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PRESS RELEASE

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COMMON MARKET ECONOMIC SURVEY SHOWS SLIGHT GROWTH RATE DECLINE

WASHINGTON, D.C., December 18, 1970 -- It was reported from Brussels today that the Common Market's latest economic survey revealed some slackening in growth during 1970 among the six member nations.

The Commission of the European Communities has published its final economic report for 1970, reviewing developments during the year, outlining problems of short-term economic policy to be faced at the beginning of 1971, and analysing economic prospects for next year. Following is a summary of the report.

Economic Expansion Still Stronger than in U.S. and U.K.

The vigorous economic expansion recorded in the Community since mid-1967 continued in 1970. However, production advanced less than in previous years. From 1969 to 1970, gross Community product rose by 6 per cent, compared with 7 per cent from 1968 to 1969. Since 1957, gross Community product, after adjustment for inflation, has increased by 95 per cent, compared with 61 per cent in the United States and 42 per cent in the United Kingdom.

Gross Community product in monetary terms expanded by 12.5 per cent from 1969 to 1970, repeating the performance of the year before. As of the date of the survey, it was slightly less than \$500 billion, compared with \$970 billion for the United States and \$116 billion for the United Kingdom.

Demand Continued High

Overall demand in terms of money continued to expand rapidly in 1970. The Community's visible exports to non-member countries rose more vigorously than in 1969, despite the weak economic trend in the United States and the United Kingdom. Internal demand expanded at much the same rate as in 1969. Stockbuilding had a delaying effect on the upward trend. The value of investment rose by 18.5 per cent, as compared with 15.5 per cent in the previous year, providing a strong stimulus.

Consumer spending grew slightly faster in 1970 than in 1969, mainly because of the sharp rate of wage increase. Income from wages rose by 10 per cent to 20 per cent, depending on the member country. By contrast, income from small businesses and property was weaker than from 1968 to 1969 which resulted in a shift in the distribution of income in favor of wage- and salary-earners.

Production Growth Slowed

Production failed to keep up with the expansion of demand. Agricultural production contributed little if at all to the increase in internal supply. Industrial production, on the other hand, rose by 8 per cent, but its growth slowed down distinctly, both in comparison with the previous year as a whole (11 per cent) and in terms of the trend during the year.

The growth in real value-added was inadequate, measured against the rise in overall demand in money terms. This was mainly because technical capacity and manpower reserves were almost exhausted. In some industries (particularly in some basic materials and consumer goods industries), stock-building also slowed down the growth of production. In some member countries, unemployment dropped to a level that could hardly be lowered further. In the second half of the year, however, signs began to appear that the tight situation on the labor markets was easing.

Imports and Prices Rose Sharply

As a result of the wide spread between internal supply and demand, the Community's imports from non-member countries expanded sharply. The Community thus made a major contribution to the world economy. Although internal production was supplemented by imports, prices in the Community showed the sharpest rise since 1958, the year the Common Market began to function.

Reserves Increased

Despite the Community members' tight credit and monetary policies, credit expanded almost as rapidly as in 1969.

Surpluses on foreign transactions substantially augmented internal liquidity. The Community's current account deteriorated, but the capital account ran large surpluses, in contrast to the picture last year. In the first 10 months of 1970, official gold and foreign exchange reserves in the Community rose by \$6.8 billion, whereas in 1969 they had decreased by \$1.7 billion.

The Outlook for 1971

The slowdown in economic growth which started in 1970 will probably continue in 1971, according to the Commission. Overall demand in monetary terms will probably drop. Visible exports will grow by 8 per cent, as compared with their 14 per cent rate of expansion in 1970.

Among the factors influencing internal demand, investment will slow down. Since order books are still well filled, investment spending will still rise in early 1971. However, there are already signs that investment may begin to taper off later in the year. All told, investment will probably rise by 10.5 per cent, as compared with 18.5 per cent in 1970.

Full Employment in 1971

Private consumer spending will not slow down quite as fast: from 12 per cent in 1970 to 10 per cent in 1971. Incomes will probably continue to grow strongly, losing momentum only gradually. In 1971, gross Community product, after adjustment for inflation, will probably grow by 4.5 per cent in view of the prospective increase in capacity and manpower reserves. This forecast assumes that in some industries now nearing capacity, the rate of utilization will fall during the year.

This outlook implies that full employment will be maintained, the Commission said. At the same time, it warned of the dangers of a further increase in prices in which wage hikes will play a major part. Economic policy in 1971 should therefore be directed toward the stabilization of costs and prices and the prevention of a cumulative slowdown in economic growth, the Commission concluded.

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