	+ 19.6	+ 29.2	264	10 818	63.2
Intra-EEC	+ 8.6	+ 25.0	+ 11.9	+ 23.3	+ 31.8	304	7 149	41.7
From non-EEC countries	+ 1.5	+ 17.6	+ 4.3	+ 13.3	+ 24.5	211	3 669	21.5

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production	1968	*127.1*	*126.5*	*129.2*	*128.2*	*86.1*	*94.7*	*130.2*	*129.7*	*132.1*	*138.9*	*140.2*	*142.2*
(1963 = 100)	1969	*144.1*	*140.5*	*139.4*	*142.2*	*142.0*	*132.6*	*145.4*	*139.8*	*143.9*	*145.4*	*143.1*	*149.7*
	1970	*153.2*	*152.5*	*151.4*									
Number of persons seeking	1968	*237.5*	*243.6*	*247.4*	*247 7.*	*249.1*	*265.9*	*260.0*	*262.1*	*263.5*	*260.8*	*253.5*	*246.3*
employment	1969	*242.7*	*237.9*	*231.0*	*224.1*	*221.4*	*215.5*	*217.3*	*218.0*	*217.4*	*218.4*	*216.6*	*218.8*
(1 000)	1970	*221.5*	*228.2*	*233.9*	*241.7*								
Construction : building	1968	*42.0*	*38.5*	*42.4*	*39.7*	*41.3*	*44.5*	*46.3*	*52.1*	*41.0*	*54.4*	*52.8*	*65.8*
permits issued for housing	1969	*50.1*	*46.6*	*44.1*	*45.9*	*49.7*	*51.9*	*56.2*	*51.7*	*52.2*	*53.6*	*37.1*	*36.6*
(1 000)	1970	*46,7*	*55,6*										
Private consumers' expen-	1968	*127.1*	*128.0*	*129.8*	*124.5*	*89.9*	*123.8*	*142.7*	*143.7*	*134.8*	*141.2*	*161.6*	*143.0*
diture : turnover of depart-	1969	*146.3*	*139.2*	*143.0*	*139.0*	*150.9*	*138.6*	*146.2*	*153.9*	*137.1*	*142.6*	*143.7*	*144.7*
ment stores (1963 = 100)	1970	*153.5*	*141.2*										
Consumer prices	1968	114.9	115.0	115.1	115.4	115.8	116.2	116.6	117.1	117.9	119.1	119.5	119.8
(1963 = 100)	1969	121.1	121.5	122.1	122.7	123.2	123.6	124.2	124.5	125.1	125.9	126.5	126.9
	1970	127.9	128.5	129.0	129.7	130,3							
Visible imports	1968	*1 086.9*	*1 102.8*	*1 097.9*	*1 101.3*	*909.5*	*917.8*	*1 307.5*	*1 205.4*	*1 227.4*	*1 315.4*	*1 348.0*	*1 342.9*
(million u.a.)	1969	*1 362.7*	*1 317.0*	*1 275.1*	*1 470.8*	*1 460.2*	*1 472.0*	*1 576.5*	*1 390.1*	*1 464.6*	*1 540.3*	*1 375.6*	*1 401.3*
	1970	*1 432.9*	*1 485.6*	*1 405.9*									
Visible exports	1968	*1 055.4*	*1 065.5*	*1 077.8*	*1 039.6*	*788.3*	*721.6*	*1 242.6*	*1 157.1*	*1 082.0*	*1 186.8*	*1 134.0*	*1 132.4*
(million u.a.)	1969	*1 235.2*	*1 170.0*	*1 109.1*	*1 238.0*	*1 231.6*	*1 250.1*	*1 284.5*	*1 188.2*	*1 236.3*	*1 278.6*	*1 238.7*	*1 314.1*
	1970	*1 401.7*	*1 385.1*	*1 383.7*									
Balance of trade	1968	*− 31.5*	*− 37.3*	*− 20.1*	*− 61.7*	*− 121.2*	*− 196.2*	*− 64.9*	*− 48.0*	*− 145.4*	*− 128.6*	*− 214.0*	*− 210.5*
(million u.a.)	1969	*− 127.5*	*− 138.0*	*− 166.0*	*− 232.8*	*− 228.6*	*− 221.9*	*− 292.0*	*− 201.9*	*− 228.3*	*− 261.7*	*− 136.9*	*− 87.2*
	1970	*− 31.2*	*− 100.5*	*− 22.2*									
Official gold and foreign	1968	6 053	6 014	6 023	6 027	5 720	5 517	4 850	4 601	4 374	4 265	3 285	4 200
exchange reserves	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
(million u.a.)	1970	3 885	3 957	3 961	4 032	4 142	4 282						
Money supply	1968	*192.3*	*193.1*	*193.1*	*193.6*	*207.6*	*207.0*	*203.0*	*204.3*	*207.9*	*209.0*	*209.7*	*211.5*
(FF '000 million)	1969	*209.1*	*210.9*	*213.0*	*215.9*	*213.8*	*216.1*	*216.0*	*215.3*	*216.6*	*214.1*	*214.4*	*217.0*
	1970												

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 : trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

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

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

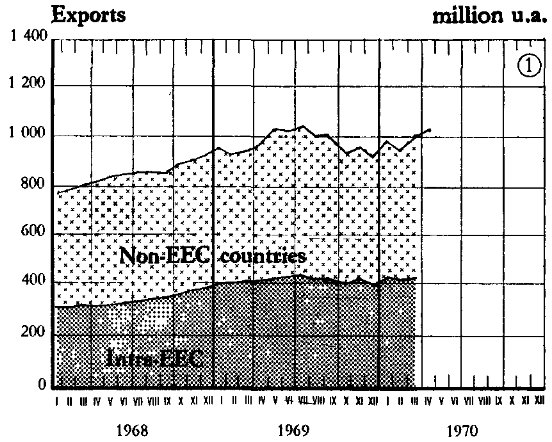
C. Italy

Demand forged ahead in the early months of 1970, while production was well below expectations. The price rise gathered further momentum. The balance of payments performance was very poor till February but improved somewhat thereafter. In the next few months, provided there is some improvement on the labour front, economic growth is likely to speed up, apart from seasonal variations, and the number of persons in employment will increase. The main stimulus to growth will be provided by investment and private consumption. Policy should be directed chiefly towards dealing with the persistently serious problems of equilibrium.

1. Recent developments

Following the serious labour disputes of the last four months of 1969, the economic pattern of recent months was influenced mainly by endeavours to recoup production losses and the repercussions of increased demand due to the generous wage awards that had been made. Production was not nearly as buoyant as expected, however, owing to the particularly unfavourable weather, the many working hours lost as a result of further strikes and sickness and the difficulty of using production capacity more fully by working overtime.

Special factors, then, were again operative in the first few months of 1970. Their impact cannot be quantified exactly, but they have probably ensured that the gross national product in real terms will be appreciably smaller in 1970 than predicted by the last Quarterly Survey on the assumption that industrial relations would quickly return to normal.



As expected, the adjusted figures for exports of goods and services showed an increase, though the curve was obviously flattening out. This is true at any rate of visible exports, which recovered from the downturn in the last quarter of 1969 and achieved an appreciable seasonally adjusted increase in the first four months of 1970, when they were 6.5 % up (in value) on the corresponding period of the previous year. The value of exports of services again improved substantially, mainly thanks to higher revenue from merchandise transport and to increased earned and investment income.

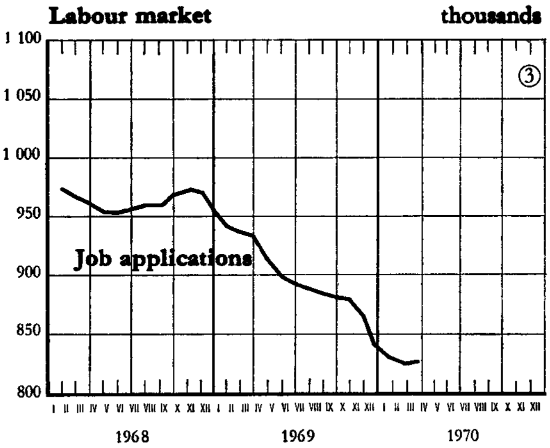
The underlying trend of domestic demand, which on the whole was certainly going up sharply, was again more evident, though this assessment is based mainly on indicators (in particular the results of the business surveys) which are not expressed in figures.

As regards gross fixed asset formation, the expansion of investment in building and construction will probably prove to have lost further momentum on balance as the boost provided by administrative measures since 1967 tailed off. Activity was particularly hampered by the bad weather as well, of course. The rate of increase in both residential construction and industrial building had already declined in the previous year—only partly because of labour disputes—and to judge by the disparate movement of building starts and completions, which had been apparent for some time, the slowdown continued into the early part of 1970. As against this, there seems to have been something of an increase in public works activity of late. Such information as is available—and most of it is not in the form of figures—suggests that investment in plant and machinery, particularly hard hit by the strikes in the second half of 1969, is showing signs of recovering.

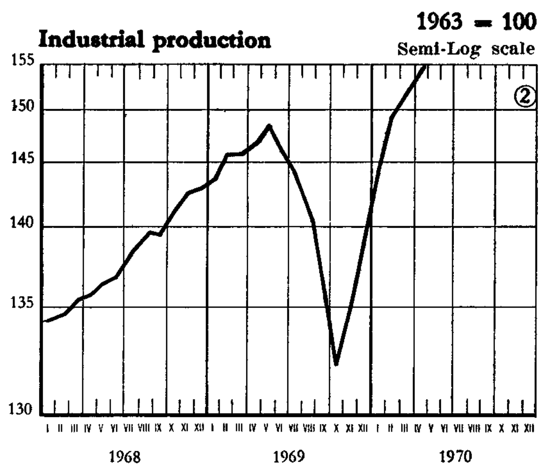
Investment in stocks probably increased again, after falling sharply in the second half of 1969, but industry's stocks of finished products remained at very low level.

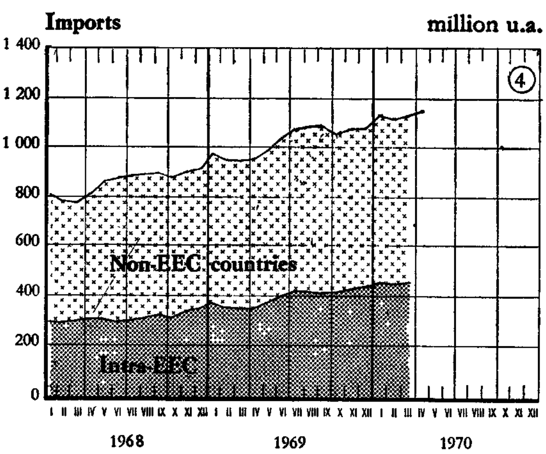
Expenditure on consumption again moved unmistakably upwards as well. As regards private consumers' expenditure, backlogs of domestic orders for consumer goods seem to have increased. At any rate, imports and production—especially the latter—of industrial consumer goods moved up strongly in January/February. Expenditure on services also seems to have risen sharply, impelled by a rapid increase in income from employment. In the first quarter agreed minimum wages and salaries were a good 9 % up on the fourth quarter and about 12 % above the average level of 1969 as a whole, mainly owing to the substantial wage rises and another massive increase in cost-of-living allowances due to activation of the existing sliding scales. The increase in the wage and salary bill was probably substantially higher, because of wage drift and the vigorous growth of numbers in employment.

This increase in demand was accompanied by a renewed upswing of industrial production, which according to the ISCO seasonally adjusted indices rose no less than 12 % in the first four months of 1970, though it would probably have attained an appreciably higher level if the upward trend recorded in the first half of the year had continued unperturbed by strikes. Production per working day achieved a year-to-year increase of only 4.4 % (it had been 7 % down in the fourth quarter of 1969).

