

**European
Communities**

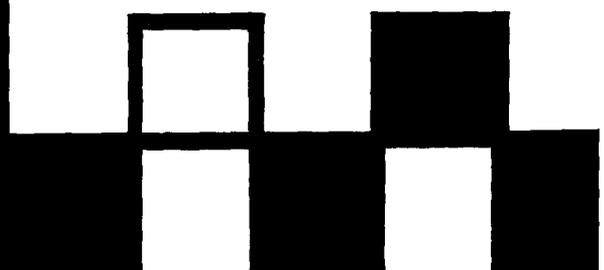
Commission

**Directorate-
General
for Economic
and Financial
Affairs**

**The economic situation
in the Community**

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1969



Quarterly survey

Commission of the European Communities
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends
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EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

DECEMBER 1969

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Annex : Commission Memorandum to the Council on the maintenance of balanced economic growth.

Note :

This survey was completed around mid-November 1969. As regards the most recent developments and where it has not been possible to take them into account because of the pace at which national statistics are prepared and the time it takes to publish the survey in five languages, the latest issue of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

Economic growth in the Community, already very rapid in 1968, continued to reflect the veritable boom that prevailed in 1969. Never since the Common Market was founded have production and employment risen so rapidly. Real gross Community product, which from 1967 to 1968 had expanded by 6 %, rose some 7 % from 1968 to 1969, bringing its total growth since 1957 to 85 %, compared with corresponding increases of 63 % in the United States and 41 % in the United Kingdom.

These extremely positive figures for economic growth, however, contrasted with a marked deterioration in the price climate and a considerable tendency for the equilibrium of trade and payment relations between the member countries to be upset. This led the Governments of France and Germany to change the parities of their currencies. The French franc was devalued by 11.11 % on 10 August 1969 and the German mark revalued by 9.29 % on 27 October.

Overall demand expanded very rapidly in 1969, with the impetus coming more and more from internal demand. The growth of visible exports to non-member countries was nevertheless again very high. Towards the end of the year, however, there were signs of a distinct slowdown, due in particular to the weaker trend of exports to the United States and an appreciable slackening in the expansion of deliveries to the United Kingdom. Compared with 1968, the total value of Community exports to non-member countries was 11 % up.

The expansion of expenditure on consumption gathered speed in the course of 1969. Public current expenditure on goods and services rose appreciably in most member countries, mainly as a result of the vigorous increase in salaries, and

spending by households expanded at an unusually vigorous rate, owing to a rapid rise in disposable incomes and, in some countries, to a decline in the savings ratio. Taking the average for the full year, private consumers' expenditure was probably 11.5 % in value and 7 % by volume higher than a year earlier.

Internal supply in the Community expanded very vigorously in 1969, particularly during the first half of the year, when in most member countries it was still comparatively easy for the growth of production to keep up with the expansion of overall demand. Subsequently, the growth of production was increasingly impeded by bottlenecks in technical capacity and by a severe shortage of labour. This led to a further appreciable increase in the already heavy backlog of orders.

The index of the Statistical Office of the European Communities shows that industrial production expanded by more than 12 % from 1968 to 1969, compared with 8.7 % from 1967 to 1968. With demand continuing to expand vigorously, the declining elasticity in the supply of goods and production factors entailed an upward thrust of prices that tended to strengthen in the course of the year. In the Community as a whole, for instance, prices for capital goods rose 100 % faster than from 1967 to 1968, and the prices of goods for private consumption 50 % faster.

The mounting pressures on the markets in the Community can be seen in an unusually sharp rise in imports from non-member countries. In terms of value, these imports were probably 17 % higher than a year earlier. Trade between the member countries even expanded by almost one third, the highest rate of increase ever registered in a single year since the Community was established.

The Community's balance of visible trade with non-member countries, which in the previous year had still shown a surplus of \$ 1 700 million, closed with a deficit in 1969.

Movements of long-term capital showed another heavy deficit. On the other hand, the various bouts of currency speculation led until September to large-scale inflows of short-term funds into the Community, particularly into Germany, but a large part left that country again after the revaluation of the German mark.

The official gross gold and foreign exchange reserves of the Community, which in the full year 1968 had fallen by some \$ 1 800 million, were up some \$ 2 500 million in the first nine months of 1969; in October, however, they fell again sharply.

Economic expansion in the Community will remain lively in 1970. The trend of business activity throughout the world will probably be less dynamic than in the past year, so the rise in Community exports to the non-member countries can be expected to slow down appreciably. Domestic demand, by contrast, should in most member countries continue to provide very considerable stimuli to economic growth.

Since at the end of 1969 the level of orders on hand was very high, gross fixed asset formation will still rise vigorously for a while; later in the year, however, the propensity to invest of enterprises may weaken distinctly. As personal incomes are likely to go on rising at a lively pace, private consumers' expenditure should maintain its very rapid growth.

With the degree of capacity utilization unusually high at the end of 1969 and manpower shortages very severe, the growth of production in 1970 will probably be considerably smaller than in 1969. A less uniformly rising trend among the elements of demand in some member countries may also work in the same direction. All in all, the growth of real gross Community product from 1969 to 1970 can at the moment be estimated at some 4.5 %.

Given this outlook for the trend of supply and demand, prices are likely to show a further vigorous rise, particularly since wage costs must be expected to go up fairly appreciably.

Imports will maintain their very rapid upward tendency, leading to a heavier deficit on the Community's balance of trade. Intra-Community trade will at the same time develop along very dynamic lines, although growth rates will certainly not be as high as in 1969.



A. Balance sheet for 1969

Prosperity in the Community increased at an unusually vigorous rate in 1969. Never since the inception of the Common Market has the rise in production, real incomes and the standard of living been so rapid. Real gross Community product expanded by 7 % and the volume of private consumption per head of population by 6 %.

These extremely positive figures for economic growth, however, contrast with a marked deterioration in the price climate and in the external equilibrium of the various member countries, where strains in the business situation engendered an inflationary upward thrust of prices or reinforced it. There were in addition wide divergences between their balance of payments trends, particularly between those of Germany and of France. These, however, were now due less to differences in the level of demand pull in the individual countries, but mainly to the behaviour of transactors, which contributed powerfully to the uncertainty about developments in the external purchasing power of certain currencies. The trend of prices and costs in the previous years was certainly an essential factor in this development. While until 1966 the trends in the various Community countries had, at least when looked at over a number of years, been largely parallel, from 1967 onwards a distinct slowdown in the rise of costs and, particularly in Germany and Italy, a large measure of price stability contrasted with a persistent rise in other member countries, particularly France.

The result was that since 1968 there have been several bouts of heavy speculation, entailing considerable outflows of capital from France and a substantial inflow of money and capital to Germany.

A fairly detailed description of the measures of short-term economic policy which the Governments of the countries concerned took to restore better internal and external equilibrium can be found in Quarterly Surveys Nos. 1 and 2/1969 on "The Economic Situation in the Community", and in Part II of this Survey.

In the end, these measures were considered to be insufficient to remove the imbalances that had arisen and, in particular, to put an end to

the hectic movements of speculative funds. On 10 August 1969 the French Government therefore lowered the parity of the franc by 11.11 %. The German Government in its turn revalued the German mark by 9.29 % on 27 October 1969, following the temporary introduction of a system of floating exchange rates.

The decisions on these parity changes led the Commission and the Council to take special measures in the framework of the common agricultural policy. The unit of account for the common agricultural policy was left unchanged in both cases. However the Council, acting on a proposal from the Commission, authorized France on 12 August 1969 to reduce the intervention or buying-in prices fixed in units of account by up to 11.11 %. To ensure that this reduction did not lead to difficulties in trade with the other member countries, the French Government was authorized to grant corresponding subsidies on imports and charge compensatory amounts on exports of the relevant products. Under the regulation issued by the Council, French prices must be restored to the common level at latest by the beginning of the 1971/72 marketing year; where possible, adjustments must be made even before, with due regard to the particular circumstances affecting each of the agricultural products concerned. There is no doubt that these measures constitute a major departure from the system of common agricultural prices. For France they were indispensable if an automatic upward adjustment of farm prices in terms of French francs was not to jeopardize the success of devaluation and of the accompanying stabilization measures. The impact of an immediate automatic adjustment on the cost of living would indeed have been such that there was an unusually great danger of the wage and price spiral taking another sharp turn upwards.

For Germany, where an automatic adjustment of farm prices in terms of DM entails a substantial loss of income for agriculture, it was agreed in the Council of the European Communities that one part of this loss of income will be offset from Community funds while the other part may be compensated through measures taken by the Federal Government. Pending the adoption of the necessary legal arrangements in

the Federal Republic, the Federal Government was authorized to apply, in respect of certain agricultural products, compensatory measures at the frontiers during a transitional period that expires at the end of 1969.

The latest events in the monetary field, which have given rise to major problems that are, of course, not confined to agriculture alone, but affect also most other economic sectors and practically all economic transactions between the Member States, have again served to make one thing very clear: customs union, the common market in agriculture and free movement of the factors of production, particularly capital, cannot in the long run be safeguarded if economic developments and economic policies fail to follow sufficiently compatible lines.

1. The world economic situation in 1969

The level of economic activity in the world continued to rise rapidly in 1969. The slackening in activity and in the trend of import demand in the United Kingdom and the United States exerted considerably less effect than had been anticipated; in particular, the expected shift towards a better balance in the United States was very slow to materialize. In addition, the economic upswing in the other industrialized countries generally continued at a rapid and in some cases even faster pace; in many of these countries, inflationary strains made themselves felt, and these often grew more severe during the year. The particularly vigorous economic upswing in the Community also provided considerable stimuli to world trade. In terms of value, the rate of expansion of world trade from 1968 to 1969 was probably 12 % and therefore slightly higher than the 11 % achieved a year earlier.

Business activity in the United States expanded considerably, though the pace of expansion declined distinctly as the year advanced and inflationary strains persisted. There was little if any slowdown in the first six months, despite the more restrictive budgetary and credit measures by which the authorities extended the action they had been taking since the summer of 1968 in an endeavour to curb growth. Domestic demand maintained its vigorous expansion, mainly as a result of the behaviour of transactors who

anticipated inflationary price increases. Private consumers' expenditure in particular rose at a lively pace, and gross fixed asset formation too expanded rapidly. Only in residential construction and stockbuilding was the trend less dynamic.

Since the middle of the year, however, the major economic indicators have pointed to a certain slackening of demand in money terms and to a stagnation of business activity in several industries. Retail sales have scarcely risen since the summer; investment in residential construction, increasingly hampered by the strains on the capital market, has fallen appreciably; the rise in purchases of plant and machinery and in expenditure on industrial building appears to have weakened; fixed investment plans were repeatedly revised downwards by firms in 1969. Personal incomes, however, showed a further rapid rise during the summer, particularly as a result of increases in public sector salaries that took effect in July and August. The expansion of industrial production was lively until July but in the following months the adjusted figures showed a decline. Unemployment rose distinctly as the year advanced; the unemployment rate, which at 3.3 % after seasonal adjustment had been down to a very low level in the first quarter, rose to 3.5 % in the second quarter and 3.7 % in the third quarter.

Although the growth of demand in terms of money has of late slowed down, there has hardly been any easing in inflationary strains. Prices, particularly those for industrial products, continued to rise rapidly; in the first nine months of the year, the consumer price index was 5.8 % above the average for 1968. The inflationary tendencies were also clearly visible in the way the balance of trade developed. Even though exports expanded appreciably during the year, imports continued to grow at such a high rate that the surplus on trade should have fallen further than in the previous year.

In the United Kingdom, the economic trend in 1969 was marked by further progress towards internal and external equilibrium. Under the influence of the restrictive measures taken in November 1968 and under the 1969/70 budget, consumer demand in money terms remained virtually unchanged in the first half of the year; in real terms it even declined. In the third quarter, however, it revived again, if only slight-

ly. Demand for consumer durables in particular remained low. Encouraged by good business in the export-orientated industries, investment by enterprises expanded briskly, following a period of stagnation at the beginning of the year caused by the withdrawal of certain tax concessions at the end of 1968. Apart from the effects produced by an increase in certain indirect taxes, the rise in prices was fairly modest.

The main factor influencing the expansion of production was a slowdown in the growth of consumption; the advance was particularly weak in the first half of the year. For the full year, the growth in real GNP may well have been only some 2 %. Industrial production, which had declined in the first quarter, has since been expanding only slowly; its growth from 1968 to 1969 probably did not exceed 3.5 %. This fairly weak trend went hand in hand with a distinct increase in unemployment. Seasonally adjusted, the number of unemployed registered at the end of the summer was approximately 586 000, i.e. 2.5 % of the working population, as against 506 000 in January.

The country's external equilibrium took a turn for the better. The balance of trade improved steadily during the year, largely under the influence of the rapidly expanding exports. There were also increasing surpluses on invisibles; seasonally adjusted, the current account swung from a deficit of £ 66 million in the fourth quarter of 1968 into surpluses of £ 18 million in the first, £ 75 million in the second and over £ 100 million in the third quarter of 1969. The basic balance, which had closed with deficits of £ 182 million in the fourth quarter of 1968 and £ 5.2 million in the first quarter of 1969, in the second quarter of 1969 showed the large surplus of £ 100 million.

In the other industrialized countries outside the Community, economic activity expanded at a lively pace in 1969. The gross national product of these countries as a whole probably grew appreciably faster than in 1968. Economic activity was stimulated by the buoyancy of export demand, particularly from the Community, and by the gathering momentum of domestic demand as the year advanced. In many of these countries, this trend led to more and more obvious inflationary strains, with the result that the authorities had to take restrictive measures.

In Switzerland, expansion continued to be rapid. All components of domestic demand developed along more dynamic lines than in 1968. As there has been a tendency for pressures to build up, particularly on the labour market, restrictive measures have been taken since the middle of the year in the credit and budgetary field.

In Sweden, the growth of real GNP in 1969 probably reached 5 %, compared with 3.5 % the previous year. Investments rose rapidly, and private consumers' expenditure was stimulated by a strong upward thrust of wages. The faster rise in imports in the last few months has induced a distinct tendency for the balance of trade to deteriorate. Credit policy was tightened up in an effort to reduce the overheating and stem the foreign exchange losses, which were partly a result of appreciable exports of capital.

In Japan, economic expansion recovered its momentum after a temporary slackening early in the year; for the full year, it was probably at least as vigorous as in 1968. The rise in export demand continued to be lively and the trend of investment was unusually dynamic. In view of the inflationary pressures on the economy, the authorities took restrictive measures at the beginning of September to contain bank liquidity.

Canada was another country where economic activity expanded vigorously in 1969; the real growth of GNP was substantially higher than in 1968. The inflationary strains which had been discernible in the preceding years persisted in 1969. Prices and costs continued to rise at a lively pace throughout the year and imports remained at a high level. To curb the expansion of demand, budget policy and measures in the monetary and credit field were gradually tightened up.

In Spain, the growth of domestic demand accelerated vigorously in the course of the year. In view of the signs of overheating that appeared in the summer and have since become more and more obvious, the authorities have taken various measures to curb activity.

In Austria, economic expansion picked up again after a temporary slowdown at the beginning of the year that was mainly attributable to the influence of tax measures. For the full year, real GNP is likely to have expanded by 5.5 %, as against 4.5 % in 1968.

In Denmark, economic expansion in 1969 was distinctly more vigorous than in 1968; real GNP was probably 5 % higher than in the previous year, despite credit limitations that curbed investment.

In Norway, the growth of production, which had been weak in 1968, recovered at the beginning of 1969 and maintained a rapid tempo throughout the rest of the year.

The vigorous demand from industrialized countries stimulated economic activity in the developing countries. Although imports by these countries advanced at a lively pace, their gold and foreign exchange reserves rose further, as their exports were expanding vigorously in terms of value, partly thanks to rising prices on world markets.

2. Demand

Total demand in the Community expanded very rapidly in 1969; the rate of growth was even higher than in 1960, when it had been unusually vigorous.

The trend of exports remained very dynamic. In year-to-year terms, the expansion of visible exports to non-member countries was hardly less vigorous than in 1968, despite a slack period towards the end of 1969; in terms of value they probably rose by some 11 %, compared with 11.5 % a year earlier.

Exports from the Community to all other industrialized countries maintained their lively expansion in 1969. It is true that in 1969 deliveries to the United States, which had expanded at an

Visible exports to non-member countries

(Values and % changes on preceding year)

	1968		1969			
	Million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter ⁵	Full year ⁵
All non-member countries	35 290	+ 11.5	+ 3.5	+ 21	+ 9	+ 11
of which :						
Industrialized countries ²	22 873	+ 11.5	+ 2.5	+ 21	+ 10	+ 11
including :						
United States	5 768	+ 30.5	- 15.5	+ 19	+ 4	+ 3
EFTA	11 217	+ 7.5	+ 7.5	+ 17.5	+ 13	+ 13
United Kingdom	3 127	+ 10	+ 2.5	+ 14	+ 8	+ 8
Developing countries ³	9 309	+ 12	+ 7	+ 19.5	+ 8	+ 11
including :						
Associated overseas countries and territories	2 064	+ 15.5	+ 12	+ 39.5	+ 5	+ 17
Other countries ⁴	3 108	+ 8.5	+ 3.5	+ 28	+ 2	+ 10

Source: Statistical Office of the European Communities (SOEC).

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US \$ 1 at the official exchange rate.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

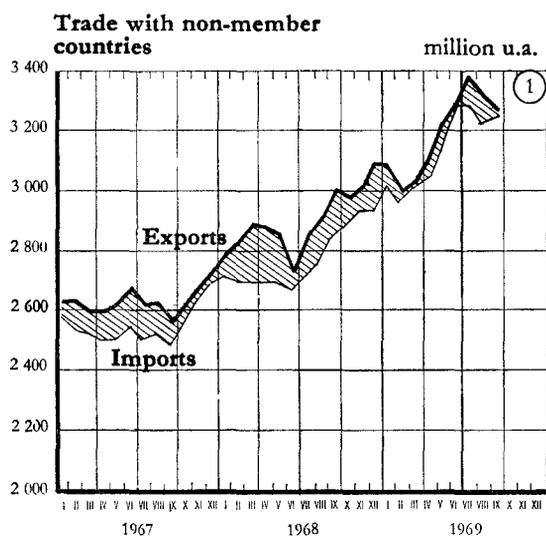
³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC, and other destinations.

⁵ Commission estimates.

unusually vigorous rate in the previous year, were back to a normal tempo of growth and even showed a distinct tendency to weaken in the second half of the year. The expansion of exports to the United Kingdom also slackened appreciably. The high level of activity in the other industrialized countries, however, allowed exports from the Community to rise considerably.

Exports to the developing countries, particularly the associated overseas territories, also maintained a distinctly expansionary trend. Lastly, sales to the east European countries also rose more vigorously than a year earlier, following a slowdown at the beginning of the year.



Compared with the previous year, the rise in internal demand was distinctly more rapid.

As in 1968, gross fixed asset formation was the most dynamic element in this sector of demand. The average increase for the year was 16.5 % in value and 11 % in real terms, compared with 9 % and 6.5 % a year earlier.

Investment by enterprises in plant and machinery advanced at an unusually vigorous pace. Provisional estimates suggest that from 1968 to 1969 it may have risen by about 15 %, which would be the highest rate registered since 1960. This strong propensity to invest is attributable to a number of reasons, prominent among which were the good sales outlook, the growing pressure on reserves of production capacity in most industries, the urge to rationalize, and the comparatively favourable financing conditions that

prevailed during part of the year—particularly the high level of liquidity enjoyed by firms at the beginning of the year and, in some countries, the distinct rise in profits that was again achieved despite the mounting pressure of costs.

Even though in some countries the propensity to invest may have declined somewhat in the second half of the year, this did not affect the level of actual investments, particularly as for many capital goods delivery times were still lengthening.

While investment demand was particularly vigorous in industry, agriculture and the services sector also stepped up their expenditure on equipment appreciably.

In year-to-year terms, investment in building and construction also expanded faster than from 1967 to 1968, but here the pace of acceleration was not as remarkable as in plant and machinery. As in 1969 costs in this sector were in general rising appreciably faster, real growth for the year was probably little more than in 1968. As in 1968, the fastest rise in expenditure occurred in industrial building. One important reason underlying the need for firms to speed up implementation of their expansion programmes was that reserves of capacity were steadily dwindling in most member countries, especially Germany, where the amount spent by firms on building rose very rapidly.

The expansion of residential construction in the Community also gathered momentum in 1969; by and large, the results for the year do not yet seem to have been significantly affected by the rise in interest rates on the mortgage markets or by the credit restrictions. In Italy, where in 1968 the number of building permits issued had been particularly high owing to the application of certain legal rules, year-to-year growth was still very vigorous; the number of actual starts, however, increased only slowly in the course of the year. In France, demand from persons wishing to be owner-occupiers, which had already been expanding appreciably in the second half of 1968, was even more buoyant in 1969, and provided a very vigorous stimulus to residential construction. In Belgium, too, investment in residential construction advanced at a fairly rapid pace. In Germany, its rise in the first half of the year was inclined to be modest, but subsequently it accelerated appreciably. The Netherlands was the only country where invest-

ment in residential construction showed a comparatively modest rise from 1968 to 1969; this was mainly because a large number of residential building projects were executed in 1968 already in an effort to beat the deadline for the introduction of the tax on value added.

In the Community as a whole, the expansion of public investment, which had slackened somewhat in the closing months of 1968, appears to have shown little if any sign of revival in 1969. The total for the year will probably have been smaller than in 1968.

Stockbuilding is also likely to have contributed to the faster growth of demand as stocks had to be increased to cope with the vigorous expansion of production. Stocks of some basic materials contracted because of the difficulty of obtaining supplies. The business surveys, too, showed that towards the end of the year most industries considered their stocks of finished products to be below the level required, for the brisk rise in final demand was having its effect on the stocks of finished products held by manufacturers. Dealers' stocks, on the other hand, will if anything have been stepped up, as dealers expect the upward trend of consumption to continue.

Expenditure on consumption rose in fact much faster than in 1968, both on a year-to-year basis and in terms of the trend during the year.

The trend of public current expenditure on goods and services in 1969 was in most member countries mainly influenced by a vigorous rise in salaries, but in some countries, as for instance in the Netherlands, the heavier expenditure on goods also played a part.

Never since 1960 has private consumers' expenditure expanded on such a scale as in 1969, when it was affected by the rapid rise in disposable incomes and also—in some countries—by a decline in the savings ratio. For the full year 1969, the rise at current prices can be estimated at some 11½ %, compared with 7½ % a year earlier. In terms of volume, the expansion probably reached 7 %, as against 4½ % a year earlier.

Disposable incomes of households showed in most member countries an appreciably stronger year-to-year rise than in 1968. Wage incomes in particular climbed considerably faster than a year earlier. The increase in the total number of hours worked was one factor contributing to an appreciable rise in incomes. The rates paid

Private consumers' expenditure

(% change on preceding year)

	Value		Volume	
	1968	1969	1968	1969
Community ¹	+ 7½	+ 11½	+ 4½	+ 7
Germany	+ 5.7	+ 10½	+ 3.5	+ 7½
France	+ 10	+ 15	+ 5.0	+ 7½
Italy	+ 5.4	+ 9½	+ 4.3	+ 6½
Netherlands	+ 8.4	+ 10½	+ 5.7	+ 3
Belgium	+ 7.1	+ 9	+ 4.9	+ 5
Luxembourg	+ 7.0	+ 7½	+ 4.3	+ 5

¹ Calculated on the basis of the official exchange rates of 1963.

² Commission estimates.

were also up considerably in all countries. Added to this there were wage increases due to rises under sliding wage scale arrangements and in the form of cost-of-living supplements. Transfer incomes advanced fairly vigorously, particularly in Italy, where old-age pensions were put up appreciably—and with retroactive effect from 1 January 1969. Lastly, incomes of households from property and entrepreneurship in 1969 probably rose considerably more than in 1968.

In general, the upward thrust of wages was distinctly more pronounced towards the end of the year, especially in Germany and Italy, where in the autumn agreed wages were raised very appreciably, following industrial disputes of sometimes considerable proportions. In France, the wage increases granted by firms in the autumn were very appreciable.

3. Production and employment

Internal supply in the Community expanded very vigorously in 1969, particularly in the first half of the year, when it was still easier for production to keep abreast of the rise in overall demand. Subsequently, the factors of production were in increasingly short supply, which in most countries and sectors of the economy led to a decline in the elasticity of production and to a

further lengthening of the already long order books.

Despite the good results achieved in the previous year, agricultural production may well have expanded a little, the weather having been good everywhere except in the north. The grain harvest was probably at least as plentiful as in 1968. Output of fruit and vegetables should have exceeded the figures for 1968. Output of livestock products advanced slightly.

The expansion of industrial production in the Community gathered additional momentum, at least in the first half of the year; in the second half, growth slowed down as firms came up increasingly against the limits of their capacity and also, in some member countries, because of large-scale strikes. Delivery times came to be abnormally long, particularly for certain iron and steel products, and for tin and copper. In the circumstances, the seasonally adjusted index of the Statistical Office of the European Communities, which excludes construction and food, beverages and tobacco, went up by approximately 2 % in each of the first two quarters, while its rise in the third and fourth quarters was probably down to an average of 1.5 % per quarter. The index shows that, all in all, production was probably more than 12 % higher than in the previous year, compared with a rise of 8.7 % from 1967 to 1968.

*Industrial production in the Community*¹

(% change on preceding year)

	1967	1968	1969 ²
Community	+ 1.7	+ 8.7	+ 12
Germany	— 2	+ 12.9	+ 13
France	+ 2.2	+ 4.0	+ 12½
Italy	+ 8.6	+ 6.4	+ 6
Netherlands	+ 4.4	+ 12.0	+ 12
Belgium	+ 0.2	+ 6.4	+ 10½
Luxembourg	+ 0.3	+ 5.5	+ 12½

¹ As defined for the index of the Statistical Office of the European Communities, i.e. excluding construction and food, beverages and tobacco.

² Commission estimates.

The trend varied, however, from one member country to another. In France and the Netherlands, for instance, the growth of production began to slacken at a comparatively early date; in these countries, particularly in France, the rates of annual growth shown in the table below are influenced very substantially by the high level reached by the end of 1968. In the other member countries, growth probably did not begin to slacken until the second half of 1969.

In the analysis by industry group, the trend of production was particularly dynamic in the capital goods industries. This is true of all branches, including even railway equipment and shipbuilding. In mechanical engineering and steelwork, however, in several member countries the capacity of many firms was approaching exhaustion and expansion lost momentum. In most member countries this also applies for electrical engineering.

The advance of production in the basic materials industries slackened somewhat after the beginning of the year as pressure on capacity depleted reserves even earlier than in the other sectors; the situation varied, however, very considerably from industry to industry and country to country. Coal output in Germany and France was practically unchanged, but there was a further sharp fall in the Benelux countries. Iron and steel production, by contrast, was appreciably higher than a year earlier; this is true of all countries and particularly the Netherlands, where the advance was the result of a fresh expansion of production capacities. Owing, however, to the very high pressure on capacity generally, the underlying trend for the

Community as a whole showed a fairly small rise in 1969. In the chemical industry, the growth of production gathered appreciable momentum thanks to the high degree of production elasticity in that industry.

Supply from the consumer goods industries adjusted quite well to a rise in demand that was much steeper than in 1968; in most member countries the adjustment was particularly smooth in the textile industry. An exception was the motor vehicle industry, where delivery periods lengthened in France and even more in Germany.

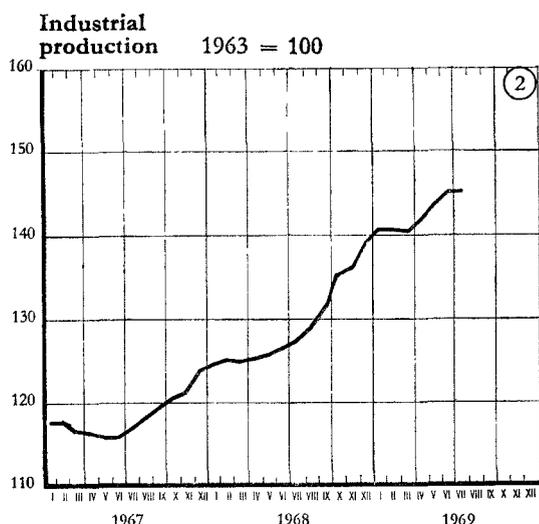
In building and construction, the growth of real value added still accelerated a little from 1968 to 1969, despite the fairly high growth rate of the previous year, the only exception being the Netherlands, where—as pointed out already—a combination of several factors curbed the expansion of production.

Activity in the services sector appears to have advanced more slowly than industrial production, at least at the beginning of the year; this applies above all to the contribution from transport and the distributive trades. In the second half of the year, however, activity in the services sector was stimulated appreciably as the economic upswing spread more widely throughout the economy and—more importantly—as household spending rose rapidly.

All in all it can be assumed that real gross Community product rose by 7 % from 1968 to 1969, compared with an increase of 6 % a year earlier. This is the highest rate of growth achieved since the entry into force of the Treaty of Rome.

As in 1968, the faster growth of production within the Community was accompanied by very considerable gains in overall productivity (gross value added at constant prices per person employed). In most member countries, however, the rise in productivity slackened distinctly as the year advanced, mainly because of the increasingly full utilization of technical production capacities in industry.

After declining in 1967 and showing little change in 1968, the average number of persons in employment throughout the Community rose slightly from 1968 to 1969. This result masks two conflicting trends, namely a fresh and appreciable fall in the number of self-employed per-



sons as an increased number of gainfully employed persons previously working in a self-employed capacity went into paid employment and as marginal self-employed activities were given up in Italy, and a pronounced rise in the number of persons in paid employment. Recruitment of additional labour, which had gone up distinctly in the second half of 1968, continued to rise in 1969 in all member countries, the pace of advance being sometimes very rapid. The total number of persons in paid employment in the Community probably rose by 2 % from 1968 to 1969, compared with 1 % a year earlier. The increase was strongest in industry, including building and construction; but as a whole the services sector, too, registered an appreciable rise, despite a downward trend in Italy. In agriculture, by contrast, the number of persons in paid employment fell further as a result of the restructuring process.

Although 1969 differed from the preceding years in that the average number of persons constituting the available labour force in the Community probably expanded slightly because the distinctly greater immigration of foreign workers more than offset the decline in the proportion of persons capable of gainful employment, the total number of unemployed fell appreciably: by some 15 % from 1968 to 1969, compared with only 3 % a year earlier. Unemployment edged downwards in all member countries until the end of the year, dropping at times to an extraordinarily low level in some countries; at the end of September, the rate was 0.6 % in Germany, 1.3 % in the Netherlands, 1.7 % in France, 2.1 % in Belgium and 3.2 % in Italy. With manpower requirements rising and firms finding it increasingly difficult to recruit additional labour as the manpower reserves still available did not have the right skills or did not live in the right places, the shortage of manpower and particularly of skilled labour became more and more acute in the course of the year, especially in the most heavily industrialized regions of the Community.

4. Balance of the markets

As the growth of internal demand was exceptionally dynamic in 1969, the Community's imports from non-member countries expanded very briskly throughout the year; all in all, the value

of visible imports was probably 17 % higher than in 1968.

The liveliness of import demand affected in particular the purchases of finished industrial products, which were probably some 30 % higher than a year earlier. There was also a significant rise in purchases of raw materials and semi-manufactures. Imports of foodstuffs and energy products, by contrast, rose only modestly. A geographical breakdown shows that the main increase was in EFTA exports to the member countries; in terms of value, they probably rose by more than 20 % from 1968 to 1969. But sales by Japan and Canada also developed along very dynamic lines, while imports from the developing countries expanded faster than before.

The strong expansion of demand in the member countries greatly stimulated the growth of intra-Community trade in 1969. According to the customs returns for imports, the value of visible trade between the member countries probably rose by almost 30 % from 1968 to 1969, which is the highest rate of growth ever registered in a single year since the entry into force of the Treaty of Rome.

The buoyancy of intra-Community trade was reflected in the imports of all member countries. In Germany, the rise in imports from other Community countries is mainly attributable to strong domestic demand, the steadily shrinking reserves of production capacity and the tax measures in the field of foreign trade introduced at the end of 1968; for the full year, the purchases of this country from the other Community countries will in terms of value probably have been more than 30 % higher than in 1968.

In France, the pressure exerted on the domestic market by influences from abroad eased somewhat towards the end of the year as a result of devaluation, but for the greater part of the year imports rose nevertheless at a particularly rapid pace; all in all their value in units of account will probably have gone up almost 35 % from 1968 to 1969. In Italy, imports from the other member countries were sluggish at the beginning of the year, partly for fortuitous reasons, but subsequently they resumed their rapid expansion; compared with the previous year, the value of Italy's imports from the other Community countries is also likely to have risen by more than 30 %. The Belgo-Luxembourg Economic Union, too, bought much more in the other

Community countries, largely because of a faster rise in private consumption, which led to a lively increase in imports of industrial consumer products. In the Netherlands, the expansion of imports from the Community was only modest

at the beginning of the year, but subsequently it resumed a fairly rapid pace; the rate of annual growth in terms of value was nevertheless distinctly lower than in the other Community countries.

Visible imports from non-member countries

(Imports 1968 and % year-to-year changes)

	1968		1969			
	Million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter ⁵	Full year ⁵
All non-member countries	33 542	+ 8.5	+ 12	+ 23	+ 14	+ 17
of which :						
Industrialized countries ²	18 626	+ 9.5	+ 11.5	+ 26	+ 16	+ 18
including :						
United States	6 386	+ 8.5	- 2.5	+ 25	+ 13	+ 12
EFTA	7 840	+ 10.5	+ 16.5	+ 25	+ 19	+ 20
United Kingdom	2 994	+ 11	+ 15	+ 24	+ 20	+ 20
Developing countries ³	12 506	+ 8	+ 13	+ 19	+ 11	+ 14
including :						
Associated overseas countries and territories	2 498	+ 9.5	+ 9	+ 24.5	+ 8	+ 13
Central and South America	2 679	- 4.5	+ 14	+ 18.5	+ 20	+ 18
Other countries ⁴	2 410	+ 5	+ 9	+ 18	+ 15	+ 14

Source: Statistical Office of the European Communities (SOEC).

