european community
BACKGROUND INFORMATION
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BACKGROUND NOTE

EUROPE'S ECONOMIC UPSWING TO CONTINUE, SAYS REPORT

The economic upswing in the European Community is likely to continue and spread, providing there is concerted action against inflation, according to the Commission's first quarterly economic report for 1973.

Main factors involved in reaching this broad conclusion are:

1. The Community's enlargement has boosted internal trade.
2. Consumer demand is expanding vigorously. This has helped bring about an increase in business confidence and investment.
3. Trade with the United States has increased with the expansion of the American economy.

The biggest worry is the continued general inflation. Common action against rising prices is still at an early stage. The Commission points out that inflation cannot effectively be controlled by member countries acting on their own. One reason is the rising cost of imported raw materials and semi-manufactures.

The Commission also points to the vulnerability of the Community to world monetary disturbances, as indicated in the February 1973 crisis provoked in part by major inflows of dollars into the Community.

Comparative figures on inflation show that price rises in Britain (7.7 per cent in 1972) are now running about in line with the Community average (see Table 1). Industrial production in Britain has been going up faster than the Community average (see Table 2).

Short-term Economic Policy

The economy is expanding satisfactorily in all the member countries. The employment situation has improved everywhere, especially in Ireland, Italy, and Britain, where unemployment has recently been high. But costs and prices have continued to rise too fast, with the annual rate of increase currently ranging from 5.7 per cent in Luxembourg to 8.2 per cent in Ireland.

Before June 30, 1973 the Commission is to submit a report to the Council of Ministers on the progressive pooling of monetary reserves. The Council is also working out a common position on the reform of the world monetary system. The beginnings of a common policy against inflation were agreed in December 1972. It has been accepted that in member countries where unemployment has been high, such as Britain, Ireland, and Italy, there is no need for the moment to restrict credit.

Exports Rise

Community exports continued to expand as a result of the faster rise in world demand and the margin of spare capacity still available in some member countries. Expansion by value has been more striking than expansion by volume, owing to the marked increase in export prices.

At the beginning of the year internal demand was also expanding fast throughout the enlarged nine-nation Community. Capital spending, in general at a low level in 1972, was picking up. Purchases of plant and machinery seemed to be increasing, especially in Germany and Italy.

The main stimulus to production has come from stock-building. The drive to replenish stocks has been promoted by increased business confidence and sales prospects, the persistent rise in prices and the fairly low level of stocks of raw materials and semi-finished products in the manufacturing industry.

Spending by private consumers has been rising rapidly in the enlarged Community, stimulated by higher wages and falling unemployment. The savings ratio has nevertheless remained high in most member countries.

Money Supply, Credit Up

Money supply in 1972 continued to expand vigorously almost everywhere in the Community despite the efforts of the monetary authorities to reduce the margin of free liquidity. The fastest increase was in Britain (27 per cent) and France (20 per cent). The rate in Ireland and Italy was 19 per cent, in Germany and Belgium 17 per cent, in Denmark 15 per cent, and in the Netherlands 11 per cent.

The cost of credit in most member countries continued to rise in the closing months of 1972.

In 1972 industrial labor costs continued to rise sharply but in most countries at a slower pace than in 1971 (see Table 3). In terms of national currencies (i.e. taking no account of parity changes) there was a marked slowdown in Italy (7.5 per cent against 12.7 per cent in 1971), Germany (4.5 per cent against 6.5 per cent) and the Netherlands (3.5 per cent against 6.5 per cent). It was less pronounced in Britain, where labor costs per unit of gross value added advanced by 5.9 per cent, compared with 6.7 per cent a year earlier.

In France and Belgium, the rate of increase was much the same as in 1971, i.e. some 6.5 per cent and 8 per cent respectively. As in 1971, the advance was in all Community countries faster than in the United States, where it reached a mere 1.5 per cent (1971: 2 per cent).

Rather than being the result of any appreciable slackening in the increase of per capita income from employment, the slowdown in the rise of industrial labor costs in the countries of the enlarged Community is due mainly to a faster advance in productivity.

Per Capita Income Grows

The growth rate of per capita income from employment remained vigorous throughout the enlarged Community; it was 13 per cent in Britain and Belgium, 12.5 per cent in the Netherlnads, 11.5 per cent in France, 11 per cent in Italy and 9 per cent in Germany. Compared with 1971, this represents a slight slowdown in Germany and the Netherlands and no change in France and Italy.