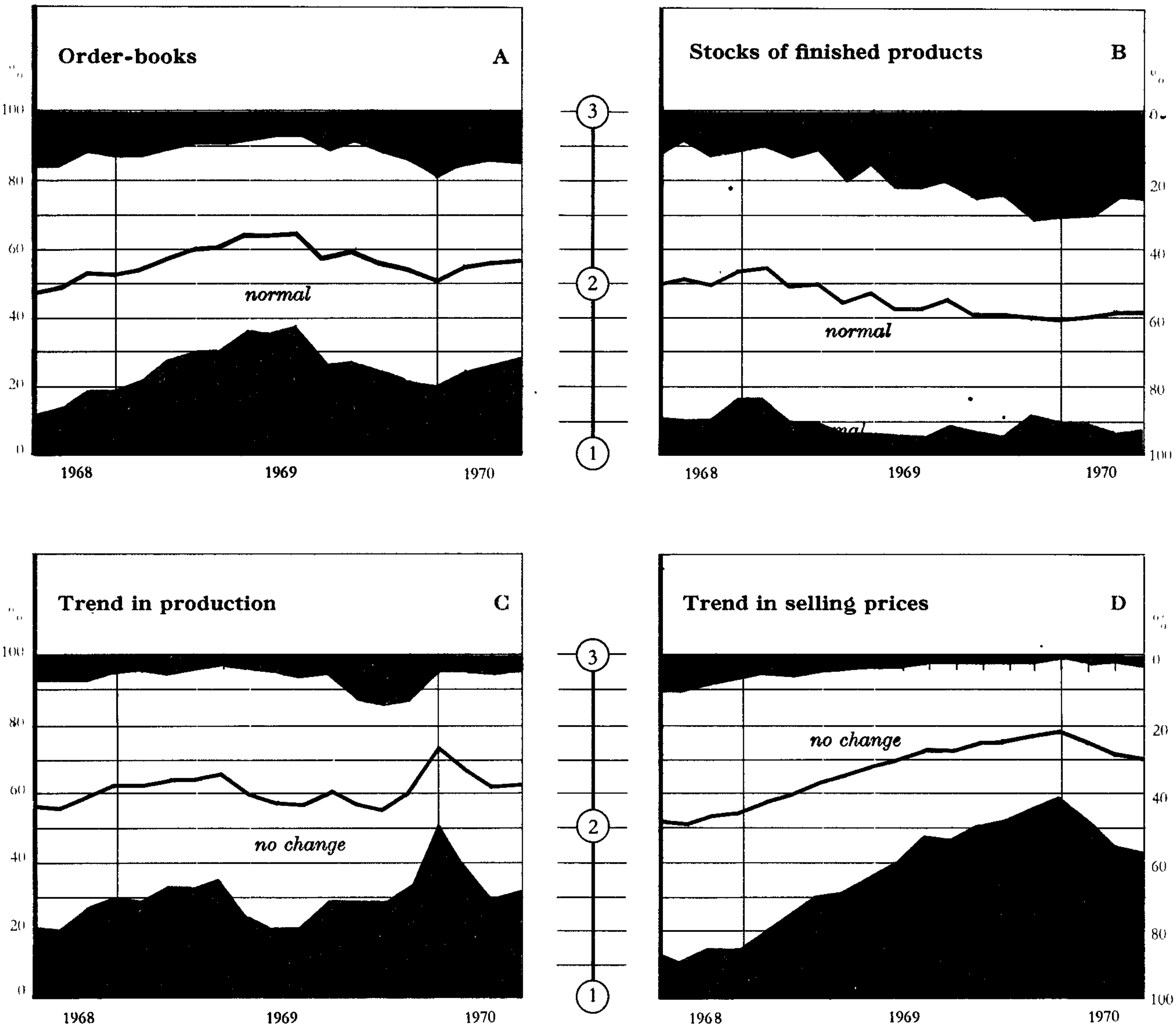


As shown by ISTAT's quarterly sample surveys, the number of persons in paid employment again rose appreciably in the first quarter, apart from seasonal variations (it was 1.8 % above the figure for the first quarter of 1969). There was even an increase in absolute terms between October 1969 and January 1970, in contrast to the normal seasonal pattern. For the reasons mentioned above, however, the number of hours worked per employed person failed to increase as rapidly as was to be expected after the decline caused by strikes in the previous quarter. According to ISTAT, the number of unemployed in January was no less than 13.2 % down on the twelve months; expressed as a percentage of the working population, unemployment was also considerably lower than in January 1969 (3.6 % as against 4.1 %).





BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

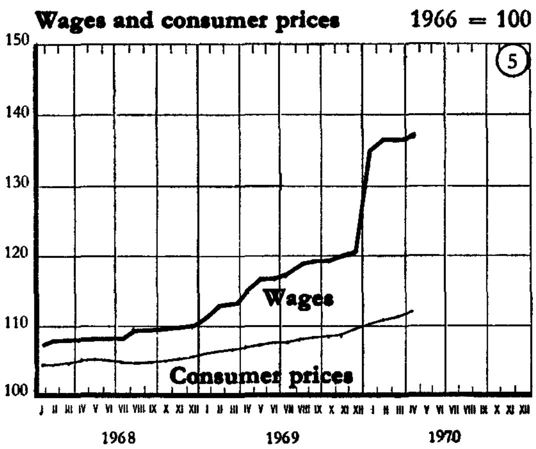
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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".

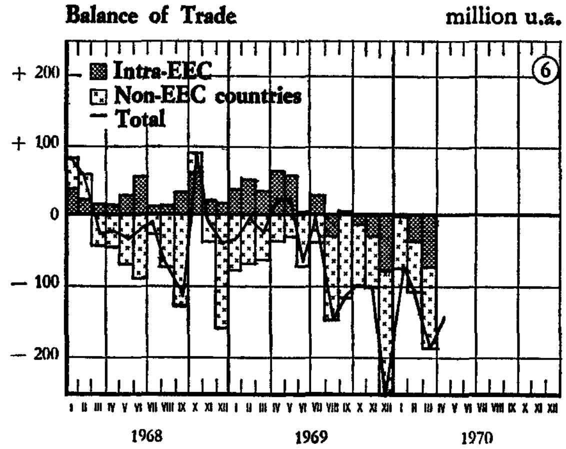
The rate of increase in supply from other countries has risen sharply. In the first four months of the year the visible import bill was 20.9 % bigger than in the corresponding period of 1969, imports of iron, steel and textiles recording particularly large increases. Imports of services—especially capital, tourism and transport—appear to have been much higher.

The steep price rise again gathered momentum in the first quarter, at least as regards consumer prices. The production pickup did prevent a further increase in fixed costs per unit of output, but the situation was still dominated by upward pressures on prices—especially the faster ex-



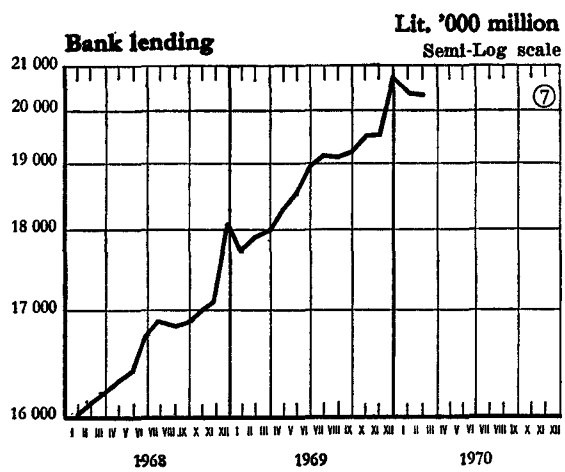
pansion of demand, low elasticity of production, the considerably higher labour costs per unit of output, a further rise in import prices and to some extent an increase in certain indirect communal taxes. Generally speaking, this upward movement, which was particularly marked in wholesaling in 1969, seems to be having an increasing direct and indirect impact on consumer prices. In year-on-year terms, consumer prices showed an increase of 5.1 % in April, and wholesale prices one of 9.1 %. The ISTAT index of residential construction costs, which admittedly disregards productivity changes, rose a good 19 % over the same period.

The seasonal deterioration in the visible trade balance was particularly pronounced in the early months of 1970, the deficit after the first four months of the year being Lit. 373 000 million, as against 22 000 million a year earlier. At the same time there was a decline in the trend of net receipts from services. And in January and February there were further very heavy deficits on capital transactions with abroad, so that the



overall balance of payments closed with a large deficit in these months (Lit. 428 000 million as against 106 000 million a year before and 47 000 million for the last two months of 1969). There was an improvement in March and April, however, when the balance of payments was only relatively slightly in deficit (Lit. 68 000 million as against 243 000 million in March-April 1969) thanks to better performance on current account (due to seasonal factors) and, above all, to inflows resulting from the issue of Italian loans abroad and a considerable decline (partly due to measures taken by the monetary authorities) in capital outflows. Net official gold and foreign exchange reserves fell by Lit. 484 000 million in the first four months. But gross reserves increased, since Italy drew heavily on swap credits with foreign central banks.

Transactions with abroad thus had a sharply restrictive effect on the domestic liquidity of the banking system in the first quarter. Their impact was compounded by the seasonally



Demand for and supply of goods and services

	1967 [1]	1968 [1]		1969 [1]		1970 [2]	
	At current prices (in Lit '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports [3]	7 965	+ 15.4	+ 14.5	+ 14.1	+ 15.6	+ 7½	+ 12½
Gross fixed asset formation	8 323	+ 7.7	+ 10.1	+ 8.2	+ 15.0	+ 10	+ 23
Public current expenditure on goods and services	5 861	+ 4.1	+ 8.6	+ 3.1	+ 8.1	+ 5	+ 11½
Private consumers' expenditure	28 214	+ 4.7	+ 6.3	+ 5.7	+ 8.8	+ 9	+ 15
Gross national product	43 804	+ 6.0	+ 7.6	+ 5.0	+ 9.2	+ 7	+ 15
Imports [3]	7 193	+ 7.5	+ 7.0	+ 20.7	+ 21.3	+ 19	+ 22½

[1] "Relazione generale sulla situazione economica del Paese (1969)".
[2] Commission forecasts.
[3] Goods, services and factor income.

Note :

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

adjusted trend of the circulation of notes and coin—which has been unmistakably faster for some time—but above all by the rediscount operations of the Banca d'Italia. These trends more than offset the considerable expansion of liquidity again caused by the Treasury's cash transactions, mainly due to earlier adoption of the budget than in previous years and the strike by tax officials. The overall result was another marked contraction of bank liquidity. Bank advances nevertheless showed a further lively increase.

On the capital market, share prices were fairly firm till April, in other words till the worldwide stock exchange decline, while bond prices tended downwards. Interest rates therefore rose again, in line with the policy pursued by the monetary authorities. The yield on government stocks attained 7.5 % in April as against 5.6 % in April 1969 and 6.3 % in December 1969. In the first quarter, the net issue value of fixed-interest securities was less than in the corresponding period of the previous year, while that of shares was considerably higher.

2. Outlook

Provided there is a marked improvement in industrial relations, the economy will probably speed up considerably in the period up to the end of 1970. As things stand at the moment, however, there are serious problems of equilibrium—especially in respect of prices, the balance of payments and investment financing.

The prospects for export growth have deteriorated if anything. Apart from other inhibiting factors—such as the considerably greater pressure on resources from domestic demand and the clearly less expansionary outlook for world business—Italian products are not in as strong a competitive position as they were during most of 1969. But since inflationary stresses are worldwide, uncertainties as to delivery dates are likely to weigh heavier than mounting prices. The reduction of the maximum time-limit for repayment of export credits, decided halfway through February, will presumably keep the growth of exports down as well. To judge by the results of the EEC business surveys, the backlog of export orders is not particularly large at the moment.

There are still substantial reasons for expecting the overall expansion of gross investment expenditure to gather momentum, in particular endeavours to recoup the inroads made by strikes last autumn and the need to absorb as much as possible of the appreciable cost rises by rationalization; plus the need to expand technical production capacities, which seem to have been fairly fully utilized even before the strikes; and, not least, the urgent need for investment in stocks to make up for lost time. This assumption of a sharp increase in investment expenditure is particularly contingent on the social situation, but it is also supported by the latest EEC investment survey, which indicates that industrialists have revised their 1970 investment projects upwards yet again since last autumn. If these projects are carried out, expenditure on investment will go up by no less than 42 %. Demand for building and construction should ease, however, since the administrative incentives for expediting residential construction projects have now lapsed, while costs have soared. This slowdown is likely to be only partly offset by the expected increase in public works (including low-cost housing construction) and the expansion of industrial building.

More especially in view of the wage level already attained at the beginning of 1970 and the outcome of the wage negotiations in the textile and electricity industries, the increase in the wage and salary bill for 1970 will probably be nearer the upper limit of the 16-18 % span forecast in the last Quarterly Survey. Consequently, private consumers' expenditure will doubtless accelerate appreciably.

Given these prospects and the trend in the first quarter, a 7 % increase in the gross national product in real terms is thought to be likely at the moment. However, one of the assumptions underlying this prediction is that lasting peace can be established on the labour front during the rest of the year. The above rate of increase, like that of imports, has already been revised downwards to allow for the delays occurring in the first half of the year. But an appreciable deterioration in the current account is still to be reckoned with.

Prices should again climb substantially in the second half of the year, despite the weaker demand for exports and construction, though perhaps not as rapidly. For one thing, the cost surge of recent months will probably continue to have direct and indirect repercussions for some time. Secondly, demand will reattain and probably go well above the rate of increase observed before the wave of strikes hit the country, so that production capacities—much of which already seemed to be fully utilized halfway through 1969, and little or no expansion was possible in the following months—will certainly remain overtaxed for some considerable time. Furthermore, non-inflationary financing of investments will probably be increasingly hampered by the downward trend of saving by the public authorities, the erosion of profits by the rapid increase in costs and, not least, the reduced propensity to save of households owing to the prospect of further price rises.

Preliminary—and inevitably very tentative—estimates indicate that in 1971 the gross national product in real terms may grow about 6 %, given the expected decline in the growth of aggregate demand. The price rise is likely to remain sharp, though it may well lose more and more momentum. The current account will probably deteriorate further.

So energetic action is urgently needed in the economic policy field—and this would also be in the interests of the workers, as was pointed out in the last Quarterly Survey—to restore the conditions which are essential to balanced, lasting economic growth. This requires the quickest possible elimination of surplus demand —while avoiding any recessive developments and maintaining a high level of employment—

in order to stabilize costs and prices, which is also desirable in view of the impending introduction of the value added tax system.