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US \$ 1 at the official exchange rate.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other sources.

⁵ Commission estimates.

The exports of all member countries benefited in fairly equal measure from the dynamic trend of intra-Community trade.

As in the four preceding years, a comparison of the trend of each member country's balance of trade with the others reveals that the French balance of trade deteriorated distinctly, with the

deficit for 1969 probably reaching almost 2 000 million dollars. The trade balances of Italy and the Belgo-Luxembourg Economic Union, by contrast, improved distinctly; the surplus of the Belgo-Luxembourg Economic Union in 1969 was probably some 800 million dollars. Germany and the Netherlands registered no significant change.



In all member countries except Luxembourg, prices rose much more vigorously in 1969 than a year earlier.

Numerous factors contributed to this trend. The rapid expansion of overall demand for goods and production factors placed heavy strains on supply. There was also a deterioration in the trend of costs. The increase in labour costs per unit of output during 1969 was distinctly faster than a year earlier. In Germany, Italy and Belgium the rise in wages gathered speed significantly during the year, while productivity gains dropped back to a modest rate as reserves of capacity were gradually exhausted. The world market prices of basic materials for industry

Prices of the main components of demand

(% change on preceding year)

	Exports ¹		Gross fixed asset formation		Public current expenditure on goods and serv.		Private consumers' expenditure	
	1968	1969 ²	1968	1969 ²	1968	1969 ²	1968	1969 ²
Community ³	—	—	+ 2.5	+ 5	+ 5	+ 6	+ 3	+ 4½
Germany	— 1.1	+ 2	+ 1.9	+ 3	+ 3.1	+ 4½	+ 2.0	+ 2½
France ⁴	+ 0.5	+ 5	+ 2.8	+ 6	+ 7.4	+ 8	+ 5	+ 7
Italy	— 0.6	+ 1½	+ 2.3	+ 5½	+ 4.9	+ 5½	+ 1.1	+ 3
Netherlands	— 1.1	+ 1	+ 2.3	+ 9	+ 5.2	+ 9	+ 2.5	+ 7
Belgium	+ 0.5	+ 2	+ 2.5	+ 4½	+ 4.0	+ 5½	+ 2.0	+ 3½
Luxembourg	0	+ 4½	+ 4.0	+ 7	+ 4.0	+ 4½	+ 2.5	+ 2½

¹ Goods and services.

² Commission estimates.

³ Calculated on the basis of the official exchange rates of 1963.

⁴ The figures for France are strongly influenced by the events of May and June 1968.

and of semi-manufactures have climbed appreciably since the middle of 1968 as a result of the boom conditions prevailing in the industrialized countries. The prices of various farm products, too, went up rapidly in the first half of 1969, as harvests in 1968 had been less satisfactory.

In two member countries, consumer prices were influenced by changes in the system of indirect taxation. In the Netherlands, for instance, they climbed vigorously in the early months of 1969, causing the Netherlands Government to order a price freeze in April. But after the level of consumer prices had stabilized in May and world

Labour costs and import prices

(% change on preceding year)

	Compensation of employees		Labour costs per unit of output		Import price level	
	1968	1969 ¹	1968	1969 ¹	1968	1969 ¹
Germany	+ 7.6	+ 13	- 1.4	+ 3	- 1.7	+ 2½
France	+ 10.9	+ 15	+ 5.5	+ 5	+ 0.5	+ 5
Italy	+ 7.2	+ 9½	+ 1.0	+ 1	- 0.6	+ 2
Netherlands	+ 9.9	+ 12	+ 0.4	+ 3½	- 2.8	+ 2½
Belgium	+ 7.5	+ 10	+ 1.0	+ 1	+ 0.8	+ 2
Luxembourg	0	+ 2½

¹ Commission estimates.

market prices for raw materials and semi-manufactures had subsequently hardened, the Netherlands Government replaced the price freeze by a somewhat more flexible system under which external cost increases could be taken into account.

In France, TVA rates were raised considerably on 1 December 1968. As a result, services and certain foodstuffs were taxed more heavily. In view of the vigorous expansion of demand, this combined with the rises that had occurred in labour costs during 1968 to cause a rapid rise in the level of consumer prices. The devaluation of the French franc also helped to force up the level of domestic prices although the French Government ordered a price freeze, which in mid-September was replaced, in respect of industrial products, by price agreements between Government and manufacturers and a system of price supervision. The subsidies on imports and levies on exports of agricultural products, introduced with the approval of the Council of the European Communities, kept the rise in agricultural prices due to devaluation within narrow limits.

The Community's balance of visible trade with the non-member countries deteriorated considerably in 1969, mainly as a result of the vigorous rise in imports. For the full year, there will

probably be a trade deficit of some \$ 250 million, following a surplus of \$ 1 748 million in 1968. Accordingly, the surplus on current account fell considerably.

The Community's capital account was marked by two conflicting tendencies, namely heavy exports of long-term capital and substantial inflows of short-term capital. Total exports of long-term capital were higher than a year earlier, at least in the first nine months. But their rise seems to have slackened in the course of the year because there was a general weakening of the propensity to invest on American securities markets, and because net exports of long-term capital from Germany weakened gradually during the year. Short-term capital movements were subject to severe fluctuations in 1969. The repeated bouts of currency speculation gave rise to cross-frontier movements of money on an unprecedented scale. In May and September, for instance, substantial amounts of short-term capital flowed into Germany. At the end of September, the inflow reached such proportions that the Government had the foreign currency exchanges closed for two days before the Bundestag elections and had them re-opened only two days after the elections, having first requested the Bundesbank to refrain from intervening on the foreign exchange market at the old

maximum and minimum rates. As a result the rate of exchange for the German mark was practically floating; this transitional period ended on 27 October 1969 when the parity was in fact raised by 9.29 %. After revaluation, the Federal Republic experienced a substantial outflow of foreign exchange. In France, by contrast, expectations of parity changes led to persistent foreign exchange losses despite strict foreign exchange controls. In August, a period of relative calm in the monetary field, the franc was devalued by 11.11 %. In the autumn, the French foreign exchange position recovered somewhat. After the exchange rate of the DM had been allowed to float, Belgium and the Netherlands also appear to have attracted hot money. On balance, transactions with abroad led in the first nine months to a heavy inflow of foreign exchange into the Community. During this period, the official gross gold and foreign exchange reserves rose by some \$ 2 500 million, against a fall of some \$ 2 000 million in the corresponding period of the previous year. Part of this foreign exchange inflow is, however, attributable to the fact that the commercial banks repatriated a substantial proportion of the assets they held abroad.



All in all, the transactions with abroad contributed to an expansion of internal liquidity in the Community.

The cash transactions of the public authorities, too, had little if any dampening influence on internal liquidity, but several governments were trying to keep the cash deficits of public budgets within bounds. France, for instance, introduced

a first set of restrictive measures in July, and this was followed by a programme of severe cuts after the devaluation of the French franc; under this programme, the budget deficit for 1969 is to be reduced from the original figure of FF 6 400 million to less than FF 5 000 million. As budgetary expenditure had been stepped up until late in the summer, this would mean that in the closing months of the year the budget must have shown a fairly high surplus. In Belgium, too, the cash deficit on the budget was cut back in the course of the year, particularly through a measure restricting public investment expenditure. For the full year, the deficit was probably somewhat lower than in 1968, when, however, it was already high. One of the reasons for introducing this restrictive measure was that during the greater part of the year the Belgian State had found it very difficult to procure finance on the capital market. In Italy and the Netherlands, the budgets were handled along expansionary lines. In the Netherlands, the budget deficit will presumably prove to be some Fl. 500 million higher than planned in the spring of 1969, and in Italy, where there had still been appreciable cash surpluses in the first six months, the second half of the year probably brought heavy deficits. Budget policy in Germany was distinctly countercyclical; here, the rise in revenue was particularly vigorous, while the public authorities exercised restraint in stepping up expenditure. Prompted by the recommendations put forward by the Financial Planning Council in March and May, the Federal Government blocked, for 1969, items of expenditure amounting to DM 1 800 million, and later cancelled them altogether. For the full year, the Federal budget probably showed the first cash surplus since 1955-56.

Bank lending to business and private customers expanded at a lively pace in all member countries. As a result of the sharp economic upswing, demand for credit was very strong everywhere. Almost all member countries took measures to restrict credit. Belgium, for instance, introduced in April the first rediscount quotas for commercial banks, and these were reduced on several occasions during the year. In addition, quantitative limits were placed on lending, and these too were lowered several times. The Netherlands also placed a ceiling on the extent to which credit might expand in 1969, and at the end of July this system was

extended to include the savings banks. Lending nevertheless expanded after the summer months more vigorously than had been envisaged. In France, the restrictive credit policy introduced in November 1968 was tightened from May 1969 onwards. As the measures concerned lending by the commercial banks only, borrowers were often able to switch to the specialized credit institutions. From June onwards, measures were therefore taken on several occasions to extend the restrictive policy to cover other financing institutions which specialized more particularly in the granting of medium- and long-term loans. In Germany, the minimum reserve requirements were raised on 1 June and 1 August. In November, however, the Bundesbank lowered them again a little with a view to

offsetting part of the drain on liquidity caused by the outflow of foreign exchange after revaluation.

The money markets of the Community were evidently influenced by the rise in interest rates and monetary speculation throughout the world. Since the autumn of 1968, interest rates on the major money markets outside the member countries, i.e. in New York, London and on the Euro-money markets, have soared; interest rates in the member countries have followed this movement, though with a considerable time-lag. The monetary authorities of all member countries have supported the market trend by what were sometimes vigorous increases in discount rates. Except in Germany, this policy was also

Demand for and supply of goods and services

	1967 ¹	1968 ¹		1969 ^{2 4}		1970 ^{3 4}
	At current prices in '000 million u.a.	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	80.3	+ 6½	+ 9	+ 11	+ 16½	+ 7
Public current expenditure on goods and services	50.0	+ 3	+ 8	+ 4½	+ 10½	+ 3½
Private consumers' expenditure	211.6	+ 4½	+ 7½	+ 7	+ 11½	+ 5
Gross Community product	350.1	+ 6	+ 9	+ 7	+ 12	+ 4½
Balance exports less imports (at current prices, in '000 million units of account) ⁵	+ 5.9		+ 7.1		+ 5.5	+ 4.5

¹ Statistical Office of the European Communities: General Statistical Bulletin 1969, No. 9.

² Commission estimates.

³ Commission forecasts.

⁴ Based on Community totals of the aggregates of the individual member countries at official exchange rates 1963.

⁵ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US \$ 1 at the official exchange rate.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks and differences in treatment of the balance of exports less imports.

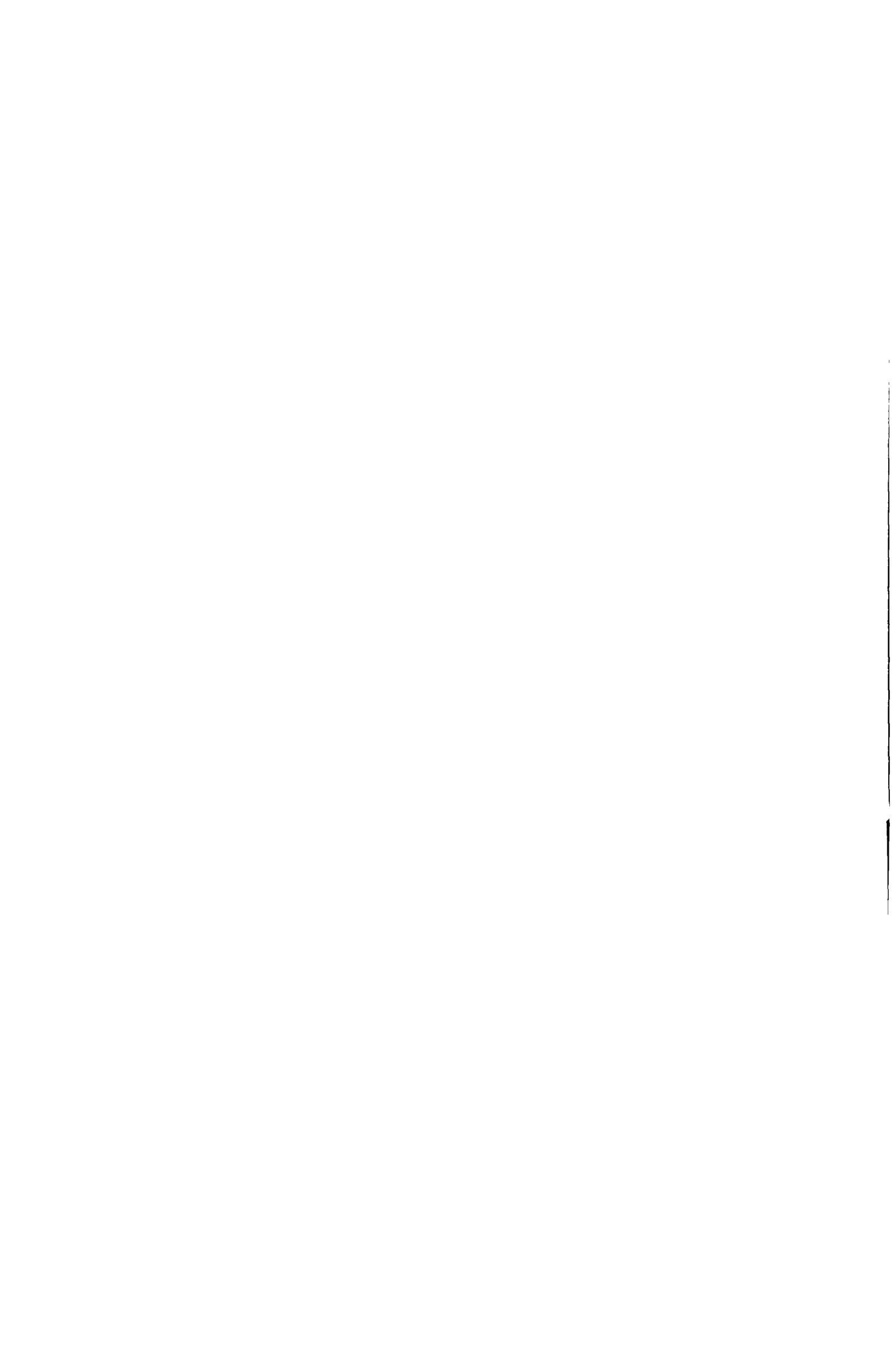
(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

intended to curb exports of money and capital, which at times were massive. In Germany, Bank rate rose from 3.5 % to 6 %, in France from 6 % to 8 %, in the Netherlands from 5 % to 6 %, and in Belgium from 4.5 % to 7 %. Italy introduced dual rates in July; banks which exceeded a certain rediscount ceiling were to pay 5 % as from 1 July, instead of the general rate of 3.5 %. In mid-August, however, Italy too tightened the discount screw by 0.5 %, raising the general rate for the first time since 1958. This points to a change in Italian interest rate policy; while for domestic reasons the main aim had hitherto been to keep interest rates low, greater importance is now being attached to foreign trade and payment problems because of the undesirable outflow of money and capital. In addition, the economic situation in this country too now seemed to call for a policy of restraint.

Bond markets in the Community were also affected by the rise in interest rates abroad. The external influences were further strengthened by internal factors, i.e. the high capital requirements of enterprises and the public authorities. Only in Germany did the Federal Government call much less on the capital market than in the preceding years. In France, the rise in interest rates appears to have calmed down somewhat

in the second half of the year. In the Netherlands, demand for capital by both the State and private firms was much higher than in 1968. In Belgium, too, the capital market was until September under heavy strain, so that it was difficult for the State to obtain long-term finance. Until August the Banca d'Italia still supported bond prices, but this policy was subsequently discontinued.

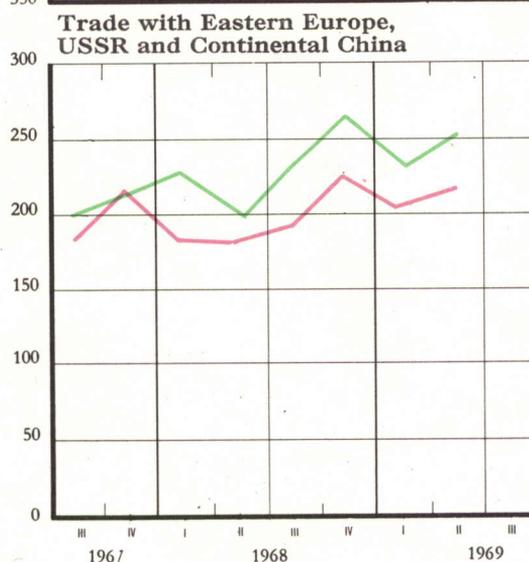
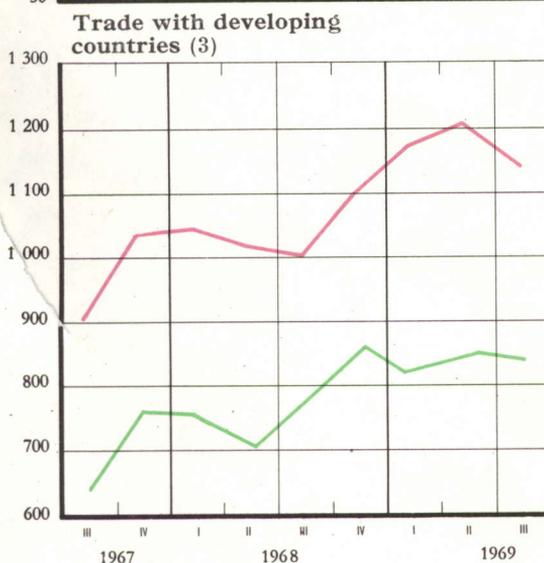
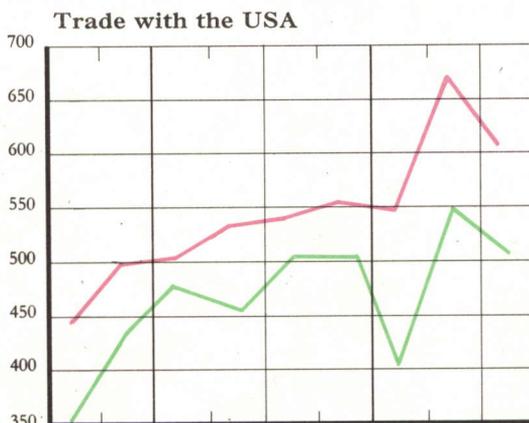
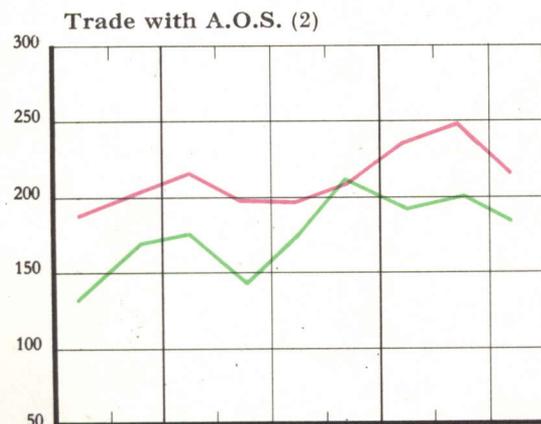
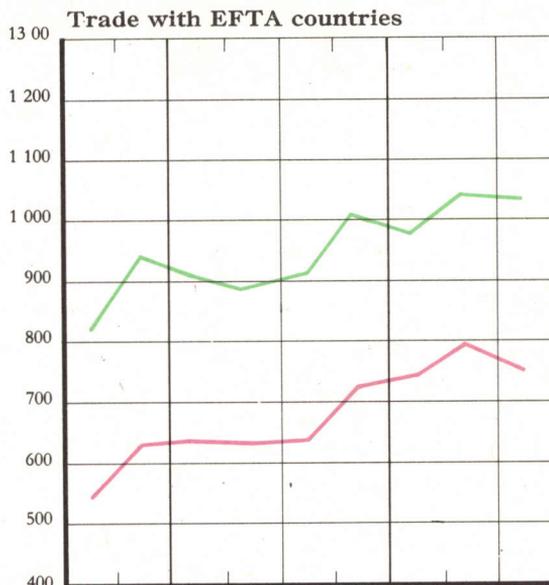
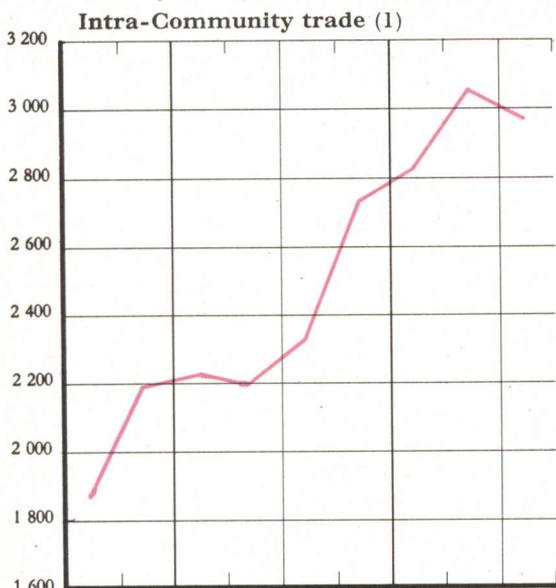
On the equity markets of the Community, the summer brought a reversal of the earlier trend. While in the first five months prices had risen vigorously everywhere and had been determined by the generally good business outlook, the climate subsequently deteriorated sharply, in part no doubt because of the announcement or application of restrictive measures in the monetary and credit field. Added to this there was a slump on the New York Stock Exchange, and some countries were affected by a greater or lesser degree of political uncertainty at home. Only in Germany did the stock exchanges prove fairly successful in maintaining prices. In Italy, the stock exchanges were able to recover after temporary setbacks in the summer; their resilience was evidently due in part to action taken by the Government to improve the capital market, promote saving in the form of shares and stem the flight of capital.



COMMUNITY TRADE

In million u. a. *

Monthly averages



— Exports

— Imports

(1) According to import returns.

(2) A.O.S. : Associated Overseas States (overseas departments, countries and territories).

(3) According to GATT classification : non-industrialized regions other than A.O.S.

* 1 unit of account = 0.888671 gramme of fine gold.

Some of the data for the third quarter of 1968 are estimates only.

B. Forecasts for 1970

In all probability the world economic trend in 1970 will be much less buoyant than it was during the greater part of 1969. A tendency for the expansion of world trade to slow down has been discernible since the middle of 1969, and is likely to continue, if not to gather additional strength, in the year ahead. Economic developments in the Community, however, will continue to provide an appreciable stimulus for world trade.

But the trend of economic activity in the United States is also an important factor that will strongly influence the buoyancy of world trade in 1970 and lines on which it develops. At the moment, it is more than usually difficult to forecast what this trend will in fact be. It is, for instance, uncertain whether and how effectively the American authorities will continue to take restrictive action should inflationary pressures remain strong while unemployment rose further.

If it is assumed that the effects of the restrictive policy, particularly of the very stringent monetary and credit measures that have of late been tightened still further, will make themselves felt fully in the next few months, economic activity may mark time for a while. This would be reflected first and foremost in a deterioration of the investment climate due mainly to the measures taken to mop up liquidity, the very high level of interest rates, the withdrawal of tax concessions for investment in plant and machinery—provided the proposed tax reform is passed by Congress—and the dampening effect on 1969 profit margins exerted by the upward thrust of wages. The tone in the building and construction markets, where there was already a distinct slowdown in 1969, would continue to be very subdued. Private consumers' expenditure, too, might well lose momentum; the weakening in the growth of personal incomes which started in 1969 could in 1970 become even more marked, particularly as a result of a slower expansion of employment and shrinking corporate profits. It is moreover not improbable that the cuts in Federal expenditure under the 1969-1970 budget will make themselves felt very distinctly in the first half of 1970. A run-down of stocks may also exert an additional inhibiting influence on business activity. If the

trend of demand developed on these lines, industrial production is likely to mark time, if not decline. Imports will probably remain weak for quite some time, particularly in view of the time-lag generally discernible between the recovery of production and the upturn of imports. Although business activity in the United States may well revive in the course of 1970, the effects on the trend of Community exports would therefore show at a fairly late date only.

On the other hand, if the American authorities decided relatively early, say at the beginning of the year, to relax their restrictive policy in view of the aggravation of labour market problems, world trade would be certain to expand fairly vigorously in 1970 also. The 10 % surcharge on income tax introduced some time ago has in any case not yet been extended beyond 31 December 1969. As far back as the summer, the Government was already considering the possibility of reducing this rate to 5 % from 1 January 1970.

For the United Kingdom, the outlook for business activity is somewhat less uncertain. The burden resulting from foreign indebtedness will still severely limit the room for manoeuvre in economic policy, but after the balance of payments improvement registered in 1969, 1970 may well see a more lively expansion of domestic demand, as there is little likelihood of the restrictive policy being tightened further. The revival of economic activity expected for the closing months of 1969 should therefore continue in 1970. The trend of private consumers' expenditure will no doubt be somewhat more buoyant. Given the projects currently under consideration it appears, too, that actual investment by enterprises will, despite the restrictive credit policy, run at a high level, at least in the first half of the year. Exports are also likely to maintain their appreciable pace of advance. As against this, residential construction and public spending may have an inhibiting effect on the expansion of overall demand during part of the year, even though there is some chance of their subsequently providing some additional stimulus to economic expansion.

All in all, production and imports can be expected to advance appreciably. The rise in imports

is likely to gather momentum, mainly as a result of an expansion of overall demand and only in small measure because of the slight relaxation of the import deposit scheme which was decided upon at the end of 1969 and has reduced from 50 % to 40 % the sums which importers are required to deposit interest-free for six months.

In the other industrialized countries, the restrictive measures taken in 1969 to prevent domestic demand from expanding too rapidly, coupled with the expected slowdown in the growth of demand from abroad, particularly from the United States, will help dampen the expansion of economic activity at least during the first half of 1970. This does not apply to several of the EFTA countries, particularly Austria and Switzerland, where expansion will certainly still be very lively. Here, the closeness of trade relations with the Community is indeed likely to stimulate economic activity. In the Scandinavian countries, by contrast, economic growth is expected to be no more than small. In Norway, the economic trend is likely to weaken from 1970 onwards, one reason being that the growth of domestic demand, particularly private consumers' expenditure, may fall off distinctly as the massive purchases of consumer goods that developed towards the end of 1969 prior to the entry into force of the tax reform on 1 January are likely to be followed by a lull. In Canada and Japan, lastly, economic activity and consequently imports may lose much of their momentum as the year progresses.

In general, the expansion of imports by the industrialized countries will probably be weaker than in 1969. This may well influence imports by the developing countries too, although there will be a certain time-lag. The reserves of the developing countries rose appreciably in 1969, and while the less vigorous expansion of the volume of their exports and the stagnation of raw materials prices that can be expected after the upward trend recorded till the middle of 1969 will affect the export earnings of these countries, this is unlikely to have any perceptible effect before mid-1970.

It must, then, be assumed that the growth of Community exports will fall off appreciably from 1969 to 1970. It may amount to some 7 %, but could well fall short of this rate, depending on the direction in which the business trend in the United States moves.

Internal demand in the Community will as a whole probably remain lively, though its pace may be somewhat slower than in 1969. There are, for instance, several indications that the rise in gross fixed asset formation will be weaker than from 1968 to 1969.

Investment in plant and machinery will none the less continue to expand fairly substantially, particularly in the first half of the year. Orders on hand in the capital goods industries are generally high and delivery periods rather long. Given the acute manpower shortage and the increasing pressure of costs, the case for rationalization will also gain in strength. The first results of the EEC investment survey carried out in the autumn of 1969 show at any rate that corporate spending on investment can in almost all member countries still be expected to expand quite appreciably. On the other hand, the effects of the restrictive monetary and credit measures, the reduced possibilities of self-financing and the less favourable prospects for export sales, may in the course of the year lead to a weakening of the propensity to invest of enterprises, and perhaps to a downward revision of their investment projects, which towards the end of the year might even make itself felt in a decline of actual investment activity.

Expenditure on building and construction, too, will advance less from 1969 to 1970 than it did from 1968 to 1969. The slowdown in the rise will, however, be no more than gradual, firstly because the backlog of unfinished building projects, particularly in industrial building, is still considerable in almost all member countries, and secondly because under the budgets public building activity will on the whole continue to expand appreciably, with France as the only exception. In residential construction, by contrast, the stiffer financing conditions, especially the high level of interest rates on the mortgage markets, will have an inhibiting effect on demand. An additional point is that in Belgium, Luxembourg and Italy special factors such as the introduction of the TVA and the adoption of new building regulations have meant that building projects were brought forward to 1968 and 1969, and this is likely to have a dampening effect on investment in residential construction in 1970.

Stockbuilding will probably still provide a fairly considerable stimulus to demand in 1970.

Stocks of raw materials and semi-manufactures will have to be built up further, in line with the growth of production. The stocks of finished products, which in some countries have been run down very appreciably, may be brought to a normal level again in the course of the year.

The rise in total expenditure on consumption in the Community will in 1970 no longer be quite as vigorous as in 1969. This will, however, hardly be true of public spending, which is known to react very strongly, with a certain time-lag, to the general trend of wages and prices. The rise in private consumers' expenditure, by contrast, may be somewhat weaker from 1969 to 1970, but in terms of value it should still amount to some 10 % and in terms of volume some 5 %, compared with 11.5 % and 7 % from 1968 to 1969. Briskly expanding consumption will therefore continue to be a major factor in the economic trend in the Community. The rise in disposable incomes from wages will flatten out comparatively little: although the rise in employment will be smaller than a year earlier, the increase in wages in the Community as a whole may, on an annual basis, be almost as high as in 1969. In Italy, Belgium and Luxembourg, the upward thrust of wages must even be expected to gather some additional momentum, particularly in view of the way in which consumer prices are developing; in Germany and the Netherlands average wages for the year will probably rise at much the same tempo as in 1969. Only in France is the year-to-year rise in wages likely to be considerably weaker than in 1969, but this will only in part be attributable to a weakening of business activity in the course of the year.

Although transfers of income can again be expected to rise very appreciably, non-wage incomes as a whole are likely to rise at a slower pace than in 1969 as the increase in profits is expected to be distinctly weaker. The rise in disposable incomes may in addition be curbed by the fact that income taxes are progressive, although on 1 January 1970 the rates of tax will be lowered in the Netherlands and the tax-free allowances increased in Germany.

The expansion of internal supply in the Community will be much less vigorous than in 1969. The year-to-year growth of the real gross Community product will fall from 7 % to about 4.5 %. The incipient tendency for growth to slow down will continue in the next few

months, mainly as a result of the increasingly frequent bottlenecks in production, the resultant slowdown in the advance of productivity, and the acute labour shortage. As the year advances, a less uniformly rising trend in demand may also inhibit production in certain member countries and certain sectors. The slowdown will probably be most evident in industry and in building and construction.

Even though manpower requirements will still be very heavy, the rise in employment will slow down because in most member countries manpower reserves are almost completely exhausted. Should the pressure of demand on some branches of industry ease during the year, there will still be for a while the customary hoarding, i.e. firms will seek to hold on to their staff. In these cases, the cutback would in a first stage probably be confined to a shortening of hours actually worked. In several member countries, incidentally, the number of hours actually worked will be influenced by reductions under collective agreements.

With the available labour force in the Community virtually unchanged, the average number of unemployed will again be fairly distinctly down in 1970, though the decline everywhere except in Italy is likely to be appreciably smaller than in the previous year.

All in all, labour markets in most member countries will probably remain under heavy strain during the greater part of 1970. Towards the end of the year a greater degree of variety may emerge, with a shortage of manpower in most sectors of activity going hand-in-hand with a decline in manpower requirements in certain others.

Imports from non-member countries are hardly likely to show the same high growth rates as in 1969. The pressure of demand and internal supply should none the less cause a very vigorous rise in imports, particularly in the first half of the year. The further tariff reductions made in accordance with agreements reached in the Kennedy Round will also contribute to this development. Towards the end of the year, however, the rise may slacken, especially in imports of raw materials and capital goods. In addition it must be expected that as a result of the comparatively good harvests purchases of farm products will show no more than a modest growth.

As the rise in imports will be more vigorous than the rise in exports, the deficit on the Community's balance of trade will be heavier still. The parity changes of 1969 should make no more than a marginal contribution to this development, as the effects produced by the revaluation of the German mark and the devaluation of the French franc will in part offset each other.

In the Community as a whole, prices will probably still rise vigorously in 1970; the pressure of costs will persist, if not strengthen, and the seller's market is likely to enable firms, at least temporarily, to pass on cost increases. Trends may, however, differ fairly widely between one country and another.

Although there will be differences of degree, the rise in wage costs per unit of output will in

all member countries be faster than in 1969, as productivity gains generally will flatten out.

In Germany, the revaluation of the mark will probably exert a dampening influence on the rise in the level of domestic prices, particularly as the DM prices for agricultural products, which depend directly or indirectly on the agricultural unit of account, are being lowered. Quite generally, the pressure of imports entailed by revaluation should lead to keener competition on the domestic markets of this country. On the other hand, the revaluation of the German mark may in limited measure engender certain price increases in some other member countries, as prices for imports from Germany are going up. In France, the devaluation of the franc will in 1970 probably still have after-effects in the form of price increases for certain products.

