

Brussels, July 1964

P-45/64

INFORMATION MEMOSummary of the Quarterly Survey of the
economic situation in the Community

The June 1964 quarterly survey of the economic situation in the Community has just been published by the EEC Commission. This issue reviews the main economic developments in the Community and the member countries during the second quarter of the year, summarizes the outlook for the coming months and examines the problems of short-term economic policy involved.

The Commission points out that the ^{further} vigorous expansion in economic activity registered in the first quarter of 1964 shows every sign of having continued in the coming months.

Largely owing to the marked expansionary trend in the world as a whole, the pressure of external demand was even stronger than before. The rise in exports of goods to non-member countries became more rapid. In the first quarter the value of these exports exceeded the level for the corresponding period of last year - which was admittedly somewhat low as a result of special factors such as the severe cold spell in January and February 1963 - by no less than 15%.

But internal demand within the Community also continued to grow briskly, partly owing to a faster increase in gross fixed asset formation. For one thing, the good weather gave a special stimulus to investment in building and construction. Furthermore, expenditure on capital goods was on the whole influenced by the increased propensity to invest recently observable in several countries, particularly the Federal Republic of Germany, the Netherlands and Belgium. Even in France it would appear that the previous weakness of the growth in private industrial capital investment may have come to an end. Only in Italy did capital investment remain slack.

The trend of private consumers' expenditure differed widely from country to country. With a somewhat quicker increase in the Federal Republic of Germany, a much higher level in the Netherlands and a decline in the pace of expansion in Italy and France, there was hardly any slowing down of the overall rate of growth.

The faster rise in industrial production which had already become perceptible in the fourth quarter of 1963 continued in the first quarter of 1964. According to the index of the Statistical Office of

the European Communities, which is adjusted for seasonal and fortuitous variations, the increase on the previous quarter was 3%, compared with one of 2.5% from the third to the last quarter of 1963.

The expansion in the Federal Republic of Germany, Luxembourg and the Netherlands was particularly brisk, while in Italy the growth in activity became very slight or ceased altogether.

The labour market remained strained throughout the Community, except in Italy, although seasonal unemployment and short time were very low, owing to the relatively mild weather.

The rise in Community imports was as fast as ever, partly because of greatly increased purchases of raw materials and semi-finished goods. Imports of goods from non-member countries were 16% higher in terms of value than in the first quarter of 1963. As a result of high exports, however, the tendency of the Community's balance of visible trade to run increasingly into deficit appears to have come more or less to a halt. Even so, on the basis of customs returns (cif-fob), there was a deficit for the first quarter of 1964 of about \$1 billion - which is \$170 million larger than that for the corresponding period of last year. The overall current balance of payments also showed a deficit, albeit considerably smaller. On capital account there was a slight surplus. The gold and foreign exchange reserves of the monetary authorities of the member countries declined in the first four months of the year by about \$400 million, but it would appear that at the same time the commercial banks of the Community as a whole improved their net foreign exchange position.

Generally speaking, the upward pressures on prices continued unabated in the first four months of the year. True, the indices of consumer prices in all the member countries except the Netherlands rose less sharply than in the first four months of 1963. This was mainly due, however, to a - partly seasonal - decline or stabilization of food prices; there was only a slight slackening in the upward movement of prices for finished industrial products and services in the Community as a whole, although the price rise slowed down somewhat in France and Italy.

The Commission believes that the prospects for the coming months up to the end of 1964 point, for the Community as a whole, to a continuation of about the present rate of economic expansion.

The rise in exports to non-member countries is likely to quicken even a little more, mainly owing to increased purchases by the developing countries. Internal demand should also increase appreciably, although at a somewhat slower pace. Demand for capital goods will rise faster in the Federal Republic of Germany and at a brisk pace in the Netherlands and Belgium, perhaps tending to slacken in the Netherlands towards the end of the year, in France it might revive to some extent, only in Italy is it likely to remain at a really low level. Expenditure on consumption, too, will rise further, a slackening in the basic rate of expansion being likely in France, Italy and

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perhaps also the Netherlands, while a certain quickening of the tempo is to be expected in the Federal Republic of Germany.

Industrial production should continue to grow rapidly in all the member countries except Italy, although perhaps not quite so fast as in the first half of the year.

Despite an upturn in the imports of the Federal Republic of Germany, the expansion of imports from non-member countries might slow down somewhat during the rest of the year, while remaining quite substantial. The Community's balance of trade should not deteriorate any further.

Nevertheless, to judge by the trend up to the present and the outlook for the future, the Community's trade balance (cif-fob) for the year 1964 as a whole is likely to show a deficit in the region of \$3 000 to \$3 500 million. The Community's current payments will be very nearly in balance.

In other respects, too, there is little change in the outlook for 1964 as previously assessed and published in Quarterly Survey No. 1/1964. The growth in the real Community product is still estimated at 5%, while the index of industrial production is likely to rise by 7%.

The Commission feels that although the prospects for the Community's real economic growth are in themselves very satisfactory, the forecasts of the economic trends up to the end of 1964, and - as far as such forecasting is possible at this stage - on into 1965, point to a persistence of internal and external disequilibrium. Costs and prices continue to show an upward tendency; the changes in net balances which have occurred in intra-Community trade owing to the differing degrees of inflationary pressure in the various member countries remain symptomatic; and there is not likely to be any appreciable improvement in the Community's balance on goods and services account with non-member countries.

It is true that, partly owing to the stabilization drive subscribed to by most member countries, there have been some signs of improvement. There has been a certain slowing down of the price rise in France and Italy, a distinct slackening of the growth in production and imports in Italy, and no further deterioration of Italy's balance of trade. In the Netherlands, however, the underlying inflationary pressure still appears to be strong, and in the Federal Republic of Germany there are indications of an incipient overheating of the economy, which is now also receiving an impetus from domestic demand. Furthermore, the tendencies towards improvement hitherto observable in France and Italy do not yet go far enough.

The fight against inflation must therefore continue. To this end the Council of the Community on 14 April 1964 issued a concrete recommendation for "measures to be taken to restore the internal and external economic equilibrium of the Community". The economic

policies of most of the member countries have in fact already turned along the lines indicated by the recommendation. But this set of rules does not apply only to policies for 1964; they should also be borne in mind whenever decisions affecting 1965 are being taken. Strict observance not only of the letter of the Council's rules, but also of their spirit and aims, could do much to ensure a more balanced development in the future.