In the United States, for comparison, the rise in per capita income from employment in industry was at 6.5 per cent (1971: 7.3 per cent).

Community exports are likely to go on rising fast, despite dollar devaluation and increased pressure on production capacity, the quarterly report says.

Internal demand in the Community will continue to rise throughout 1973, the report expects, with an increase in both consumer and capital spending. In the case of Britain, Ireland and Italy, the depreciation of national currencies has meant an increase in competitiveness. This may result in a faster rise in investment in these countries.

Stock-building will in any event provide a strong stimulus, since in a number of member countries stocks of raw materials and semi-manufactures are comparatively low.

Inflation Warning

Inflation may however continue to rise sharply, the Commission warns. Factors involved are higher wage costs, rising costs of raw material and energy on the world markets, the increased expense of raising capital and growing strains in the supply-demand situation.

The report discusses in some detail the economic situation in each of the member countries. Trade should be stimulated as a result of the 20 per cent cuts in tariffs last April between the original six and the three new member countries.

The report's reservations are mainly the result of continuing signs of loss of competitiveness. Although joining the Community has given some encouragement to investment, the Commission feels there is a need for a faster increase in the rate of investment if the full benefits of the dynamic effect of joining the Community are to be obtained.

Table 1

Consumer Price Index in the EC
(% change)

	January 1972 - May 1972	May 1972 - September 1972	September 1972 - January 1973	January 1972 - January 1973
Denmark	+ 2.8	+ 2.0	+ 2.1	+ 7.1
Germany	+ 1.5	+ 2.3	+ 2.7	+ 6.5
France	+ 1.9	+ 2.5	+ 2.0	+ 6.6
Ireland[1]	+ 1.5	+ 2.8	+ 1.5	+ 8.2
Italy	+ 2.0	+ 2.6	+ 3.4	+ 8.1
Netherlands	+ 3.3	+ 1.6	+ 2.6	+ 7.6
Belgium	+ 1.2	+ 2.6	+ 2.9	+ 6.9
Luxembourg	+ 1.1	+ 2.8	+ 1.8	+ 5.7
Britain	+ 2.3	+ 2.3	+ 2.9	+ 7.7

[1]Periods: February-May 1972; May-August 1972; August-November 1972; November 1971-November 1972.

Table 2

Industrial Production in the EC[1]
(% change on corresponding quarter)[2]

	1971 I	1971 II	1971 III	1971 IV	1972 I	1972 II	1972 III	1972 IV
Germany	+3.3	-0.8	-1.4	-2.1	+5.3	-0.1	+0.3	+4.4
France	+2.6	-0.4	+4.6	+1.2	+1.4	+0.9	+2.4	+2.2
Ireland	+1.2	0	-0.6	+3.1	0	-0.6	+3.0	
Italy	-4.8	-3.8	+2.2	+6.3	-3.6	-0.5	+0.7	+8.0
Netherlands	+4.8	-2.3	+1.4	+2.5	+6.8	-1.8	-0.3	+4.0
Belgium	+15.	-2.3	+1.9	+1.5	+1.6	+6.0	-2.5	+2.8
Luxembourg	+0.9	+4.8	+0.6	-2.3	-1.1	+4.5	+2.9	+2.7
Britain	-1.8	-0.3	+0.8	+1.1	-3.9	+6.0	+1.3	+4.3
Community[3]	+1.4	-0.8	+0.9	+0.2	+1.6	+2.0	+0.5	+3.3

[1] Excluding construction, food, beverages and tobacco. United Kingdom: excluding construction. Ireland: extraction and transforming industries. For Denmark, no comparative data available.

[2] Calculated on the basis of the unadjusted indices of the Statistical Office of the European Communities. Ireland: O.E.C.D figures.

[3] Estimated.

Table 3

Labor Costs per Unit of Gross Value Added in Industry
(at constant prices)

Country	1963=100 1968	1969	1970	1971	1972	1972/1968 in %
Germany	105.2	108.1	121.5	131.8	137.7	30.9
France	114.1	120.9	126.4	134.9	143.8	26.0
Italy	108.4	113.3	129.9	146.4	157.4	45.2
Netherlands	119.4	126.5	133.1	141.8	146.5	22.7
Belgium	110.5	109.7	115.7	125.3	134.7	21.9
United States	111.9	117.3	128.6	137.3	145.4	29.9
Britain	112.1	117.6	124.9	127.4	129.0	15.1

Note: No adjustment has been made for parity changes. Figures are given in national currencies.