Budget policy should be the major instrument here, chiefly with a view to safeguarding as far as possible the productive investments on which the future growth of the economy depends. A tight rein needs to be kept on the growth of total government spending, and the best way of doing this is to regulate current expenditure on consumption accordingly. As has already been stressed in previous Quarterly Surveys, under present circumstances a temporary increase in unexpended appropriations would be a lesser evil and a strict expenditure policy would help the authorities to re-establish the urgently needed social infrastructure investment programmes on a sound basis in the near future. Additional efforts also seem necessary on the revenue side to mop up purchasing power—for instance, a stricter calculation of the assessment basis and advance tax payments, based on social criteria, which can then be set off against subsequent taxation. On the other hand, increases in indirect tax rates and charges for public services are hardly called for at the moment owing to their direct and indirect impact on prices. These steps should lead to a marked reduction—in both absolute and relative terms— in the Treasury's cash deficit, which in 1969 amounted to Lit. 1 590 000 million, or 3.1 % of the gross national product at current prices (compared with 2.5 % in 1968 and 1.7 % in 1967). Finally, this cash deficit should be financed through real savings and not by direct or indirect recourse to the Central Bank.

It is vital to maintain the increasingly restrictive course of monetary policy—and indeed to tighten the policy still further if budget measures prove inadequate. But the markedly increased dependence of firms on borrowed funds calls for caution in order to avert undesired "domino" effects. In view of the restrictions on credit expansion, preference should be given as far as possible to the financing of investment projects having a relatively quick impact on productivity, the yardsticks adopted for other projects and for consumer credit being proportionally stricter.

A high and increasing rate of saving seems particularly urgent at the moment to ensure non-inflationary financing of investments and to moderate the expansion of private consumption. To this end, additional savings incentives should be provided, especially for workers. It may be added that a definite stabilization of prices would reinforce the impact of such incentives considerably while, conversely, persistence of the rapid price rise would be a disincentive to save.

On the supply side, the elasticity of production should be increased as much as possible by doing more to step up the geographical and occupational mobility of workers and by labour agreements aiming at maximum utilization of technical production capacity.

Finally, to counter the increase in costs and prices energetic steps should be taken to rationalize the distribution channels—a field in which there is still much room for progress in Italy.

At the moment there seems to be a particularly urgent need for active participation by the two sides of industry in a stabilization policy of this kind, directed towards re-establishing a sound basis for rapid, smooth and lasting economic growth.

Major economic policy measures

April

The main economic policy aims set out in the new Government's programme, announced at the beginning of April, can be summarized as follows: maintain the purchasing power of wages after the awards of the previous autumn, keep employment up and ensure that Italian industry remains competitive on world markets. The price rise is to be checked by importing more foodstuffs, pegging charges for public services, cutting the prices of consumer goods produced by certain advanced-technology industries (e.g. drugs) and—while expediting the implementation of public investment schemes—pursuing a cautious policy on current government spending. Pressure on the balance of payments is to be reduced by a drive to reduce capital exports, notably by tightening up measures to prevent the flight of capital if necessary, by keeping interest rates at a high level, by tax concessions for capital increases of Italian companies and by establishing Italian unit trusts.

TABLE 1 : **Key indicators**

	1965	1966	1967	1968	1969	1969
	% change by volume on preceding year					1958=100
Gross national product	3.6	5.9	6.4	6.0	5.0	134
Industrial production	3.3	7.4	8.7	8.7	5.2	140
Total imports	1.9	13.7	12.6	7.5	20.7	161
Private consumers' expenditure	2.7	6.8	7.3	4.7	5.7	134
Public current expenditure on goods and services	3.6	3.2	2.8	4.1	3.1	123
Gross fixed asset formation	− 8.7	4.0	10.5	7.7	8.2	115
Total exports	20.1	13.2	6.2	15.4	14.1	212
Gross national product per head of population	2.5	5.1	6.0	5.4	4.3	126
Gross national product per person in employment	5.5	7.4	5.4	6.1	6.0	138
	% change by value on preceding year					
Gross income per employee	8.1	7.9	8.0	7.2	7.5	165

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

	1965	1966	1967	1968	1969
Balance exports less imports					
in million u.a.	1 867	1 723	1 235	2 274	1 930
as percentage of GNP	3.3	2.7	1.8	3.0	2.3
Unemployment rate	3.6	3.9	3.5	3.5	3.4
price index of private consumers' expenditure (% change on preceding year)	4.1	2.9	2.9	1.5	2.9

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	20.2	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 (1963 = 100)	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
	1969	146.1	143.9	147.3	147.7	145.0	151.5	150.0	135.9	137.7	127.6	126.5	133.3
	1970	152.2	154.3	153.6	151.3								
Unemployed (1 000)	1968	970.4	963.8	952.7	943.7	962.1	958.2	962.3	962.9	975.3	- 976.6	951.2	931.3
	1969	933.8	938.7	915.3	895.8	883.0	896.4	884.8	880.9	886.9	871.6	843.0	815.9
	1970	824.7	825.6	837.3									
Construction : permits for residential construction (1 000)	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
	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
	1970	17.0											
Private consumers' expenditure : department store turnover (1963 = 100)	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
	1969	155.1	150.6	164.4	159.8	182.3	162.7	174.6	183.1	183.2	173.1	169.1	179.5
	1970	182.8											
Consumer prices (1963 = 100)	1968	118.7	118.7	118.8	119.0	119.1	119.0	118.8	118.8	118.9	119.0	119.2	119.6
	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
	1970	125.1	126.1										
Visible imports (million u.a.)	1968	713.0	734.5	826.1	844.9	876.2	850.4	860.1	903.3	910.1	778.9	1 013.6	946.5
	1969	972.3	940.1	934.1	995.7	1 046.7	1 078.0	1 093.2	1 085.5	1 108.6	1 003.8	1 107.5	1 114.1
	1970	1 171.4	1 058.4	1 142.9	(1259.6)								
Visible exports (million u.a.)	1968	796.5	794.0	800.9	820.1	843.2	829.4	846.6	842.4	822.7	870.0	1 002.5	907.5
	1969	937.0	935.5	912.7	1 025.1	1 075.8	1 008.6	1 085.5	937.2	995.5	903.9	1 007.2	860.1
	1970	1 092.9	953.5	955.4	(1119.4)								
Balance of trade (million u.a.)	1968	+ 83.5	+ 59.5	− 25.2	− 24.8	− 33.0	− 21.0	− 13.5	− 60.9	− 87.4	+ 91.1	− 11.1	− 39.0
	1969	− 35.3	− 4.6	− 21.4	+ 29.4	+ 29.1	− 69.4	− 7.7	− 148.3	− 113.1	− 99.9	− 100.3	− 254.0
	1970	− 78.5	− 104.9	− 187.5	(−140.2)								
Official gold and foreign exchange reserves (net million u.a.)	1968	5 139	5 150	5 105	5 082	5 042	5 086	5 141	5 270	5 188	5 195	5 069	4 878
	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
	1970	4 457	3 943	3 947	3 923								
Money supply (Lit. '000 million)	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
	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										

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) : trend curve; estimates established on the basis of indices adjusted for seasonal and fortuitous variations.

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 (1969).

— 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.

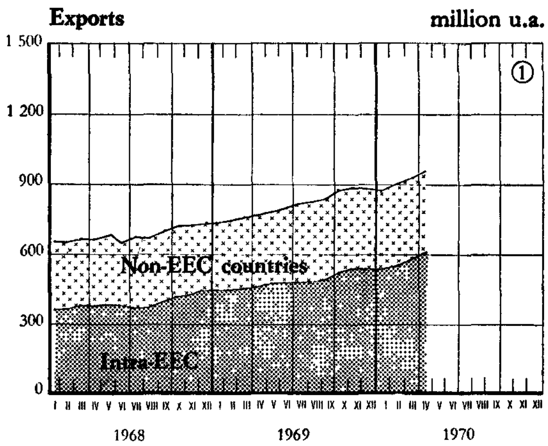
D. Netherlands

The boom in the Dutch economy continued in the spring. So far the slowdown of world trade has had no appreciable effect on the rise in production and employment, especially as exports to other EEC countries showed a considerable increase. A vigorous contribution to expansion was made both by consumption and gross fixed asset formation by firms. With many firms running at or near capacity and the manpower shortage growing, output has failed to match fully the expansion of potential demand, and consequently strains on the markets for goods and services have remained acute. For the time being, no real change in the economic climate can be expected; even if the growth rate, especially of export demand, were to slacken, production capacity would still be stretched. The risk of inflationary strain continuing is therefore very great, were it only because the upward trend in wage costs will remain very strong and autonomous factors such as rent increases and the higher VAT rates planned for the beginning of 1971 will no doubt force prices up.

1. Recent developments

The upward trends in the economy remained as strong as before in the early months of the year. The lively increase in overall demand persisted, and a large number of firms were still working at or near capacity. As a result, the imbalances, whether latent or overt, were still quite substantial.

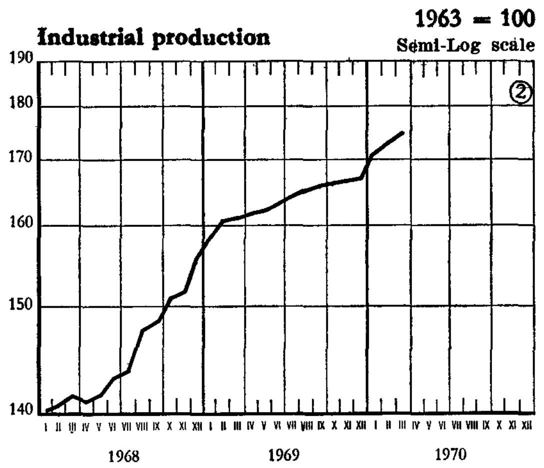
Exports were again highly dynamic. This was partly due not only to the favourable developments of export demand but also to the enlargement of production capacities in industries strongly dependent on exports, such as petrochemicals and natural gas. Most of the marginal increase went to other member countries; exports to non-member countries rose only very slightly. Exports to France did not increase further but deliveries to Germany speeded up. Customs returns put the value of visible exports for January/April at 24 % above the level for twelve months earlier.



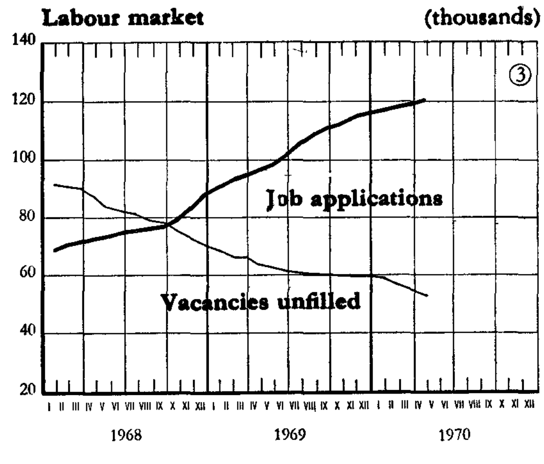
Domestic demand continued to expand, though the various components of this aggregate did not all grow at the same rate. As regards fixed asset formation, industrial expenditure on construction and transport equipment made the strongest contribution, having revived after the recession (in real terms) recorded in 1969. Despite their continuing relatively high growth rate, the other types of equipment investment have developed rather less briskly in the last few months; delivery bottlenecks may well have been one cause of this. In the residential construction sector, the number of starts has again slightly increased thanks to official encouragement. It looks as if the development of public investment has been weak in the last few months.

On the other hand, stockbuilding, which had climbed steeply during 1969, seems to be influencing the economic situation rather less strongly at the moment.

Private consumers' expenditure seems to have forged ahead during the last few months—at any rate, to judge by the very considerable rise in disposable wage incomes. The rise in agreed wages has been less pronounced than twelve months ago, but this has been almost entirely offset by other factors, in particular the effects of reductions in wage and income taxes. Furthermore, the number of people in paid employment has again risen. On the other hand, other incomes of households—except social security benefits—seem to have risen somewhat more slowly than they had been doing up to the beginning of 1970.

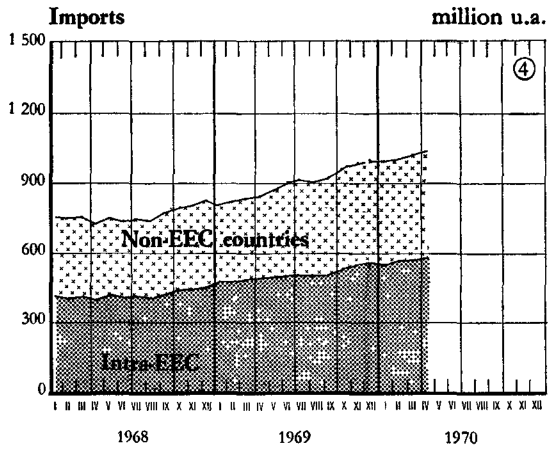


Despite the high degree of utilization of technical production capacity, the underlying growth of domestic supply has not declined, mainly



because the firms in those industries hardest hit by the severe winter endeavoured to make up for production losses by redoubled efforts. According to the CBS index industrial production in January/March was 3.8 % higher than in the fourth quarter of last year and 14.3 % above the level of twelve months before (seasonally adjusted figures).

