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Spokesman's Group

INFORMATION MEMO

Summary of the second Quarterly Survey
of the economic situation in the Community

The Commission of the European Communities has published its second Quarterly Survey for 1968 on the economic situation in the Community. As in the past, the Survey contains, both for the Community considered as a whole and for each member country individually, a summary of recent trends, a section outlining the prospects for coming months for 1969, and a discussion of economic policy problems with recommendations.

The Commission notes first that on the eve of the complete abolition on 1 July 1968 of the customs frontiers between the member countries, the Community's economy is expanding vigorously.

In the first half of the year demand for Community exports was very dynamic, although this was to a great extent due to special circumstances in which sales to the United States and the United Kingdom have been expanding very rapidly.

The upward movement of internal demand, too, was more rapid from the beginning of the spring onwards. The growth of gross fixed asset formation gathered momentum, and stock formation, too, was making an appreciable contribution to overall demand. The trend of consumption expenditure, on the other hand, seems, in this phase of the cyclical upswing, to be following the expansion of the other components of demand only after the usual time-lag. None the less, signs of a revival have been clearly discernible since the spring here, too.

In the first half of the year industrial production rose sharply, although in France the strikes entailed substantial temporary production losses. Although productivity gains remained very substantial, the expansion of production was accompanied by an improvement in the employment situation.

The upsurge in the economy generated a faster increase in merchandise trade between the Member States, with demand from Germany having a particularly stimulating effect.

Imports from non-member countries rose at a substantial rate. After an appreciable improvement in the first quarter, the Community's visible trade balance has probably been tending - if anything - to deteriorate once again.

The surpluses on current account in the first four months were to a large extent offset by deficits on capital transactions with the non-member countries. The official gross foreign exchange reserves of the Member States declined between December 1967 and April 1968 - the last month for which data are available - by 620 million units of account. At the same time the foreign exchange position of the commercial banks improved once again perceptibly.

The relatively high elasticity of supply from internal production and imports induced a remarkable measure of price stability in the Community. In addition, wage cost trends in most of the member countries have so far provided no grounds for increasing prices. In certain member countries, however, there were at the beginning of the year appreciable price increases, due mainly to changes in indirect taxation arrangements; not many of these increases have since been reversed.

While stressing that it is too early to assess fully the impact of social strain in France, the Commission believes that the economic expansion of the Community should gain strength during the second half of 1968.

Mainly because of the elimination of certain special factors which favoured the expansion of Community exports at the beginning of the year, sales to non-member countries may well rise appreciably more slowly, although the first tariff cuts to be made on 1 July 1968 under the Kennedy Round agreements should definitely benefit world trade. The expansion of internal demand, on the other hand, can be expected to gather further momentum, since both a vigorous improvement of investment and an acceleration in the growth of private consumers' expenditure are to be expected.

This means that on the demand side the conditions for a further vigorous expansion of production are fulfilled, and employment should benefit increasingly from this situation. At the same time the continuing upswing will boost intra-Community merchandise trade; the complete elimination of customs barriers in the Community will be an additional positive factor. The development of imports from non-member countries should also remain brisk, especially as an appreciable cut in import duties, particularly for France and Italy, will be made in connection with the entry into force of the first two tariff reduction stages agreed in the Kennedy Round.

Despite the appreciable expansion of supply from within the Community and from abroad, the general stability of prices that has so far prevailed could well give way to an upward movement, which in some member countries will be largely due to a more rapid rise of wage costs. This applies especially to France and, in lesser measure, to the Netherlands.

The growth of the real gross Community product for the full year 1968 should be in the region of 5%, as predicted in the last Quarterly Survey.

Preliminary forecasts for 1969 point to continuing expansion, though the policy decisions still to be taken in major non-member countries and uncertainty over future developments in France mean that these forecasts are more than usually tentative. The contribution of export demand will, it is true, be smaller in 1969 than it was in 1968; but the development of internal demand, and particularly of private consumption, should provide a vigorous spur to economic expansion, so that for the Community as a whole the forecast that gross Community product will rise roughly as much as in 1968 seems, in the Commission's view, to be entirely realistic.