C. Short-term economic policy

In view of the economic prospects for 1970, the prime concern of all Member States in the months ahead must be to curb any tendency to inflation. There is no doubt that the strength of this tendency varies from country to country. The starting positions in the struggle against inflation are also different at the moment; particularly in the second half of the past year, the instruments of economic policy, for instance, were already being more vigorously used in a number of member countries in order to maintain or re-establish the main economic equilibria, while in France and Germany the parity changes introduced fresh conditions for removal of the tendencies towards imbalance. At the moment, however, the upward thrust of prices is in all member countries still such that the struggle against inflation should continue to rank very high on the list of priorities.

In a Memorandum sent to the Council on 9 July 1969, the Commission pointed to the need to bring the inflationary process under control as rapidly as possible. Energetic and rapid action seemed to be called for if the imbalances were not to grow further and become a permanent feature; failure to prevent such a development would lead to a vigorous rise in costs, and this would heavily undermine the competitiveness of several Member States. The policy which the Commission recommended in the Memorandum was not aimed at bringing about a recession but at preventing it while there was still time, by putting the Community's economy on a sound basis. The measures to combat inflationary tendencies were to bear primarily on the following points: firstly, an expansion of overall supply through systematic mobilization of resources, mainly by means of measures in the field of vocational training and retraining of labour; secondly, an effort to limit the growth of overall demand in money terms to the possibilities of expanding overall supply, the limitation to be achieved mainly through a stringent budget policy; thirdly, active participation by both sides of industry in the development and implementation of an economic and social policy in the Member States which would safeguard the conditions for balanced economic growth. The Council endorsed the conclusions of the Commission's Memorandum on 17 July 1969.

Developments have meanwhile become all the more alarming because the upsurge in prices is now due not only to the evident pressure of pent-up demand but is in most member countries also gaining more and more strength because of rising costs. Demand is expanding at a very lively pace, reserves of capacity are shrinking further and further and in some countries the shortage of manpower has reached an unprecedented degree of severity. Not only are prices for imported raw materials and finished products going up, but all countries are experiencing a vigorous rise in wage costs per unit of output which, given the appreciable decline in productivity gains, does not appear to have reached its peak in the autumn of 1969. The internal upsurge in costs and prices may entail an appreciable deterioration in the Community's competitiveness precisely at a moment when the effects which the prospective weakening of economic activity in the United States will have on exports from the Community will make themselves felt more strongly. This would be a serious matter because it would restrict the margin of manoeuvre open to the six Community countries in their endeavours to counteract any weakening of the economic trend in the Community by co-ordinated action.

Even after the parity changes in France and Germany it remains of prime importance that the expansion of domestic demand should be checked. In France, the case for such a policy appears to be all the stronger as the rise in import prices engendered by devaluation could lead to a wage-price spiral. If devaluation is, in addition, to have the expected effects on the current account, action should be taken to ensure that the continuing excess of domestic demand over domestic supply is rapidly eliminated, so that sufficient capacity can be freed for export production and that the rise in imports can be held down. In Germany, the revaluation of the mark is in point of fact contributing to better internal and external equilibrium. Here, the efforts to stabilize prices are being assisted by the fall in import prices and the adjustment of the DM equivalent of those prices for agricultural products which, under the common organization applicable to the agricultural market, are directly or indirectly fixed in units of

account. But the change in parity will not necessarily check the expansion of demand sufficiently in the short term, since the volume of imports and exports is comparatively slow in reacting to changes in the terms of trade. In this context it must be borne in mind that the tendency to overheating has persisted till very recently and that there is probably little chance of the expansion of demand returning very rapidly to a pace more in line with the distinctly reduced possibilities for an expansion of supply. The restrictive policy pursued until now should therefore be continued for the time being. Once there are signs of a distinct slowdown in the trend of demand, particularly in exports and investment, there would, however, be a case for rapid relaxation of the restrictive measures being applied in the monetary and credit field and for a less stringent budget policy, with a view not only to enabling the effects of revaluation to have their full impact on the current account but also to preventing too severe a slowdown of economic activity, which would inevitably affect the other member countries.

The pursuit, in Germany, of a short-term economic policy conceived along these lines would be all the more in the interest of most other member countries as it would help to avoid too abrupt a rise in the demands made on their resources in the form of exports to Germany but would ensure steady and dynamic expansion of their deliveries to that country.

The parity changes that have taken place in France and Germany should not tempt the other member countries into relaxing the efforts they are making to bring about a distinct easing in the expansion of domestic demand. The inflation of prices and costs being experienced in these countries has already reached serious proportions, and in addition the tax on value added is to be introduced in Luxembourg on 1 January 1970, in Belgium probably on 1 January 1971 and later in Italy too; if the changeover is not to release new upward pressures on prices, it should be made in as calm an economic climate as possible.

After the parity changes in France and Germany, the risk that conflicting objectives might be pursued by the countries of the Community has been considerably reduced. For internal equilibrium to be restored, however, all member

countries will have to be very flexible in the use they make of the various instruments of economic policy.

In the struggle against inflation a very important contribution must come from the budgets; to judge from the estimates, these still appear to be along unduly expansionary lines in some member countries. Generally, the rise in public spending in 1970 should be strictly limited to a rate that is appreciably lower than the prospective rise, in terms of money, of the gross national product in 1970. In the countries where the need for infrastructure investment is still very great, the efforts at containment, which must be pursued energetically, should concentrate mainly on those items of expenditure which contribute to consumption. Where this is not possible, an increase in direct taxes or a reduction in tax concessions should be envisaged. Generally, a concentration of spending in the first half of the year should be avoided as far as possible and consideration should rather be given to spreading outlays uniformly over the year. If deficits cannot be avoided, they should be financed from the internal income circuit rather than by monetary means.

As it is not possible to forecast with certainty the influence which will be exerted during 1970 by the economic situation in the rest of the world, all Community countries would be well advised to ensure here and now that a "contingency" margin over and above the anti-inflationary bias of the budgets that is currently absolutely indispensable is available both on the expenditure and the revenue side of their budgets, so that the way in which public funds are handled can, where necessary, be adjusted rapidly to a changed economic situation in the Community.

The business situation as it is today appears to call also for a continuation of the tight money policy. In Germany, the situation has changed after the revaluation of the mark, in that there will in future probably be considerably less need to offset the surpluses on current account by substantial exports of capital. In this country, incidentally, an unusually sharp contraction of domestic liquidity has resulted from the outflows of foreign exchange and has led to an appreciable rise in interest rates. A certain relaxation of the measures to influence liquidity in Germany may prove perfectly desirable if the

restrictive pressure exerted by market forces is not to become unduly strong. By lowering the minimum reserve requirements the Bundesbank has in some measure already taken cognizance of this aspect of the situation.

The importance of the struggle against the inflationary tendencies through a firmer steering of domestic demand is enhanced by the almost complete exhaustion of reserves of technical capacity and by the growing imbalances on the labour market, which are increasingly limiting the possibilities of action to expand supply. The efforts to mobilize those resources that are still available, particularly through adjustment of the economic structures and increased endeavours to equip young people and adults with the right skills, should nevertheless be stepped up. Particular importance attaches in this context also to the efforts to ensure a better balance between regions; this could be the source of substantial further reserves of productivity which could help create, at least in the longer term, more favourable conditions for an expansion that would be rapid yet free from strain. In the present business situation, moreover, any measures to promote effective competition between firms would also be exceptionally well worth while.

The events of 1968 and 1969 and the problems they raised for integration again highlight the need to make substantial progress towards closer co-ordination of economic policy at Community level.

This is why the Commission unremittingly advocated, even before monetary difficulties developed in 1968, action to improve the co-ordination of economic policy and to establish monetary solidarity among the Member States, and has proposed that the appropriate mechanisms should be set up to this end.

In its Memorandum to the Council concerning the co-ordination of economic policies and monetary co-operation in the Community of 12 February 1969 and in other places the Commission has made practical proposals to this end;

the main points from the Memorandum were outlined in Quarterly Survey No. 1/1969 on "The economic situation in the Community".

At its session of 17 July 1969 the Council discussed these problems in detail. On a proposal from the Commission it adopted a decision introducing a procedure of prior consultation in respect of all important decisions or measures to be taken in the field of short-term economic policy which would have a major impact on the economies of the other member countries or which might lead to a major divergence between economic trend developments in one country and the medium-term economic objectives that have been jointly agreed. Although the rules to govern implementation of this procedure still need to be laid down in greater detail, there have already been several prior consultations of this type.

The Council also agreed that before the end of 1969 there should be a discussion—on the basis of the Commission's Memorandum—on the principles involved in the guidelines for medium-term economic policy. The Council further agreed to the principle of a Community system of short-term monetary support measures which is to be established in accordance with the guidelines set out in the Memorandum of 12 February, and it invited the Committee of Central Bank Governors to continue its work on rules to govern the functioning of such a system. In addition, the Council requested the Monetary Committee to submit to it and the Commission a report on the arrangements needed to implement a system of medium-term financial assistance.

It now remains to make better use than hitherto of the various possibilities for co-ordination, and to give co-ordination as practical a content as possible. Only in this way will it in future be possible to avoid parity changes which are always a potential threat to integration. Decisive importance must therefore be attached in future to mutual endeavours at co-ordination of economic objectives and of the measures by which they are to be achieved.

PATTERN OF INTRA-COMMUNITY TRADE — 1958 and 1968

Reporting country Country of origin or destination	Year	Germany		France		Italy		Netherlands		B.L.E.U.		Community	
		Im- ports	Ex- ports										
Germany	1958			53.2	47.1	56.1	59.7	46.5	45.7	36.8	25.6	33.6	27.1
	1968			45.0	43.2	49.3	46.6	47.6	48.4	37.9	32.6	31.7	28.7
France	1958	29.6	27.7			22.5	22.3	6.7	11.7	24.9	23.5	17.4	18.7
	1968	29.2	32.7			31.3	31.4	11.7	18.3	27.7	28.9	19.2	23.3
Italy	1958	21.3	18.3	10.8	15.2			4.2	6.6	4.6	5.0	9.8	11.2
	1968	24.1	20.2	20.1	21.4			8.2	8.4	7.8	5.8	14.5	13.0
Netherlands	1958	31.4	29.6	11.6	9.1	12.0	8.6			33.7	45.9	19.3	21.9
	1968	26.3	27.1	12.9	11.7	10.7	11.6			26.6	32.8	16.4	18.5
B.L.E.U.	1958	17.7	24.3	24.5	28.6	9.4	9.5	42.6	36.0			19.8	21.1
	1968	20.3	20.0	21.9	23.6	8.7	10.4	32.5	24.9			18.1	16.5
Community	1958	100	100	100	100	100	100	100	100	100	100	100	100
	1968	100	100	100	100	100	100	100	100	100	100	100	100

TABLE 1: Basic data 1968

	Communi- nity	Ger- many	France	Italy	Nether- lands	Bel- gium	Luxem- burg
Total area ('000 sq. km.)	1 167.5	248.5	551.2	301.2	33.5	30.5	2.6
Total population ('000)	185 806	60 184	50 188	52 778	12 725	9 619	335.5
Density of population per sq. km.	159	242	91	175	380	315	129
Numbers in employment ('000)	73 898	26 342	19 675	19 069	4 547	3 615	138.8
Numbers in employment, break- down by main sector (%):							
— Agriculture	14	10.0	15	22.3	7.7	5.6	12.1
— Industry	43	47.4	40	41.4	40.2	44.9	45.3
— Services	43	42.6	45	36.3	52.1	49.5	42.6
Share of gross domestic product (%):							
— Agriculture	.	4.8	8	12.4	7.0	.	6.2
— Industry	.	48.8	41	40.4	42.2	.	50.0
— Services	.	46.4	52	47.2	50.8	.	42.9
In % of gross domestic product :							
— Private consumers' expenditure	.	56.0	60.9	63.6	56.4	.	61.1
— Public current expenditure on goods and services	.	15.8	12.8	13.5	15.5	.	12.0
— Gross fixed asset formation	.	22.9	24.9	19.4	26.7	.	25.1
— Total exports	.	23.8	14.3	19.5	43.0	.	81.2
— Total imports	.	20.3	14.3	14.1	43.1	.	78.9

TABLE 2: Key indicators

	% change by volume on preceding year					Volume indices (1963 = 100)
	1964	1965	1966	1967	1968	1968
Gross Community product	6.1	5.0	4.1	3.3	6	127
Industrial production	7.0	4.4	5.3	1.3	8.7	130
Visible imports	8.7	8.1	9.3	2.1	14.7	151
Private customers' expenditure	4.8	5.0	4.5	3.8	4.5	125
Gross fixed asset formation	9.4	3.8	4.7	1.2	6.5	128
Visible exports	11.6	11.5	8.4	8.1	15.8	168
Intra-Community visible trade	13.2	12.2	10.9	6.0	18.9	178
Gross product per capita	5.0	3.9	3.2	2.7	5.1	121

Community

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	115	118	120	122	121	122	111	93	122	126	130	131
	1968	121	126	130	133	122	130	119	107	135	140	149	146
	1969	137	142	146	150	151	152	136	115	146			
Imports from non-member countries (cif, million u.a.)	1967	2 607	2 392	2 610	2 515	2 564	2 654	2 366	2 376	2 444	2 620	2 784	2 837
	1968	2 694	2 606	2 311	2 709	5 408		2 850	2 608	2 790	2 991	3 061	3 008
	1969	3 173	2 793	3 105	3 233	3 321	3 376	3 259	2 858				
Exports to non-member countries (fob, million u.a.)	1967	2 563	2 413	2 678	2 631	2 595	2 721	2 543	2 358	2 525	2 918	2 763	2 876
	1968	2 781	2 771	3 025	2 848	5 323		3 206	2 772	2 784	3 297	3 171	3 286
	1969	2 887	2 745	3 261	3 305	3 295	3 296	3 584	2 801				
Balance of trade (million u.a.)	1967	- 44	+ 21	+ 68	+ 166	+ 31	+ 67	+ 177	- 18	+ 81	+ 298	- 21	+ 39
	1968	+ 87	+ 165	+ 214	+ 139	- 85		+ 356	+ 164	- 6	+ 306	+ 110	+ 278
	1969	- 286	- 48	+ 156	+ 22	- 26	- 80	+ 325	- 57				
Intra-Community trade (million u.a.)	1967	1 925	1 861	2 145	2 002	1 974	2 099	1 913	1 734	1 956	2 245	2 182	2 126
	1968	2 123	2 162	2 371	2 287	4 248		2 479	2 085	2 409	2 773	2 658	2 724
	1969	2 695	2 727	3 057	3 043	3 013	3 101	3 157	2 415				

NOTES TO GRAPHS AND TABLES

Source: Community: Statistical Office of the European Communities (SOEC).

Germany: SOEC; Statistisches Bundesamt.

France: SOEC.

Italy: Relazione generale sulla situazione economico del Paese (1968).

Netherlands: SOEC; Ministerie van Sociale Zaken en Volksgezondheid; Centraal Bureau voor de Statistiek.

Belgium: SOEC; Ministère de l'emploi et du travail;

Luxembourg: SOEC.

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US \$1) at the official exchange rates.

Graph 1

— Three-month moving averages of the seasonally adjusted value of exports to non-member countries (fob) and imports from these countries (cif), as shown by foreign trade statistics.

Graph 2

— Trend curve; estimate established on the basis of indices adjusted for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 3

— Three-month moving averages of the seasonally adjusted value of trade between member countries, as shown by foreign trade statistics on imports.

Graph 4

— Total gross reserves of gold and foreign exchange held by the monetary authorities of the member countries at the end of each month.

Table 1

- Total population at mid-year; for Germany, estimated average for year; for Italy, average for year.
- Resident population in employment at mid-year; for Germany, estimated average for year; for Italy, average for year less persons temporarily working abroad.
- Breakdown by agriculture, industry and services at factor cost; for Luxembourg, 1967 figures.
- Shares of the major aggregates in the gross domestic product at market prices.
- Total exports and imports: goods, services and factor income.

Owing to revision of the national accounting arrangements in Belgium, information on the breakdown of the gross domestic product was not available when this Survey was prepared.

Table 2

- Industrial production: index of the Statistical Office of the European Communities, excluding construction, food, beverages and tobacco.
- Imports (cif) from non-member countries, as shown by foreign trade statistics.
- Exports (fob) to non-member countries, as shown by foreign trade statistics.
- Trade between member countries, as shown by foreign trade statistics on imports.

Table 3

- See note to Table 2.

**II. THE SITUATION IN EACH
OF THE COMMUNITY COUNTRIES**



A. Germany

The vigorous economic upswing in the Federal Republic continued in 1969 and gained additional strength. The main growth factors were export demand and unusually brisk investment. The expansion of private consumers' expenditure was also gathering more and more momentum. Particularly in the first half of the year, domestic supply was still very elastic but as the year advanced it became increasingly obvious that there were limits to the expansion of supply. This was most evident on the labour market, where the sharp increase in recruitment of foreign workers did not prevent a hitherto unprecedented imbalance developing between the number of unfilled vacancies and the number of unemployed. With the volume of orders on hand expanding, delivery periods in industry lengthened substantially. Producer prices hardened increasingly as the year advanced, and at the level of private consumption, too, the upward thrust of prices gathered additional momentum, particularly towards the end of the year. The surplus on foreign trade and in the balance of payments contracted only a little in 1969, despite a very vigorous rise in imports.

Given the persistently high external surpluses and the resultant tendency for prices to rise, the German Government revalued the German mark by 9.29 % on 27 October. This has changed the setting for economic development in 1970 and has in particular brought nearer to fulfilment the conditions which must be met if strain is gradually to be eased. The rise in demand and the high level of orders on hand nevertheless suggest that the economy will continue to expand rapidly. As a result of the current round of wage increases, private consumers' expenditure, in particular, is likely to make an important contribution to expansion. In the light of both the situation on the labour market and the advances in productivity, the scope for an expansion of supply will be distinctly smaller than in 1969, so that it is at the moment reasonable to assume that for 1970 the gross national product at constant prices will rise by about 4.5 %.

1. Balance sheet for 1969

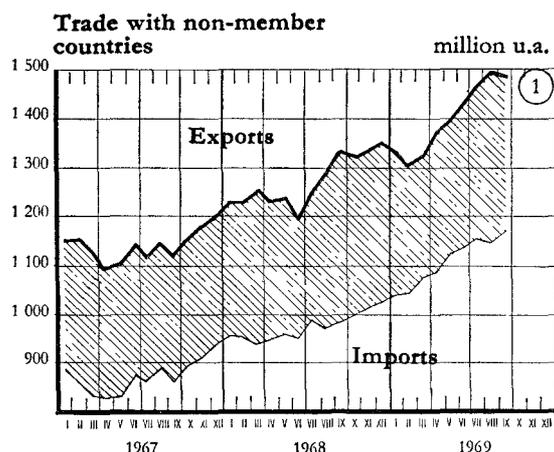
Throughout 1969 there was an unusually strong upswing of activity in Germany. Although initially the elasticity of supply was still comparatively high, an increasing number of strains appeared, and towards the end of the year cases of overheating were discernible.

As in 1968, export demand was a very dynamic factor in the upswing. There was a very rapid rise in export orders: the world economic trend was still very expansionary, especially in the first half of the year; boom conditions obtained in the Community; compared with some coun-

tries, cost and price trends relevant to foreign trade were more and more in favour of Germany, and there was heavy speculation on a change in exchange parities. Only later in the year did the export boom slacken a little, particularly after the conditions governing foreign trade had been changed by the devaluation of the French franc, the temporary floating of the rate of exchange of the German mark and, subsequently, its revaluation. In visible trade, sales in terms of value went up by some 16 %.

Receipts from services included, the rise from 1968 to 1969 in exports, as defined in the

national accounts, was probably 15 % in terms of value and 13 % in terms of volume, compared with 13.2 % and 15.6 %, respectively, the previous year. Expansion was particularly lively in exports to the other member countries, which went up by 24.5 %. But exports to the non-member countries also rose by some 11 % despite a distinct slackening in deliveries to the United States.



The contribution of domestic demand continued to strengthen appreciably in 1969, with investment again the leading factor making for expansion. Investment in plant and machinery, which had risen by almost 12 % the previous year already, probably more than doubled its rate of year-to-year increase in 1969. Corporate investment activity displayed particular vigour. In the second half of the year the trend slowed down slightly, solely because bottlenecks on the supply side were making even faster growth more and more difficult. The propensity to invest, at any rate, had shown no sign of slackening by the end of the year and the backlog of orders for capital goods was running at an unprecedented level. The decisive factors in the continued buoyancy of the investment boom were in particular the sales prospects, which until quite recently were very good, a further vigorous rise in profits, virtually unrestricted access to finance, and the pressure to rationalize, due, among other things, to the labour shortage. Although building investment, by contrast, expanded on the whole less rapidly, activity even in this field picked up increasingly from the spring onwards. This applies in special measure to corporate expenditure on building. Investment in residential construction at the same time rose more vigorously in 1969 than a year earlier. In addition, public investment

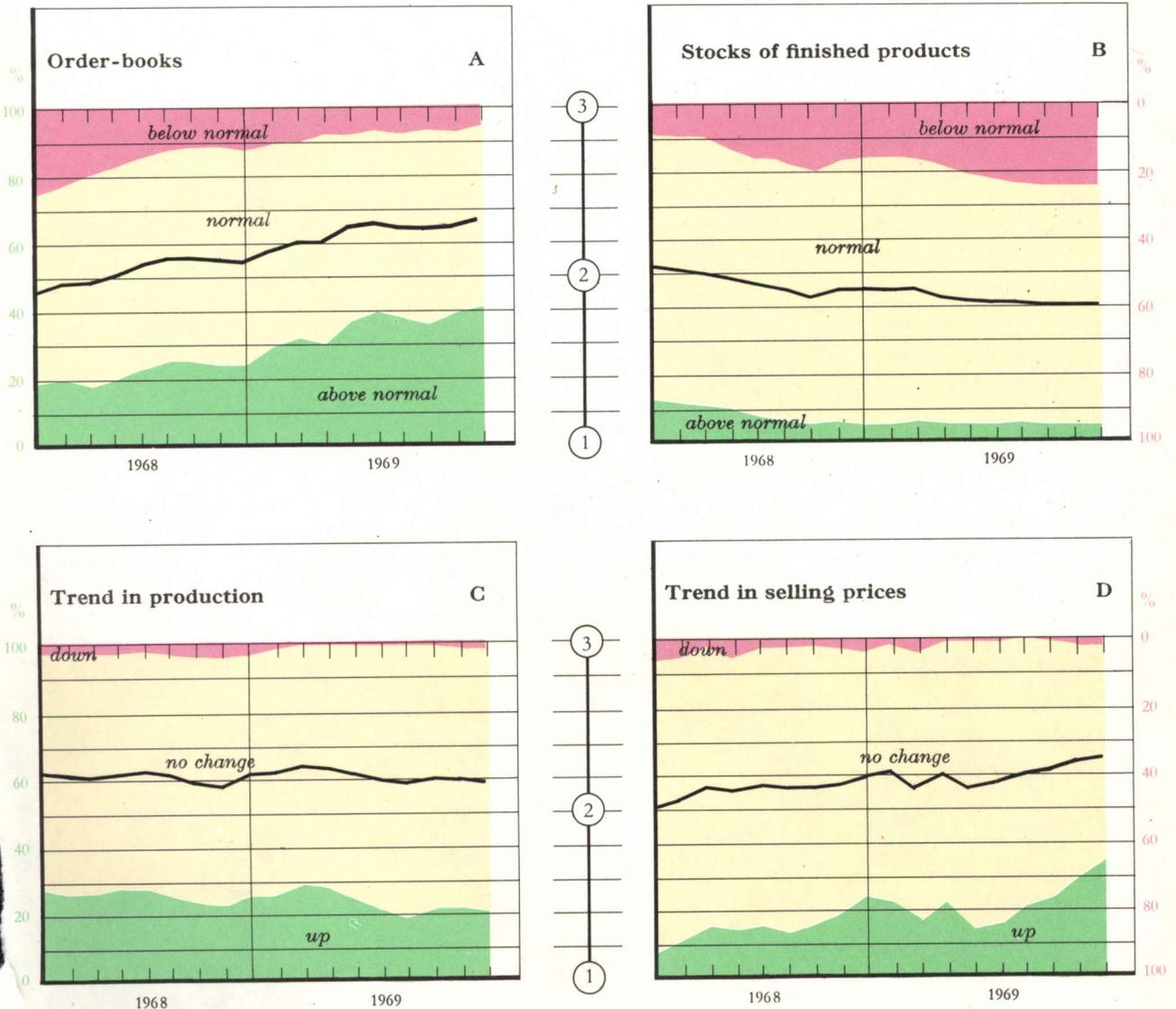
expenditure, which a year previously had gone up very sharply as the programme to promote economic activity, decided upon in 1967, was being implemented, rose in 1969 at much the same pace as from 1967 to 1968. It is estimated that building investment as a whole rose by 10 %.

Lastly, investment in stocks showed a further vigorous rise in 1969, partly as a reflection of the fact that in the first half of the year substantial quantities of cereals were imported and put into storage because of the discount at which the French franc was available on the forward market. For technical reasons, the rapid expansion of output also entailed a rise in the level of stocks needed at earlier stages in the production process. Also, increasingly frequent bottlenecks in the supply of components delayed deliveries in many industries. In the consumer goods industries, too, any increase in stocks was definitely not due to sluggish demand. In fact, most firms taking part in the EEC Business Survey considered their stocks too low.

The tendency for consumption to expand, already discernible in 1968, was increasingly gaining in speed during 1969. For the full year, the expansion of public current expenditure on goods and services remained comparatively modest, despite the wage and salary awards of the autumn, since the spending policy pursued before had been rather cautious. Private consumers' expenditure, however, rose fairly rapidly throughout the year, with expansion gaining increasingly in vigour. The most dynamic trend was in purchases of consumer durables, notably motor vehicles; in the first nine months, registrations of new passenger cars were 28 % up on a year earlier. Sales of electrical household appliances were no less expansionary, while in traditional consumer goods the trend was initially still quiet, gaining in vigour only in the second half of the year. Overall, private consumers' expenditure in 1969 was probably some 10.5 % up on 1968.

The key to the expansion of private consumers' expenditure was the vigorous upward movement of incomes. Although agreed wages showed no more than a comparatively modest rise until the summer, substantial increases in agreed wages and salaries were subsequently awarded under the pressure of relatively short strikes. In the autumn, the economy as a whole

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut.

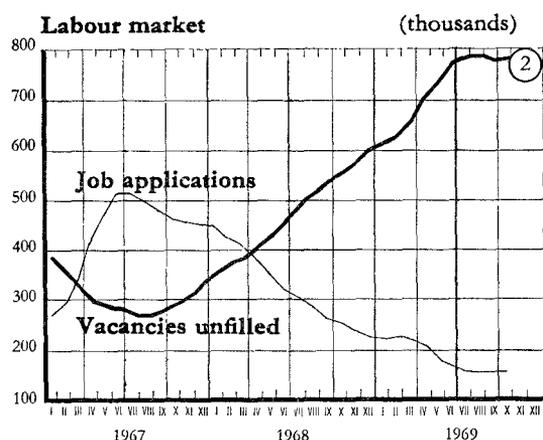
GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



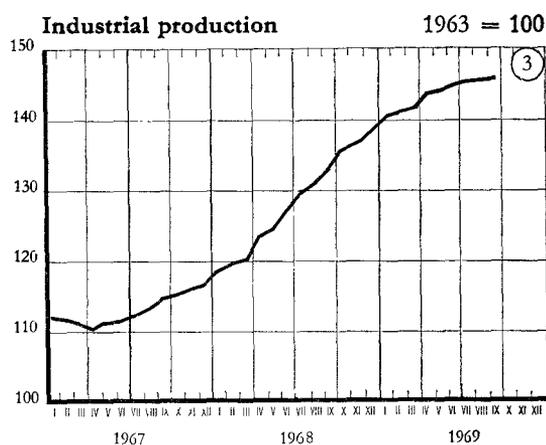
had to absorb a very substantial wave of increases in agreed wages. Since as early as the beginning of the year, the wage drift had also been very vigorous, mainly because the manpower shortage led many firms to introduce in increasing measure overtime working and extra shifts and to pay wages that were in excess of the agreed rates. All in all, the gross wage- and salary-bill for 1969 was probably a good 12 % up on 1968. Business profits in 1969, too, were again appreciably above the record level of the previous year. The rise in transfer incomes, by contrast, was comparatively small. The progressive tax scale and the increase in social security contributions meant that disposable incomes rose considerably more slowly than gross incomes. In addition it appears that the proportion of incomes saved continued to rise, another factor curbing the expansion of private consumers' expenditure.

It was on the labour market that the tendency for the boom to create strain made itself felt most strongly. By the end of May the unemployment rate had dropped to 0.6 %. By September, which is the seasonal peak for employment, the number of unfilled vacancies had risen to 833 000, more than eight times the number of unemployed. The strain would have been even greater if the number of foreign workers had not climbed sharply. At the end of September it was 1.5 million, a new record. Part-time working also expanded vigorously in 1969. The number of persons in paid employment is likely to have risen by about 2.5 %.



In industry, which accounted for the lion's share of the additional employment, production expanded once again at a decidedly vigorous pace. Industrial production as a whole probably rose

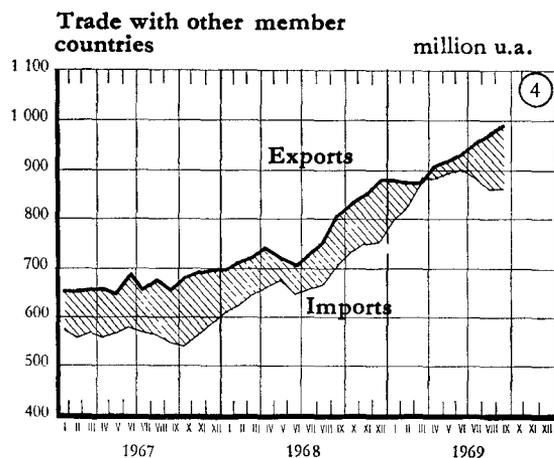
by almost 12 %. In the second half of the year, however, the expansion of production was somewhat less rapid, owing to capacity shortages and smaller productivity gains. The unusually sharp expansion in the capital goods industries in 1969 reflected an investment upsurge that was initially the main factor in the boom. For the full year, for instance, the output of capital goods was probably 17 % higher than in 1968. In mechanical engineering in particular, the backlog of orders was very large towards the end of the year. Output of consumer goods, by contrast, did not quite maintain the growth rate of a year earlier.



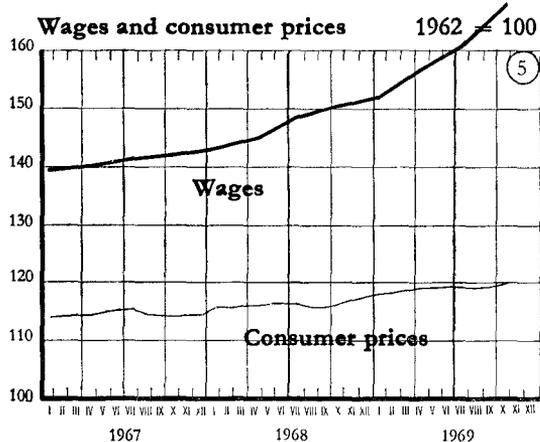
The other sectors of production likewise contributed strongly to the expansion of supply. This applied in particular to services. Farm output fell only a little short of the record level of the previous year. All in all, real gross national product is estimated to have risen by about 8 % in 1969; growth was thus of the same order of magnitude as in 1968 and was more than double the average annual rate suggested under the projections of the Community's first Medium-term Economic Policy Programme.

The boom and the increasingly full utilization of the domestic supply potential led to heavier recourse to imports. The growth of imports was stimulated not only by a tendency for import demand to gather additional momentum but also by special factors such as the 4 % tax rebate on imports introduced in November 1968, discounts on the forward market for some major currencies, the devaluation of the French franc in August and the floating and the subsequent revaluation of the German mark. The rise was sharpest in purchases of finished products. The increase in raw material imports,

by contrast, remained comparatively modest, compared with the strong expansion of production. With import prices rising appreciably, total visible imports in terms of value went up by some 22 %. Imports of services included, total imports are likely to have been up by some 20 % while their volume expanded by 17.5 %.



As a result of the unusually strong expansion of demand, the price climate deteriorated increasingly as the year advanced. The tendency for prices to rise, which initially was mainly due to the pressure of demand, was strengthened appreciably in the last third of the year by the pressure of costs. There was a fairly sharp rise in industrial producer prices, which in October were almost 4 % up on the level of a year earlier. In the agricultural sector, prices rose even more substantially; in October, farmgate prices were 4 % higher than in the same month of the previous year. At consumer level, by contrast, competition prevented prices from going up more steeply, at least in the first half of the year. Although the October cost-of-living index was approximately 2.8 % higher than a year



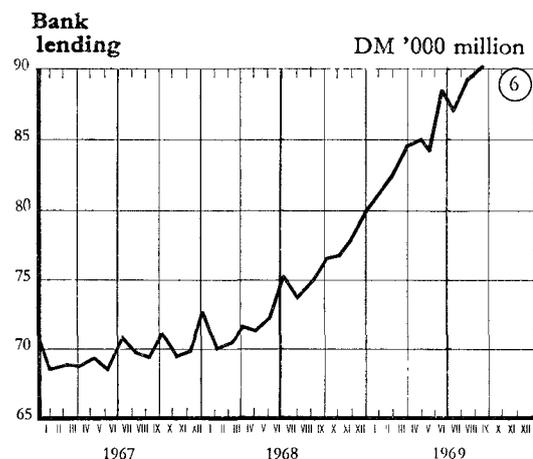
earlier, the bulk of this increment was accounted for by dearer food, beverages and tobacco. Towards the end of the year, the upward thrust of consumer prices was generally gathering distinct momentum.