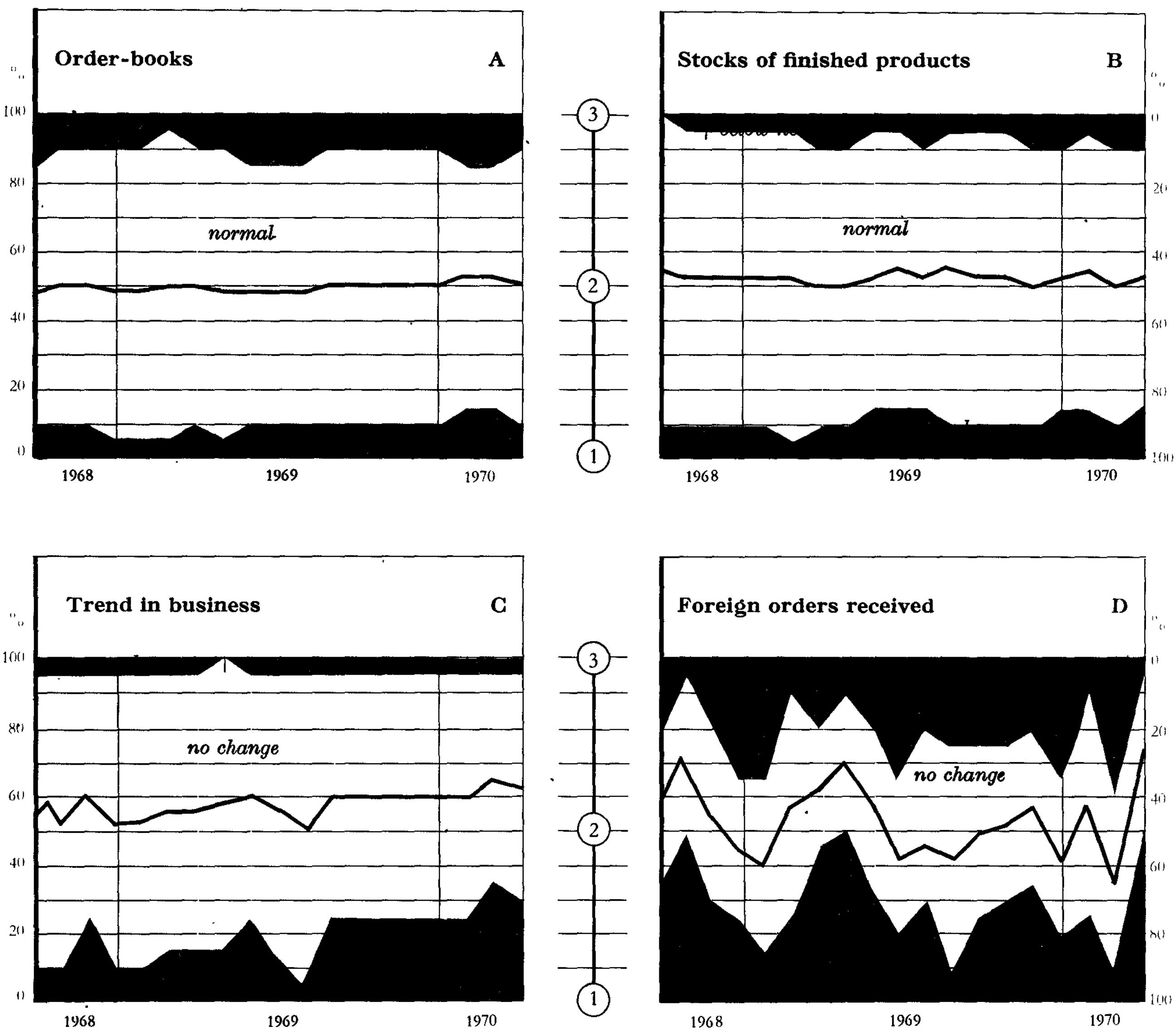
Manpower requirements continued to increase. Seasonally adjusted figures for May show twice as many vacancies as the number of unemployed (53 500). Requirements were largely satisfied by recruiting foreign workers.



Imports grew more slowly than before (particularly in terms of volume), despite the renewed increase in demand—especially for consumer durables and equipment goods—and despite the reduced elasticity of domestic supply in some branches of industry. Imports from the other Community Member States again grew faster than the average. This was partly due to the reduction in purchases of raw materials in non-member countries—perhaps connected with hopes of a fall in world market prices. Customs returns put the value of visible imports in January/April at 22 %, and their volume at 16 %, above the level of twelve months earlier.

Pressure on domestic prices continued. The cost-of-living index rose by 2.8 % between December 1969 and May 1970; in April it thus exceeded by 3.3 % the corresponding level of twelve months earlier, which had itself mounted sharply, mainly because of the introduction of the VAT.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



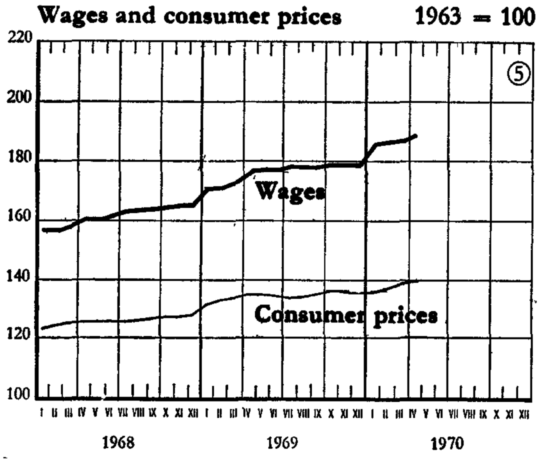
Source : Business survey of the Centraal Bureau voor de Statistiek.

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

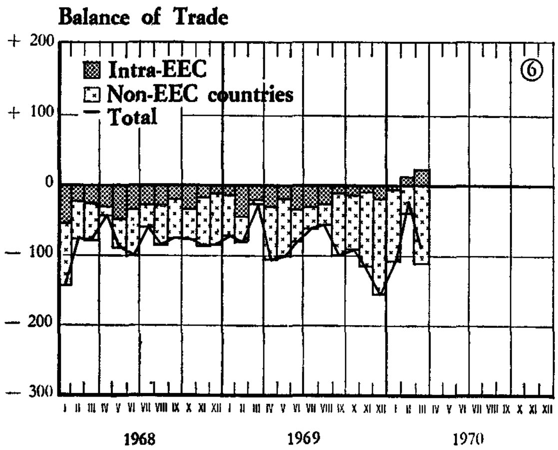
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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".



Despite a further deterioration in the terms of trade, the current account (transactions, seasonally adjusted) showed a slight surplus in the period January/March 1970. High net inflows of long-term private capital failed to prevent a deficit of Fl. 50 million in the overall balance



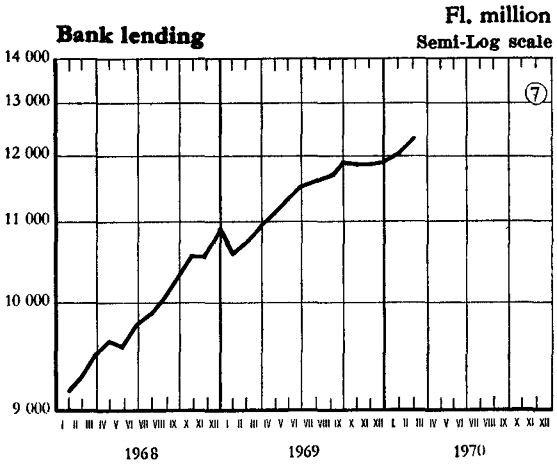
Demand for and supply of goods and services

	1967 [1]	1968 [1]		1969 [2]		1970 [3]	
	At current prices (in Fl. '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports [4]	37.48	+ 13.1	+ 11.9	+ 15½	+ 18	+ 12	+ 15½
Gross fixed asset formation	21.53	+ 10.1	+ 12.6	+ ½	+ 8½	+ 5½	+ 12½
Public current expenditure on goods and services	13.11	+ 1.8	+ 7.1	+ 3½	+ 13	+ 3	+ 11½
Private consumers' expenditure	47.29	+ 5.7	+ 8.4	+ 3½	+ 10½	+ 6	+ 10
Gross national product	82.97	+ 6.2	+ 10.1	+ 5	+ 11½	+ 5½	+ 10
Imports [4]	37.54	+ 13.8	+ 10.6	+ 14½	+ 18½	+ 10	+ 16

[1] Statistical Office of the European Communities.
[2] Commission estimates.
[3] Commission forecasts.
[4] Goods, services and factor income.

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

in the first quarter, because short-term capital flowed out in considerable amounts. The gold and foreign exchange reserves of the monetary authorities dropped by Fl. 182 million, and the foreign exchange position of the commercial banks deteriorated by Fl. 232 million.



The transactions of firms with the banks again had a very expansive influence on domestic liquidity in the first months of 1970. Since March the expansion of short-term bank credits to business and private customers has again exceeded the limits set by the monetary authorities. In addition, cash transactions by the public authorities helped to increase liquidity. In consequence, the liquidity ratio (ratio of liquidity to national income) has risen slightly since the beginning of the year. The money market has not tightened any further. On the other hand, rates of interest on the capital market have gone on rising, and reached a record level at the end of April. On the stock market quotations have fallen sharply, mainly owing to the fall in prices on the New York Stock Exchange.

2. Outlook

No real change in the economic climate is to be expected in coming months. Although the growth rate of overall demand may slacken, the degree of utilization of production capacities will remain very high. Order books are well filled. The shortage of factors of production could well grow more acute. Under these circumstances the upward movement of prices and costs will remain a problem requiring priority treatment from the authorities.

In spite of the strain manifest in most of the Community countries, exports are hardly likely to forge ahead for the rest of the year as rapidly as they did in 1969 and at the beginning of 1970. The decisive factor here is the limited supply potential in most industries, especially since the home market still offers distinctly favourable conditions for sales. Furthermore, demand from non-member countries can be expected to go on declining. However, the vigorous structural expansion of petrochemical and natural gas production may well stimulate exports.

On the other hand, domestic demand in money terms will continue to expand very vigorously. Although the influence exerted by stockbuilding will probably weaken, gross fixed asset formation is expected to increase steeply. Thus, investments by firms will undoubtedly show a further perceptible increase, although the scope for borrowing for financing purposes is likely to grow narrower. The great increase in turnover observed so far could enable firms to allocate substantial resources of their own for new investment. In this connection, expenditure on construction and transport equipment may well grow more than other equipment items, but the latter will also increase sharply. The expansion in residential construction will be backed up by the recent increase in subsidies. On the other hand, there is little reason to expect a substantial increase in investment by the public authorities.

The development of private consumers' expenditure could well also exert a strong influence on growth in the second half of the year. For the rise in wages will remain considerable, especially since agreed wages are being linked to the cost-of-living index to an ever greater extent. Furthermore, transfer incomes will rise more steeply, partly owing to the introduction of a holiday allowance for pensioners. In view of the adaptation of wages and salaries in the public services to wages and salaries in industry, and in view of the continuing substantial expenditure on purchases of goods, consumption by the public administrations will also rise sharply.

Notwithstanding the expansion in overall demand, which remains rapid, production might well lose momentum. The decisive factor here will be the persisting shortage of factors of production. The negotiated reduction in hours of work from the middle of the year, and longer holidays, will exert a perceptible influence on the level of activity—all the more because recruiting of additional manpower is becoming increasingly difficult.

As a result of the progress already achieved, which has proved greater than was expected, the figure given in the last Quarterly Survey for the estimated growth of the gross national product at constant prices in 1970 must be amended from 4 ½ % to 5 ½ %.

In view of the persisting strain on the goods and services markets, the increase in imports, apart from variations, is not likely to slow down appreciably in the next few months. However, purchases of raw materials and certain semi-manufactures may well show a further falling-off. By and large, bearing in mind the development of service transactions, it is not to be expected that there will be a notable surplus on current account for 1970.

Despite the price policy pursued by the Government, further rises in prices are likely in the coming months. For one thing, autonomous factors such as rent increases and observance of the principle of "adequate return" on equity capital in price negotiations between government and firms will result in an increase in consumer prices. Secondly wage costs will go on exerting great pressure, and demand will enable a large proportion of increased costs to be accounted for in higher prices.

For 1971 growth must be expected to lose a little momentum, at least judging by the average growth rate of the real gross national product. At all events, a further decline in exports in the first half of the year would appear probable. Moreover, the demand for investment goods might exert less influence than in 1970. A number of indicators, such as shortage of manpower, wage increases under long-term collective agreements already concluded, and the effect of the sliding wage scale also support the view that the incomes of households will rise vigorously in 1971 and—assuming a constant savings ratio—that private consumers' expenditure will do the same. The prospects of achieving adequate price stability remain uncertain, partly because further rent adjustments and an increase in the VAT are planned. At present the Commission's services expect an increase in the real gross national product of about 4 %.

So far as economic policy is concerned, the outlook for the second half of 1970 and the beginning of 1971 leaves no doubt that the measures designed to curb inflationary tendencies must be maintained and perhaps even reinforced.

