

EUROPEAN COMMUNITY INFORMATION SERVICE

236 Southern Building, Washington 5, D.C.

Telephone NATIONAL 8-5070

COMMON MARKET • EURATOM • COAL & STEEL COMMUNITY

FOR IMMEDIATE RELEASE

26 April 1962

EEC COMMISSION PREDICTS CONTINUED ECONOMIC GROWTH IN 1962

WASHINGTON, D.C., April 26 -- The Commission of the European Economic Community recently published its quarterly survey on "The Economic Situation in the Community." This survey reviews the economic activities of the Community and of each member country in 1961. It analyzes the situation at the beginning of 1962 and the outlook for the full year, and examines the problems of economic policy involved.

The Commission observes that the Community's economic growth in 1961 was somewhat less than in the previous year. Industrial production rose by about 6.5% after year-to-year growth rates of 13% in 1960, 7% in 1959 and 3% in 1958. The total increase in industrial production over the four years since the entry into force of the Treaty of Rome (i.e. from 1957 to 1961) has been 32%. For a proper appreciation of this result it must be remembered that up to the beginning of 1959 economic development in the Community was still suffering from the deterioration in the world economic situation which had begun in 1957 with the recession in the United States. On the other hand, the American recession of 1960 and early 1961 affected Europe less severely, largely in consequence of the stimulus provided in that period by the build-up of the Common Market.

Despite rather poor harvests on the whole and consequently only a slight rise in agricultural production, the Community's gross product rose in 1961, partly as a result of the headway made in the services sector -- rather more than 5% in real terms, compared with 7% in 1960, 5% in 1959 and 2.5% in 1958. This gives a total increase of 21% for the four years since the Treaty came into force.

The fall-off in expansion, which was already apparent in 1960, was mainly due to labor shortages, which have become a fairly general problem in the northern areas of the Community. Furthermore the expansion of demand certainly lost momentum in the course of 1961; in some fields there was even a decline with repercussions on production.

Slower expansion in external demand and in stockbuilding was largely responsible for this trend. Exports in 1961 were up only 5% in value and 4% by volume on the previous year. After starting the year at a fairly low level, they showed a definite rise in the second and third quarters, following the economic recovery in the United States, and leveled off towards the end of the year.

Stockbuilding was on a considerably smaller scale than in 1960; in some sectors, particularly the iron and steel industry, manufacturers and dealers made special efforts to reduce stocks.

On the other hand, fixed investment again rose sharply, although the propensity to invest declined in some member states under the influence of cyclical factors, in particular some pressure on profit margins caused by wage increases without a commensurate rise in productivity, the slower expansion of exports and keener competition from abroad. By and large it was only investment programs and new orders for capital goods which were affected, but in the second half-year the growth of investment expenditure also slowed down somewhat.

Private consumption again rose rather rapidly -- by about 6% in real terms, which is almost as much as in 1960. As compared with 1957 the total increase in consumption amounts to 19.5% and on a per capita basis about 15%. The expansion of consumption in 1961 is mainly accounted for by large wage-rises, but the increase in employment, although on a smaller scale than in 1960, also contributed to the increase in consumer expenditure.

Finally, public expenditure on investment and consumption again rose appreciably in all member countries.

(MORE)

As for supply, in addition to the expansion of domestic production, imports from non-member countries again moved upwards -- a trend that was particularly marked in finished goods. However, imports of raw materials remained fairly low, owing to the cautious stockbuilding policy of industry and the slowing down in the growth of industrial output, and also because the good harvests of 1960 meant a fall in imports of agricultural produce in 1961. Imports for the whole year rose therefore by only 5% in value and 6% by volume, as compared with 21% and 20% in 1960.

Nevertheless the Community's balance of trade deteriorated slightly and closed with a deficit of \$29 million, as compared with a \$59 million surplus in the previous year. The surplus on the overall balance of payments dwindled considerably, owing to a further rise in capital transactions by the authorities, chiefly in the form of advance repayment of debts to non-member countries and participation by the member countries in the IMF's credit for Great Britain.

The level of consumer prices, which had remained more or less unchanged in 1960, rose slightly in most member countries. This can mainly be attributed to the higher cost of services and a rise in food prices, partly due to government farm support measures. In some member countries the prices of industrial products also rose; in this development the pressure of demand on supply became less and less important, being gradually replaced by heavier wage costs, which manufacturers sought to pass on to the consumer.

The Commission takes the view that economic development in the Community promises further growth in 1962, but also that this will continue to be at a reduced pace. The growth of overall demand may fall off slightly.

External demand, as reflected in exports to non-member countries, will hardly rise much faster than in 1961, despite better sales prospects in the United States. The weakening of the propensity to invest already mentioned will be reflected in a lower growth rate of expenditure on investment. Finally, private consumption also might well advance somewhat more slowly than in 1961, for though further considerable wage rises are expected, they will not be so steep as hitherto; furthermore a slowing down in the growth of employment is likely.

Despite these developments in the demand situation, the position on the labor market is not liable to change radically enough to remedy the shortages which are hampering the expansion of production in some sectors, especially since further cuts in working hours can be expected. Under such conditions the growth of industrial production might reach about 5.5% while that of the real gross national product in the Community would be 4.5 to 5%.

If we assume that there will be no marked upturn of the stockbuilding trend in the near future, imports are unlikely to show a much greater advance in 1962 than in 1961, despite a further rise in agricultural imports. However, since the terms of trade are not expected to improve as they did in 1961, the balance of trade might well deteriorate to a somewhat greater extent. In spite of this, the overall balance of payments should tend to remain favorable.

The monetary and financial policies of the member countries are largely planned with these economic prospects in view. Further discouragement of the propensity to invest should, however, be avoided. A policy of restraint on wages in most member countries and on distribution of profit in some might be advisable and might well, moreover, mitigate the increase in prices expected in 1962, especially if accompanied by a more vigorous encouragement of savings.

Furthermore, the economic situation at present and as forecast for 1962 calls for improving and strengthening the machinery for combating tendencies towards recession. Coordination of policy must be improved, especially in view of the need to keep in line other measures designed to build up the economic community. Important steps in this direction are already being taken and others are being prepared.