Pressure on the domestic market was still not relieved sufficiently by imports, while—as pointed out already—the trend of exports was still very expansionary; as a result the “external contribution”, as defined for the national accounts, fell much less sharply than was needed for the health of the economy. For the full year, it may be estimated at DM 15 500 million, compared with DM 18 400 million in 1968.

At DM 10 600 million, the balance of visible trade for the first nine months closed with a surplus that was only DM 1 300 million lower than that for the same period of the previous year. The balance on service transactions, by contrast, was in heavy deficit again, so that the current account, which includes transfer payments that were only marginally higher, showed a surplus of DM 5 200 million, compared with DM 6 800 million for the first nine months of 1968. As this contrasted with net exports of long-term capital that were DM 5 100 million higher, the basic balance showed the very heavy deficit of DM 8 500 million. With net inflows of short-term capital running at more than double the 1968 figure, the picture was nevertheless essentially different in that the residual item of the balance of payments, which in the main reflects changes in leads and lags, showed the formidable surplus of DM 11 100 million. This was mainly the result of speculative changes in attitude before 24 October which are difficult to assess in statistical terms and were prompted by expectations that the mark would be revalued.

During the greater part of the year, the main feature of the monetary trend was an increase in inflows of liquidity from abroad. This helped to make more capital available to firms which are directly linked with their foreign parent companies or subsidiaries. The inflows also contributed to a considerable increase in bank liquidity. As the economic upswing was spreading, borrowing by firms, particularly at short term, expanded vigorously. The factors checking the expansion of liquidity, by contrast, hardly affected the supply of bank credit to any significant extent at this stage, although money and credit policy tended to tighten liquidity

through several increases in the minimum reserve requirements and reductions in rediscounting facilities. In addition, Bank rate was raised by steps from 3 % to 6 %.



The trend of the cash position of the public authorities also had a restrictive influence on domestic liquidity. With tax revenue rising substantially, spending policy followed cautious lines, particularly in the first half of the year, so that in 1969 the public sector as a whole achieved a financial surplus of some DM 6 000 million; as there was a deficit of DM 5 000 million in the previous year, this means an anti-cyclical swing, from one year to the next, of DM 11 000 million.

Restrictive policy and the rise in international interest rates led in 1969 to an unmistakable change in trend on the capital markets. On the bond market, for instance, interest rates declined until February but then rallied, although this did not affect long-term capital exports, which are desirable for balance-of-payments reasons.

Demand for and supply of goods and services

	1967 ¹	1968 ¹		1969 ²		1970 ³
	At current prices (in DM '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume ⁵
Exports ⁴	111.5	+ 15.6	+ 13.2	+ 13	+ 15	+ 8
Gross fixed asset formation	110.4	+ 8.2	+ 9.9	+ 13½	+ 17	+ 8½
Public current expenditure on goods and services	80.6	+ 0.2	+ 3.8	+ 4½	+ 9	+ 4
Private consumers' expenditure	281.4	+ 3.6	+ 5.7	+ 7½	+ 10½	+ 6
Gross national product	485.1	+ 7.6	+ 9.4	+ 8	+ 11	+ 4½
Imports ⁴	95.3	+ 16.9	+ 13.2	+ 17½	+ 20	+ 15

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 9/1969.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

⁵ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

The yield on the issue price of fixed-interest-bearing securities rose from 6.2 % in February to 7.2 % in October, although net sales of domestic bonds were distinctly below the figures of a year earlier, partly because of the lower borrowing requirements of the public authorities. On the share markets, too, sales of domestic shares lagged behind the 1968 figures, while net purchases of foreign equities were several times higher.

2. Outlook for 1970

Given the considerable imbalances in the external trade and payments pattern and particularly the heavy surpluses on goods and services which persisted even during the boom and were increasingly threatening to become a source of inflation, the Federal Government allowed the rate of exchange to float and on 24 October revalued the mark by 9.29 %. The new parity is now DM 3.66 to the US dollar. The margin on either side of the parity was at the same time restored to 0.75 %. However, the 4 % tax on exports and similar rebate on imports, introduced in November 1968, were definitively withdrawn.

The future trend will consequently be influenced by two basic factors: firstly, by the vigour of the current economic upswing which has apparently not yet passed its peak, and, secondly, by the repercussions which the parity change is expected to have on foreign trade and service transactions and on the attitudes of managements, unions and other economic groups.

It is particularly difficult at the moment to make sound estimates of the future trend of export demand. The abolition of the export tax and the upward tendency of prices and costs which persists in some major partner countries suggest that export demand will continue to expand despite revaluation, which was not large enough to arrest export growth. There is a good deal of evidence that the price increase for German products, which, expressed in foreign currencies, would be 9.2 %, will in fact be lower, since German exporters will be tempted to shave down their export prices. The extent to which they will actually do so depends, however, essentially on the state of export demand and on the further trend of business activity at home.

Despite the slower growth of export demand, the vigorous expansion of overall demand will probably continue unabated far into 1970 since aggregate domestic demand will if anything gather additional momentum.

Although gross fixed asset formation can hardly expand as fast as in 1969, investment demand will probably go on boosting economic activity far into 1970. Never before was the backlog of orders for capital goods in the industries manufacturing plant and machinery as heavy as at the end of 1969, so that for this reason alone investment activity is certain to continue at a high level beyond the first half of the year. The persistent excess strain on production capacities and the rise in costs touched off by the spate of wage awards of the autumn constitute an additional important incentive to step up rationalization investment. The investment survey carried out shortly before revaluation in cooperation with the IFO Institute suggests, indeed, that in 1970 firms will step up investment sharply. According to the survey, industry intended to spend some 15 % more on investment. However, as exporting will be more difficult and revaluation will add to the pressure on profit margins already squeezed by rising wage costs, some firms may feel prompted to revise their investment plans downwards. Current building projects in residential construction, industrial building and public building suggest that building investment, too, will go on expanding, at any rate in the early part of the year.

The trend of consumption should remain very dynamic. Public current expenditure on goods and services will probably expand fairly rapidly, influenced as it will be by the wage and salary increases. Private consumers' expenditure is likely to rise vigorously in the first half of 1970, mainly owing to the very heavy increase in Germany's net wage- and salary-bill (including transfer incomes from public sources) in the last quarter of 1969. There are many indications that the upward movement in wages will not slacken until later in 1970. Numerous wage agreements will come up for renewal. Were it only to prevent unofficial labour conflicts outside the collective wage agreements, the trade unions will probably put forward further wage claims of major proportions; given the acute manpower shortage, employers will probably concede substantial wage increases unless—and

this is unlikely—the trend of demand falls very appreciably in the near future. In addition, the wage drift will probably be fairly strong again, notably as workers move up to higher paid jobs or change firms or industries in search of better pay. Furthermore, self-employed persons can be expected to withdraw fairly substantial amounts from their businesses. Transfer incomes, by contrast, are likely to rise somewhat less vigorously than in 1969. Lastly, private consumers' expenditure may well also be boosted by a change in the propensity to save of households, since when prices are climbing fairly sharply, expenditure on consumption often rises more vigorously than disposable incomes.

On the demand side, the stage would thus be set for a further rapid expansion of production and employment. But the extent of the expansion of domestic production in 1970 will depend mainly on the scope for stepping up supply. So many firms in many industries are running at or near capacity and so few workers can be recruited on the domestic labour market or, for that matter, from abroad, that growth definitely cannot exceed certain limits. In industry in particular, productivity is likely to advance at a considerably slower pace than in 1969, particularly as a tendency for manufacturers to give the domestic market relatively more attention may well cause strain at many points. With the contribution of the services sector probably continuing at a high level, the growth in real gross national product for 1970 can in the present circumstances be put at 4.5 %, which would imply a slowdown in the trend for the second half of the year.

The trend of imports is fairly certain to gather additional momentum, since German firms cannot cope with demand and import prices will be lower owing to revaluation. Although the theoretical reduction in import prices (8.5 %) may be partly offset by a tendency for foreign suppliers to put up their prices and is automatically reduced by the withdrawal of the 4 % import rebate, imports of raw materials and finished products are likely to rise vigorously—were it only, in respect of finished products, because of the rapid expansion of consumption.

Any estimates of the foreign trade surplus made at present are bound to be very tentative. However, the upward trend of imports and the impact of revaluation (stimulating imports and

inhibiting exports) are likely to reduce the "external contributions" substantially. For 1970 the figure may be put somewhere between DM 11 000 and 12 000 million.

Keener competition from imports and the resultant reduction in the pressure of costs on firms may facilitate a return to price stability in 1970. It is true that costs have begun to climb, that the autumn wave of wage increases in particular will still weigh heavily on prices in the early months of the year, and that managements may well attempt to recoup from their domestic customers any reduction in their profit margins on exports. But through its immediate effects on consumer prices (lower German farm prices, lower prices for imported products due to revaluation) and through the resultant stiffening of competition from imports, revaluation has created more favourable conditions for a gradual stabilization of the price level in the course of 1970.

Purely in terms of the merchandise markets, the revaluation of the German mark should, by forcing a reduction in net exports, widen the margin of supply available to satisfy domestic demand. But if it is borne in mind that the full effects of revaluation will make themselves felt only when keener competition from imports has begun to bite and managements have had time to switch to some extent from the export trade to the home market, the margin of merchandise supply becoming available will probably remain too small at first. The current strength of the internal factors of expansion argues in favour of the maintenance, for the time being, of measures to curb demand, despite revaluation. This would no doubt facilitate an adjustment in the pattern of supply, and help to guide the upswing along more balanced lines. The authorities should, however, monitor the economic trend very carefully so that short-term economic policy can, as appropriate, be adjusted promptly should the expansion of demand lose appreciable momentum.

Great flexibility will be needed in the field of budgetary policy. The need for a policy curbing the expansion of demand has certainly become less pressing but has, so far, not disappeared altogether. The budgets, and notably the draft budget for 1970 to be laid before the Bundestag by the new Federal Government in the spring, should therefore in the aggregate

limit the rise in expenditure to the average rates under the medium-term "finance plan", particularly since tax concessions will come into force on 1 January: the tax-free personal allowance under the wage tax system will be doubled, as will be the ceiling for income not attracting the supplementary income tax levy. Should domestic demand slacken appreciably later on, the authorities could still boost activity by making the appropriate adjustments. Where necessary, the draft budget could include special appropriations for use only if there are signs that the growth of demand is getting too slow. In addition, the instrument of debt management can be used to make rapid adjustments to the liquidity trend.

The restrictive monetary and credit policy should be maintained for the time being. In the monetary field, however, the outflow of substantial quantities of speculative funds will lead to a sharp contraction of domestic liquidity. If the restrictive measures of the Bundesbank were not relaxed somewhat, this would amount to a corresponding tightening of the squeeze, involving the danger of an abrupt reversal in the propensity to invest. On 6 November the Bundesbank therefore lowered the minimum reserve requirements by 10 %, relieving the pressure on bank liquidity by a good DM 2 000 million. At the same time it abolished the 100 % reserve requirement applicable to any increase in liabilities to non-residents.

A feature of the balance-of-payments trend in 1970 will be fairly vigorous exports of capital. The outflow of long-term capital that has built

up in the past few years is not only due to general business conditions and is likely to continue, although with decreasing intensity. It must also be expected that a further part of the speculative funds that entered the Federal Republic since October 1968 will flow out again. From 29 September, when the exchange rate was allowed to float, to mid-November, the official foreign exchange reserves fell by some DM 13 000 million. The balance of foreign exchange payments will also probably come under pressure, mainly because the speculative effect of leads and lags and of foreign exchange transactions between domestic and foreign subsidiaries of the same firms are likely to be reversed. In this connection it should be remembered that between October 1968 and September 1969 the residual item in the balance of payments showed a surplus of DM 10 400 million—mainly a matter of leads and lags.

After revaluation, the trend of the German balance of payments and the resultant return to normal of the foreign exchange position of the Federal Republic of Germany will thus make an important contribution to better equilibrium in international payments. Consequently, this appears to be the time to review the differences in tax treatment between residents and non-residents in respect of long-term capital movements.

For the rest, the tendency for prices to rise, which at present continues, should be combated by a structural policy that mobilizes the latent productivity reserves. Competition policy, too, should take as active a form as possible to help check demands for unduly high prices.

TABLE 1: Key indicators

	1964	1965	1966	1967	1968	1968
	% change by volume on preceding year					Indices 1958=100
Gross national product	6.6	5.6	2.3	0.2	7.6	164
Industrial production	8.4	6.8	2.0	- 1.7	9.8	174
Total imports	10.9	15.2	2.7	- 0.4	16.9	297
Private consumers' expenditure	5.4	6.4	3.5	0.6	3.6	159
Public current expenditure on goods and services	- 1.0	6.9	1.0	3.4	0.2	171
Gross fixed asset formation	12.0	6.6	0.2	- 7.4	8.2	179
Total exports	10.3	7.7	10.8	9.6	15.6	254
Gross national product per head of population	5.4	4.2	1.3	- 0.2	7.0	147
Gross national product per person in employment	6.2	4.9	2.6	3.3	7.4	159
	% change by value on preceding year					
Gross income per employee	8.3	9.0	7.5	3.4	6.5	205

TABLE 2: Indicators for internal and external equilibrium

	1964	1965	1966	1967	1968
Balance exports less imports					
in million u.a.	+ 1 328	- 150	+ 1 625	+ 4 050	+ 4 593
as percentage of GNP	1.3	- 0.1	1.4	3.3	3.5
Unemployment rate	0.6	0.5	0.6	1.7	1.2
prices to private consumers (% change on preceding year)	+ 2.3	+ 3.2	+ 3.9	+ 8.1	+ 2.0

Germany

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1958=100	Million u.a.	% of totals
	1964	1965	1966	1967	1968			
Visible exports								
Total	10.9	10.3	12.5	8.0	14.3	282	24 848	100.0
Intra-EEC	8.4	6.7	16.0	0.4	16.7	388	9 340	37.6
To non-EEC countries	12.5	12.4	10.6	7.2	12.9	242	15 503	62.4
Exports of food, beverages and tobacco								
Total	20.5	25.0	- 2.0	26.9	21.8	360	658	2.6
Intra-EEC	22.1	22.6	6.6	61.2	32.8	579	379	1.5
To non-EEC countries	19.5	26.6	- 7.3	2.6	9.4	238	279	1.1
Exports of raw materials, fuel and power								
Total	1.1	3.4	7.1	1.3	10.7	192	1 569	6.4
Intra-EEC	- 1.1	4.1	8.5	1.5	10.6	189	957	3.9
To non-EEC countries	4.5	2.3	5.0	0.4	11.5	198	612	2.5
Exports of semi-finished and finished industrial goods								
Total	11.7	10.1	13.8	6.6	15.9	290	22 615	91.0
Intra-EEC	9.3	5.3	18.9	4.7	21.6	436	8 004	32.2
To non-EEC countries	12.8	12.7	11.3	7.6	13.0	245	14 611	58.8
Visible imports								
Total	12.2	19.6	3.2	- 3.7	16.1	274	20 150	100.0
Intra-EEC	17.4	30.7	4.2	- 1.0	21.7	441	8 359	41.5
From non-EEC countries	9.7	13.6	2.5	- 5.4	12.5	216	11 792	58.5
Imports of food, beverages and tobacco								
Total	8.3	21.6	2.4	- 4.2	3.7	191	3 712	18.4
Intra-EEC	9.3	28.0	6.8	0.1	11.9	320	1 613	8.0
From non-EEC countries	7.8	18.1	- 0.1	- 6.9	- 1.9	146	2 099	10.4
Imports of raw materials, fuel and power								
Total	16.4	4.6	2.8	- 0.6	15.8	176	5 190	25.8
Intra-EEC	16.8	8.3	8.1	9.4	18.1	320	970	4.8
From non-EEC countries	16.4	3.9	1.8	- 2.5	15.3	160	4 420	21.0
Imports of semi-finished and finished industrial goods								
Total	11.6	27.2	3.6	- 5.0	21.1	456	11 429	55.8
Intra-EEC	20.3	35.7	2.8	- 3.0	25.4	530	5 776	28.7
From non-EEC countries	5.2	20.0	4.3	- 6.9	16.8	397	5 473	27.1

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	111.0	110.6	111.1	112.0	109.4	108.2	114.9	111.7	115.7	115.5	117.0	120.5
	1968	116.4	118.7	122.7	122.4	123.0	132.5	125.3	135.3	132.8	130.5	139.3	142.5
	1969	137.3	140.9	143.3	142.9	146.0	147.1	143.6	150.1	145.1			
New orders received (1963 = 100)	1967	112.9	111.6	117.8	111.5	117.6	121.5	112.5	123.5	122.7	130.0	130.1	131.9
	1968	128.5	131.4	127.8	133.7	145.1	126.1	139.5	144.2	142.4	152.7	148.6	152.4
	1969	164.6	160.9	167.2	167.5	167.5	165.6	176.0	171.8	174.4			
Unemployed (1 000)	1967	334.8	408.5	482.9	533.8	529.4	487.5	480.3	469.6	450.7	417.2	443.5	448.0
	1968	436.7	388.8	395.3	355.0	316.6	293.8	282.9	266.7	253.2	245.9	232.5	208.3
	1969	202.4	236.4	200.6	170.8	154.5	150.2	153.7	154.2	153.5	153.7		
Construction : permits for residential construction (1 000)	1967	46.4	45.2	44.3	48.1	39.9	16.7	42.8	44.2	40.2	43.6	48.8	42.6
	1968	41.7	48.9	54.6	49.9	42.1	41.1	41.8	45.6	44.6	43.6	42.6	43.4
	1969	41.5	46.2	49.4	47.7	45.7	48.6	47.2	45.7				
Private consumers' expendi- ture : department store turnover (1963 = 100)	1967	142.0	138.6	145.6	131.6	138.5	144.2	137.8	146.2	147.6	140.8	146.1	166.0
	1968	148.7	147.7	147.5	156.9	153.6	145.4	158.7	161.3	159.3	159.2	169.0	154.6
	1969	165.4	155.3	162.2	158.4	170.4	167.3	170.1	171.0	(179)			
Consumer prices (1963 = 100)	1967	111.1	111.1	111.3	111.3	111.5	111.6	111.7	111.2	111.1	111.3	111.5	111.5
	1968	112.8	112.8	112.9	112.9	112.9	113.1	113.1	112.8	112.9	112.3	113.9	114.3
	1969	115.1	115.4	115.5	115.7	115.9	116.2	116.1	115.8	116.1	116.5		
Visible imports (million u.a.)	1967	1 450	1 393	1 382	1 392	1 389	1 529	1 383	1 476	1 398	1 508	1 556	1 559
	1968	1 575	1 614	1 598	1 633	1 679	1 498	1 822	1 654	1 666	1 559	1 740	1 702
	1969	2 015	1 860	1 977	2 061	2 010	2 031	2 133	1 955	2 110	(2 250)		
Visible exports (million u.a.)	1967	1 837	1 725	1 725	1 866	1 663	1 929	1 725	1 788	1 789	1 912	1 903	1 880
	1968	1 981	1 971	1 988	1 921	1 951	1 814	2 180	2 182	2 052	2 216	2 304	2 184
	1969	2 144	2 179	2 253	2 401	2 267	2 427	2 558	2 124	2 456	(2 540)		
Balance of trade (million u.a.)	1967	+ 387	+ 335	+ 343	+ 474	+ 274	+ 400	+ 342	+ 312	+ 391	+ 404	+ 347	+ 321
	1968	+ 389	+ 357	+ 390	+ 288	+ 272	+ 316	+ 358	+ 528	+ 386	+ 357	+ 564	+ 482
	1969	+ 129	+ 319	+ 276	+ 340	+ 257	+ 396	+ 423	+ 469	+ 348	(+ 290)		
Official gold and foreign exchange reserves (million u.a.)	1967	6 490	6 684	6 759	6 723	6 759	6 702	6 639	6 690	6 608	6 737	6 914	6 853
	1968	6 486	6 749	7 030	6 842	6 732	6 733	6 721	6 695	6 962	6 665	8 543	7 497
	1969	6 229	6 169	5 926	6 473	7 326	7 738	7 762	8 322	9 664			
Money supply (DM '000 million)	1967	77.0	77.1	77.4	77.8	78.2	78.6	79.0	79.5	80.0	99.8	81.7	82.3
	1968	84.1	83.1	83.9	83.5	83.5	84.7	84.8	85.7	86.8	86.2	87.9	88.3
	1969	89.4	89.1	90.7	90.2	91.5	92.2	93.1	94.3	(94.3)			

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US \$ 1) at official exchange rates.

Graph 1

— Trade with non-member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 2

— Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

Graph 3

— Industrial production: trend curve; estimate established on the basis of indices adjusted for seasonal and fortuitous variations, excluding construction, food, beverages and tobacco.

Graph 4

— Trade with other member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 5

— Wages and consumer prices: index of average hourly gross earnings in industry (including construction); cost-of-living index (all households) at middle of month, not adjusted for seasonal variations.

Graph 6

— Bank lending: short-term loans to business and private customers within the country; position at end of month, not adjusted for seasonal variations.

Table 1

— Gross national product at market prices.
 — Industrial production: value added by industry (including small workshops).
 — Total exports and imports: goods, services and factor income.
 — Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

Table 2

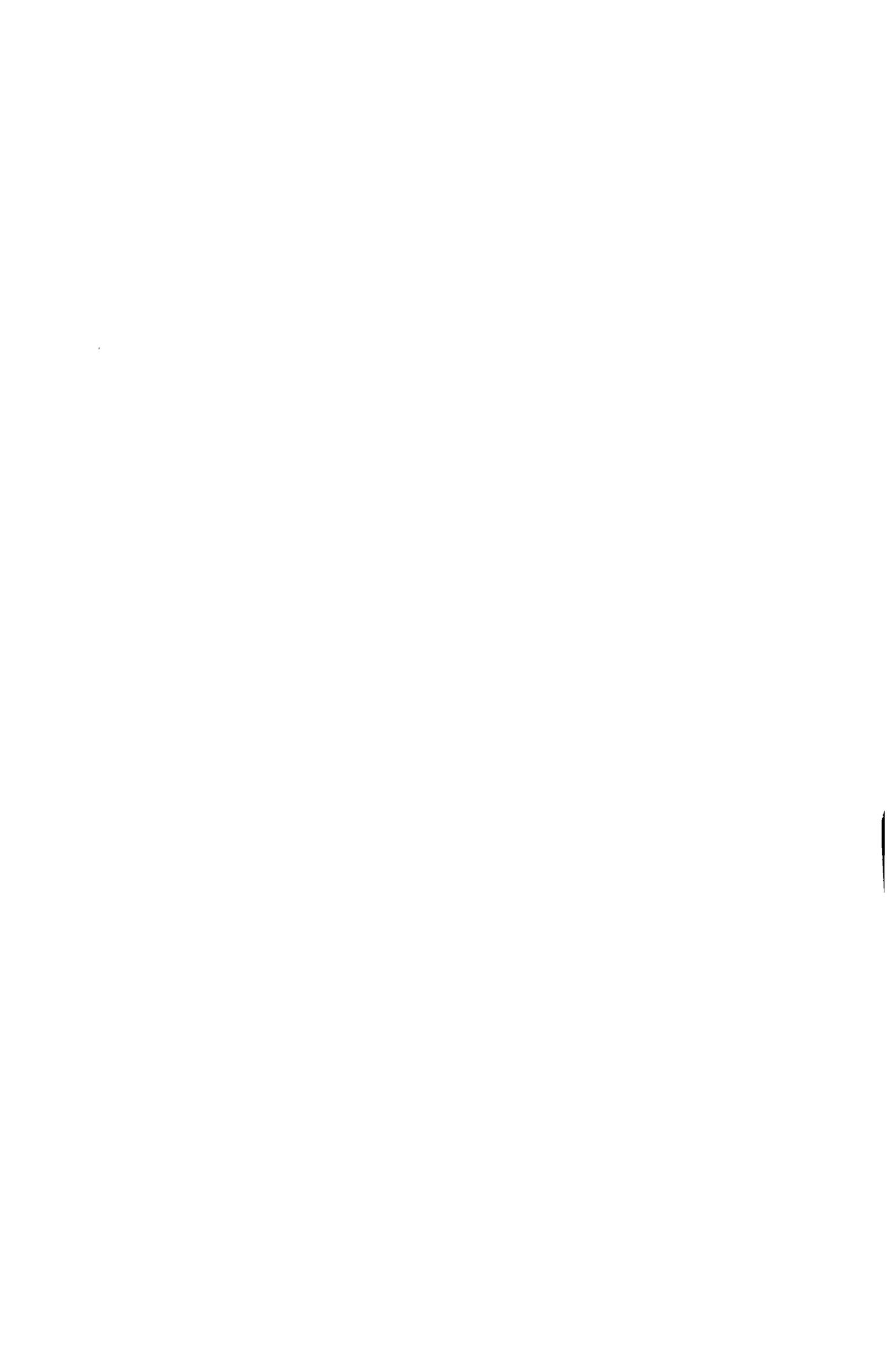
— Balance exports less imports: as defined for the national accounts.
 — Unemployment rate: number of unemployed as percentage of total labour force (annual averages); source: Statistisches Bundesamt and Bundesanstalt für Arbeit.
 — Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

— Exports fob, imports cif. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

— Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco.
 — New orders received: manufacturing industry (excluding food, beverages and tobacco); seasonally adjusted value index.
 — Unemployed: position at end of month, adjusted for seasonal variations.
 — Construction: seasonally adjusted number of dwellings authorized.
 — Private consumers' expenditure: seasonally adjusted value index of department store turnovers.
 — Consumer prices: cost-of-living index (all households), not adjusted for seasonal variations.
 — Imports cif, exports fob; value, adjusted for seasonal variations.
 — Balance of trade: difference between values of imports and exports seasonally adjusted.
 — Official gold and foreign exchange reserves: gross reserves of gold and convertible currency with Bundesbank at end of month.
 — Money supply: notes and coin in circulation (excluding cash holdings of credit institutions) and sight deposits of domestic non-banks (excluding public authorities' deposits with the Bundesbank); seasonally adjusted end-of-month figures.



B. France

The internal and external imbalance into which the French economy moved after the social crisis of May and June 1968 grew even more serious in the early part of 1969. The excessive liquidity of the economy, the uncertainties connected with the state of political or social affairs and the deterioration of the international monetary climate influenced the behaviour of those engaged in the economic process in such a way that, with production capacity already being used to the full, the excess of overall demand persisted. The forces thrusting prices upwards were still powerful, but the main development was the deterioration of the balance of payments. By the end of June 1969 France's net foreign exchange holdings, which one year previously still amounted to \$ 5 469 million, had dropped to \$ 1 363 million.

The French Government's decision of 10 August 1969 to devalue the franc by 11.11 % and in particular the intensification—linked with devaluation—of the restrictive economic policy probably had no appreciable effects on trends in the last months of 1969: the impact of the new policy should be felt mainly in 1970. Strict implementation of the measures adopted, particularly in the budget and credit field, will probably make it possible to restore in 1970 the durable internal and external equilibrium without which rapid and steady growth in the long run is impossible. The increase in the real gross national product for 1970 should, if due regard is paid to present priorities, amount to about 3.5 %.

1. Balance sheet for 1969

In by far the greater part of 1969 production continued at a high level and the serious overheating of the economy persisted. The imbalances on the goods and services markets increased further and the external financial situation suffered, in addition, from lack of confidence in the currency.

As early as November 1968 a restrictive budget and credit policy had been implemented to counteract the considerable speculative capital movements which were undermining the strength of the franc. The deficit of FF 11 700 million budgeted for in 1969 was reduced to FF 6 350 million: on the revenue side, indirect taxation was increased (the payroll tax was, however, abolished so as to ensure that the competitiveness of French firms on foreign markets was not impaired when the special export aids expired at the end of January 1969); on the

expenditure side, appropriations were cut by FF 2 500 million. These budgetary measures were supported by monetary measures, including increases in Bank rate and in the minimum reserve ratio of the banks and the introduction of a credit squeeze which, if the standards laid down had been respected, would have kept the volume of short-term credit practically unchanged during the first half of 1969. Exchange control was also reintroduced.

Changes in the behaviour of producers, dealers and consumers as a result of certain political and social developments largely offset this policy. Indeed, in spring 1969 the inflationary process was gathering further momentum. The authorities therefore devalued the franc on 10 August 1969 and implemented an "austerity" programme. Even if these measures began to "bite" before the end of the year, they would not greatly modify the overall picture of the economic situation in the year 1969, during

which all the components of demand grew too fast.

For despite the heavy pressure of domestic demand on available resources, exports also climbed rapidly during the year. According to the seasonally adjusted foreign trade returns, the value of the monthly visible exports in June and July 1969 was almost 13 % higher than the results reported for the fourth quarter of 1968. This increase is mainly due to the dynamic development of demand on international markets, particularly within the Community, where French exports increased by over 20 % during this period. All categories of products shared fairly equally in the expansion of exports, with the exception of agricultural products: exports of the latter rose very sharply on the markets of the Community, partly because francs bought forward were relatively cheap in the first half of 1969. Devaluation cannot as yet have substantially affected the volume of exports. From the direct and the usual reactions to a devaluation it may be surmised—and the export figures for the months of August to October provide some confirmation of this—that the monthly foreign exchange earnings from visible exports will probably hardly be higher for the second half of 1969 on average than for June and July.

For the full year 1969 compared with 1968 there will probably have been an increase in visible exports of nearly 24 % calculated in francs and 19 % by volume. With increased income from services, particularly from the tourist trade, the increase in exports of goods and services as a whole (as defined for the national accounts) calculated in francs should be about 22 %.

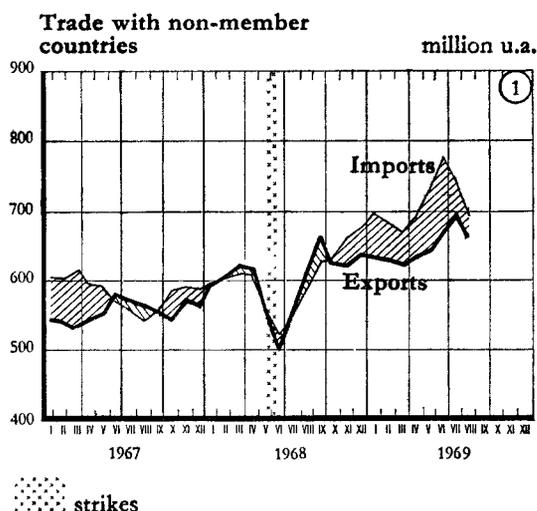
The vigour of export and domestic demand, the pronounced increase in profits and ample liquidity in the economy, the shortage of spare production capacities, the tax reliefs temporarily granted for the purchase of capital equipment (though these were cancelled ahead of schedule on 3 September) and, finally, the deterioration of the price climate caused and facilitated an unusually rapid expansion in fixed investment by private firms; it is estimated that in 1969 this demand component expanded 22 % by value and 16 % by volume. On the other hand, as a result of the curb on subsidies, investments by public enterprises rose by less than 3 %. Investments in residential construction showed an appreciable increase, put at 15 % for value and 7 % for volume. The demand for new housing was particularly lively during the first half of 1969, but it looks as if restrictions on the granting of building loans have slowed down sales in recent months. The development of investment by the public authorities suffered from the restrictive budget measures: it is unlikely that the increase for 1969 exceeded 6.5 % (value) or 4 % (volume).

All in all, the expenditure on fixed investment will have increased by 16.5 % for 1969—an increase in volume of about 10 %.

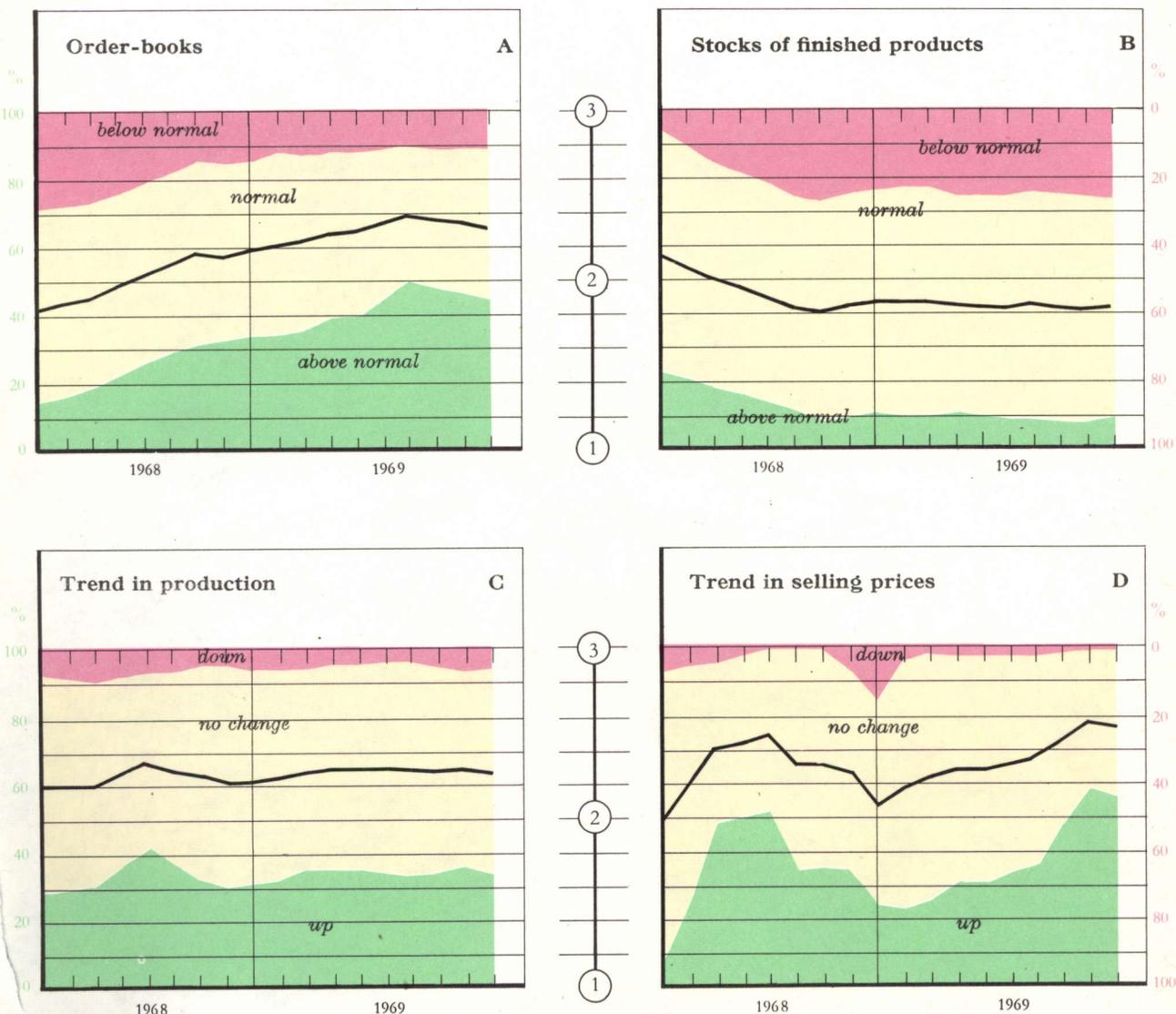
The drive by dealers and manufacturers to speed up investment in stocks in order to bring them into line with the development of production and sales was severely hampered by the vigorous expansion of final demand, inadequate supplies and the consequent lengthening of delivery dates. However, stocks as a whole were probably well above the extraordinarily low level reached by the end of 1968.