Undoubtedly, the fight against inflation in an economy as open as that of the Netherlands will be rendered more difficult by the fact that the present and foreseeable imbalances are bound up with worldwide inflationary trends. However, the more energetically other countries, especially those of the Community, strive for stabilization, the more urgently necessary stabilization measures in the Netherlands become, and the more likely they are to succeed. In this connection it is important to note that inflationary behaviour patterns are threatening to become a permanent feature of the economic scene and that certain developments, such as the increasing tendency to tie wages to the cost-of-living index to underpin negotiated wage increases, are giving inflationary trends a built-in rigidity. All this is aggravated by the fact that substantial "autonomous" factors making for increased prices will continue to exert their effects in the coming years.

In the months ahead, besides fresh concerted action between the Government and the two sides of industry, the prime aim of which should be stabilization of prices and wage costs per unit of output, the instruments of credit and budgetary policy must be used even more vigorously to combat inflation. Monetary policy —the scope of which is however limited by the international short- and long-term capital flows—should exert a still perceptible pressure on the expansion of domestic demand, especially investments. But it is the instruments of budgetary policy, which have hitherto been somewhat neglected, that should be employed more extensively to check inflation. For, if the trend in prices and wages is not to get out of control, stricter limitation of central government expenditure and of expenditure by all other public administrations is necessary. All of the additional tax revenue resulting from higher prices should definitely be set against the deficit on the central government budget. If a deficit on public expenditure is still unavoidable, it should be financed at long term by borrowings on the capital market. For the rest, early completion of work on the systematic distribution of public expenditure in relation with its value as an adjunct to short-term economic policy could, in general, help to improve the elasticity of the budgetary policy instruments.

Major economic policy measures

March

(1) Tabling of a draft law for a new distribution of the subsidies granted to the local authorities from the municipalities fund.

(2) Tabling of a draft law for "structural" increase of pensions from 1970 onwards.

(3) Announcement of a relaxation of price controls from June onwards for firms whose profitability falls short of a specific return on own capital. By the middle of 1970, the return considered as adequate will be gradually increased to 7 %.

(4) Opinion of the Economic and Social Council (SER) on the medium-term objectives for social insurance. The Council gives priority to the adaptation of pensions to the minimum wage level.

April

(1) Agreement between the Minister of Finance and the *Nederlandsche Bank* on the placing of Treasury bills for Fl. 600 million with the Central Bank for the period from 15 April to 1 October 1970 (as against Fl. 500 million during the same period in 1969).

(2) Entry into force of the new wages law (*loonwet*) and establishment of a Committee of experts (Loonpolitieke advies commissie) to advise the Minister of Social Affairs and Public Health on application of the rules empowering the Minister to declare the provisions of a collective agreement non-binding.

(3) Extension for the period May/August 1970 of the measures limiting short-term bank credits in the private sector. These credits may not exceed the average volume reached in the last quarter of 1969 by more than 1 %.

(4) Decision of the *Nederlandsche Bank* to suspend the arrangements made in June 1969 to restrict the net foreign exchange position of the commercial banks.

June

Extension of rent subsidies. These are granted, in particular, to tenants whose rent is at least 17 % of their taxable income and who cannot find cheaper accommodation.

TABLE 1 : **Key indicators**

	1964	1965	1966	1967	1968	1968
	% change by volume on preceding year					Indices 1963=100
Gross national product	8.9	5.4	2.6	6.1	6.2	133
Industrial production	11.0	6.3	5.9	5.6	9.8	145
Total imports	14.9	6.5	7.3	6.2	13.8	157
Private consumers' expenditure	6.0	7.4	3.4	5.1	5.7	131
Public current expenditure on goods and services	1.7	1.6	1.6	4.1	1.8	111
Gross fixed asset formation	18.0	4.9	8.5	7.8	10.1	159
Total exports	11.6	7.6	5.2	6.9	13.1	153
Gross national product per head of population	7.5	4.0	1.2	4.9	5.1	125
Gross national product per person in employment	7.1	4.5	1.8	6.5	5.5	128
	% change by value on preceding year					
Gross income per employee	16.4	11.7	11.1	8.4	8.4	170

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

	1964	1965	1966	1967	1968
Balance exports less imports					
in million u.a.	− 154	+ 76	− 135	− 17	+ 113
as percentage of GNP	− 0.9	+ 0.4	− 0.6	− 0.1	+ 0.5
Unemployment rate	0.7	0.8	1.0	2.0	1.8
prices to private consumers (% change on preceding year)	+ 6.8	+ 4.2	+ 5.4	+ 3.3	+ 2.3

Netherlands

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	4 678	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	+ 3.9	+ 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)	1968	*139.1*	*140.6*	*141.2*	*140.0*	*142.6*	*146.3*	*144.8*	*152.3*	*146.8*	*149.6*	*154.7*	*160.2*
	1969	*158.2*	*161.7*	*163.4*	*161.2*	*161.9*	*162.8*	*165.7*	*166.3*	*164.2*	*168.3*	*178.6*	*183.6*
	1970	*183.2*	*186.5*	*187*									
Unemployed (1 000)	1968	*95.8*	*87.5*	*89.1*	*84.9*	*81.7*	*81.0*	*79.7*	*77.0*	*74.8*	*74.4*	*70.4*	*66.6*
	1969	*66.8*	*66.2*	*67.2*	*62.3*	*61.8*	*61.1*	*61.4*	*62.0*	*60.0*	*59.2*	*58.2*	*60.0*
	1970	*58.7*	*54.2*	*53.3*	*51.4*								
Construction : permits for residential construction (1 000)	1968	*13 356*	*8 029*	*11 468*	*12 158*	*12 670*	*11 398*	*8 303*	*11 519*	*12 074*	*8 873*	*7 987*	*12 690*
	1969	*9 893*	*8 959*	*12 663*	*11 359*	*10 793*	*9 929*	*6 840*	*14 158*	*11 497*	*9 383*	*10 382*	*14 021*
	1970	*9 325*	*7 377*	*13 733*									
Private consumers' expenditure : department store turnover (1963 = 100)	1968	*166*	*169*	*171*	*168*	*176*	*179*	*171*	*182*	*174*	*183*	*181*	*186*
	1969	*170*	*191*	*196*	*192*	*210*	*199*	*185*	*208*	*199*	*201*	*192*	*216*
	1970	*210*	*220*										
Consumer prices (1963 = 100)	1968	123.3	124.1	124.6	125.1	125.2	125.5	125.0	126.2	126.6	127.3	127.4	127.8
	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	139.8								
Visible imports (million u.a.)	1968	*823.0*	*721.7*	*747.9*	*704.9*	*815.1*	*672.8*	*775.2*	*798.3*	*775.9*	*836.0*	*816.8*	*811.2*
	1969	*816.7*	*846.0*	*821.2*	*883.5*	*916.5*	*907.2*	*894.3*	*915.8*	*976.1*	*1 008.5*	*966.3*	*1 031.8*
	1970	*1 003.9*	*1 049.1*	*977.4*	*1 081.0*								
Visible exports (million u.a.)	1968	*680.4*	*648.7*	*669.8*	*662.3*	*724.9*	*571.4*	*715.3*	*711.0*	*699.8*	*759.8*	*729.3*	*735.9*
	1969	*745.2*	*766.9*	*797.5*	*780.3*	*815.9*	*822.5*	*841.6*	*868.8*	*869.2*	*908.9*	*849.3*	*874.9*
	1970	*900.2*	*962.3*	*946.3*	*995.3*								
Balance of trade (million u.a.)	1968	*– 142.6*	*– 73.0*	*– 78.1*	*– 42.6*	*– 90.2*	*– 101.4*	*– 59.9*	*– 87.3*	*– 76.1*	*– 76.7*	*– 87.5*	*– 75.3*
	1969	*– 71.5*	*– 79.1*	*– 23.7*	*– 103.2*	*– 100.6*	*– 84.7*	*– 52.7*	*– 47.0*	*– 106.9*	*– 99.6*	*– 117.0*	*– 156.9*
	1970	*– 103.7*	*– 86.8*	*– 31.1*	*– 85.7*								
Official gold and foreign exchange reserves (million u.a.)	1968	2 194	2 164	2 082	2 028	2 008	1 988	2 000	2 030	2 001	1 972	1 968	1 967
	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								
Money supply (Fl. '000 million)	1968	*19.9*	*19.9*	*20.3*	*20.3*	*20.4*	*20.8*	*20.7*	*21.0*	*21.1*	*21.3*	*21.5*	*21.8*
	1969	*22.0*	*22.0*	*22.0*	*22.1*	*22.3*	*22.3*	*22.2*	*22.4*	*22.6*	*23.4*	*23.2*	*23.5*
	1970	*23.6*											

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: trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

Graph 3

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

Graph 4

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

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.

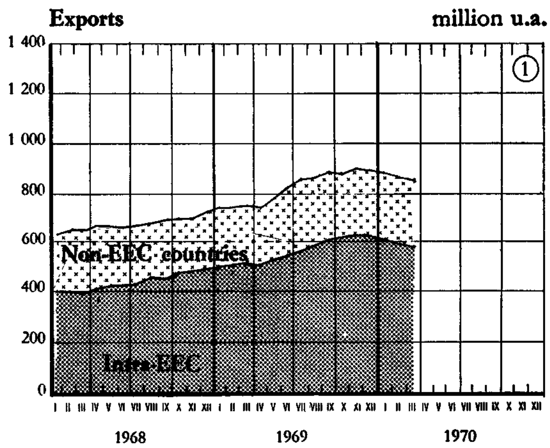
E. Belgo–Luxembourg Economic Union

Belgium

Despite a certain slowdown in foreign demand, the Belgian economy still showed a marked boom in the spring. The expansion of fixed asset formation was particularly lively and the consumer demand of households also made a powerful impact. At the same time, the equilibrium remained precarious. The coming months give promise of a renewed increase in production and employment, particularly owing to firms' very strong propensity to invest and the vigorous expansion of domestic consumer demand. The lead given by exports and stockbuilding is, however, liable to slow down as the year goes on. By and large, some quite appreciable disturbances of the equilibrium may be expected, and it is extremely important that they should be eliminated before the end of the year, to prevent introduction of VAT from creating new problems of prices changes.

1. Recent developments

In the spring the Belgian economy continued to boom. Even though the symptoms of a slowdown in expansion of demand became more pronounced, especially in exports, this has not yet affected production, more particularly because efforts were made to make up for losses of output at the beginning of the year caused by social conflicts and unusually bad weather conditions.

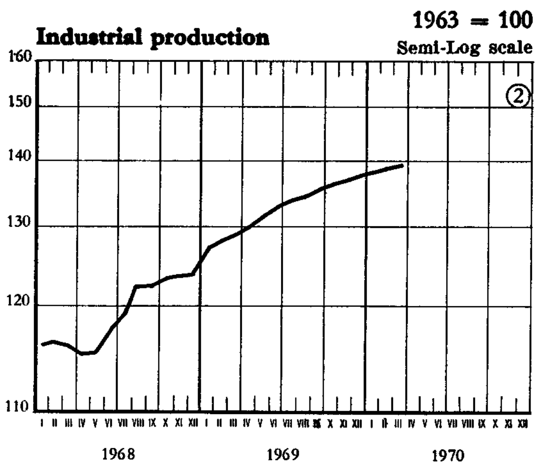


Nevertheless, the basic tendency of exports of goods and services since last autumn has been towards a certain levelling-out. Demand from France and several non-member countries is distinctly weaker, particularly for products of the iron and steel and textile industries. This is probably one of the reasons why the rise in export prices generally has noticeably slackened. However, according to customs returns, the value of exports of goods in the first three months of the year was still 16.3 % more than at the same time last year.

The expansion of home demand remained generally lively; the unabated strong increase in gross fixed asset formation played a decisive part in this. Thus, firms have considerably increased their investments, owing to an improvement in their self-financing possibilities and the extraordinarily large investment programmes of foreign parent companies. In residential construction and public investments, the tendency towards greater expenditure was reinforced by the efforts to make up for the production losses caused by the exceptionally severe winter. Stockbuilding, too, appears to have given a new impetus to business activities as a whole.

Consumer demand would appear to have speeded up. The brisk expansion of private consumers' expenditure reflects more and more the powerful increase in disposable income, due not so much to a further rise in employment as to an accelerated increase in hourly wages. Admittedly, the caution shown by households in purchasing certain consumer goods during the winter months had apparently not yet disappeared altogether in the spring. Thus, some sectors—particularly the motor car industry—which profited most last autumn from the advance buying provoked by the impending introduction of VAT, originally scheduled to start on 1 January 1970, have not yet resumed a very dynamic development.

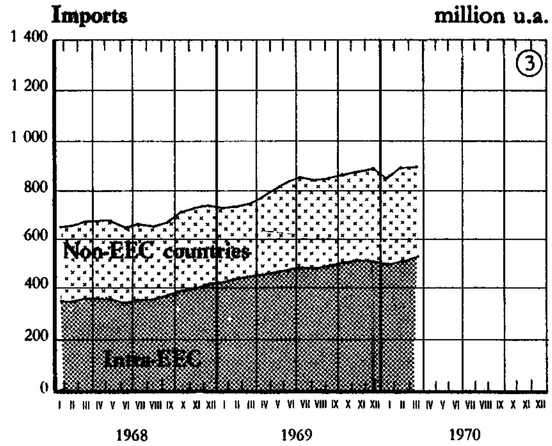
The latest trend in domestic supply seems to reflect the high utilization of production capacity far more than it does the slight slackening in the pressure of demand. Even though the rate of receipt of new orders slowed down in some branches of industry the pace of production continued to be very brisk, not least because of the endeavours to make up for lost output which have already been mentioned.



