

P-26/64

Embargoed till
April 18, 1964 24.00 hours
Brussels, April 1964

INFORMATION MEMO

SUMMARY OF THE QUARTERLY SURVEY

The Commission of the European Economic Community has just published its quarterly survey of the Economic Situation in the Community. This brings out the main features of the present economic situation in the Community and the Member States, analyses the outlook for the coming months and examines the policy problems involved.

The Commission notes that in the fourth quarter of 1963 and, as far as can be seen, in the first months of 1964 also, economic expansion in the Community continued unabated.

Overall demand in money terms again increased considerably. The growth of merchandise exports to non-member countries was fairly steady: in the fourth quarter they were 7% above the corresponding figure in the previous year. Meanwhile internal demand maintained the same dynamic trend as hitherto. The growth of investment expenditure even speeded up, with investment in building tending to rise vigorously, thanks to the favourable weather and greater numbers employed, and investment in capital goods also showing an overall advance, but with clear variations from country to country: in Italy there was a relatively small increase and in France a tendency towards stability, while in the Federal Republic of Germany there were unmistakable signs that investment expenditure was gathering momentum. There has been practically no slackening in the expansion of private consumers' expenditure: in the Netherlands and Belgium it speeded up more or less strongly; in the Federal Republic of Germany it continued to be smooth, and in Italy and France the pace, though still rapid, was steadier. In general, public expenditure on goods and services also increased appreciably. In the Community as a whole the growth of consumption in real terms probably did not weaken.

Industrial production increased faster: the seasonally adjusted index of the Statistical Office of the European Communities rose by 3% between the third and fourth quarters, compared with 0.5% between the second and third. In the fourth quarter the gross index of production was 7% higher than a year earlier; as the rise in numbers employed was slight (particularly in industry), productivity increased a little faster.

A vigorous expansion of raw materials imports was the chief factor in an acceleration of the already fast growth of imports. Imports of goods from non-member countries in the fourth quarter were 11.5% above the level of a year earlier. As the expansion of exports was less rapid, the trade balance deteriorated further. In the fourth quarter the deficit was \$650 million, or \$265 million more than in the corresponding quarter of 1962. The total official gold and foreign exchange reserves of the member countries increased by only \$81 million. Since the deterioration in the net foreign exchange position of the commercial banks was greater than this, the overall balance probably closed with the first deficit experienced for some considerable time.

Rising price trends continued, although in some member countries - France and Italy - some weakening of the previously particularly strong upthrust was to be noted. As against this, prices climbed more rapidly in Belgium and especially in the Netherlands. The upward push stemmed mainly from the continuing strain on the internal markets caused by the difference between the expansion of overall demand in money terms and the slower expansion of supply - and also from the closely related factor of increasing wage costs per unit produced. To this must be added the effects of the higher prices for various raw materials paid on world markets during the period under review and of the special price fluctuations which affected certain foodstuffs (particularly meat).

The Commission considers that the further economic outlook for the Community as a whole in 1964 has not changed substantially from that described in the last Quarterly Survey (4/1963). In certain respects, however, the latest developments and the further policy measures that have meanwhile been taken mean that the trend is undergoing some change of emphasis.

External demand is sure to develop at least as dynamically as forecast, the more so now that in the United States tax reductions have been decided on, while in the United Kingdom a definite acceleration of business activity has become apparent and is already having an appreciable effect on imports.

Domestic demand in France, and perhaps also in Italy, is however likely, thanks to the stabilization policies being applied, to reflect a somewhat slower rise in private consumers' expenditure than was forecast at the end of 1963. In the Netherlands on the other hand consumption will most likely grow more rapidly, and in Belgium private consumers' expenditure will tend to expand at the accelerated pace already observed in the last quarter of 1963. In the Federal Republic of Germany the expansion of consumption will probably remain modest, at any rate for the time being.

Investment also will continue to rise appreciably. This applies in particular to building and construction, especially housing, and to stocks. Investment by enterprises in plant and equipment will rise faster in the Federal Republic of Germany, roughly maintain its pace of growth in Belgium and increase appreciably in the Netherlands, where however it is likely to slow down clearly towards the end of the year. In France and Italy it would seem that the growth of investment by enterprises is not likely to be very rapid.

On the supply side also quite rapid growth may again be expected in the coming months, and some increase in forecast rates is probable. Furthermore, in sharp contrast with 1963, building activity in the early months of the year was favoured by the weather. All in all, therefore, a growth of about 5% in the real gross Community product at constant prices between 1963 and 1964 could be forecast instead of the 4.5% predicted at the end of 1963. Industrial production could increase by 7%.

Import forecasts for 1964 may also need to be revised slightly upward. The trade balance will probably continue to deteriorate quite appreciably and the current account will be in deficit.

Despite this, and despite the fact that stabilization measures have meanwhile been stepped up in varying degrees in all member countries except the Federal Republic, where this has not yet appeared to be necessary, the outlook for the price trend later in 1964 has hardly improved. True, the pace of price rises in France and in Italy may well slacken further; but in the Netherlands further vigorous increases seem to be imminent and in Belgium the price rise will continue, tending to be faster than at the same period of 1963. There is danger of another speed-up in the Federal Republic of Germany.

In these circumstances the struggle against inflationary imbalances must continue to be in the forefront of anti-cyclical policy in the Community. As this struggle obviously cannot be successful if carried on in isolation, it must be given a Community framework. Although on the whole the measures taken by those responsible for economic policy in the member countries correspond with what the Commission, the Economic Policy Committee and the Monetary Policy Committee have repeatedly suggested, there is still need for stricter and more co-ordinated action.