Public current expenditure on goods and services rose sharply, mainly because the considerable wage increases granted in 1968 exerted their full effect in the 1969 budget year and the number of public officials and employees—particularly in education—was further increased.

The expansion of private consumers' expenditure had lost a little momentum at the beginning of 1969, but social and political uncertainties and the general increase in inflation led to a perceptible increase in the propensity to consume in subsequent months. At the same time, the gross incomes of households were still definitely rising, although distinctly more slowly than in the second half of 1968. Firstly, the



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in France by INSEE.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

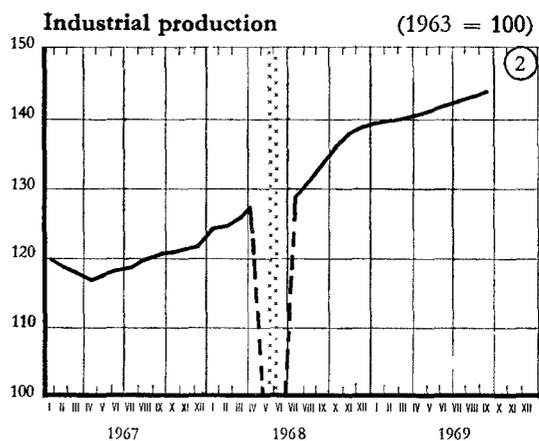
- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



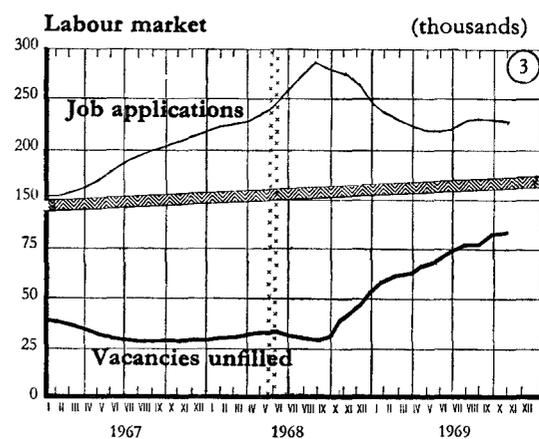
conclusion of wage negotiations at firm or industry level led to wage increases that were all the more vigorous because the satisfaction of wage claims, themselves strongly influenced by the upward trend of prices, was facilitated by the favourable financial position of the firms. Thus, hourly wage rates rose in the course of 1969 by rather more than 8 %; taking the average for the year, the increment over 1968 was almost 10.5 %. Secondly, the number of persons in paid employment increased sharply. Apart from farming, the increase was probably almost 2.5 %. Finally, although a shorter working week had been agreed, the number of paid working hours in the year 1969 was higher than in the previous year because of the strikes of May and June 1968. All in all, it is estimated that income from wages and salaries rose by more than 15 % for 1969. With the rapid growth of the other types of income, the overall gross incomes of households will probably have risen by approximately 14 %. Although the direct tax burden was heavier because taxes are on a graduated scale and because restrictive measures were adopted at the end of 1968, the disposable incomes of households in 1969 exceeded by approximately 13.5 % the total for 1968. The fact that during the same period private consumers' expenditure expanded by nearly 15 % is a clear indication of the weakness of the propensity to save.

With the vigorous growth of overall demand and the difficulties which stood in the way of any rapid expansion of capacities, the elasticity of domestic supply steadily declined. It is true that industrial production, expressed as value added at constant prices, rose by about 12 % but nearly all of this increase was already accounted for at the beginning of the year. In July/August 1969 the seasonally adjusted INSEE Index of industrial production¹ was only 2 % higher than in December 1968/January 1969. The limitation on investment by general government and public enterprises probably curtailed the growth of production in building and construction; here the growth rate is unlikely to have exceeded 6 %. Compared with this, value added in the services sector increased noticeably, with the result that the gross national product in real terms may have

attained a growth of somewhat more than 8 %, although agricultural production only slightly exceeded the—admittedly very high—output of 1968.



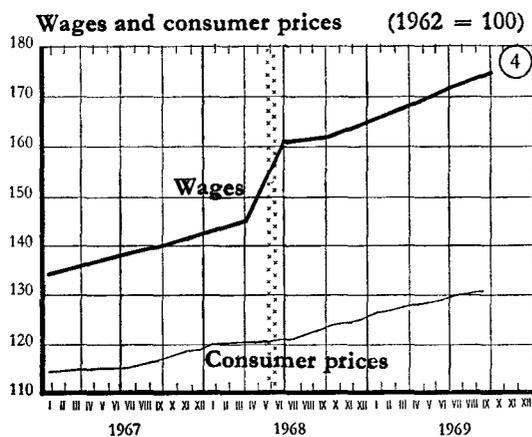
The improvement in production was achieved mainly through the employment of more labour, for the advances in productivity, which in the second half of 1968 had still been very rapid, declined throughout 1969. As a result, the position on the labour market quickly improved; in a few industries there was indeed an acute shortage of manpower. Thus, the seasonally adjusted number of vacancies rose from 61 600 at the end of December 1968 to 82 100 in September 1969. The number of unemployed contracted sharply in the first half of the year but showed little change thereafter. This level of unemployment is in fact still high, the reason being that the unemployed workers lack the required skills or are not available in the areas where there are vacancies.



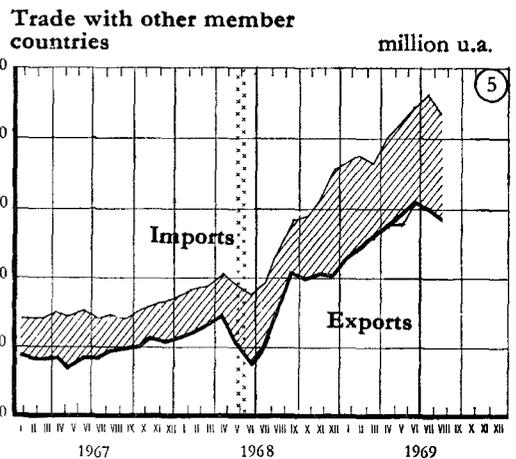
¹ Provisional figures (not including the construction and food industries).

Prices, stimulated by the rise in the cost of wages and capital and facilitated by the vigorous

expansion of overall demand, rose very briskly at all marketing stages during the greater part of the year. In July, wholesale prices exceeded the level of the previous year by 7.6 %, increases being strongest in the case of industrial products. The cost of living also rose very perceptibly as the increase in the TVA rates, which occurred on 1 January 1969 (the impact of this measure can be estimated at approximately 1.5 %), strengthened essentially "economic" factors forcing prices up. During the first seven months of 1969 the retail price index rose by 3.8 %; in July it was 6.9 % above the July 1968 figure. The additional increase in prices caused by the devaluation appears so far to be relatively limited as a general price freeze was decreed until 15 September and the policy of concerting action with the business federations was intensified. In any case the rise in the cost of living between August and October did not exceed 1.3 %.



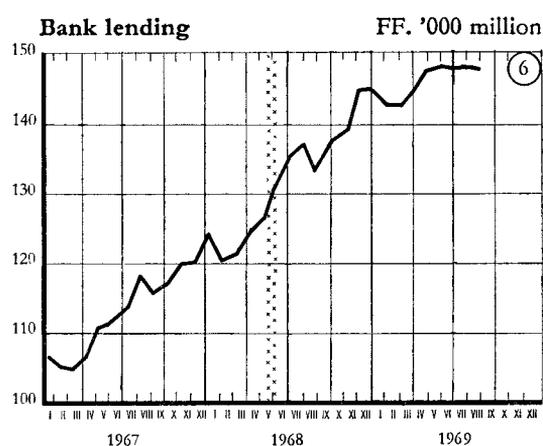
The inelasticity of domestic supply and the vigour of demand were the main factors accounting for the heavy flow of imports in 1969. According to the seasonally adjusted foreign trade returns, visible imports in June and July were running almost 13 % by volume and 15 % by value ahead of the very high level reached at the end of 1968. In the months following devaluation the rise continued at a rapid pace both in terms of volume and value. For the year 1969 as a whole, the increase in the volume of imported goods is estimated at 23 %. The volume of goods and services imported (as defined for the national accounts) probably increased a little less (approximately 20 %), mainly because of restrictions on travel abroad due to exchange control.



In these circumstances, the trade balance deteriorated. The deficit of the first seven months of the year had already increased substantially before the immediate effects of the devaluation (which are usually unfavourable) strengthened this trend in the following months: the direct adaptation of prices expressed in francs has a much more immediate impact for imports than for exports. On the whole the deficit of the balance of goods and services probably rose in 1969 by approximately FF 4 000 million. The deterioration of the current account was still further aggravated by a "leads and lags" effect. On the other hand, as a result of exchange control, exports of short-term capital were smaller than in 1968. Thus, at \$ 1 800 million, the total payments deficit for the first six months, while still high, was somewhat lower than in the second half of 1968, when it had exceeded \$ 2 300 million. The deficit was offset by \$ 600 million from official gross gold and currency reserves, the balance being provided from a reduction in the net foreign exchange holdings of the commercial banks and by the use of part of the short-term credits granted by a number of foreign central banks.

The contraction of foreign exchange holdings only slightly impaired the internal liquidity of the economy, for the cash transactions of the Treasury and the trend of loans to business and private customers had very buoyant effects. The budget deficit stood at nearly FF 7 000 million at the end of July, i.e. at almost the same amount as for the first seven months of 1968; it was largely financed by recourse to the money market, the funds held by the Treasury's traditional financing partners (savings banks, postal cheque offices) having contracted. The

strict implementation of the measures adopted by the Government in September 1969 in the budget policy field and the relatively heavy increases in receipts from taxes which are to be expected in the last months of 1969 should, by the end of the year, enable the 1969 budget deficit to be cut back under the new limit fixed by the Government (FF 5 000 million). The expansion of lending by banks to business and private customers in the first months of 1969 was still lively and appreciably more rapid than the quantitative restrictions allowed; in July 1969 loans outstanding exceeded the level attained at the end of 1968 by nearly 6 % and were about 16.4 % higher than one year previously. However, action taken to extend and apply more strictly rules restricting bank lending probably curbed very sharply the expansion of credit in the final months of the year.



The lively demand for credit, the weakness of liquid and short-term saving and the heavy outflow of foreign currency cut back sharply the banks' margin of available liquidity. The money

Demand for and supply of goods and services

	1967 ¹	1968 ¹		1969 ²		1970 ³
	At current prices in FF '000 million	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	82.4	+ 7.8	+ 8.2	+ 17	+ 22	+ 12
Gross fixed asset formation	144.0	+ 5.2	+ 8.0	+ 10	+ 16½	+ 4½
Public current expenditure on goods and services	70.5	+ 5.2	+ 13.0	+ 4½	+ 12½	+ 2
Private consumers' expenditure	345.9	+ 5.0	+ 10.0	+ 4½	+ 15	+ 3
Gross national product	572.4	+ 4.2	+ 9.3	+ 8	+ 15½	+ 3½
Imports ⁴	80.2	+10.6	+ 11.1	+ 20	+ 26	+ 4

¹ Source: Statistical Office of the European Communities.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, worked out by the Commission and generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries but are established and published on the sole responsibility of the Commission.

market came under very heavy strain although, in the first months of the year, the Banque de France was still intervening, especially by making funds available at variable interest rates. Apart from a few fluctuations, the call-money rate rose persistently. In October 1969 it reached 9.5 %. In June 1969 the monetary authorities changed to a more restrictive interest policy: they narrowed the difference between Bank rate (which in October 1969 was increased to 8 %) and the money market rates and limited the special concessions granted for various privileged types of credit (e.g. by raising the interest rates for equipment, residential construction and export loans and for loans of the *Crédit Agricole*).

The position on the capital market reflected particularly clearly the economic conditions of 1969. The heavy demand for assets other than cash caused a rise in share prices and led to a very substantial increase in issues of variable yield securities. In the first nine months of 1969, these issues totalled more than three times the amount issued in the corresponding period of the previous year. On the other hand, on the market for fixed-interest securities, with its relatively low interest level, the sale of bonds hardly increased at all.

2. Outlook for 1970

In view of the considerable contraction of foreign exchange reserves and the danger of further difficulties on the international foreign exchange markets, the French Government devalued the franc on 10 August 1969 by 11.11 %. However, as French firms were working to capacity and as the attitudes of those engaged in the economic process were still inflationary in their effect, the conditions on which the full success of the devaluation depended were not automatically fulfilled; in the short term there was even a danger that the change might strengthen inflationary forces. The authorities have therefore gradually implemented an "austerity" programme the purpose of which is to restore the basic equilibria of the French economy in three short stages: by 1 January 1970, strict budget equilibrium; by 1 April 1970, balancing of production and domestic demand; by 1 July 1970, equilibrium of foreign trade. These economic and financial

measures are designed to influence directly domestic demand and strengthen the restrictive monetary and credit policy. They can be divided into two groups, one of which was immediately implemented before the end of 1969 whereas the others maintain into 1970 the drive to restore the economy to sound health.

The first set of measures entails, in the field of public expenditure and taxation, freezing half the equipment appropriations (with a few exceptions) unexpended on 11 August 1969, suspension of recruitment to the public service until the end of 1969 and the transfer of FF 5 230 million worth of planning licences to an "economic contingency fund"; in addition the provisions for the advance payment of corporation tax have been altered in order to speed up collection; the "pro rata temporis" rule has been introduced for the calculation of depreciation allowances; finally, the temporary tax relief for the purchase of capital goods was abolished earlier than planned, on 3 September 1969. Thanks to these measures the deficit on the 1969 budget should be cut to less than FF 5 000 million. In the field of monetary and credit policy a strict observance was ordered of the quantitative limitation on the non-mobilizable short- and medium-term loans—already applied to other types of loan—and strict sanctions are provided for in the case of infringement (obligation to keep non-interest-bearing deposits with the Banque de France). Interest policy was made more restrictive: Bank rate was raised in two steps to 8 % and the rates for preferential loans (residential construction, equipment investments, exports, agriculture) were stepped up. In addition to this, the terms for granting consumer credits for certain items were made much more severe. A general "price pause" was decreed for the period 15 August to 15 September 1969; then the previous system of controlled price formation regulated by contract came into force again and, except in the case of special agreements, only services are still controlled by the price freeze.

Most of the longer-term measures are written into the draft Finance Law for 1970. The appropriations are to increase considerably less than the gross national product in money terms, i.e. by only about 6.5 % over the 1969 budget; the recruitment of civil servants is to be curbed, State subsidies (especially for public enterprises) are to be curtailed and central govern-

ment investment expenditure strictly limited. "Optional" sums totalling FF 2 230 million are to be paid into the "economic contingency fund", which brings to FF 7 000 million the sums available for injection into the economy should the business trend show signs of flagging. Tax receipts should be some 11 % up on those predicted in the 1969 budget. In spite of the considerable tax concessions for households, the yield from personal income tax is to rise by more than 10 %; this should be attributed to the vigorous rise in incomes in 1969 and to the fact—though the effect of this is limited—that the income tax scale is a graduated one. What is most important, however, is that the yield from the corporation tax will climb sharply in 1970 not only as a result of the rapid rise in profits in 1969 but also because of the effects of certain official measures adopted in the same year. By contrast, only a relatively small increase in the yield from indirect taxes is expected, since simplified arrangements for collecting the tax on value added, with a lighter tax burden, will cost the Treasury nearly FF 1 000 million in lost revenue.

The budget is supplemented by specific measures, chiefly in the field of savings and prices and in the social sphere. The prices policy is designed to keep the upward price trend—particularly the direct effects of the devaluation—within close limits: "concertation" with industry and severe price control will be continued and increases in charges for public services will be small in 1970. Various measures, such as the raising of deposit rates, temporary savings bonuses and additional tax concessions will constitute additional incentives to save. Provision has also been made to extend the system of tax credits for incomes from securities to non-residents as well. In the social field, measures have been taken to help the poorer sections of the population. By the end of 1970 the official old-age special assistance will have been raised, by stages, by approximately 15 %, and family allowances are being improved by approximately 5 %. Furthermore, a reform of the legally guaranteed minimum wage (SMIG) is being envisaged by means of which the latter would be more closely related to the average wage trend.

A study of the various aspects of government economic policy suggests that the measures announced or already adopted are largely in line

with the requirements of the current situation. They will very considerably enhance the prospects of achieving the objectives governing internal and external equilibrium: the curbing of general government expenditure and expenditure by the public enterprises, the slowdown in the expansion of the money supply, and the difficulties which firms may have in respect of finance are all factors which limit the opportunities for those engaged in the economic process to hamper efforts to restore a sound basis to the economy. However, the climate of opinion is also probably an essential factor if the anti-inflationary policy is to achieve an early success.

Of the components of domestic demand, the sharpest slowdown will be in the expansion of public expenditure. For 1970 the growth of public consumption should be about 7 % in terms of value and less than 2 % in volume, while public investment is unlikely to exceed 9 % in value and 4 ½ % in volume.

In 1970 managements are likely to be inhibited by financing difficulties due to the tighter credit squeeze, a heavier burden of direct taxation and a substantial slowdown in the expansion of sales. It is therefore likely that during the coming year the propensity to invest will weaken: the maintenance of an annual growth rate of 9 % (value) and 5 % (volume) for private productive investment for 1970 will be mainly a reflection of the high level reached at the end of 1969 and the execution of investment orders already made. In the public enterprises, it is expected that the volume of investment in 1970 will be much the same as in 1969. Lastly, the recent increase in difficulties in obtaining finance for housing will almost certainly help further to slow down demand in this sector in 1970: it is unlikely that the year-to-year growth rate of investment by households in new housing will be more than 3 % (volume).

The expansion of private consumers' expenditure should also slow down sharply. It is true that the increase in wages and salaries and in certain other classes of personal incomes could still be fairly rapid early in 1970. In particular, strain on the labour market could well continue for some months. But the slowdown in economic activity and the gradual change in conditions on the labour market should subsequently bring wage increases down to a rate of about 6 to 7 % per year. All in all, total gross incomes

are unlikely to expand more than 10 % for 1970. It is true that the burden of taxation borne by households will be lightened by the tax reliefs, but the effect of these will be felt mainly when the balance of income tax due is paid at the end of 1970. Lastly, the slowdown in business activity, a change (which seems likely) in the situation on the labour market and official incentives could well make possible a recovery in household saving, although it is unlikely that a savings ratio similar to that recorded in 1967 can be reached as early as 1970. All in all, it is expected that disposable incomes and household consumption will expand by 10 % and 9 % respectively in 1970.

It is likely that exports will make an important contribution to expansion in 1970: even if the slowdown in business activity expected in major industrialized countries is liable to inhibit the development of world trade, it is likely that, at least in the first half of the year, the rate of expansion of demand will remain high in all the other five Community countries, which account for nearly half France's exports. In addition, the combined effects of the devaluation of the franc and the revaluation of the mark are bound to improve the competitive position and the sales of French products on foreign markets as the slowdown of domestic sales and the disappearance of bottlenecks gradually help to improve delivery capacity. Assuming that French exporters cut their selling prices abroad by half the devaluation rate, it may be expected that exports of goods and services will increase by about 18 % in current francs and 12 % in volume in 1970.

The marked slowdown in the expansion of demand in 1970 should entail a lower growth rate for domestic supply. Assuming "normal" expansion for agricultural production, the gross national product should increase by about 3 ½ % (volume). Additional production capacity created by investments now being made should allow productivity gains to improve a little; in annual average terms, the number of persons in paid employment should rise by only a small amount. Strains on the labour market should ease.

In these circumstances, it is probable that external equilibrium will gradually be restored in 1970: the deterioration of the competitive position of foreign products as a result of price increases entailed by parity changes combined

with the slackening of domestic demand should cut the expansion of merchandise imports into France to about 4 % (volume) and 10 % (current francs) for 1970. This figure, which is a comparison of annual averages, will entail an actual decline from month to month during the year. With exports climbing rapidly, the trade balance should therefore achieve equilibrium for the full year 1970, i.e. a deficit during the early months should be offset by a surplus in the second half.

It would be a mistake, however, to regard the trade balance trend or the payments trend as the only yardsticks of economic and financial recovery. In fact, it is arguable that in the longer term the restoration of conditions of domestic equilibrium is even more important, since upon this depend the prospects of a further phase of lasting and sufficiently rapid economic growth. It is true that the policy of supervision and "contractual" freedom of prices suggests that once the direct effects of devaluation and of the increases in public service charges have been absorbed, the upward price movement should slow down in 1970. But price intervention cannot be regarded as a permanent aspect of economic development: a reform of production and trading structures and the elimination of obstacles of all kinds to the free play of competition are the right ways to reach stability.

The "policy mix" should be closely related to the need for comprehensive measures having prompt effect, the main considerations being that the greatest possible advantage should be taken of world business conditions while they are still dynamic and that the deterioration in the psychological climate which the maintenance of restrictive measures would cause should be avoided. The French Government has often emphasized the importance it attaches to obtaining early results. In this connection, new measures have been adopted recently to tighten up monetary policy: on 8 October 1969 Bank rate was raised to 8 % and the rate for advances on securities to 9.5 %, the banks' compulsory holdings of medium-term bills were raised from 14 % to 15 % of customers' deposits (*coefficient de retenue*), strict control of the limitation of credit expansion was imposed and extended until 30 June 1970. All these decisions should serve to reduce the liquidity of the economy as rapidly as possible. The authorities should not hesitate to take further steps if the

measures should prove insufficiently effective or if the return of funds held abroad should tend to counter their effects.

The Government's budgetary arrangements made in 1969 take account of the need for rapid intervention. The freezing of a large quantity of unexpended appropriations should enable the Treasury to curb demand and liquidity by the end of 1969; this should be all the more effective if total general government expenditure is kept strictly within the limits set and the excess revenue from taxation which is expected to accrue is not used. There is also a case for extending the restrictive effects of the Treasury's action during the early months of 1970 by controlling carefully the use of unexpended balances and the implementation of the 1970 Finance Law in the course of the year. Lastly, care should be taken to ensure that the impact of budget retrenchment is not weakened by the development of the financial situation in other

sectors of the public administration, such as the social security agencies or the local authorities.

Neither the requirements of the current situation nor the necessary impact of short-term economic policy measures on growth in 1970 should, however, lead the authorities to relax their efforts to improve essential economic and social structures. In this connection, the French Government's new guidelines concerning the management of public enterprises and the transfer to the private sector of the financing of certain collective investments represent a definite improvement. A more vigorous drive to adapt the occupational training of workers to the real needs of the economy and the implementation of an appropriate policy with regard to housing would also facilitate inter-industry and regional mobility of labour, thus enabling the opportunities for growth and for higher living standards which the increase in the working population offers to be fully exploited.

France

TABLE 1 : Key indicators

	1964	1965	1966	1967	1968	1968
	% change by volume on preceding year					Indices 1958=100
Gross national product	+ 6.6	+ 4.7	+ 5.5	+ 4.7	+ 4.2	168
Industrial production	+ 8.5	+ 5.1	+ 7.6	+ 4.4	+ 4.2	178
Total imports	+ 12.9	+ 3.3	+ 14.0	+ 7.2	+ 10.6	238
Private consumers' expenditure	+ 5.6	+ 4.4	+ 4.7	+ 4.8	+ 5.0	165
Public current expenditure on goods and services	+ 3.6	+ 2.7	+ 2.7	+ 3.6	+ 5.2	144
Gross fixed asset formation	+ 13.8	+ 7.2	+ 8.9	+ 5.7	+ 5.2	216
Total exports	+ 7.8	+ 11.8	+ 8.3	+ 6.5	+ 7.8	232
Gross national product per head of population	+ 5.4	+ 3.7	+ 4.6	+ 3.9	+ 3.4	151
Gross national product per person in employment	+ 5.3	+ 4.3	+ 4.8	+ 4.4	+ 4.4	163
	% change by value on preceding year					
Gross income per employee	+ 8.6	+ 6.6	+ 6.2	+ 6.2	+ 11.2	233

TABLE 2 : Indicators for internal and external equilibrium

	1964	1965	1966	1967	1968
Balance exports less imports					
in million u.a.	- 26	+ 1 012	+ 353	+ 420	- 8
as percentage of GNP	- 0	+ 1.0	+ 0.3	+ 0.4	- 0
Unemployment rate	1.1	1.3	1.4	1.8	2.1
consumer prices (% change on preceding year)	+ 3.4	+ 2.5	+ 3.0	+ 2.8	+ 4.7

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1958=100	Million u.a.	% of totals
	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports								
Total	+ 11.3	+ 11.8	+ 8.3	+ 4.5	+ 11.4	247	12 672	100.0
Intra-EEC	+ 12.8	+ 18.0	+ 12.0	+ 2.0	+ 16.0	480	5 452	43.0
To non-EEC countries	+ 10.3	+ 7.8	+ 5.8	+ 6.3	+ 8.2	151	7 220	57.0
Exports of food, beverages and tobacco								
Total	+ 14.4	+ 11.4	+ 7.5	+ 2.9	+ 19.8	318	2 118	16.7
Intra-EEC	+ 16.6	+ 26.3	+ 19.4	+ 6.0	+ 26.6	924	1 127	8.9
To non-EEC countries	+ 13.0	+ 2.0	- 2.0	- 1.0	+ 12.8	182	991	7.8
Exports of raw materials, fuel and power								
Total	+ 9.7	+ 4.4	+ 7.3	- 3.7	+ 1.6	163	1 125	8.9
Intra-EEC	+ 19.1	+ 8.9	+ 7.4	- 3.7	+ 0.9	226	679	5.4
To non-EEC countries	- 1.1	- 1.8	+ 7.2	- 3.6	+ 2.6	114	446	3.5
Exports of semi-finished and finished industrial goods								
Total	+ 10.8	+ 13.2	+ 8.7	+ 6.1	+ 11.1	260	9 429	74.4
Intra-EEC	+ 10.4	+ 18.3	+ 11.2	+ 2.3	+ 16.2	519	3 646	28.8
To non-EEC countries	+ 11.1	+ 10.3	+ 7.2	+ 8.5	+ 8.1	197	5 783	45.6
Visible imports								
Total	+ 15.4	+ 2.7	+ 14.6	+ 4.5	+ 12.5	248	13 927	100.0
Intra-EEC	+ 20.4	+ 6.7	+ 20.8	+ 10.7	+ 23.1	539	6 617	47.5
From non-EEC countries	+ 12.6	+ 0.3	+ 10.5	+ 0.2	+ 4.4	167	7 310	52.5
Imports of food, beverages and tobacco								
Total	+ 14.9	- 0.5	+ 8.4	- 2.6	+ 2.7	136	1 921	13.8
Intra-EEC	+ 26.2	+ 8.9	+ 1.3	+ 16.6	+ 31.8	638	588	4.2
From non-EEC countries	+ 12.5	- 2.8	+ 10.3	- 7.4	- 6.4	101	1 333	9.6
Imports of raw materials, fuel and power								
Total	+ 7.1	+ 0	+ 5.9	+ 0.3	+ 3.6	145	3 633	26.1
Intra-EEC	+ 3.7	- 5.0	+ 9.5	- 2.3	+ 14.2	167	603	4.3
From non-EEC countries	+ 7.7	+ 0.9	+ 5.3	+ 0.8	+ 1.7	142	3 030	21.8
Imports of semi-finished and finished industrial goods								
Total	+ 21.8	+ 5.6	+ 22.0	+ 9.0	+ 19.6	496	8 373	60.1
Intra-EEC	+ 23.2	+ 8.6	+ 25.0	+ 11.9	+ 23.3	701	5 426	39.0
From non-EEC countries	+ 19.9	+ 1.5	+ 17.6	+ 4.3	+ 13.3	322	2 947	21.1

TABLE 4 : Selected monthly indicators

	Year	Jan	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	120.9	119.2	119.9	116.7	117.3	118.6	120.0	120.7	122.0	123.0	124.5	124.7
	1968	124.8	125.4	127.7	127.6	87.2	99.0	130.1	133.5	129.9	138.6	140.3	142.1
	1969	141.5	138.9	137.9	140.6	142.3	138.6	144.6	140.6	141			
Number of persons seeking employment (1 000)	1967	164.5	165.5	172.2	184.0	188.8	192.6	195.0	202.5	211.8	220.2	229.3	232.5
	1968	234.8	237.3	244.2	244.9	248.7	269.5	261.0	265.3	264.9	263.0	256.5	248.2
	1969	249.0	243.3	235.0	224.1	215.7	207.0	205.1	208.3	213.6	207		
Construction: building permits issued for housing (1 000)	1967	36.3	39.9	41.0	37.6	44.7	40.2	41.2	38.1	36.6	34.8	37.3	37.3
	1968	39.8	35.3	42.3	35.9	39.8	44.4	46.2	30.8	40.9	51.2	53.8	76.9
	1969	47.6	42.1	43.8	41.0	47.3	60.9						
Private consumers' expendi- ture: turnover of depart- ment stores (1963 = 100)	1967	121.4	120.4	129.8	120.3	124.3	132.2	123.1	127.7	133.3	121.1	131.8	127.7
	1968	127.1	128.0	129.8	124.5	189.9	123.8	142.7	143.7	134.9	141.2	161.6	143.2
	1969	146.4	139.1	143.1	139.1	142.8	136.4	145.8	155	140			
Consumer prices (1963 = 100)	1967	110.5	110.6	110.9	111.0	111.2	111.2	111.5	111.9	112.3	112.8	113.7	113.8
	1968	114.9	115.0	115.1	115.4	115.8	116.2	116.6	117.1	117.9	119.1	119.5	119.8
	1969	121.1	121.5	122.1	122.7	123.2	123.6	124.2	124.5	125.2	126		
Visible imports (million u.a.)	1967	1 063.2	1 035.3	1 068.8	987.6	1 005.9	1 014.5	961.0	1 010.6	1 094.0	1 054.3	1 060.9	1 057.7
	1968	1 085.0	1 101.0	1 114.6	1 100.8	883.3	949.0	1 283.8	1 222.8	1 277.2	1 312.7	1 345.3	1 329.6
	1969	1 360.0	1 314.3	1 314.2	1 480.5	1 443.0	1 520.7	1 526.0	1 365	1 525	1 620		
Visible exports (million u.a.)	1967	930.1	895.8	896.9	960.6	910.9	1 014.3	946.7	908.9	991.5	937.2	1 010.1	966.9
	1968	1 043.7	1 056.2	1 068.5	1 078.7	779.4	779.5	1 283.5	1 117.2	1 081.1	1 144.0	1 124.0	1 108.7
	1969	1 216.3	1 168.7	1 143.8	1 300.2	1 221.5	1 338.9	1 349.3	1 030	1 208	1 310		
Balance of trade (million u.a.)	1967	- 133.1	- 139.5	- 171.9	- 27.0	- 95.0	- 0.2	- 14.3	- 101.7	- 102.5	- 117.1	- 50.8	- 90.8
	1968	- 41.3	- 44.8	- 46.1	- 22.1	- 103.9	- 169.5	- 0.3	- 105.6	- 196.1	- 168.7	- 221.3	- 220.9
	1969	- 142.7	- 145.6	- 170.4	- 180.3	- 221.5	- 181.8	- 176.7	- 335	- 317	- 310		
Official gold and foreign exchange reserves (million u.a.)	1967	5 710	5 716	5 705	5 722	5 749	5 772	5 813	5 824	5 835	5 845	6 182	6 108
	1968	6 053	6 014	6 023	6 027	5 720	5 517	4 850	4 601	4 374	4 265	3 985	4 200
	1969	4 215	4 125	3 986	3 774	3 636	3 610	3 594	3 781	4 006	3 913		
Money supply (FF '000 million)	1967	187.8	188.4	189.9	193.7	192.5	194.0	192.5	192.8	194.5	194.1	193.7	194.2
	1968	192.3	193.1	193.1	193.6	207.6	207.0	203.0	204.3	207.9	209.0	210.1	210.9
	1969	209.1	211.5	213.4	216.1	214.4	216.0	215.1	215.1				

France

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US \$ 1) at the official exchange rate.