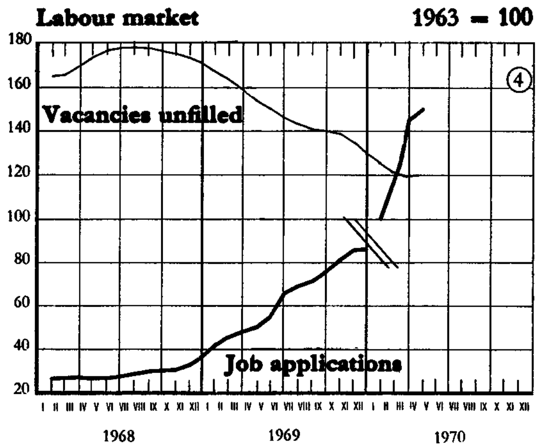
The adjusted INS index of industrial production, rose by quite 2 % in the first quarter, so that in March production was 13 % more than at the same time last year.

Imports of goods and services continued at a very high level. According to customs returns, imports of goods in the first quarter were up 16.5 % by value on the same time last year. The rise in imports was due not only to factors essentially related to the general trend, particularly the large purchases of plant and machinery, but also to an exceptional increase in fuel imports.

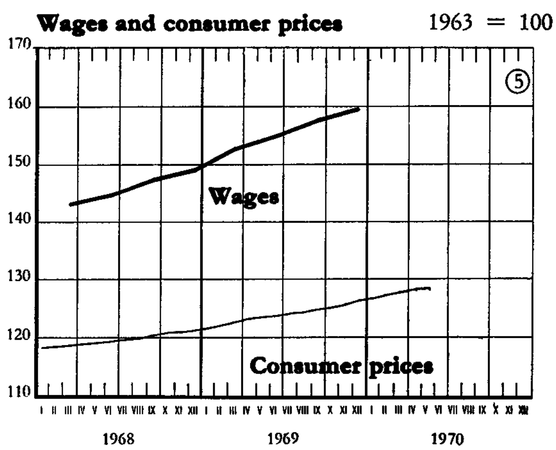
The continuing economic growth produced a further rise in employment. The labour shor-



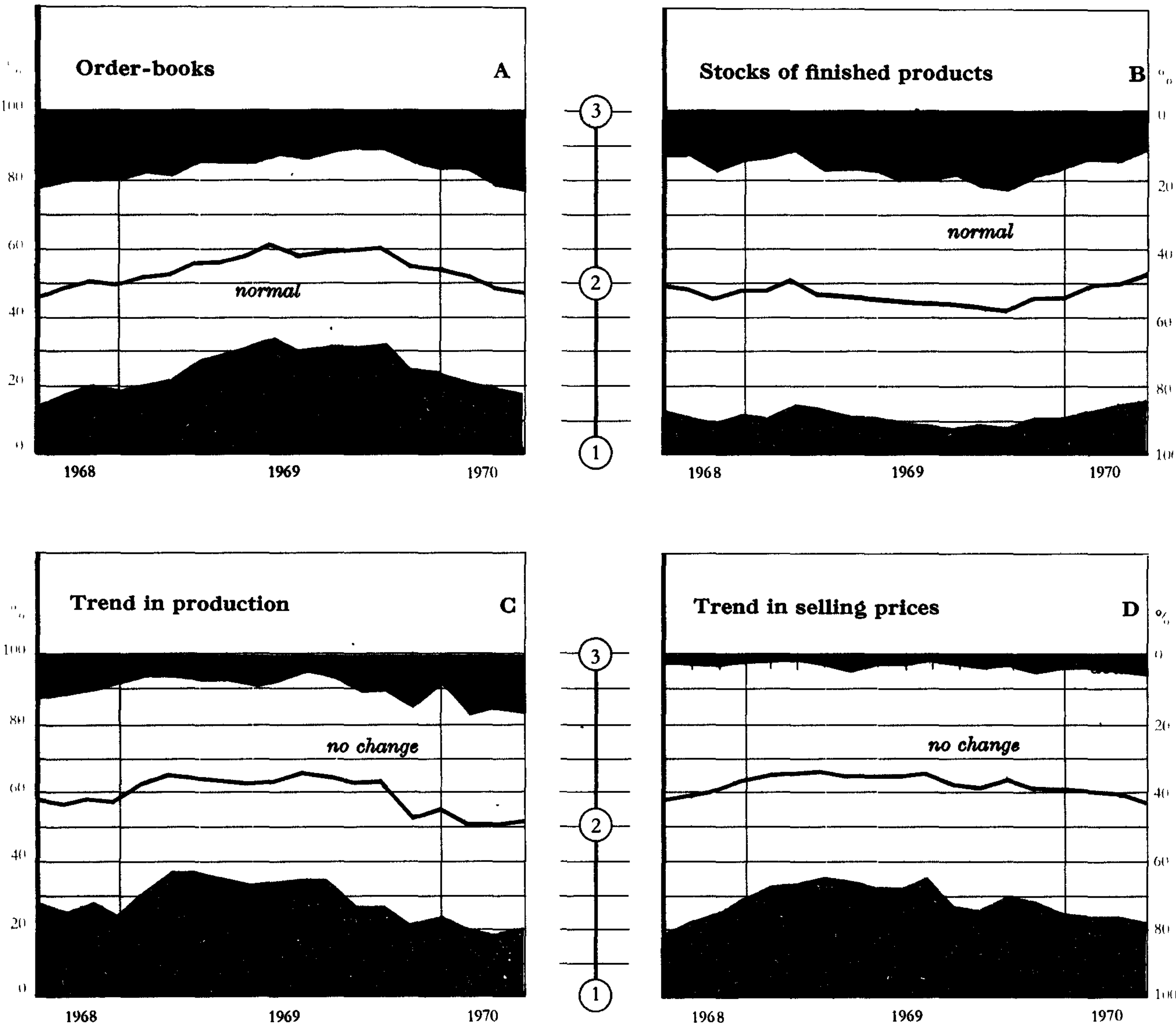
tage became still more acute. In April the unemployment rate (number of unemployed as a percentage of the labour force, excluding



seasonal variations) was 1.9 %. If only the people fully capable of earning their living are included, the rate is 1.2 % as against 1.9 % in April 1969.



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

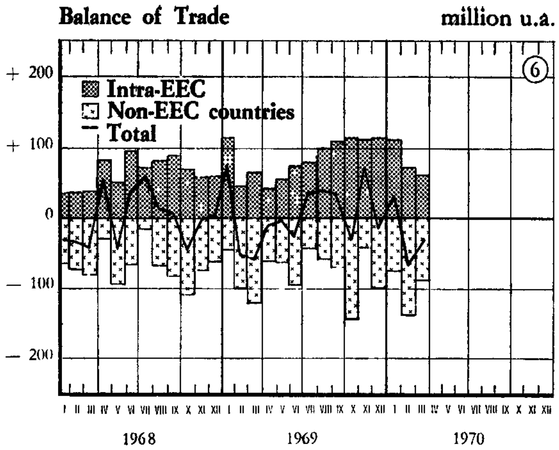
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers.

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".

Until April, prices continued to rise strongly; since then the trend seems to have lost momentum. The increase in consumer prices was mainly dictated by the rise in price for services and foodstuffs, but the prices of industrial products also went up. The consumer price index went up by altogether 1.4 % from January to May, so that in May it was 4.1 % higher than a year before.

The considerable surplus on current transactions with abroad, which has set the trend since the summer of 1969, has only been slightly reduced in the last few months. The overall balance of payments therefore remained in surplus despite high capital exports. From January to April the surplus amounted to Bfrs. 5 500 million, mani-



festing itself both by an increase in the official gold an foreign currency reserves (by Bfrs.

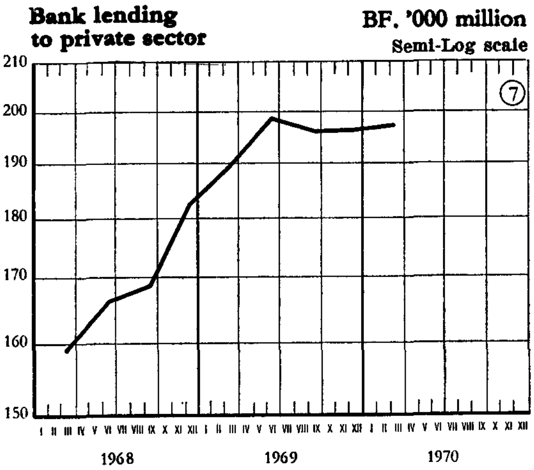
Demand for and supply of goods and services

	1967 [1]	1968 [1]		1969 [2]		1970 [3]	
	At current prices (in Bfrs '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports [4]	376.8	+ 11.3	+ 11.7	+ 16½	+ 21	+ 11	+ 14½
Gross fixed asset formation	215.7	— 1.3	+ 1.4	+ 11	+ 17	+ 10	+ 17
Public current expenditure on goods and services	133.1	+ 6.8	+ 10.7	+ 5	+ 10½	+ 4	+ 10
Private consumers' expenditure	613.9	+ 4.9	+ 7.1	+ 5	+ 9	+ 5½	+ 10½
Gross national product	974.6	+ 3.8	+ 6.3	+ 6½	+ 11½	+ 5	+ 10½
Imports [4]	368.7	+ 12.9	+ 13.8	+ 16½	+ 20	+ 11½	+ 15½

[1] Statistical Office of the European Communities. National Accounts 1958-1968.
[2] Commission estimates.
[3] Commission forecasts.
[4] Goods, services and factor income.

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

3 500 million, excluding special drawing rights) and by an improvement in the foreign exchange position of the commercial banks.



In the first three months of the year the effect of the improvement in the balance of payments on domestic liquidity was given a noticeable additional boost by official transactions. The tendencies towards relaxation initiated by this development found expression much more on the money market than on the capital market. They were manifested, in particular, by stabilization of the volume of bills of exchange rediscounted by the Central Bank and a slight drop in the short-term rates of interest. In March the Belgian Central Bank slightly loosened the restrictions of its credit policy. Although the limitation of the expansion of bank credits was extended until September, the credits for assistance by "Creditexport" (the institution for financing medium-term export credits) will no longer be subject to the restrictions. For the rest, the bank credits to firms and individuals, which had fallen in the second half of 1969, have again been rising slightly since the beginning of 1970.

2. Prospects

The coming months may well see a further slight reduction in the pressure of demand, particularly from abroad. However, various factors give grounds for fearing that the present imbalances will persist, viz.: the fact that capacity is being highly utilized, hand in hand with a rather large backlog of orders; the still very growth-oriented budgetary policy; the pressure exerted by wage costs; and speculative modes of behaviour, which are liable to be reanimated as the time for application of the added-value tax approaches.

Even though a slight slackening-off in the growth of exports must be expected from now till the end of the year, foreign demand is still likely to stimulate economic activity quite appreciably. It is true that there is some uncertainty about the period and extent of the revival of demand from important non-member countries; but intra-Community trade will probably continue to expand fairly powerfully. Finally, in general the trend to be expected in production costs and delivery times will probably not significantly impair Belgium's competitive position.

Despite a distinctly smaller rise in investments in stocks, domestic demand will go on climbing in the next few months. Fixed asset formation will continue noticeably to stimulate the boom. According to the latest investment survey carried out by the Central Bank in February and March, industrial investment expenditure should rise by about half in 1970. The investments will mainly concern extensions to existing plants and the establishment of new ones in the iron and steel, chemical and electronics industries. Known projects in the services sector and the orderbooks for residential construction suggest that there will be a sharp rise in investment expenditure in these fields too. Public investments, on the other hand, might well be lower than was assumed in the last Quarterly Survey, since, in particular, the impetus given by the subordinate central and local government bodies could be less.

Consumers' expenditure, both by the public authorities and by households, might increase strongly. The factors already mentioned in this connection in Quarterly Survey No. 1/1970 could remain fully effective; in fact, they might influence private consumption even more than was foreseen. It seems, therefore, that the hypothesis postulated about the improvement of transfer income still underestimates actual development, particularly as far as the rise of certain social benefits and pensions are concerned. This rise will be greater because of the agreements reached at the Economic and Social Conference in February/March. Pensions will be raised twice by 5 %, on 1 July 1970 and on 1 July 1971, instead of by 4 % as originally envisaged.

Even assuming that the expansion of total demand will show a tendency to moderate, the situation on the labour market is liable to become still tighter during the next few months. The demand for more manpower, particularly in the construction and services sectors, will continue to increase substantially.

A slower increase in domestic supply, and especially in industrial production, is to be expected, in the first place because industry is running at high capacity and there is a shortage of manpower, but in some sectors perhaps simply because of the way demand is developing. In view of the high proportion of imports in domestic final demand, a relatively quick expansion of imports is probable despite the prospective reduction in stocks.

Because of the continuing gap between supply and demand, and especially because costs are rising, if anything, faster, upward pressure on prices will probably be very perceptible until the end of the year. This applies particularly to consumer prices.

Given the prospective developments presented above, the hypothetical increase of quite 5 % in the real gross national product, postulated in the last Quarterly Survey, No. 1/1970, still appears realistic.

A first examination of the prospects of the Belgian economy for 1971 prompts the conclusion that economic growth will slow down. The Commission currently assumes that the real gross national product will increase by about 4 %. This assumption is based on the hypothesis that the expansion of foreign demand will go on slackening at least during the first six months of the year, and domestic demand will evolve less dynamically. This is fairly fully in line with the production potential as resulting from predictable capacity growth and the available manpower reserves. Admittedly, the considerable demand potential, arising mainly from the high investment demand of industry and the foreseeable improvement in household incomes, must not be underestimated; it might sensibly hinder consolidation of the Belgian economy. The economic trend in 1971 is difficult to forecast because the effect of introduction of VAT on prices and incomes in 1971 will depend very largely on the extent to which economic policy succeeds during the year in eliminating on a lasting basis the still formidable imbalances in the Belgian economy. Stabilization of the economy is all the more urgently necessary because of the purely arithmetical effect of the new tax system, whatever other effects it may have. Admittedly, it only involves a rise of 2 % for the price index; but the rise in the cost-of-living index will be about 3 %, and movements of this index influence the behaviour of economic subjects much more than those of the price index. In order to minimize the risk of the inflationary spiral continuing, let alone accelerating, it is absolutely essential that economic policy in the next few months should be directed to achieving stability.

Despite all the endeavours made so far, budgetary policy still tends to have too expansionary an effect on the economy, so that attempts at stabilization rely essentially on monetary and credit policy. In view of the great openness of the Belgian economy to foreign influence, these instruments alone will scarcely be able satisfactorily to control the expansion of domestic demand.

The policy to be pursued must therefore move in two directions. As was explained in Quarterly Survey No. 1/1970, the deficit on the central government budget and on official expenditure in general must first be reduced to a minimum. Appropriate measures could well include the further freezing of appropriations or the postponement of certain budget expenditures, or even a temporary increase in receipts from direct taxes, e.g. by prepayments which could be offset against later tax obligations. Under the circumstances, it will be impossible this year to use the contingency appropriation (*tranche conjoncturelle*) provided for in the budget. It is also necessary that the public should become more and more aware of the dangers of tendencies to raise prices, which ultimately involve great disadvantages for all sections of the population and more particularly for the socially weaker classes, which are least able to protect themselves against currency depreciation. For some time past the Government has been trying to act in this direction, notably through new instruments such as "programme contracts" (agreed prices), to be concluded with enterprises at industry level. The object of these instruments is to effect a temporary freeze in the price policy of enterprises, apart from increases in prices caused by exogenous rises in costs. In other respects the dialogue between the parties involved (Government and the two sides of industry) suggests that if demands are moderated excessive price rises can be avoided. Nevertheless, it is not impossible that, when the occasion arises, general measures of price policy will have to be taken, as they have been taken in neighbouring countries under similar circumstances. These measures can, however, only be short-term and transitional if the working of the price mechanism for controlling supply and demand is not to be put out of action, thus creating a serious factor of disturbance in the national economy. Ultimately, therefore, it is essential that a satisfactory balance between total monetary demand and real supply potential should be found as quickly as possible.

Major economic policy measures

March

(1) Increase in railway fares. Ordinary fares rose by 2.5 %, season tickets by 10 %.

(2) Reduction in electricity rates for households as from 1 March.

(3) For the Third Plan (1971-75), the National Committee for Economic Growth envisages an average yearly growth rate for the real gross national product of 4.8 %.

(4) The agreement reached at the Economic and Social Conference, in which representatives of the Government and of both sides of industry took part, included the following points:
— Pension increases of 5 % on 1 July 1970 and 5 % on 1 July 1971 (instead of the 4 % envisaged earlier);
— Increase of the ceiling for sickness insurance benefit to Bfrs. 14 700 (instead of Bfrs. 10 400) on 1 July 1970;
— Introduction of a guaranteed monthly wage in case of sickness as from 1 July;
— Various measures to democratize the economy (information of workers, improved working methods for industry councils, a vote in the near future on the draft law for economic planning and decentralization, etc).

(5) Since bank credits are increasing much more slowly than was expected, the Central Bank made the following modifications to the credit restrictions:
— The restrictive rules, fixed in August 1969, for the end of March and the end of June 1970 are abolished. For the first nine months of 1970 the increase in the volume of credit is fixed at 5.5 % of the reference basis (average volume of credit at end September and end December, or volume of credit at end December);
— In order to promote large-scale exports, credits granted by "Creditexport" are exempted from the restrictions. With effect from 31 March, "Creditexport" bills of exchange with a currency of one to two years are no longer counted against the ceiling;
— With effect from 1 June, export bills for trade with the EEC countries no longer need to be certified by the Central Bank;
— The upper limits for rediscount and certification will be reduced to 9 % of the funds of the various banks at the end of September 1970.

(6) A reduction of the countervailing charges on imports and export refunds for certain products.

April

Tabling in the Senate of a draft law on economic expansion which, after 30 June 1970, is to supersede the existing laws and decrees on the granting of subsidies to assist certain regions. The draft law provides for the following measures, among others: selective aid and aid by region and sector to promote regional development; the aid is granted, on the basis of agreements with firms, as a contribution towards carrying out the Plan's objectives; the Government has a right of control when foreign capital is introduced in Belgian firms.

June

Adoption by Parliament of a draft social programme for the self-employed. On 1 July 1970 the pension for a household is to be increased from Bfrs. 41 339 to Bfrs. 44 686 a year, and then in stages to Bfrs. 62 300 by 1975. The conditions for family allowances are to be made equivalent to those applicable to persons in paid employment.
Following the wage rises in coal mining, the Belgian Government has introduced a ceiling for subsidies to the mines corresponding to the current amount, and has decontrolled prices under certain conditions.

TABLE 1 : **Key indicators**

	1964	1965	1966	1967	1968	1968
	% ckange by volume on preceding year					Indices 1963 = 100
Gross national product	+ 6.9	+ 3.9	+ 2,8	+ 3.4	+ 3.8	122
Industrial production	+ 10.5	+ 3.0	+ 4.5	+ 2.2	+ 4.4	127
Total imports	+ 10.7	+ 6.6	+ 8.4	+ 3.5	+ 12.9	149
Private consumers' expenditure	+ 3.6	+ 4.6	+ 3.2	+ 2.7	+ 4.9	121
Public current expenditure on goods and services	+ 3.9	+ 5.6	+ 4.3	+ 6.0	+ 6.7	130
Gross fixed asset formation	+ 12.4	+ 3.7	+ 7.2	+ 0.8	— 0.8	124
Total exports	+ 11.1	+ 7.7	+ 3.8	+ 6.7	+ 11.3	147
Gross national product per head of population	+ 5.9	+ 2.6	+ 2.1	+ 2.8	+ 3.4	118
Gross national product per person in employment	+ 10.6	+ 8.3	+ 7.2	+ 7.2	+ 6.4	120
	% change by value on preceding year					
Gross income per employee	+ 9.7	+ 9.0	+ 8.5	+ 6.6	+ 7.1	148

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

	1964	1965	1966	1967	1968
Balance exports less imports					
in million u.a.	0	+ 162	– 68	+ 162	+ 28
as percentage of GNP	0	+ 1.0	– 0.4	+ 0.8	+ 0.1
Unemployment rate	1.4	1.5	1.7	2.4	2.8
prices to private consumers (% change on preceding year)	+ 3.8	+ 3.9	+ 4.4	+ 2.7	+ 2.1

Belgium

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	1968	*114.8*	*115.1*	*117.3*	*111.0*	*114.6*	*124.0*	*116.9*	*123.6*	*125.9*	*119.5*	*125.0*	*126.4*
(1963 = 100)	1969	*130.5*	*127.8*	*130.8*	*125.8*	*132.9*	*136.9*	*133.3*	*136.2*	*125.3*	*136.7*	*140.0*	*134.3*
	1970												
Unemployed	1968	*99.2*	*99.9*	*103.4*	*104.2*	*104.4*	*104.3*	*104.4*	*103.6*	*103.4*	*103.6*	*101.4*	*99.6*
(1 000)	1969	*85.3*	*93.8*	*90.4*	*88.5*	*86.3*	*84.2*	*84.1*	*82.8*	*82.6*	*80.3*	*76.8*	*75.3*
	1970	*69.5*	*69.9*	*71.0*	*71.9*								
Construction : permits for	1968	*3 158*	*2 189*	*3 427*	*2 507*	*3 374*	*2 810*	*3 447*	*3 277*	*2 988*	*3 701*	*3 458*	*3 297*
residential construction	1969	*3 229*	*3 657*	*3 097*	*4 206*	*3 977*	*4 320*	*4 595*	*3 992*	*4 029*	*3 204*	*3 335*	*3 464*
(1 000)	1970	*4 413*											
Private consumers' expen-	1968	*128*	*133*	*133*	*133*	*139*	*135*	*136*	*141*	*134*	*134*	*145*	*138*
diture : department store	1969	*144*	*137*	*145*	*142*	*159*	*145*	*144*	*154*	*145*	*149*	*149*	*159*
turnover (1963 = 100)	1970	*157*	*153*										
Consumer prices	1968	118.20	118.27	118.38	118.63	118.76	119.18	119.41	119.52	120.00	120.46	120.48	120.91
(1963 = 100)	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
	1970	126.73	127.12	127.85	128.33	128.35							
Visible imports	1968	*644.1*	*703.8*	*682.8*	*644.7*	*706.4*	*591.3*	*670.8*	*673.2*	*669.5*	*793.5*	*706.6*	*716.3*
(million u.a.)	1969	*765.9*	*746.3*	*763.7*	*813.8*	*830.6*	*852.5*	*885.9*	*793.4*	*867.2*	*923.2*	*827.4*	*871.1*
	1970	*834.3*	*940.4*	*889.3*									
Visible exports	1968	*617.8*	*671.7*	*645.6*	*701.6*	*663.3*	*627.5*	*728.3*	*682.3*	*672.5*	*749.9*	*701.8*	*720.2*
(million u.a.)	1969	*840.0*	*694.4*	*709.3*	*797.9*	*825.2*	*832.7*	*922.9*	*834.9*	*907.6*	*895.5*	*901.8*	*887.3*
	1970	*872.6*	*873.4*	*873.8*									
Balance of trade	1968	*− 26.3*	*− 32.1*	*− 37.2*	*+ 56.9*	*− 43.1*	*+ 36.2*	*+ 57.5*	*+ 9.1*	*+ 3.0*	*− 43.6*	*− 4.8*	*+ 3.9*
(million u.a.)	1969	*+ 74.1*	*− 51.9*	*− 54.4*	*− 15.9*	*− 5.4*	*− 19.8*	*+ 37.0*	*+ 41.5*	*+ 40.4*	*− 27.7*	*+ 74.4*	*+ 16.2*
	1970	*+ 38.3*	*− 67.0*	*− 15.5*									
Official gold and foreign	1968	2 168	2 116	2 150	2 116	2 090	1 996	1 972	1 964	1 888	1 896	1 902	1 886
exchange reserves	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
(million u.a.)	1970	2 240	2 232	2 250	2 270								
Money supply	1968	*347.7*	*348.3*	*354.1*	*355.7*	*358.7*	*360.3*	*358.0*	*361.9*	*361.9*	*363.0*	*366.8*	*367.4*
(Bfrs '000 million)	1969	*369.5*	*376.1*	*376.6*	*378.0*	*377.6*	*380.2*	*375.6*	*376.6*	*374.0*	*376.1*	*374.3*	*376.4*
	1970	*386.1*	*388.0*	*394.6*									

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: trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

Graph 3

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

Graph 4

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

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 plaid 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.

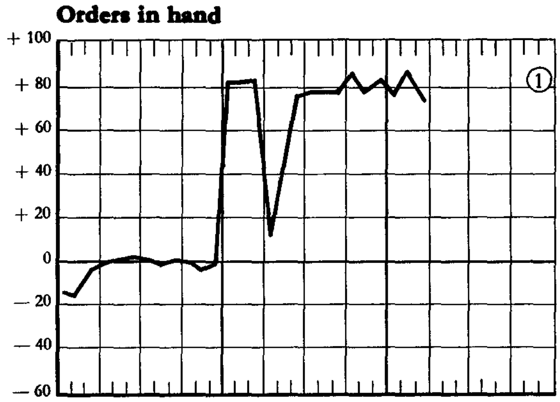
Luxembourg

The boom in Luxembourg continued during spring, but economic growth has slowed down further, owing in the main to less buoyant export demand for products of the iron and steel industry and increasing difficulties in the supply of factors of production. Price increases continued to be fairly appreciable. Present trends are unlikely to change significantly until the end of the year, so for the time being it would seem advisable to retain the restrictive policies introduced last November.

1. Recent developments

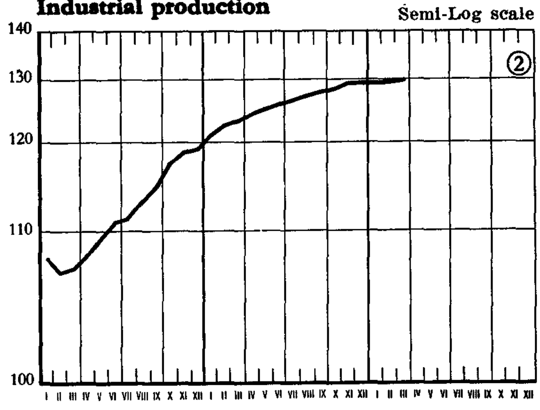
The slackening in the growth of foreign demand observed at the beginning of 1970 has continued during spring. Orders for iron and steel products, for example, appreciably declined, in particular because of a fall-off in demand from non-member countries. This slow-down is reflected above all in export prices, whose stabilization is in marked contrast to their fairly steep rise during the preceding months.