Graph 1

- Trade with non-member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 2

- Industrial production: trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

Graph 3

- Labour market; source: INSEE; series adjusted for seasonal variations, three-month moving averages; position at end of month.

Graph 4

- Wages and consumer prices; source: INSEE; index of hourly wage rates, all activities, all regions; national index of consumer prices (259 items).

Graph 5

- Trade with other member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 6

- Bank lending; source: Conseil national du Crédit; short-term loans (up to 2 years) from monetary institutions to business and private customers; end-of-period figures.

Table 1

- GNP at market prices (new series on 1962 basis).
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.
- Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

Table 2

- Balance exports less imports: as defined for the national accounts.
- Unemployment rate: number of unemployed (persons available for and seeking employment, estimated on the basis of the number of job applicants, in the light of the latest population census) as percentage of the total domestic labour force; source: INSEE.
- Consumer prices: implicit price index of private consumption computed from the national accounts.

Table 3

- Exports fob, imports cif; the products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

- Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco.
- Number of persons seeking employment: seasonally adjusted figures, position at end of month.
- Construction: seasonally adjusted number of dwellings authorized.
- Private consumers' expenditure: seasonally adjusted indices of department store turnovers, constant samples.
- Consumer prices: national index of 259 items.
- Imports cif, exports fob, adjusted for seasonal variations.
- Balance of trade: difference between seasonally adjusted imports and exports.
- Official gold and foreign exchange reserves: gross reserves of gold and convertible currency held by the Banque de France and the Fonds de Stabilisation des changes at the end of month.
- Money supply: fiduciary circulation (total notes and coin in circulation, excluding notes and coin held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with the Post Office giro or with public accountants, plus sight deposits relating to the activities of the banks within metropolitan France. Seasonally adjusted prices, at end of month.

C. Italy

In 1969 economic activity gathered further momentum. The key to the trend, particularly in the first half of the year, was still export demand. The growth of domestic demand, however, especially fixed asset formation, was very rapid and in fact there was a distinct acceleration. Unexpectedly violent labour disputes, particularly in the last third of the year, impaired production. Imports as a whole expanded extremely fast. The level of prices, which had been exceptionally stable in 1968, rose more and more appreciably in the course of the year.

A further acceleration of the fast upward trend of demand is expected in 1970, with the main contribution coming more and more from domestic demand. Besides a rapid increase in investments, there is likely to be in particular a very vigorous upsurge of consumer spending. The real gross national product could well expand more than in 1969; this would again be considerably faster than the target growth rate set in the Italian five-year plan. The conditions making for internal and external equilibrium may well deteriorate in 1970.

1. Balance sheet for 1969

In 1969 the economic trend registered a very vigorous upswing, but this was accompanied, particularly in the second half of the year, by signs of increasing strain. From September onwards economic activity was impeded appreciably by widespread and unexpectedly violent labour disputes.

Exports were again the most dynamic component of demand, although their growth—seasonally adjusted—tended to slow down somewhat towards the end of the year. The fast growth of exports, which was only a little slower than in 1968, is all the more remarkable because the import curve for non-member countries was climbing more slowly than in 1968 and there was greater pressure on resources because of an accelerated growth of domestic demand. The two main factors contributing to the fast growth of exports were the very lively and, at times, inflationary demand for imports in the other member countries and Italy's favourable competitive position on the international market. Further factors were no doubt

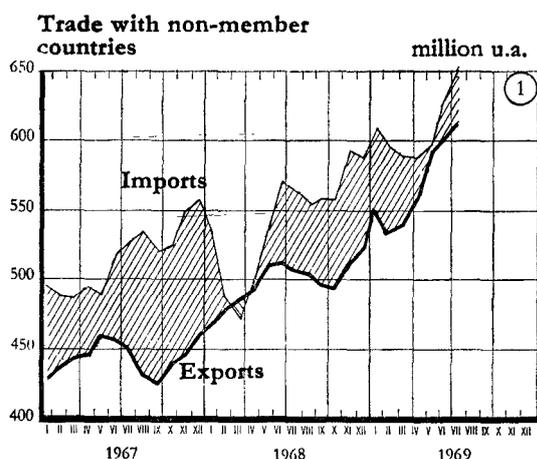
the tariff reductions resulting from the Kennedy Round that took effect on 1 January 1969 and the elimination six months earlier of the remaining customs duties within the Community.

Exports of all the main classes of products increased, but the mechanical engineering and garment industries were the ones which stepped up most their sales abroad.

Growth of visible exports, as defined for the customs returns, is estimated at 19.5 % for 1969 in terms of value and 18.5 % in volume, as against 17 % and 19.4 % respectively in 1968.

Despite a relatively weak growth of the tourist trade, exports of services also increased at a fast pace, chiefly owing to a very rapid expansion of investment income and earnings from merchandise transport.

As defined for the national accounts, it is estimated that the value of exports of goods and services as a whole was some 18.5 % up in 1969 as against 14.7 % in 1968.



The acceleration in the growth of domestic demand was due primarily to the investment trend.

Investment in building and construction, in particular, continued to accelerate in 1969, especially investment in residential construction, but this was due not so much to the underlying trend as to special factors. According to a law passed in August 1967, building permits could be granted up to the end of August 1968 with exemption from compliance with certain town-planning regulations provided that building was begun within a year and completed in the following two years. This concession, which in 1968 provoked an extremely rapid increase in building permits—an increase far beyond even that achieved in the building boom from 1961 to 1963—prompted a very vigorous expansion of building starts in the first eight months of 1969. An appreciable contribution to building activity, however, was also made by the sharply growing demand for dwellings in the more and more thickly populated areas of industrial concentration in North Italy—newcomers are mainly from the South—and by growing industrial investment in expansion. The trend of public works, on the other hand, was extremely sluggish, at any rate in the first half of 1969 (more recent information is not yet available).

The growth of investment in plant and machinery had lost momentum in 1968, but expansion was more rapid in 1969. Managements questioned in March and April for the EEC's six-monthly business survey reported plans to increase their investments in 1969 by no less than 30 % (value). Rapidly contracting reserves of technical capacity and the prospects of expanding

demand, together with the tax and other concessions made in the second half of 1968, were probably the main reasons for this upswing.

Against expectations, investment in stocks seems to have declined. Obviously firms were forced to cut deeply into available stocks on account of production shortfalls due to strikes.

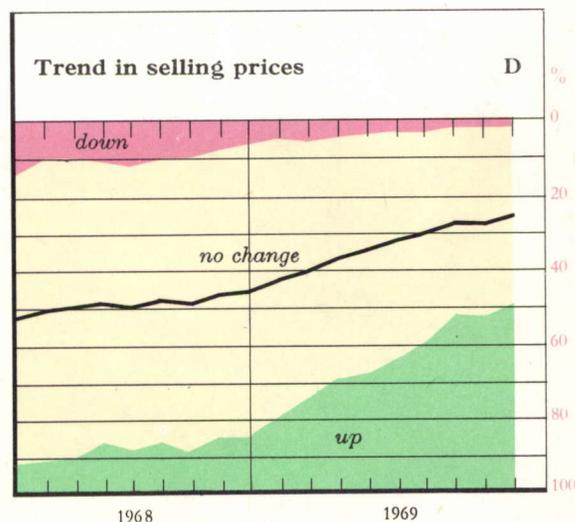
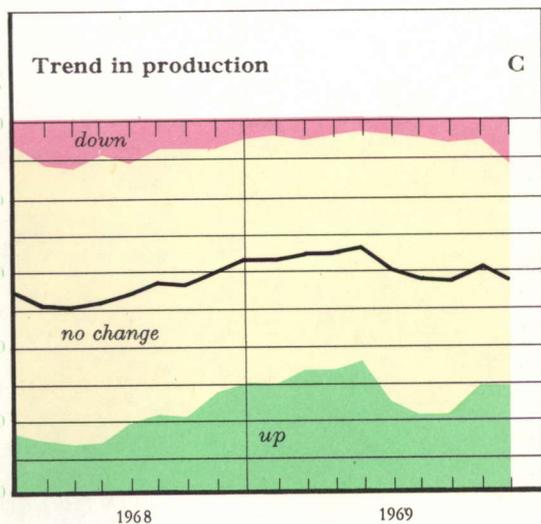
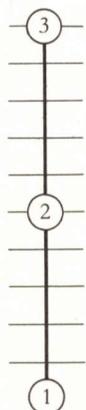
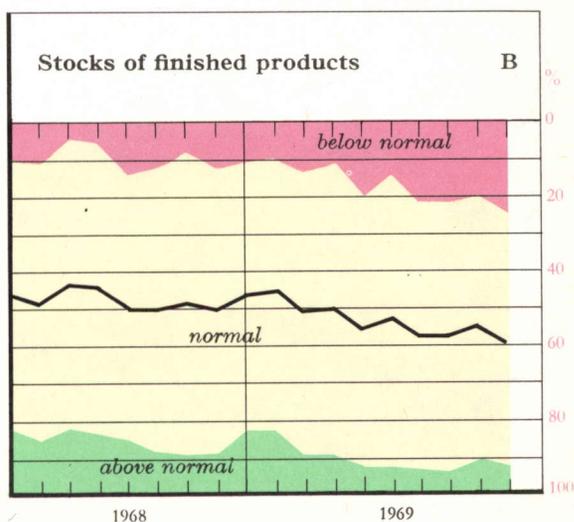
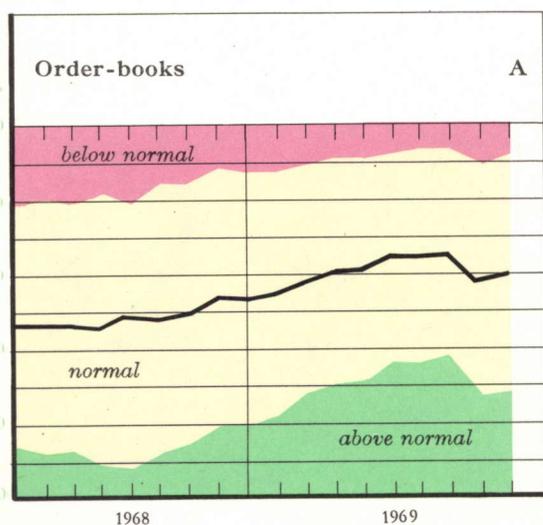
Expenditure on consumption grew at a faster pace: the Government's latest "Forecast and Planning Report" estimates that public current expenditure on goods and services grew in terms of value by 9 %; but a more important factor was that the expansion of private consumers' expenditure was significantly more vigorous than in 1968. The propensity of households to consume probably remained unchanged, after declining in 1968, but a more significant role was played by numerous factors which led to a considerably sharper increase in disposable incomes: the employment trend (wage- and salary-earners) gathered a little momentum; minimum *per capita* wages grew appreciably faster because of the renegotiation of a number of important collective wage agreements towards the end of the year and because of the first measures to abolish the wage zoning system and of the frequent increases in cost-of-living allowances due to activation of the sliding wage scales; it is also probable that the wage drift gained strength; the pay of public officials was improved; lastly, pensions were raised by a considerable margin, the higher payments beginning in August.

The distinctly faster growth of registrations of new private cars is one factor among several suggesting that the consumption of high-value goods probably grew at an above-average speed.

On the whole, private consumers' expenditure (national accounts definition) is estimated to have been about 9.5 % up in 1969 (5.4 % in 1968).

On the supply side, the contribution to the real domestic product made by agriculture rallied after a sharp decline in 1968. While livestock production made further brisk progress, there were temporary shortages of crop products, in particular vegetables, because of weather conditions. Had it not been for considerable production losses caused—mainly towards the end of the year—by labour conflicts, industrial production would have risen distinctly faster than in 1968. Production expanded in practically all

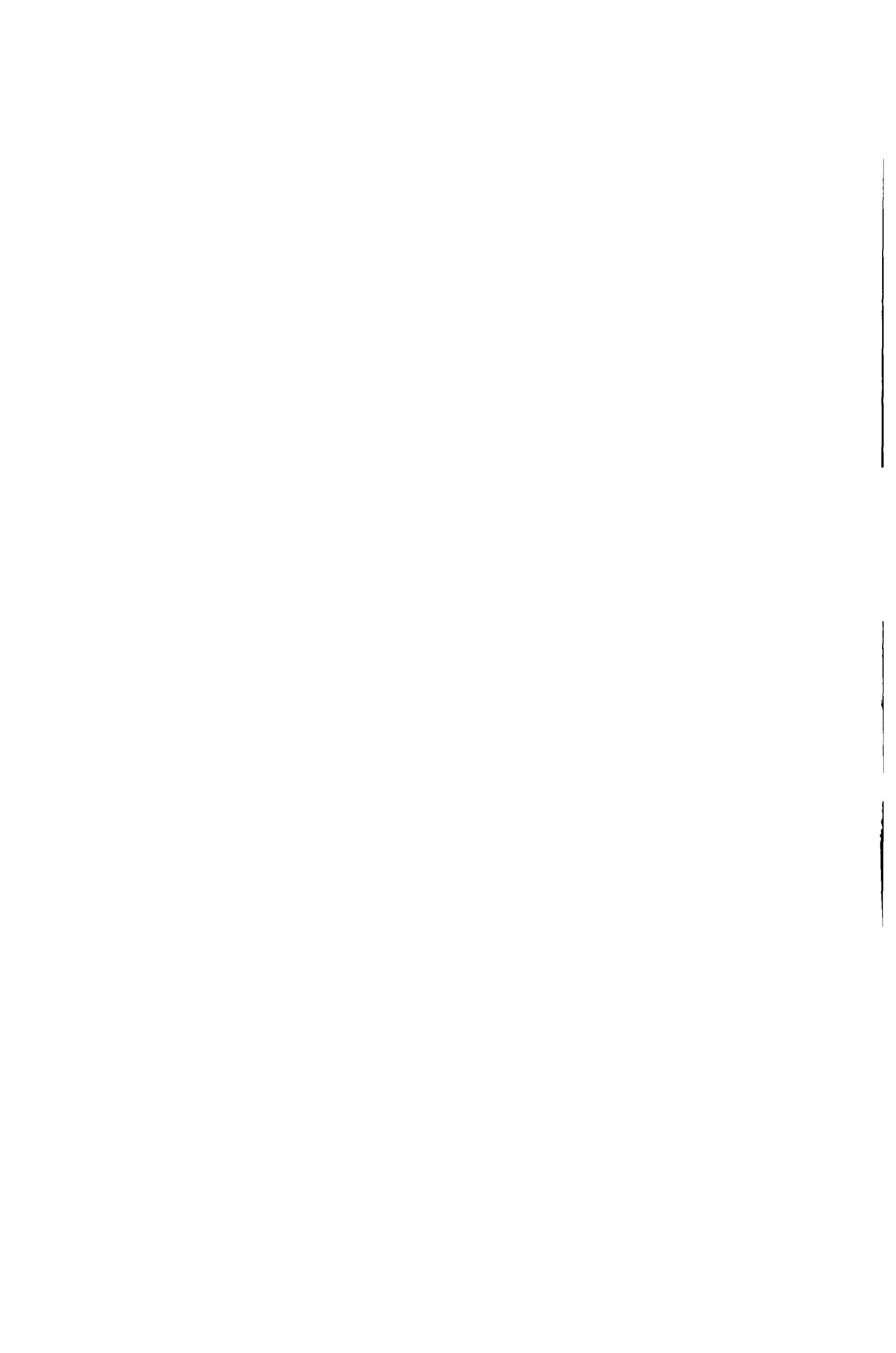
BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



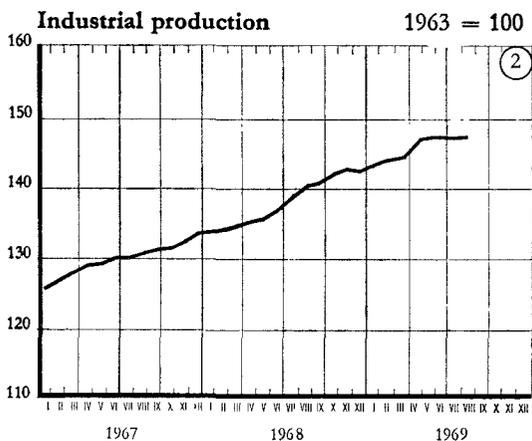
Answers to the questions in the EEC business survey, carried out in Italy by ISCO-Mondo Economico.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



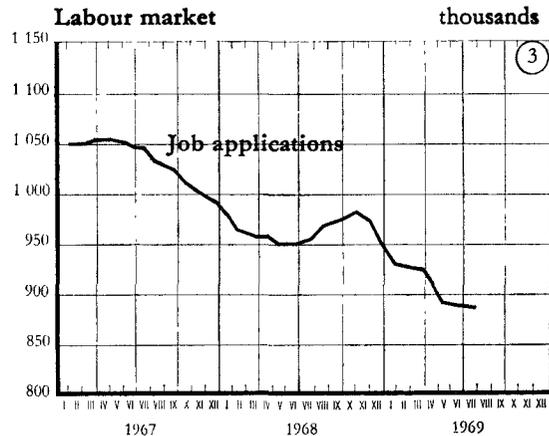
the main industries, including textiles, where output had still been declining during most of 1968; the most marked growth was in the field of capital goods. Because of the production losses, however, industrial production (value added at constant prices) probably rose by only about 6 % for the year, as against 8.3 % in 1968. Building and construction (also defined as value added at constant prices) represented by far the most dynamic component of domestic supply; growth rate in this sector, which was 7.5 % in 1968, may be put at roughly 15 % for 1969.



Including services, the growth of the gross national product for 1969 is now estimated at some 6 % (constant prices), compared with 5.7 % for 1968. The figure forecast in the last Quarterly Survey—7 %—has had to be adjusted downwards, because of production losses due to the strikes.

Despite a slight acceleration in the upward trend of the productivity of the economy (production per employed person), the number of persons in paid employment increased by an estimated 1.5 %, a little more than in 1968. The number of hours worked has in the meanwhile certainly grown far less rapidly since the number of days lost through strikes was exceptionally high (in the first seven months, according to ISTAT figures, it was nearly three times as high in 1969 as in 1968). Although the total number of the gainfully employed again declined appreciably, the figure for unemployment, which in 1968 was for the most part still rising slightly, contracted both on a year-to-year basis and in the course of the year, because the working population decreased further for

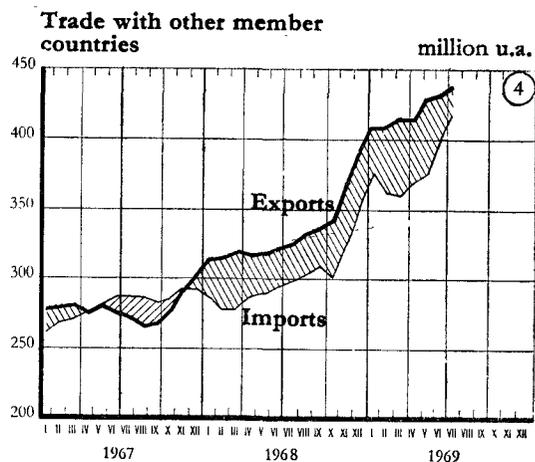
structural reasons. The number of persons in paid employment in industry (including building and construction) again climbed sharply and this was probably an important factor in the general productivity improvement.



The faster growth of demand and probably also the bottlenecks in production (mainly due to the strikes) led to an extremely rapid rise in imports. Visible imports in particular moved up sharply; it is estimated that the 1968 level was exceeded by about 24 % in terms of volume and by some 25.5 % in value (in 1968, 5.5 % and 4 % respectively). Imports of finished products, notably capital goods, expanded with particular dynamism, imports from the other member countries again deriving above-average benefit.

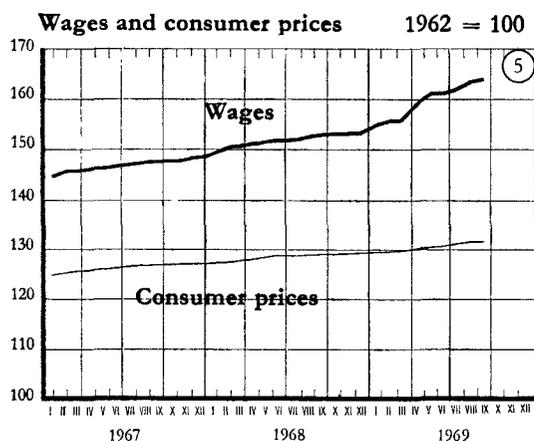
Figures available suggest that the trend of services imports also rose more sharply.

Imports of goods and services, as defined for the national accounts, grew by an estimated 22 % in volume in 1969 as against 7.3 % in 1968.



In contrast to 1968, prices rose distinctly throughout 1969 at a gradually accelerating pace; this was more marked at producer than at consumer level. The trend, which, on account of the special situation in 1968, was not reflected in the early part of 1969 in high year-to-year increases, was in part the result of some price increases decided on by the public authorities (petrol, cigarettes, newspapers and electricity) and also of strains in the demand-supply situation and higher costs. In the building sector, in particular, demand far exceeded production. Demand for farm products and foodstuffs also tended at times to outstrip short-term supply. At the same time a number of cost components were on the increase: the prices of key imported raw materials rose sharply and labour costs also rose, especially towards the end of the year. In addition, stoppages because of strikes added to fixed costs per unit of output.

In the first nine months wholesale prices went up by 4.7 % and consumer prices by 2.9 % and in September they were 5.8 % and 3.5 % respectively above the September 1968 levels.

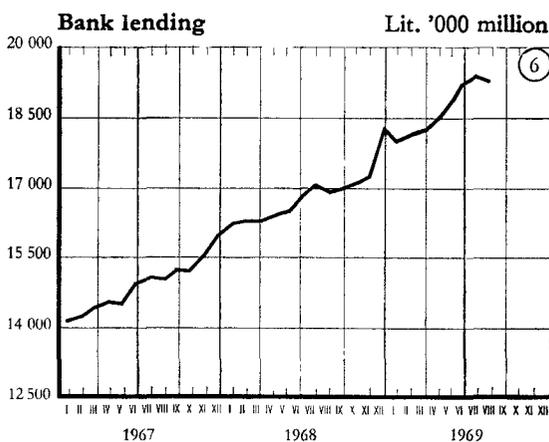


After falling in 1968, the trade deficit rose again in 1969—from Lit. 43 000 million to an estimated Lit. 450 000 million (according to customs returns). Despite the further growth of net receipts from services, the surplus on current account may therefore have decreased (in 1968: Lit. 1 653 000 million).

For various reasons, among them the higher interest rates abroad, exports of capital increased exceptionally fast in 1969, especially in the form of bank notes. Although the commercial banks were urged by the monetary authorities

to repatriate foreign currency held abroad and claims denominated in foreign currencies by 30 June 1969—at the beginning of 1969 it stood at some Lit. 500 000 million—official gold and foreign exchange reserves decreased further (in the first nine months by Lit. 195 000 million to Lit. 2 854 000 million).

Transactions with abroad had a sharply restrictive effect on the domestic liquidity of the banking system (this had not been the case in 1968). In the first eight months of 1969, minimum reserves, the circulation of notes and coin and, with gradually increasing intensity, the rediscount operations of the monetary authorities were having a similar effect. Since these factors outweighed the tendency for liquidity to expand as a result of the Treasury's cash transactions, bank liquidity contracted in this period. Bank advances increased fast, with a 13 % year-to-year growth rate in the first eight months.



In 1969, as in 1968, price movements on the securities market were far from uniform. The most striking feature was that while equities rose, though by no means steadily, until the autumn, from about March onwards the prices of fixed interest securities, which for several years had been virtually stable, dropped. Equities rose because of favourable company reports, rumours of the imminent establishment of Italian investment funds and some measures regarding the capital market, whereas the weaker trend of bond prices was due to a change in the open market policy of the Banca d'Italia. According to the Government's "Forecast and Planning Report", however, a further and substantial increase in the volume of bonds issued will prob-

Demand for and supply of goods and services

	1967 ¹	1968 ¹		1969 ²		1970 ³
	At current prices (in Lit. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	7 965	+ 15.4	+ 14.7	+16½	+ 18½	+ 10
Gross fixed asset formation	8 233	+ 7.4	+ 9.9	+ 12	+ 18	+ 11
Public current expenditure on goods and services	5 780	+ 4.1	+ 9.2	+ 3½	+ 9	+ 4½
Private consumers' expenditure	28 218	+ 4.3	+ 5.4	+ 6½	+ 9½	+ 8
Gross national product	43 553	+ 5.7	+ 7.3	+ 6	+ 10	+ 7½
Imports ⁴	7 193	+ 7.3	+ 6.7	+ 22	+ 24½	+ 19

¹ Relazione generale sulla situazione economica del paese (1968).

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries, but are established and published on the sole responsibility of the Commission.

ably have been recorded in 1969 (an increase of some 30 % to over Lit. 4 000 000 million, net of redemptions). Well over half of this amount, that is nearly twice as much as in 1968, will have been issued by official agencies or departments. According to official estimates, the banks' purchases of securities will have fallen in absolute terms; on the other hand, it is thought that subscriptions by the private sector and by the Banca d'Italia will have been well above the 1968 total.

Particularly in the second half of the year, interest rates rose on the Italian money and capital markets, though less than on those of the other Community countries and on the Eurodollar market. Since 1 July the Banca d'Italia has applied a special rate (1.5 % over

Bank rate, which had stood unchanged at 3.5 % since June 1958) to bills presented by banks with a rediscount volume exceeding a specified ceiling or by the central organizations of the commercial banks. With effect from 14 August both Bank rate and the rate for loans against collateral were raised from 3.5 % to 4 % except for bills of the state storage agencies. The special rate and those (0.5-1.5 points) charged since March on loans against collateral for certain fixed periods were consequently raised by the same amount.

2. Outlook for 1970

Although there are important variables the future behaviour of which is particularly hard

to predict, especially in view of the international payments situation and the outcome of wage negotiations still in progress, the upward trend of the Italian economy may be expected to remain very vigorous in 1970. Domestic demand is undoubtedly assuming greater importance as the key to expansion. In addition, in the first months of 1970 expansion may well be accelerated by a special factor, that is endeavours to make good production losses caused by the strikes in late 1969.

The growth of export demand will probably slow down: the world business trend is likely to weaken mainly because of restrictive measures in the United States and the United Kingdom, but Italian exports will also suffer because the growth of supply available for sale abroad is likely to be slower. On the other hand, there are many reasons for predicting a substantial increase in exports, for example the continuing expansion in the Community, Italy's strong competitive position on the international market, the effects of the revaluation of the German mark and the third set of tariff reductions to be made by important non-member countries on 1 January 1970 as agreed in the Kennedy Round.

Fixed asset formation will probably continue to make further vigorous progress. The prospects of an expansion of overall demand, the narrowing reserves of technical capacity, and the pressure of rationalization (a result of the latest cost increases and the further reductions in the Common Customs Tariff agreed at the Kennedy Round negotiations) will probably lead to a sharp growth of investment in plant and machinery. Recent official measures in connection with the capital market could well facilitate such a trend. The expansion of investment in building and construction will no doubt also maintain its fast pace, but in residential and industrial building expansion will probably lose momentum in the course of the year on account of the deadlines set by the law of August 1967. At present, therefore, it is likely that there will be a faster growth of public works, for which extensive projects have long been ready.

Investment in stocks, which in 1968 and 1969 had been exceptionally low, may well begin to make an appreciable contribution to expansion once again.

Consumption expenditure, particularly private-sector consumption, is likely to expand more

vigorously than in 1969, for there will probably be an increase in the propensity of households to consume—owing in part to the declining expansion of residential construction—and certainly a spurt in the growth of Italy's wage bill. The rise in employment is likely to be more insistent than in 1969. In particular the year-to-year growth rates of gross *per capita* wages may be markedly higher, primarily as a result of the latest wage agreements but also on account of the wage drift, which is expected to continue. In 1970 transfer incomes are also likely to rise very fast.

On these assumptions industrial production should rise by about 9 % and the real gross national product by some 7.5 %. Economic growth would thus for five consecutive years have been considerably faster than projected in the Italian five-year plan.

The increased requirements in raw materials and semi-manufactures and the gap—likely to widen—between overall demand and domestic supply potential suggest that imports will continue to climb. In view of the outlook for exports, the “external contribution” (as defined for the national accounts) should consequently decline very appreciably.

The upward movement of prices will probably continue to accelerate, so that for 1970 as a whole (having due regard to the level reached at the end of 1969) there is a distinct danger of a considerable rise in the price level for the first time since 1963/64. From the very beginning of the year the economy will feel considerable pressure from costs, which can be accounted for in higher prices relatively easily because of the lively trend of demand. The revaluation of the German mark will probably not only mean dearer imports, but should also, for a time, constitute a factor tending to force up prices in general, especially as Germany is Italy's most important trade partner. The latest EEC business surveys leave no doubt that businessmen expect price increases on a broad front.

In view of the outlook those responsible for short-term economic policy should definitely pursue a restrictive policy; the result of the wage negotiations, which will certainly influence the trend of costs and demand for a long time, will probably be the decisive factor to be taken

into account in shaping this policy. Otherwise the inflationary pressures that would emerge would be difficult to control and would not only jeopardize the results of the successful policy pursued in the last few years—years of fast growth—in order to achieve stability, but would also, whatever their causes might be, constitute a threat to employment and might entail serious losses of growth. Inflationary tendencies in Italy must be checked in time for another reason: at present the structure of the balance of payments is unfavourable owing to the large net outflows of capital and therefore a very acute deterioration of current account coupled with persistent exports of capital would create a serious foreign exchange problem. The results of the present wage negotiations, which in the near future will have a lasting direct and indirect influence on the trend of costs and demand, will constitute a decisive factor to be taken into account in shaping economic policy in the future.

The budget estimates submitted by the Government for 1970 are expansionary, mainly owing to extra burdens on account of important reforms, most of which had already been decided upon some time previously, in the fields of pensions, universities, regional financing and public officials' pay. In particular a further appreciable increase in the budget deficit is proposed: from Lit. 1 011 000 million according to the original preliminary estimates for 1969, which in any case had been swollen by particularly large supplementary estimates, to Lit. 1 422 000 million, if borrowing and debt redemption are eliminated from the official figures for receipts and expenditure respectively. By comparison with the estimates for the 1969 budget, the authorities plan to step up expenditure by 15.1 % and revenue by 12.5 % (the estimates for 1969 entailed corresponding increases of 9.1 % and 10.3 % respectively over those for 1968). In particular, current expenditure, which is mainly consumption expenditure, is expected to grow fast in 1970 (by 16 %), and consequently its relative share in total budget spending will increase once again and saving by the public authorities will decrease. The estimates for government expenditure to be financed initially outside the budget, from the capital market, have been raised again, from Lit. 1 029 000 million to Lit. 1 194 000 million.

It must, however, be borne in mind that experience shows that in Italy there can be a wide divergence between the estimates and the actual outturn. Consequently the 1970 budget should be implemented with the greatest caution. A temporary increase in unexpended appropriations (*residui passivi*), however unsatisfactory this might appear from the longer-term angle, may well be regarded in the circumstances as a lesser evil. On no account should supplementary budgets be allowed to add expansionary impetus. Cash deficits should be financed as far as possible from the revenue flow and as little as possible from the Central Bank. However, where the authorities make administrative price increases, which in themselves are not inappropriate as a means of financing government expenditure without recourse to the money market, they must do so with great caution in the present economic situation as such increases help to activate the sliding wage scale.

The stricter monetary and credit policy which has been applied for some months now should be maintained and indeed strengthened in view of the danger of the tendency towards internal and external imbalance becoming more pronounced because of restrictions on expansion of domestic liquidity and a higher interest level. Raising interest rates would not only have a restraining effect on the trend of demand but could also help to inhibit exports of capital, which are too large. If they persisted over a long period, they could become a serious obstacle to rapid growth, especially as Italy has a great need of investments.

In addition, structural reforms should be vigorously pressed forward. Efforts should be made, in particular, to promote saving by individuals and to improve the efficiency of the capital market. More private saving would not only have favourable social effects, but would also help to prevent income increases from flowing entirely into private consumption and would thus diminish the danger of a consumption boom. The Government has already taken several important measures this year regarding the capital market in order to help firms build up their own-capital basis, which is relatively weak at present, and at the same time promote saving in Italy. In the first place the shares of four government-controlled firms (three leading banks and Alfa Romeo) were quoted on the

stock exchange for the first time. Secondly, a law has been drafted stipulating that tax concessions are to be granted on certain conditions for capital increases of quoted companies. Another bill has been introduced to deal with the establishment—planned several years ago—of sufficiently attractive Italian investment funds.

Efforts to achieve better regional balance, to mobilize resources in relatively little developed regions, and to encourage the vocational training of young people and adults must be pursued energetically, as here there are still considerable reserves of productivity with which more favourable conditions for rapid growth free of strain can be ensured, particularly for the longer term.