Orders in hand



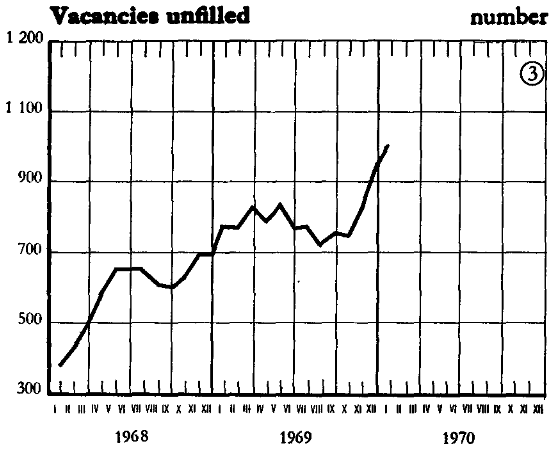
On the other hand, pressure on the economy by domestic demand remained unabated. The expansion of gross fixed asset formation continued to be extremely vigorous. This was decisively influenced by the execution of extensive investment programmes on the part of foreign industrial enterprises, greater readiness to invest on the part of the traditional industries, and the persisting increase in residential construction activity. The definite upward trend in private consumers' expenditure, observed since the beginning of the year, has likewise continued. Disposable household incomes and, in particular, wages have risen faster, especially as a result of awards under the new collective agreement in the iron and steel industry and the building trade at the beginning of 1970 and the reactivation of the sliding wage scale in March and June.

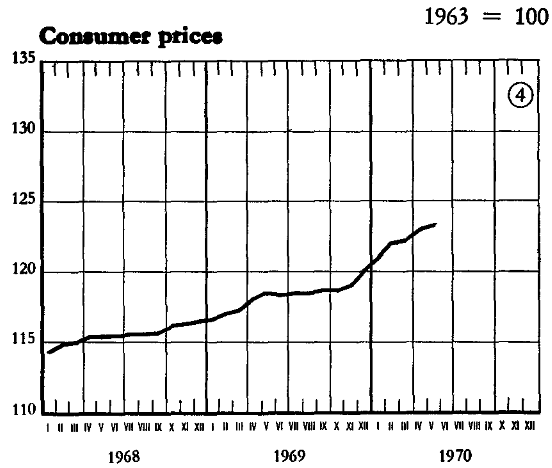
Industrial production 1963 = 100 Semi-Log scale



Domestic supply increased very appreciably up to the end of 1969, but a fairly marked slowdown in growth has been observable since then, owing to full utilization of the factors of production. According to the STATEC index, industrial production during the first quarter was only 6.6 % higher than during the first quarter of last year. On the other hand, the lively increase in domestic demand appears to have speeded up the growth of imports.

The strains on the labour market have become more acute. It appears that during the first six months the gap between supply of and demand for labour, estimated at the beginning of the year at approximately 1 200 persons, or 1 % of the working population, has shown a further upward trend.





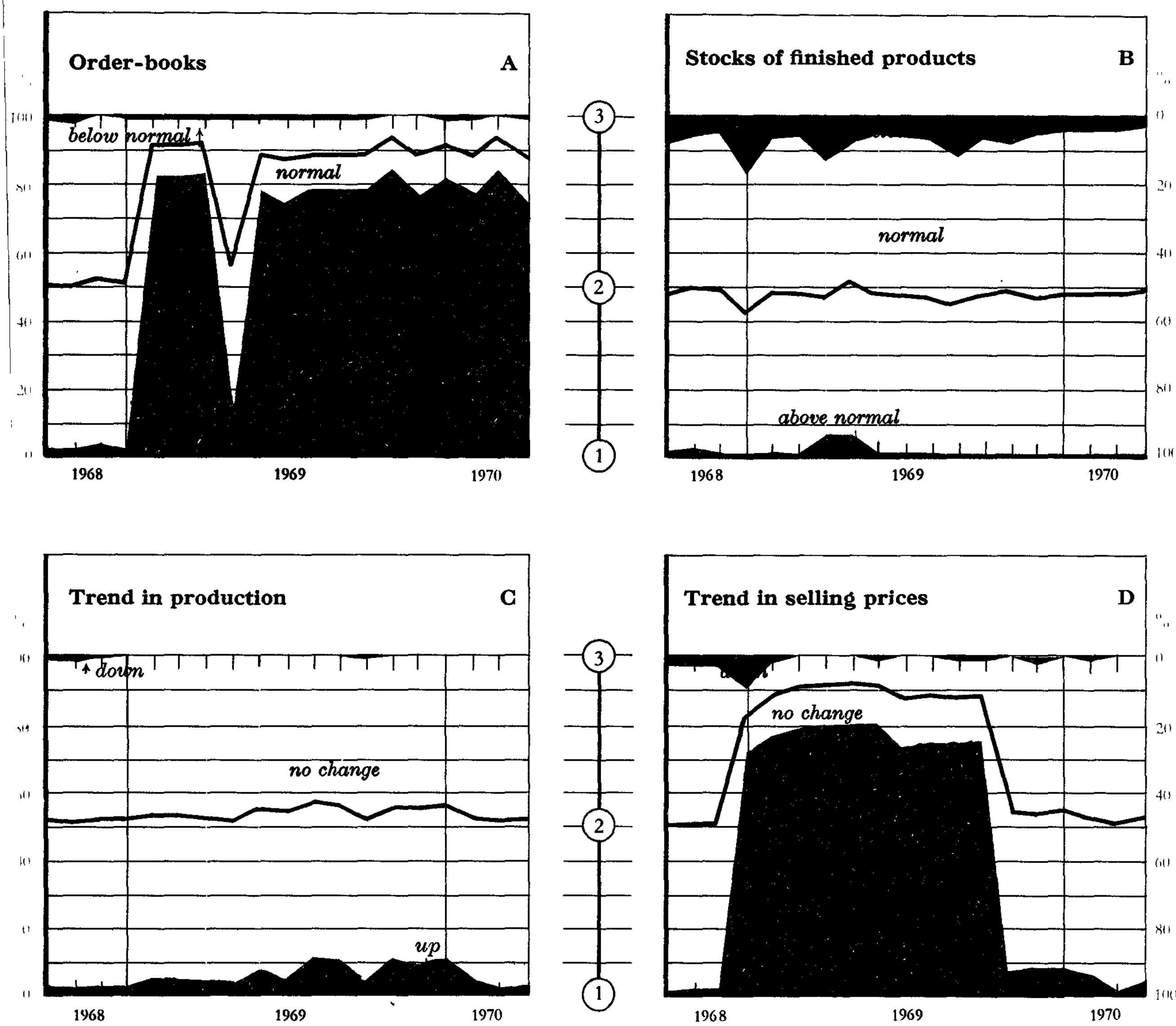
Demand for and supply of goods and services

	1967 [1]	1968 [1]		1969 [2]		1970 [3]	
	At current prices (in Lfrs '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports [4]	27 960	+ 10.2	+ 10.2	+ 13	+ 22	+ 6½	+ 11
Gross fixed asset formation	8 883	+ 3.2	+ 7.3	+ 16	+ 24½	+ 16	+ 27
Public current expenditure on goods and services	4 245	+ 3.1	+ 7.1	+ 2	+ 5½	+ 1½	+ 12
Private consumers' expenditure	21 648	+ 4.3	+ 7.0	+ 5	+ 7½	+ 7½	+ 12½
Gross national product	35 412	+ 4.0	+ 7.1	+ 7	+ 15	+ 4	+ 9
Imports [4]	27 324	+ 9.4	+ 9.5	+ 14½	+ 19	+ 12½	+ 20

[1] Statistical Office of the European Communitie. National Accounts 1958-1968.
[2] Commission estimates.
[3] Commission forecasts.
[3] Goods, services and factor income.

Note :
(*a*) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
(*b*) The 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 pressure on domestic prices has continued. In addition to the factors mentioned in the preceding Quarterly Survey, introduction of VAT at the beginning of the year resulted in an accelerated increase in consumer prices, though the increase turned out to be less than was expected. Between December and May the consumer price index rose by 2.8 % and was thus 4.5 % higher than a year before.

2. Outlook

If the world boom continues to decline in the course of the year, as expected, the effects would probably be felt all the more in Luxembourg because iron and steel products, which still account for two thirds of the country's total exports, could be hit. And yet, in contrast to comparable post-war periods of economic calm in the iron and steel markets, total exports may well continue to grow during the coming years because of the satisfactory export performance of the newly established industries.

At the same time, the growth of domestic demand may be expected to show signs of losing impetus, though it will nevertheless continue to be at a fairly high level. In view of the extensive investment programmes already initiated, gross fixed asset formation will no doubt increase substantially up to the end of the year. It must be borne in mind, however, that investments in the building industry, and particularly in the field of residential construction, will go on being hampered by the shortage of labour.

Stockbuilding is hardly likely to stimulate economic activity in the coming months.

As disposable household incomes will probably continue to rise fairly fast until the end of the year, private consumption is likely to maintain its pronounced upward trend. A noticeable expansion of incomes seems to be indicated especially by the considerable increases in bonuses awarded recently in the iron and steel industry, the expected reactivation of the sliding wage scale, and a further rise in the guaranteed minimum wage.

The continuing boom in neighbouring countries, as well as rising production costs at home, will no doubt be reflected in further price increases during the coming months.

Slackening demand for the products of the iron and steel industry, and the worsening of bottlenecks which hinder the expansion of domestic production in several other industries, might slow down the rate of economic growth during the remainder of the year. With an expected expansion of industrial production by an average of 5 % for 1970 and a great increase in building activity, the growth of the real gross national product may be estimated at 4 %.

The growth of Luxembourg's economy during 1971 will probably be marked by a very hesitant iron and steel boom and a falling-off in investment activities on the part of firms. In view of the expansion of the other components of demand, especially private and public consumption, the gross national product may nevertheless be expected to grow approximately 2 ½ % at constant prices. This slowdown in economic growth will probably be accompanied by a reduction in tension, particularly with regard to domestic prices. However, the prospective relaxation in price policy and the restoration of the VAT rates to their original level, following their temporary reduction in 1970, are liable to entail a noticeable rise in consumer prices.

The authorities responsible for economic policy have continued the efforts towards stabilization which started last November. In addition to the restrictive measures mentioned in the last Quarterly Survey, it was decided at the end of April to extend application of the reduced VAT rates for certain goods and services to the second half of 1970. Furthermore, measures designed to encourage the immigration of foreign labour were energetically continued. At the same time, increased efforts should be made to damp the excessive demand in the building industry and to render the rise in private incomes more compatible with the objective of stabilizing cost and price levels, as has also been found necessary in other member countries of the Community.

Major economic policy measures

April

(1) Government decision to extend the period of reduced VAT rates for certain foodstuffs and pharmaceutical products, tobacco products, and hotel and restaurant charges until the end of the year.

(2) Publication of the law on the conditions under which the Government is empowered either to acquire certain buildings in the public interest, or to take over or guarantee for a period of not more than 25 years the rent income of buildings for administrative or social purposes or for accommodating international organizations in Luxembourg. The level of commitments and of annual guarantees on the part of the State must not exceed Lfrs. 120 million.

June

Further increase of the minimum wage to Lfrs. 35.5 per hour or Lfrs. 7 100 per month.

NOTES TO GRAPHS AND TABLES

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

Graph 1

— Orders in hand; source: EEC Business Survey; balance between percentage of managements reporting order books to be above normal (+) and those reporting them to be below normal (—).

Graph 2

— Industrial production: trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

Graph 3

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

Graph 4

— 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.

Luxembourg

TABLE 1 : **Selected monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1968	*101.8*	*104.1*	*110.6*	*108.6*	*111.3*	*112.2*	*109.7*	*114.6*	*117.1*	*116.2*	*118.5*	*119.6*
	1969	*122.1*	*123.4*	*125.5*	*124.6*	*122.6*	*127.7*	*126.1*	*126.9*	*130.7*	*129.8*	*133.6*	*131.9*
	1970	*127.1*	*132.4*	*136.0*									
Unfilled vacancies	1968	*456*	*499*	*517*	*728*	*737*	*651*	*586*	*577*	*645*	*692*	*751*	*670*
	1969	*890*	*744*	*825*	*819*	*853*	*647*	*824*	*684*	*746*	*810*	*955*	*1 081*
	1970												
Construction : permits for residential construction	1968	*29*	*12*	*17*	*16*	*18*	*9*	*23*	*15*	*19*	*14*	*22*	*14*
	1969	*16*	*23*	*11*	*29*	*12*	*58*	*27*	*27*	*15*	*35*	*27*	
	1970												
Consumer prices (1963 = 100)	1968	114.24	114.83	114.95	115.19	115.09	115.19	115.41	115.40	115.59	116.12	116.29	116.74
	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							