TABLE 1 : Key indicators

	1964	1965	1966	1967	1968	1968
	% change by volume on preceding year					Indices 1958=100
Gross national product	2.8	3.5	5.7	6.4	5.7	(180)
Industrial production	2.1	3.1	8.0	8.1	8.1	(202)
Total imports	- 5.1	1.9	13.7	12.6	7.3	(333)
Private consumers' expenditure	2.5	2.7	5.9	7.3	4.3	(181)
Public current expenditure on goods and services	3.4	- 3.7	3.5	2.8	4.1	(149)
Gross fixed asset formation	- 6.5	8.4	3.4	10.5	7.4	(177)
Total exports	11.6	20.1	13.2	6.2	15.4	(365)
Gross national product per head of population	1.8	2.8	5.0	5.1	5.0	(167)
Gross national product per person in employment	3.1	5.5	7.3	4.8	5.6	(194)
	% change by value on preceding year					
Gross income per employee	+ 12.6	+ 8.2	+ 8.2	+ 7.4	+ 6.4	(353)

TABLE 2 : Indicators for internal and external equilibrium

	1964	1965	1966	1967	1968
Balance exports less imports					
in million u.a.	121	729	673	483	911
as percentage of GNP	0.6	3.3	2.7	1.8	3.1
Unemployment rate	2.7	3.6	3.9	3.5	3.5
price index of private consumers' expenditure (% change on preceding year)	5.6	4.2	2.9	2.9	1.1

Italy

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1958=100	Million u.a.	% of totals
	1964	1965	1966	1967	1968			
Visible exports								
Total	18.0	20.7	11.7	8.3	17.0	395.2	10 183.2	100
Intra-EEC	26.4	27.6	12.8	3.3	20.9	670.6	4 079.1	40.1
To non-EEC countries	13.4	16.4	11.0	11.6	14.5	310.1	6 104.1	59.9
Exports of food, beverages and tobacco								
Total	2.4	20.5	1.5	4.7	- 3.7	170.5	870.1	8.5
Intra-EEC	- 8.8	31.4	0.4	- 1.7	- 1.3	239.3	453.4	4.4
To non-EEC countries	- 3.3	9.5	2.8	12.4	- 6.1	129.9	416.7	4.1
Exports of raw materials, fuel and power								
Total	14.5	18.7	10.6	9.1	14.1	303.8	885.0	8.7
Intra-EEC	23.3	34.2	21.5	15.9	14.7	606.8	311.0	3.3
To non-EEC countries	11.2	12.4	5.2	5.3	13.7	231.4	544.0	5.4
Exports of semi-finished and finished industrial goods								
Total	21.2	20.9	13.4	8.8	20.2	474.7	8 428.1	82.8
Intra-EEC	31.0	26.2	14.6	3.2	25.4	905.9	3 284.7	32.4
To non-EEC countries	16.1	17.8	12.6	12.4	16.7	364.1	5 143.4	50.4
Visible imports								
Total	- 4.1	1.6	16.7	12.9	4.3	325.0	10 252.6	100
Intra-EEC	- 4.5	- 3.1	21.6	21.5	9.1	542.6	3 709.2	36.2
From non-EEC countries	- 3.9	3.9	14.4	8.8	1.8	264.9	6 543.4	63.8
Imports of food, beverages and tobacco								
Total	2.4	18.9	9.7	0.7	8.5	353.6	1 931.1	18.8
Intra-EEC	15.7	20.6	13.5	26.6	29.0	799.9	622.3	6.1
From non-EEC countries	- 0.6	18.4	8.7	- 6.4	0.9	279.4	1 308.8	12.7
Imports of raw materials, fuel and power								
Total	- 0.7	8.5	15.1	13.7	1.0	232.7	3 691.1	36.0
Intra-EEC	- 0.1	18.7	18.2	14.2	- 3.0	323.1	495.6	4.8
From non-EEC countries	- 0.8	7.0	14.6	13.6	1.7	223.0	3 195.5	31.2
Imports of semi-finished and finished industrial goods								
Total	- 8.9	- 10.8	22.0	18.8	8.6	453.3	4 630.4	45.2
Intra-EEC	- 7.7	- 10.8	24.2	22.3	8.1	572.8	2 591.3	25.3
From non-EEC countries	- 10.2	- 10.9	19.4	14.5	9.2	358.3	2 039.1	19.9

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	124.9	128.5	127.4	130.5	129.1	129.5	129.2	130.9	129.8	133.5	131.9	133.0
	1968	132.7	135.9	135.2	136.3	136.1	137.1	137.0	139.1	143.5	143.9	139.6	145.4
	1969	141.8	142.0	147.8	149.3	145.6	149.8	148.2	136.6				
Unemployed (1 000)	1967	1 056.2	1 062.0	1 049.8	1 056.1	1 038.7	1 049.8	1 013.8	1 019.6	1 005.7	995.1	981.0	951.8
	1968	968.7	965.7	950.1	939.7	962.7	967.9	960.2	962.6	978.4	981.5	951.5	922.4
	1969	934.8	942.6	914.8	891.4	880.8	902.5	883.3	883.0				
Construction: permits for residential construction (1 000)	1967	18.5	17.5	17.8	20.6	20.7	21.2	18.5	23.1	20.5	16.8	27.1	22.8
	1968	22.0	24.5	24.9	21.1	25.1	28.5	32.3	161.5	31.4	37.3	23.0	27.4
	1969	16.2	13.1	10.2	9.2	12.2							
Private consumers' expendi- diture: department store turnover (1963 = 100)	1967	128.9	130.8	145.1	123.1	141.9	140.3	140.8	142.9	148.0	128.9	145.3	144.6
	1968	137.4	150.1	142.7	155.4	150.0	150.0	160.2	161.0	152.5	154.9	161.4	155.2
	1969	154.8	151.6	160.4	161.1	182.4	163.1	175.1					
Consumer prices (1963 = 100)	1967	116.1	116.4	116.6	116.8	117.1	117.4	117.7	117.9	118.4	118.3	118.4	118.4
	1968	118.7	118.7	118.8	119.0	119.1	119.0	118.8	118.8	118.9	119.0	119.2	119.5
	1969	119.9	120.1	120.6	121.1	121.4	121.8	122.5	122.0				
Visible imports (million u.a.)	1967	776.0	766.4	746.3	806.4	734.5	848.3	847.1	781.1	814.4	867.5	876.4	836.4
	1968	709.9	732.9	783.4	843.8	846.5	873.0	860.2	839.2	930.5	818.8	1 051.0	945.8
	1969	981.1	939.1	893.0	995.5	1 009.7	1 109.8	1 093.0					
Visible exports (million u.a.)	1967	727.8	712.3	728.7	714.5	767.7	707.5	684.2	687.2	714.3	784.7	754.1	745.0
	1968	807.7	797.7	815.4	821.0	844.0	830.2	832.2	833.5	823.5	852.5	1 003.3	908.4
	1969	981.9	938.2	971.5	1 027.1	1 077.7	1 010.5	1 094.5					
Balance of trade (million u.a.)	1967	- 48.4	- 44.1	- 17.6	- 91.9	- 33.2	- 140.8	- 162.9	- 93.9	- 100.1	- 102.8	- 122.3	- 91.4
	1968	97.8	64.8	32.0	- 22.8	- 2.5	- 42.8	- 28.0	- 5.7	- 107.0	33.7	- 47.7	- 37.2
	1969	- 19.2	- 0.9	78.5	31.6	68.0	- 99.3	1.5					
Official gold and foreign exchange reserves (net million u.a.)	1967	4 514.0	4 472.8	4 535.5	4 646.8	4 708.2	4 721.0	4 876.2	5 135.2	5 232.5	5 859.5	5 335.3	5 238.1
	1968	5 138.7	5 149.6	5 104.5	5 081.9	5 042.4	5 086.4	5 140.9	5 269.7	5 188.3	5 194.9	5 069.1	4 878.3
	1969	4 727.2	4 636.3	4 492.6	4 571.0	4 365.8	4 514.2	4 581.9	4 645.9	4 567.0	4 568.0		
Money supply (Lit. '000 million)	1967	15 840	15 662	15 981	16 157	16 417	16 576	16 778	16 623	16 964	16 958	17 075	18 877
	1968	17 863	17 652	17 976	18 235	18 463	18 795	18 993	18 975	19 379	19 373	19 695	21 104
	1969	20 440	20 379	20 836	20 845	21 282	21 558	21 590	21 681				

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US \$ 1) at official exchange rates.

Graph 1

— Trade with non-member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 2

— Industrial production: excluding construction, food, beverages and tobacco; trend curve; estimates established on the basis of indices adjusted for seasonal and fortuitous variations; provisional indices from January 1967 because of introduction of new series.

Graph 3

— Labour market: number of registered unemployed; series prepared by the Ministero del Lavoro e della Previdenza Sociale and adjusted for seasonal variations by the Statistical Office of the European Communities; three-month moving averages.

Graph 4

— Trade with other member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 5

— Wages and consumer prices; source: ISTAT; agreed minimum wages in industry (incl. family allowances); from January 1967 new series (base year 1966) with wider coverage and based on hourly wages. Consumer prices: from January 1967 new series.

Graph 6

— Bank lending; source: Banca d'Italia; short-term loans to business and private customers; position at end of month.

Table 1

Source for 1967 and 1968: Relazione generale sulla situazione economica del Paese (1968). Owing to revision of the national accounts by ISTAT, the 1967 and 1968 figures are not strictly comparable with those for the preceding years.

- GNP at market prices.
- Industrial production: value added by industry at factor cost.
- Total exports and imports: goods, services and factor income.
- Gross income per employee: income from paid employment, not including social insurance contributions borne by the State.

Table 2

- Balance exports less imports: goods, services and factor income.
- Unemployment rate: number of unemployed as percentage of labour force; source: ISTAT.
- Private consumer prices: implicit price index computed from the national accounts.

Table 3

— Exports fob, imports cif; conversion at official exchange rates; the products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

- Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco.
- Unemployed: series of the Ministero del Lavoro e della Previdenza Sociale, adjusted for seasonal variations by the Statistical Office of the European Communities.
- Construction: dwellings authorized in the capitals of the provinces and in other communes with more than 20 000 inhabitants.
- Private consumers' expenditure: value index of department store turnovers, adjusted for seasonal variations.
- Consumer prices: unadjusted index.
- Imports cif, exports fob; conversion at official exchange rates; adjusted for seasonal variations.
- Balance of trade: difference between seasonally adjusted exports and imports.
- Official gold and foreign exchange reserves (net); source: Ufficio Italiano dei Cambi; position at end of month.
- Money supply: notes and coin in circulation excluding cash holdings of the Treasury; sight deposits of non-banking sector with credit institutions; bank drafts in circulation (whether *vaglia* or *assegni*) issued by the Central Bank and other banks and credit institutions; position at end of month.

D. The Netherlands

The Dutch economy enjoyed boom conditions in 1969. Against a background of very dynamic export demand, investment by firms and private consumers' expenditure rose vigorously. Industrial production continued to expand very appreciably but tended to lose some momentum in the second half of the year, mainly because more and more firms were running at or near capacity. Unemployment shrank further. The current payments position deteriorated and prices climbed very sharply. The introduction of tax on value added at the beginning of 1969 led many firms to raise their prices. In addition the vigorous expansion of demand during the rest of the year encouraged the tendency for prices to rise, but this had only a limited influence on the price index on account of the price freeze which was imposed by the Government in April and not relaxed until September.

Production and employment will, it is expected, expand appreciably in 1970 too, though less fast than in 1969. The underlying upward trend of exports may level off, but the expansion of domestic demand will probably remain quite lively. Any slowdown of investment activity would probably be largely offset, in terms of volume at least, by a more vigorous boost from private consumption. Strains on the merchandise markets may well continue to be very appreciable as improvements in productivity will be smaller than in 1969 because of the high degree of capacity utilization and because the opportunities for offsetting planned shorter working hours by recruiting additional manpower are limited. It is therefore to be feared that the upward trend of the general price level will continue to be quite marked.

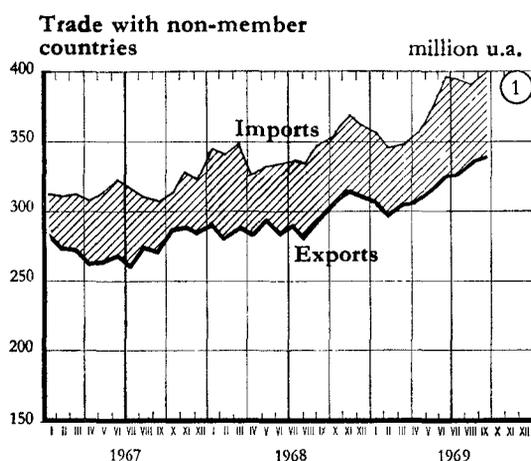
1. Balance sheet for 1969

In 1969 the Dutch economy enjoyed boom conditions. The introduction of a value-added tax at the beginning of the year not only resulted in some changes in the price structure but also led to an upsurge of prices because demand was climbing at the same time. Although the Government took administrative measures to calm the economic and social climate, in particular by introducing a temporary price freeze, the economic trend was marked, in the period up to the end of the year, by open or latent tendencies towards disequilibrium.

Export demand, which had forged ahead in 1968, continued to expand vigorously. The increase in the value of visible exports was about 19 % in 1969 (customs returns), despite a tendency to level off in the second half of the year.

Growth on this scale had not been registered since 1964. The export boom was mainly a response to demand from the other five EEC countries, in particular France and Germany, but exports to non-member countries also continued to make gains. Exports advanced partly because supply was relatively elastic, especially in newly established firms, but partly perhaps also because the improvement in the competitiveness of Dutch industry aimed at in 1967 and 1968, notably in respect of unit labour costs, was largely achieved.

In comparison with 1968 income from services grew more slowly and factor income rose more vigorously. The net result was an estimated increase in total exports in 1969 of about 15.5 %, at current prices (the corresponding 1968 figure was 11.9 %).



The expansion of domestic demand in money terms accelerated in 1969; here the effects of the introduction of tax on value added speeded up the growth of monetary expenditure.

Gross fixed asset formation as a whole continued to expand, especially industrial fixed investment, which, encouraged by the improvement in profits in 1967 and the outlook, continued to grow quite fast. Another expansionary influence on investment activity was the continually increasing expenditure in the petrochemicals industry, mainly because of the location of plant on the coast and the enlargement of ports. In general, purchases of plant and machinery, particularly the latter, accelerated appreciably. Investment in building, on the other hand, expanded distinctly slower than in 1968, while investment in transport equipment actually declined, mainly because deliveries of ships and aircraft were smaller.

If the effects on prices of the value-added tax are disregarded, it is evident that the expansion of expenditure on residential construction slowed down in 1969. The main factors here were the execution of building projects in 1968 in anticipation of the introduction of tax on value added and the reduction of working hours in the building trade, which could not be offset by recruiting more workers because of the shortage of manpower.

Public investment slowed down because it became more difficult to procure funds and the price rises caused by the tax on value added could not be accounted for by additional appropriations because of the more restrictive budget policy. The former factor probably played an important role particularly in connection with

the local authorities' capital expenditure, which by comparison with 1968 even diminished slightly.

All in all it is estimated that gross fixed asset formation increased by 11 % at current prices as against 12.5 % in 1968. At the same time the growth of industrial investment in terms of volume was probably only small; on account of the sharp price increases the volume of public investments and residential construction may even not have advanced at all.

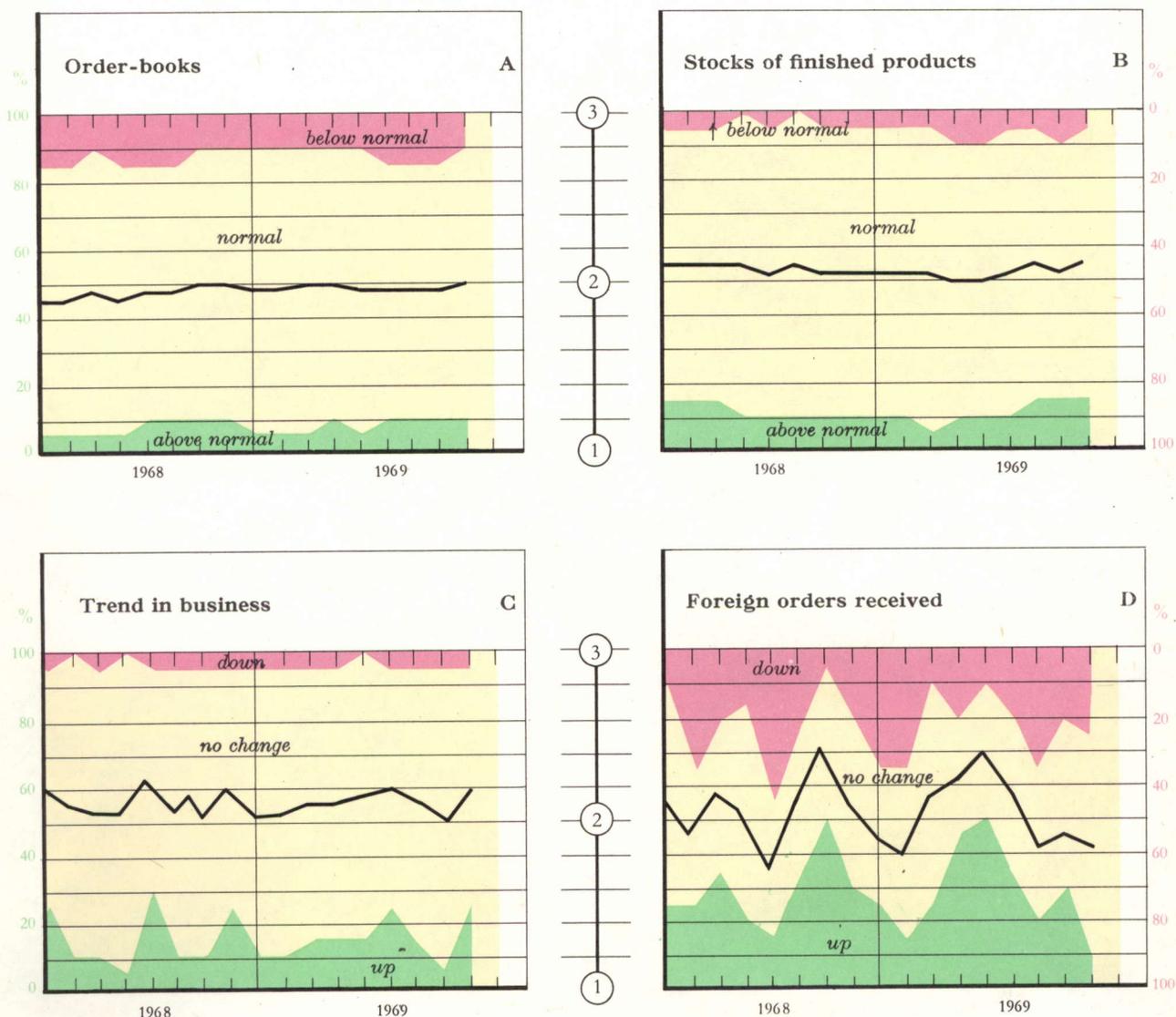
The impetus given by stockbuilding to the underlying trend became considerably livelier once again in 1969, since firms abandoned their earlier reluctance to place orders for additional stocks in view of the introduction of the added-value tax system and tried to restore their stocks of raw materials and semi-finished products to a normal level.

The expansion of expenditure on consumption was very dynamic in 1969. Public current expenditure on goods and services grew, mainly because wages and salaries in the public sector were adjusted to the fast rise in the private sector, and expenditure on goods, chiefly owing to increasing military purchases, went up faster.

Private consumers' expenditure also climbed. At the beginning of 1969 expenditure on consumption declined, mainly because the demand for consumer durables fell, as a reaction to the wave of "beat-the-tax" buying at the end of 1968. This development, however, soon gave way to a fresh upward movement. As a whole, it is estimated that private consumers' expenditure at current prices rose by 10.5 % in 1969, as opposed to 8.4 % in 1968. Because of the upsurge of prices, however, growth in terms of volume, particularly in the first half of the year, was appreciably slower than in 1968.

The more vigorous growth of private consumers' expenditure (in money terms) in 1969 is due to a faster increase in employment and, in particular, the faster raising of wage rates. It is estimated that the gross wage bill, on the year's average, rose by about 11.5 % in 1969 as opposed to an increment of 9.5 % in 1968. Income transfers, moreover, expanded considerably throughout the year. The disposable incomes of households, however, increased less rapidly than gross incomes as the tax reduction resulting from the raising of the personal allowance was more than outweighed by the progres-

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Source : Business survey of the Centraal Bureau voor de Statistiek.

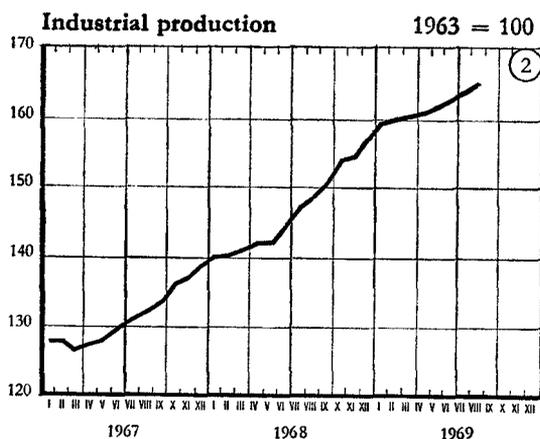
Note : The survey includes construction but not paper, petroleum, non-metallic minerals.

GRAPHS A, B, C and D : The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

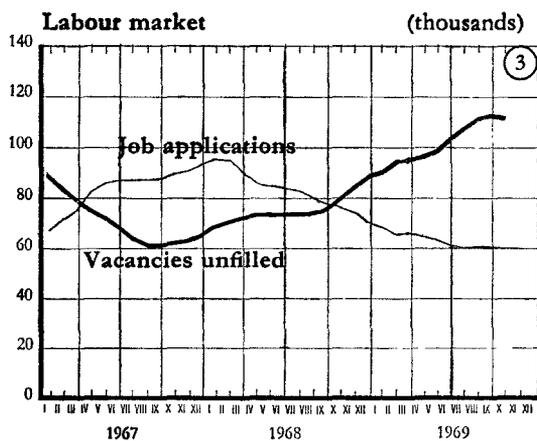
sively heavier incidence of graduated taxes. The savings ratio of households may well have decreased temporarily as a result of the upsurge of prices.

The elasticity of domestic supply grew weaker in the course of the year. Although industry's contribution to the gross national product at constant prices increased by 10 %, i.e. by the same margin as in 1968, growth in the second half of the year tended to level off as many industries are now working to capacity. On the year's average, production in energy and chemicals once again registered the heaviest growth; in other industries too, for example metal-working, a considerable increase in production was achieved. Production in building and construction declined appreciably on account of the factors already mentioned in connection with the trend of demand; for the first time in years productivity actually diminished. Agricultural production, too, made very little progress in 1969 as the output of livestock products fell short of the 1968 figure.

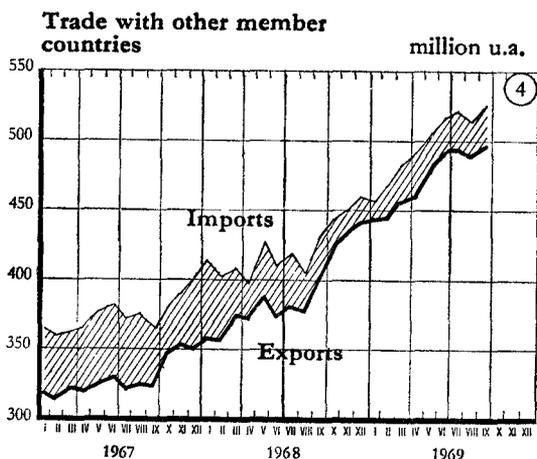


If the contribution made by services is taken into account, it may be estimated that the gross national product as a whole increased by about 5 % in 1969 as opposed to 6.2 % in 1968 (constant prices).

On the labour market the number of vacancies continued to increase, especially in the west of the country, so that strain became even more acute. Unemployment diminished further and the unemployment rate (percentage of number of unemployed, seasonally adjusted, as a percentage of the total civilian labour force) was 1.4 % in October 1969 as against 1.8 % in October 1968.

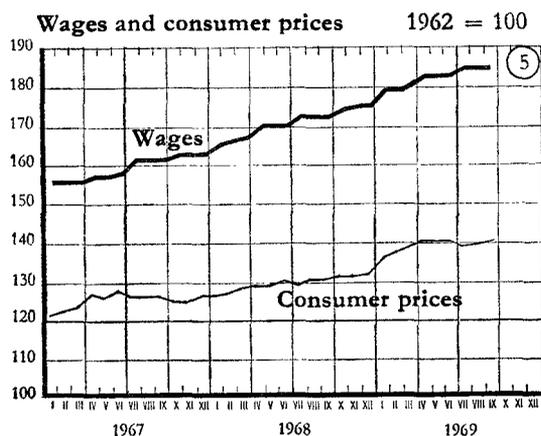


The upswing of production in the manufacturing industries and the distinct upward trend of overall demand, particularly related to investments in plant and machinery and stocks, entailed a heavy increase in visible imports. According to customs returns they went up by 15 % at constant prices; the growth rate was consequently even somewhat higher than the 14.5 % registered in 1968. The growth of expenditure on services abroad and in particular the increase in factor incomes, on the other hand, may have been smaller than in 1968. All in all, therefore, the growth of imports of goods and services is estimated at 13.8 % (constant prices), that is about the same as in 1968.



The general price level rose considerably. Part of the upsurge of prices is, as has already been said, due to the introduction of tax on value added on 1 January 1969, which coincided with an unfavourable phase of the business cycle (this had not been the case in Germany a year earlier). The higher prices, however, are also a direct consequence of internal economic influ-

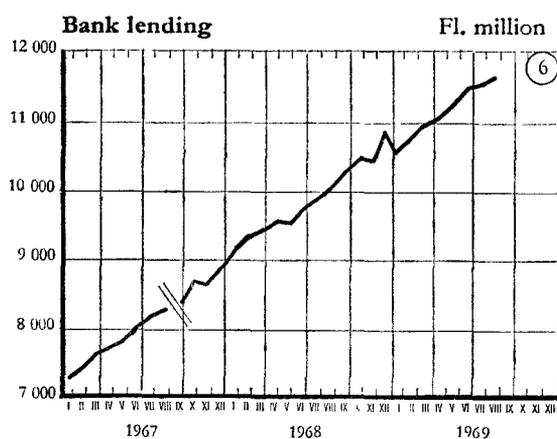
ences, in particular the very high level of demand, which made it easier for firms to pass on the higher costs of labour and raw materials and to widen their profit margins. Agricultural prices also went up appreciably. The implicit price index of the gross national product rose by about 6.5 % (1968: 4 %). The consumer price index rose particularly sharply in the first few months, until a general price freeze was imposed in April. As this price freeze was replaced in September by provisions allowing firms to account for most of their "external" costs by raising their prices, the index has been rising again since the autumn months. For the full year 1969 it probably rose by about 7.5 %. The wholesale price index increased less sharply, especially as the tax on value added is not taken into account in it; all the same it was 3 % higher in July than at the end of 1968.



Since the very dynamic growth of exports largely counterbalanced the vigorous movement of imports, the balance on current account on the basis of transactions scarcely changed in the period up to the autumn. In the first nine months of the year it closed with a deficit of Fl. 137 million as opposed to a deficit of Fl. 51 million a year earlier. The deficit on the basic balance increased sharply in 1969 owing to growing private exports of long-term capital. However, with Dutch firms borrowing large amounts of foreign currency at short term, the deficit on the overall balance of payments from January to September 1969 was Fl. 333 million as opposed to Fl. 376 million in the same period of 1968. The commercial banks' foreign exchange position improved by Fl. 421 million, while official gold and foreign exchange reserves fell by Fl. 754 million.

Despite the restrictive effects of transactions with abroad, domestic liquidity again expanded considerably. The handling of budgetary expenditure by the authorities, in particular the Central Government, again made a considerable contribution, though smaller than a year earlier. The deficit on the Government's budget in 1969 was probably only a little smaller than the exceptionally heavy deficit of 1968, when it stood at Fl. 3 300 million. Part of the deficit, though a distinctly smaller part than in 1968, was covered by the Treasury through recourse to the money market.

Private-sector demand for bank loans was still very brisk, although the restrictions on loans from the commercial banks and farm credit banks were maintained during the whole year. Indeed, from September onwards, the expansion of loans exceeded the ceiling established by the Central Bank, which in 1969 corresponded for short-term loans to a year-to-year growth rate of about 10 % after adjustment for seasonal variations. Since then the non-interest-bearing deposits to be maintained by the commercial banks at the Central Bank when the loan ceiling has been exceeded have increased constantly; they amounted between 15 November and 14 December to Fl. 282 million. Independently of the limit on domestic lending, the Nederlandse Bank also called on the commercial banks in July to limit their loans abroad too, in order to mitigate the effects of the international trend of interest rates on the Dutch money market.



The capital market was subject to increasing strains. The Government, for example, made very heavy calls on the capital market, especially in the second half of the year. There was

also vigorous demand for long-term capital, which was largely covered outside the Bourse through institutional investors.

In the course of the year interest rates on the money and capital markets reached a record level. Since December 1968 the Nederlandsche

Bank has raised Bank rate in two steps from 5 % to 6 %; it has done so not only in view of the situation at home but also because of the general sharp upward movement of interest rates in the world. In October, however, the money market became less strained owing to large speculative inflows of capital.

Demand for and supply of goods and services

	1967 ¹	1968 ¹		1969 ²		1970 ³
	At current prices (in Fl. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	37.48	+ 13.1	+ 11.9	+ 14½	+ 15½	+ 9½
Gross fixed asset formation	21.53	+ 10.1	+ 12.6	+ 1½	+ 11	+ 3
Public current expenditure on goods and services	13.11	+ 1.8	+ 7.1	+ 4	+ 13½	+ 3½
Private consumers' expenditure	47.29	+ 5.7	+ 8.4	+ 3	+ 10½	+ 4½
Gross national product	82.97	+ 6.2	+ 10.1	+ 5	+ 12	+ 4
Imports ⁴	37.54	+ 13.8	+ 10.6	+ 13½	+ 16½	+ 9

¹ General Statistical Bulletin 1969, No. 7, Statistical Office of the European Communities.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook for 1970

In 1970 overall demand will in all probability expand less sharply than in 1969, but since the elasticity of production is likely to diminish further, the strains between demand and supply may well remain quite marked, at least in the first half of the year.

Exports of goods and services will probably expand less dynamically than in the last two years. In particular, the growth of demand from non-member countries should lose momentum, despite the new tariff reductions agreed to at the Kennedy Round. Even in trade with the other Community countries it is scarcely likely that the high growth rates of 1968 and 1969

will be attained. Although the growth prospects in the Community as a whole are, despite an expected slowdown in real expansion here too, substantially better than for some major non-member countries and although exports to Germany, easily the Netherlands' biggest customer, will be spurred on by the revaluation of the mark, the increase in bottlenecks holding up production in Dutch industry may well inhibit the expansion of exports. All in all the Commission calculates that as things stand exports of goods and services (as defined for the national accounts) will increase by about 11 % in terms of value in 1970.

In the field of domestic demand the expansion of expenditure on gross fixed asset formation will probably slow down in 1970. Several factors should discourage industrial investment: the effects of the restrictive monetary and credit policy, tighter depreciation rules, and the pressure on profit margins, which is likely to increase. On the other hand, there are still considerable investment incentives, particularly the pressure on Dutch managements to streamline operations and reorganize. The increase in expenditure on residential construction may well decline appreciably. Since, however, the average rise in prices over the year is not likely to be so high as in 1969, even a slight acceleration in the growth rate in terms of volume cannot be ruled out. On account of the more restrictive budgetary policy planned for 1970 and growing financing difficulties on the capital market, the growth of public investment, especially that of the local authorities, may slow down rather sharply; at constant prices there may even be hardly any progress at all. Gross fixed asset formation as a whole may be expected to grow in 1970 by about 8.5 % at current prices and 3 % at constant prices.

Most firms re-established a normal level of stocks in 1969, and stockbuilding will therefore probably make a somewhat less vigorous contribution to economic activity in 1970.

The opinion issued by the Dutch Economic and Social Council in June 1969 on the trend of incomes from wages may have a decisive influence on the movement of private consumers' expenditure in 1970. The opinion recommended that for 1970 the increase in wage rates should still be held to 5 % so long as the average growth of consumer prices does not

exceed 3.5 %. Should prices rise more steeply, wages are to be raised correspondingly; likewise if the increase in productivity per person employed exceeds the present target of 3 %. In this case the additional wage increase should take the form of an improvement in indirect wages or blocked bonuses. As long as the guidelines set out in the opinion are not reviewed—the danger of this happening may increase because of the continuing boom—money wages per person employed may rise more slowly than in 1969. According to the assumptions of the Economic and Social Council, the slower growth of the gross wage bill (from 10 % in 1969 to 7 % in 1970) may be accompanied by an improvement per person in employment of disposable real income of about 2.5 % in 1970 (1969: only about 0.5 %).

While transfer incomes will probably continue to climb, the growth of incomes from property and entrepreneurship may become notably slower. In addition, the planned reduction in income and wages tax (involving about Fl. 600 million) will help to increase the disposable incomes of households. Assuming (rather optimistically, given the price trend) that the savings ratio will show little change, private consumers' expenditure at current prices may well grow as fast as in 1969.

The Economic and Social Council's opinion is also of particular significance for the trend of public current expenditure on goods and services, as wages in the public sector are aligned on changes on those in the private sector. According to the budget estimates government procurement is also likely to increase appreciably again, though somewhat more slowly than in 1969.

The expansion of domestic supply will probably continue to lose pace in 1970, especially because in important manufacturing industries many firms will be running at or near capacity at the beginning of the year; consequently in the economy as a whole productivity increases are expected to be smaller and the shortage of labour may become even more acute on account of a substantial shortening of agreed working hours, which can only in part be offset by extra overtime. In addition, changes in the structure of demand may have unfavourable effects on the growth of production in the course of the year. Production in building and construction, where

the underlying trend declined in 1969, may nevertheless pick up again a little in 1970. On the assumption of a normal growth of farm production, the growth rate of the gross national product is now put at about 4 % for 1970 (constant prices).

Employment is likely to rise further: unemployment will decline and more foreign workers will be engaged. As a whole strains on the labour market will ease hardly at all; in particular, the demand/supply imbalance in respect of skilled labour will probably grow even severer.

Given the outlook for overall demand and domestic supply, the expansion of imports of goods and services will once again be quite lively, but the growth rate for the full year, taken on the average, will be lower than for 1969 since the level at the end of 1969 ("over-loop") was relatively low. In these circumstances and given unfavourable terms of trade, the current account will, if anything, probably deteriorate in 1970.

The general price level should rise a good deal more slowly in 1970 than in 1969, but this is chiefly because the effects of the introduction of the value-added tax will by then have worked themselves out. Since September 1969 firms have been able to account for the bulk of increases in external costs by raising prices, and consequently the tendency for production costs to rise faster, taken with higher import prices (due partly to the revaluation of the mark), could well help to force consumer prices up sharply.

The conditions governing equilibrium are by no means fulfilled: in particular, the quite marked tendency for prices to rise has persisted. It is therefore essential that the authorities should maintain—at any rate to begin with—the restrictive short-term economic policy introduced at the end of 1968 and even strengthen it. Failing this the support from both sides of industry for the anti-inflation policy advocated in the Economic and Social Council's opinion might be lost. A rapid removal of the source of inflation is also necessary so that the present price measures, which are regarded as only temporary

even by the Government itself, may be relaxed gradually and eventually withdrawn, since such measures would inevitably influence the efficiency of the economy in the long run by preventing prices from arbitrating between supply and demand.

In addition to maintenance of restrictive money and credit policies, budgetary policy in particular should be tailored to the requirements of short-term economic policy. Here the estimates for 1970 are crucial. By comparison with those for 1969 they provide for an 11 % increase in expenditure, which, as against the actual 1969 outturn, represents an increase of just under 8 %. The contribution to be made by the business trend ranks more or less at the same level as in the estimates for 1969; it will, it is thought, be smaller than the monetary growth of the gross national product. The deficit on the budget is estimated at Fl. 2 200 million and would therefore be appreciably smaller than in 1968 and 1969. The reduction in wages tax and income tax as planned originally will for the most part—i.e. in respect of some Fl. 600 million—have already been completed by early 1970, and this should give a further impetus to demand from households; the second instalment of the tax reduction, involving some Fl. 300 million, is not to be implemented until 1 January 1971. Furthermore the raising of the tax on value added planned for 1 July 1970 has been put off until 1 January 1971 on the recommendation of the Economic and Social Council; this is certainly an advantage from the angle of price policy, and the measure should not mean a larger budget deficit, as it was decided at the same time to postpone further the restitution of turnover tax on old stocks. The Government budget should be implemented as strictly as possible and the authorities should at all costs ensure that the outturn does not exceed the estimates as happened in previous years. Full use should be made of the opportunities for staggering certain expenditures. In this way most of the additional contribution made by public spending would be brought to bear only in the second half of the year, when the growth of expenditure may give less cause for concern than in the first half if world business activity, as is expected, slows down.

Netherlands

TABLE 1 : Key indicators

	1964	1965	1966	1967	1968	1968
	% change by volume on preceding year					Indices 1958=100
Gross national product	8.9	5.4	2.6	6.1	6.2	168
Industrial production	11.0	6.3	5.9	5.6	9.8	199
Total imports	14.9	6.5	7.3	6.2	13.8	264
Private consumers' expenditure	6.0	7.4	3.4	5.1	5.7	173
Public current expenditure on goods and services	1.7	1.6	1.6	4.1	1.8	134
Gross fixed asset formation	18.0	4.9	8.5	7.8	10.1	224
Total exports	11.6	7.6	5.2	6.9	13.1	224
Gross national product per head of population	7.5	4.0	1.2	4.9	5.1	148
Gross national product per person in employment	7.1	4.5	1.8	6.5	5.5	150
	% change by value on preceding year					
Gross income per employee	16.4	11.7	11.1	8.4	8.4	236

TABLE 2 : Indicators for internal and external equilibrium

	1964	1965	1966	1967	1968
Balance exports less imports					
in million u.a.	- 154	+ 76	- 135	- 17	+ 113
as percentage of GNP	- 0.9	+ 0.4	- 0.6	- 0.1	+ 0.5
Unemployment rate	0.7	0.8	1.0	2.0	1.8
prices to private consumers (% change on preceding year)	+ 6.8	+ 4.2	+ 5.4	+ 3.3	+ 2.3

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1958=100	Million u.a.	% of totals
	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports								
Total	+ 17.0	+ 10.1	+ 5.6	+ 7.9	+ 14.5	259	8 342	100
Intra-EEC	+ 22.1	+ 10.2	+ 5.3	+ 6.7	+ 19.7	353	4 790	57.4
To non-EEC countries	+ 11.2	+ 10.0	+ 6.0	+ 9.4	+ 8.2	178	3 552	42.6
Exports of food, beverages and tobacco								
Total	+ 9.5	+ 13.0	+ 0.3	+ 9.9	+ 15.9	224	2 002	24.0
Intra-EEC	+ 12.8	+ 19.7	- 0.2	+ 9.6	+ 22.1	303	1 295	15.5
To non-EEC countries	+ 5.1	+ 3.6	+ 1.0	+ 10.5	+ 6.1	150	707	8.5
Exports of raw materials, fuel and power								
Total	+ 10.9	+ 7.4	- 0.4	+ 10.1	+ 12.8	205	1 374	16.5
Intra-EEC	+ 12.3	+ 3.4	- 0.7	+ 10.7	+ 22.5	292	797	9.6
To non-EEC countries	+ 9.3	+ 12.3	- 0.1	+ 9.5	+ 1.7	146	577	6.9
Exports of semi-finished and finished industrial goods								
Total	+ 22.6	+ 9.7	+ 9.7	+ 6.6	+ 14.4	300	4 966	59.5
Intra-EEC	+ 30.4	+ 8.1	+ 9.8	+ 4.5	+ 17.8	420	2 698	32.3
To non-EEC countries	+ 14.3	+ 11.7	+ 9.6	+ 9.0	+ 10.6	224	2 268	27.2
Visible imports								
Total	+ 18.2	+ 5.9	+ 7.5	+ 4.0	+ 11.5	256	9 297	100
Intra-EEC	+ 19.0	+ 8.7	+ 8.7	+ 5.0	+ 13.2	339	5 146	55.4
From non-EEC countries	+ 17.4	+ 2.9	+ 6.0	+ 2.9	+ 9.5	197	4 151	44.6
Imports of food, beverages and tobacco								
Total	+ 16.2	+ 3.5	+ 3.9	+ 11.3	+ 9.7	224	1 253	13.5
Intra-EEC	+ 22.0	+ 13.1	+ 8.8	+ 22.7	+ 28.1	484	387	4.2
From non-EEC countries	+ 14.9	- 1.2	+ 2.5	+ 7.6	+ 3.2	181	866	9.3
Imports of raw materials, fuel and power								
Total	+ 8.5	+ 1.0	+ 0.9	+ 5.2	+ 8.6	167	1 945	20.9
Intra-EEC	- 23.8	+ 5.7	+ 7.7	+ 9.9	+ 4.8	223	432	4.6
From non-EEC countries	+ 21.1	- 0.2	- 0.9	+ 3.9	+ 9.7	155	1 513	16.3
Imports of semi-finished and finished industrial goods								
Total	+ 22.9	+ 8.0	+ 10.5	+ 2.2	+ 12.8	320	6 099	65.6
Intra-EEC	+ 26.4	+ 8.0	+ 8.8	+ 3.3	+ 12.9	347	4 327	46.5
From non-EEC countries	+ 15.2	+ 8.1	+ 14.7	- 0.3	+ 12.6	270	1 772	19.1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	126.8	126.5	126.5	128.8	126.0	130.5	128.2	137.3	135.4	133.6	136.4	140.0
	1968	141.7	141.1	141.3	140.0	142.7	146.1	142.1	164.2	149.1	150.0	155.2	161.5
	1969	158.1	159.8	160.9	159.4	162.5	162.2	164.5	168.3				
Unemployed (1 000)	1967	76.3	76.2	84.6	87.2	86.3	87.3	88.6	87.6	88.3	90.4	91.3	89.6
	1968	96.3	88.6	90.7	85.0	81.4	80.7	79.5	76.8	74.5	74.0	70.3	65.2
	1969	68.0	68.1	68.6	62.1	60.7	59.6	60.7	61.2	59.4	58		
Construction: permits for residential construction (1 000)	1967	9 981	9 236	17 110	10 348	10 255	13 454	5 438	12 696	16 648	9 362	9 367	10 351
	1968	10 980	7 151	14 028	13 566	12 071	11 904	7 528	11 523	15 272	8 046	7 158	10 858
	1969	8 199	8 128	14 640	12 948	10 720	9 456	6 059	14 896	8 910			
Private consumers' expendi- ture: department store turnover (1963 = 100)	1967	150.3	147.9	156.1	148.9	155.9	165.2	147.1	178.0	167.0	167.6	177.6	167.9
	1968	160	164	169	164	176	177	170	197	173	183	186	189
	1969	162	186	193	187	210	198	183					
Consumer prices (1963 = 100)	1967	118.5	119.4	119.9	120.7	120.7	120.8	121.2	122.2	122.6	122.8	122.7	122.7
	1968	123.3	124.1	124.6	125.1	125.2	125.5	125.0	126.2	126.6	127.3	127.4	127.8
	1969	132.3	133.4	134.4	135.6	135.4	135.4	134.1	134.9	135.7	136.3		
Visible imports (million u.a.)	1967	679.6	652.9	708.4	639.5	692.8	736.4	633.0	680.6	705.1	711.3	744.9	717.0
	1968	822.0	719.0	757.2	703.8	813.9	696.5	751.5	790.0	806.7	828.8	815.4	809.7
	1969	815.2	840.4	844.3	881.6	914.6	946.4	864.8	869.7	1 007	1 010		
Visible exports (million u.a.)	1967	600.4	531.8	605.8	581.9	591.1	641.2	534.9	634.4	614.5	640.2	664.0	600.0
	1968	692.6	642.3	669.5	661.7	724.5	596.6	685.1	702.3	688.3	743.1	749.3	734.7
	1969	774.1	761.2	796.5	779.4	815.1	867.9	787.4	822.0	881	910		
Balance of trade (million u.a.)	1967	- 79.2	- 121.1	- 102.6	- 107.6	- 101.7	- 95.2	- 98.1	- 46.2	- 90.6	- 62.1	- 80.9	- 117.0
	1968	- 129.4	- 76.7	- 87.7	- 42.1	- 89.4	- 99.9	- 66.4	- 87.7	- 118.4	- 85.7	- 66.1	- 75.0
	1969	- 41.1	- 79.2	- 47.8	- 102.2	- 99.5	- 78.5	- 77.4	- 47.7	- 126	- 100		
Official gold and foreign exchange reserves (million u.a.)	1967	1 970	1 995	1 998	1 995	2 065	2 094	2 104	2 064	2 104	2 220	2 271	2 268
	1968	2 194	2 164	2 082	2 028	2 008	1 988	2 000	2 030	2 001	1 972	1 968	1 967
	1969	1 892	1 937	1 954	1 981	2 046	1 965	2 031	1 999	2 005			
Money supply (Fl. '000 million)	1967	18.20	18.41	18.81	18.89	18.94	19.47	19.17	18.98	19.56	19.44	19.56	19.50
	1968	19.85	19.70	20.27	20.33	20.49	21.10	20.76	20.79	21.14	21.27	21.47	21.66
	1969	22.12	22.07	22.24	22.41	22.59	22.91	22.54	22.41				

Netherlands

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US \$ 1) at the official exchange rates.

Graph 1

— Trade with non-member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 2

— Industrial production: trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

Graph 3

— Labour market: series adjusted for seasonal variations; three-month moving averages.

Graph 4

— Wages and consumer prices: indices of gross hourly earnings in industry (excluding mining, quarrying and construction); index of agreed wages. Cost-of-living index, source: CBS.

Graph 5

— Trade with other member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 6

— Bank lending: short-term bank loans.

Table 1

— GNP at market prices.
— Industrial production: value added by industry.
— Total exports and imports: goods, services and factor income.
— Gross income per employee: income from paid employment, including employers' share of social insurance contributions.

Table 2

— Balance exports less imports: as defined for the national accounts.
— Unemployment rate; source: CBS; number of unemployed as percentage of the civilian labour force in employment.
— Prices to private consumers: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

— Exports fob, imports cif; conversion at official exchange rates; the products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

— Industrial production: adjusted for seasonal variations, excluding construction and foodstuffs.
— Unemployed: end-of-month figures, adjusted for seasonal variations.
— Construction: seasonally adjusted number of dwellings authorized.
— Private consumers' expenditure: seasonally adjusted indices of department store turnovers.
— Consumer prices: not adjusted for seasonal variations.
— Imports cif, exports fob; conversion at official exchange rates; figures adjusted for seasonal variations.
— Balance of trade: difference between seasonally adjusted imports and exports.
— Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange at end of month.
— Money supply: notes and coin in circulation excluding cash holdings of monetary institutions, plus sight deposits with credit institutions; seasonally adjusted end-of-month figures.

E. Belgo-Luxembourg Economic Union

Belgium

The Belgian economy experienced a vigorous economic upswing in 1969, the strongest stimulus coming from demand from other Community countries. Investment activity increased sharply, while public and private consumption also expanded rapidly. The elasticity of domestic supply was progressively reduced as reserves of production capacity were brought into use. There was a distinct drop in unemployment and, in the second half of the year, signs of mounting tension appeared on the labour market. Despite an accelerated increase in imports, the upward trend of domestic prices was appreciably more vigorous than in the previous year. Till September the boom caused a steady deterioration in the current account. The situation on the money and capital markets became distinctly tighter than before.

In 1970, economic activity will expand further, but, largely because of an increase in the number of bottlenecks, the growth rate of production is likely to be lower than in 1969. With world demand expanding at a distinctly slower pace, the main stimulus will come from domestic demand. Investment by enterprises will again expand in very lively fashion, and private consumption, too, will rise rapidly. As the pressures affecting overall demand, employment and production threaten to be more acute, the current account will probably deteriorate. The upward movement of prices could also be more marked than in 1969.

1. Developments in 1969

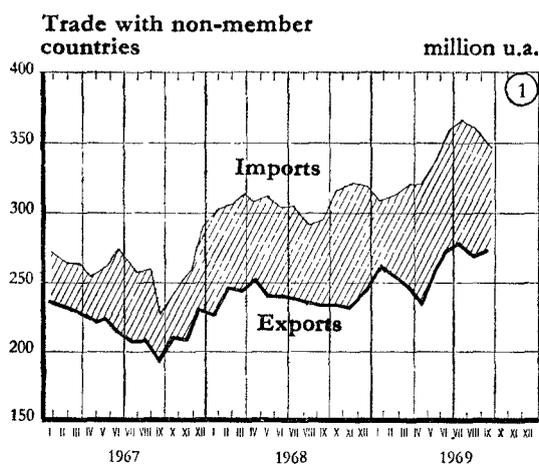
The vigorous upswing in economic activity which has been discernible in Belgium since the summer of 1967 gained in intensity during 1969. As a result of the accelerated growth of overall demand and the progressive exhaustion of reserves of production capacity, there have been signs of growing stress on the markets.

Demand from abroad was the main expansionary factor until the autumn of 1969. In the closing months of the year, however, there was some tendency for the expansion of exports of goods and services to lose momentum because of a slackening in demand from a number of countries which are major customers of the Community, and also because of the increasing bottlenecks in production. Customs statistics

indicate that up to the end of the summer visible exports tended not only to increase more vigorously than in 1968, but also more rapidly than world exports. While for the year as a whole the average rate of expansion for exports to non-member countries slackened somewhat, this was more than offset by the acceleration of deliveries to other Community countries. The overall growth rate of exports at current prices may be more than 20 %, as against 15.3 % in the previous year. The increase in terms of volume will not have been quite so high, as export prices have hardened considerably.

Since earnings from services increased less than earnings from visible exports, total exports of goods and services as defined for the national accounts are likely to have increased by some 18.5 % between 1968 and 1969, compared with

11.7 % a year earlier. This is the highest year-to-year rate recorded since the Common Market was established.



Gross fixed asset formation, which has been making an appreciable contribution to the economic upswing only since the second half of 1968, provided a strong stimulus to domestic demand throughout 1969. The rise was particularly marked in investment by enterprises, where the trend was influenced largely by the widening of profit margins which has been noted since 1967, and by the expansion of production capacity made necessary by the growing pressure of demand. In addition, investment by foreign firms, which had been stagnating in 1968, may have picked up again. Residential construction, too, has shown a distinct recovery from the downward trend of the previous three years. Similarly, public investment in building and construction showed a further fairly sharp increase, although the rate of growth has unmistakably been easing largely because of the greater difficulties encountered in providing finance. All in all, gross fixed asset formation at current prices is likely to have increased by about 14.5 %, against a mere 1.8 % in the previous year.

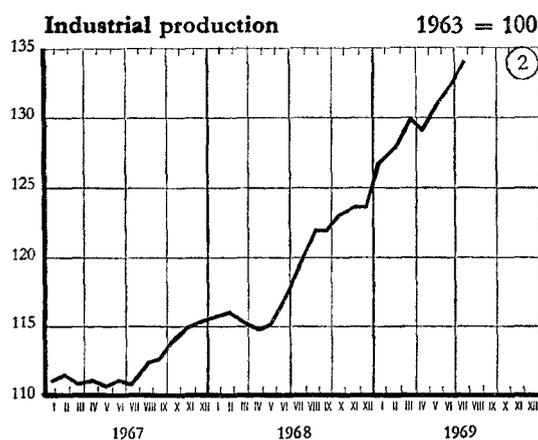
The stimulus provided by investment in stocks recovered somewhat, particularly in the second half of the year, firms having decided that, in view of the postponement of the introduction of TVA, they should do something about replenishing their heavily depleted stocks.

Consumer demand expanded slightly faster than in 1968. Public current expenditure on goods and services maintained the very high growth

rate already noted in 1968, with wages and salaries, in particular, rising vigorously. The expansion of private consumers' expenditure was even steeper than in the previous year; it increased by about 9 %, compared with 7.1 % between 1967 and 1968; in terms of volume, however, the increase was only of the same order of magnitude as in 1968 (5 %), because the rise in prices was appreciably more marked.

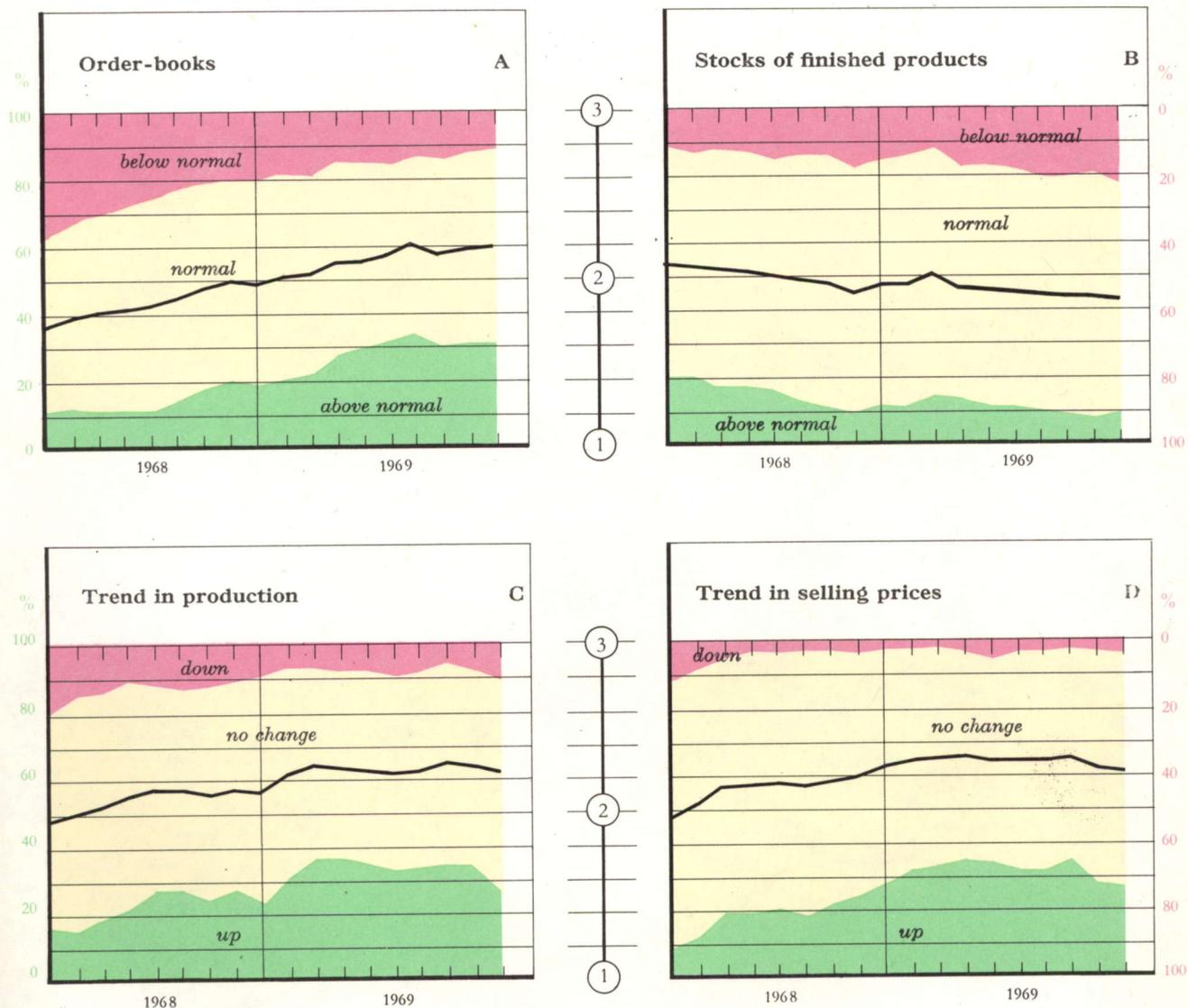
Demand from households was affected mainly by the brisker expansion of gross incomes, as there has been only a slight increase in the burden of taxation and the savings ratio has shown no noteworthy change on 1968. The total wages and salaries bill rose more rapidly than in 1968 owing to the greater speed with which both wage rates and the number of hours worked have been advancing. The improvement in hourly earnings in industry can be estimated at some 8 %, compared with 5.5 % in 1968. Public transfer incomes, too, rose considerably, in large part as a result of the higher pensions introduced in the middle of the year. As against this, incomes from entrepreneurship and property may have expanded somewhat more slowly after the spurt noted in 1968.

Parallel with the sharp increase in the pressure on production capacity, the elasticity of domestic demand declined appreciably in 1969. The growth rate of industrial production, which had been somewhat more rapid until mid-1969, lost some of its dynamism in the second half of the year. For the year as a whole, the value added by industry at constant prices may have



increased by some 9.5 %, compared with 7 % in 1968. Output in the building industry,

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Belgium by the National Bank.

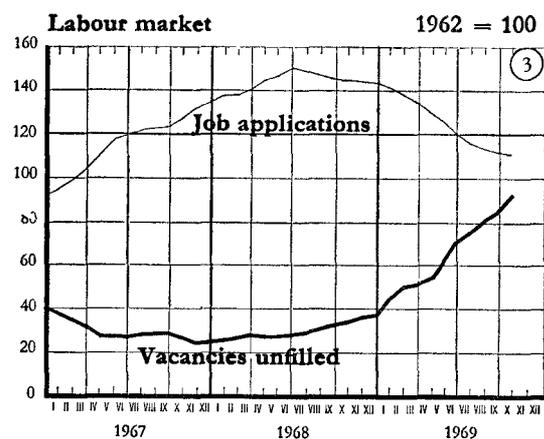
GRAPHS A, B, C and D: The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows:

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



which was no more than moderate in 1968, is likely to have expanded hardly less rapidly than industrial production as a whole. It appears on the other hand that agriculture, because of smaller harvests of crop products, will have made only a very limited contribution to the growth of GNP. Taking increased activity in the services sector into account, GNP at constant prices should have risen by fully 6 %, compared with a 3.8 % increase in the previous year. This would be the highest growth rate recorded since 1964.

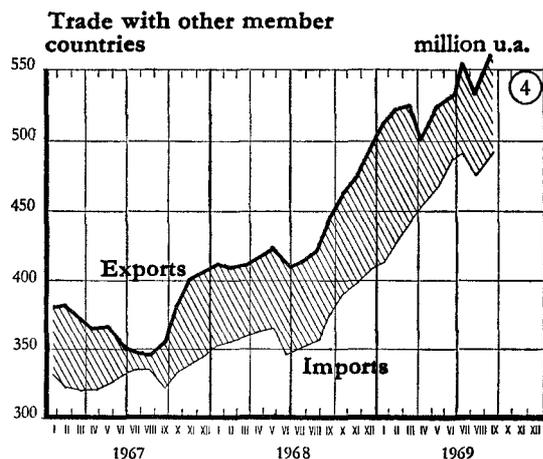
Since growth was still relatively moderate and because productivity gains were high, the improved level of economic activity in 1968 led to no more than a slight increase in numbers in paid employment. In 1969, however, there were signs of a larger increase: the average for the year will apparently turn out to be some 1.5 % higher than in 1968. The decline in unemployment which got under way in mid-1968 continued and even accelerated; in September the unemployment rate¹ was down to 2.1 %, compared with 2.7 % in the corresponding period of the previous year. At the same time the number of unfilled vacancies reached a higher level than at any time since 1963, causing fresh signs of strain to appear on the labour market.



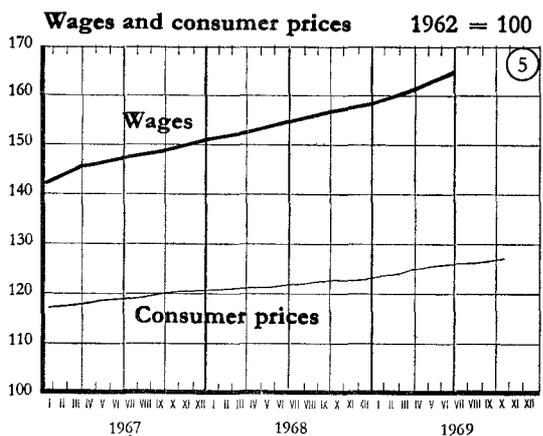
The livelier expansion of demand and production, coupled with bottlenecks on the markets

¹ Fully unemployed in receipt of benefit as percentag of civilian labour force. Excluding the unemployed with severely limited employability, the rate was 1.2 %, against 2.2 % in September 1968.

for certain industrial and agricultural products, meant that in 1969 there was a heavier demand for imports. In contrast to 1968, imports from Community countries expanded till autumn more rapidly than imports from non-member countries. Customs statistics indicate that in terms of volume total visible imports were about 19 % higher than in 1968. The increase in overall imports of goods and services—as defined for the national accounts and at constant prices—will have been about 16.5 %, compared with 12.9 % in the previous year.



The rise in domestic price levels was appreciably faster during 1969. This was due in part to the vigorous increase in prices for farm products and the higher cost of imported raw materials, but also to internal factors, in particular the bias towards a seller's market which developed as a result of the brisk expansion of overall demand for manufactures and semi-manufactures.



The wholesale price index rose some 5 % in the first nine months of the year. At the same time construction costs moved upwards as a result of a boom in building activity. Consumer prices also increased appreciably; in October they were 3.5 % higher than at the turn of the year, and almost 3.9 % above the level reached in the corresponding period of 1968.

Because of the way in which the pattern of foreign trade was developing, and with the terms of payment moving against Belgium, the tendency for the current account to deteriorate which had been discernible since early 1968 persisted in 1969. On a payments basis, the current account for the first eight months of the year closed with a deficit of Bfrs. 8 500 million, against a surplus of Bfrs. 400 million in the corresponding period of the previous year. While the capital account closed with a sizable surplus, the pattern of movements involved developed along rather unsatisfactory lines: net private portfolio investment abroad rose, but there was a decline in direct foreign investment in the Belgo-Luxembourg Economic Union and an increase in the foreign indebtedness of financial institutions in the public sector, particularly the Société Nationale de Crédit à l'Industrie and the Belgian railways.

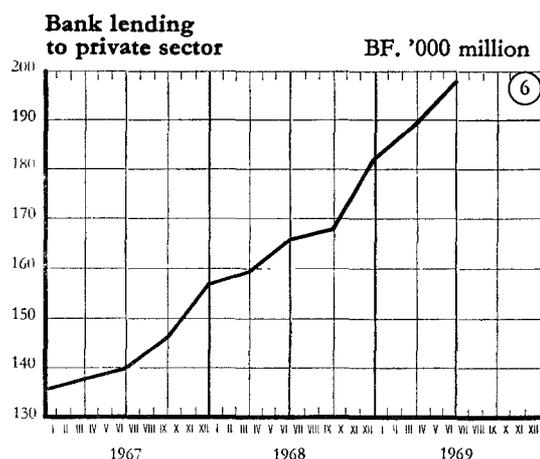
Because of the surplus on capital account, the overall balance of payments for the period January/August closed with a deficit of Bfrs. 400 million, against a deficit of Bfrs. 1 100 million in the corresponding period of 1968.

Central Bank reserves (including foreign trade claims) were nevertheless Bfrs. 6 900 million down in the first eight months of the year, as the commercial banks, attracted by the relatively high interest rates ruling on the Eurodollar market, stepped up their net foreign exchange holdings by Bfrs. 6 500 million. After the revaluation of the Deutsche Mark in October, the Central Bank increased its foreign exchange reserves considerably.

The incomplete data now to hand suggest that domestic liquidity expanded more slowly than in 1968; at the same time the demand for credit from business and private customers was growing more rapidly than in the previous year. In September bank lending to the private sector

was 16.5 % above the level reached twelve months earlier.

Because of the vigorous expansion of total lending and the higher interest rates ruling on the major foreign markets, the Central Bank again tightened up on monetary and credit policy. By September Bank rate had been raised from 4.5 % to 7.5 % in five stages and the conditions for bank lending were repeatedly made more stringent. The ceiling on the growth of bank lending up till the end of 1969 was fixed at 11.2 % of the level of lending at 31 December 1968. The rediscount ceiling introduced in May was on 18 August cut to 14 % of liabilities and lowered in further stages till it was 12 % on 31 December 1969. On 3 November the banks were in addition invited to keep the total volume of credits for hire purchase, personal loans and credit for the purchase or construction of buildings to be used for industrial, agricultural or artisan activities down to the level obtaining at the end of October 1969.



A more determined effort was made in 1969 to follow a restrictive policy in the handling of budgetary expenditure, but this has so far not proved entirely successful. The ordinary budget should none the less remain balanced, as was expected when the draft was presented. The net borrowing requirement for the year should have fallen from the 1968 level of Bfrs. 33 000 million to Bfrs. 30 000 million. It should, however, be noted that the public authorities made considerable use of short-term borrowing to finance their deficits.

Demand for and supply of goods and services

	1967 ¹	1968 ¹		1969 ²		1970 ³
	At current prices (in Bfrs. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	376.8	+ 11.3	+ 11.7	+ 16½	+ 18½	+ 9½
Gross fixed asset formation	216.7	— 0.6	+ 1.8	+ 9½	+ 14½	+ 8½
Public current expenditure on goods and services	131.8	+ 6.8	+ 10.8	+ 5	+ 11	+ 5
Private consumers' expenditure	614.0	+ 4.9	+ 7.1	+ 5	+ 9	+ 5
Gross national product	973.5	+ 3.8	+ 6.3	+ 6	+ 10½	+ 5
Imports ⁴	368.7	+ 12.9	+ 13.8	+ 16½	+ 19	+ 9½

¹ Belgian Ministry of Economic Affairs.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks,

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook for 1970

A satisfactory assessment of the most important factors which could influence the Belgian economy in 1970 is particularly difficult at this time. It is to be expected however that, following a period of relatively rapid growth, the expansion of production will slow down largely because of shrinking productivity gains but also because of a possible slackening of demand. At the same time there is a danger that the conditions which influence the balance of the economy may as a whole be even more unfavourable than of late.

Demand from abroad will certainly not be as buoyant as in 1969. It may well be that

developments in prices and costs will only slightly impair Belgium's competitive position, but the slower growth of real incomes, both within the Community and elsewhere, is bound to act as a brake on the rise of exports, particularly in view of the existing export pattern: this led, during the period now ended, to relatively rapid advances in the export field but may well work, if anything, in the opposite direction in 1970. According to the findings of the EEC Business Surveys, businessmen have been less optimistic about the trend of foreign orders in recent months. If the average growth rate of exports is fairly high in 1970, it will be because the level reached at the end of 1969, adjusted for seasonal variations, was already relatively high.

The expansion of domestic demand may continue to be very lively in 1970 and be far in excess of any increase that could be made in real domestic supply.

An important element in the buoyancy of domestic demand has been the dynamism of investment activity. Although the outlook for business activity throughout the world is less rosy, and despite the restrictive line being followed in monetary and credit policy, the propensity to invest of managements is still high. Indeed, the latest EEC investment survey in industry shows that they plan to expand investment outlay in 1970 by some 40 %.

Investment in residential construction, however, having been boosted in 1969 by the plan to introduce TVA on 1 January 1970, may well be somewhat less buoyant, as a large proportion of requirements will have been covered by investments made in 1969 and as, in addition, more onerous financing conditions are likely to act as a damper on fresh investment in this field. In the public sector, the greater vigour expected in local authority investment may be offset by the limits being placed on the expansion of investment expenditure by the Central Government.

Now that introduction of the tax on value added has been postponed to 1 January 1971, investment by enterprises in stocks will provide no more than a limited stimulus for economic activity.

The rise in consumer expenditure may continue in 1969, mainly because of heavier spending by individuals, but also because of outlays on goods and services by the public authorities. The upward thrust of wages and salaries may increase as a result of the strained situation on the labour market. Transfer incomes, too, will show a further appreciable increase. Even if it is assumed that the growth of income from entrepreneurship and property will be slower, gross incomes of households may increase more than in 1969. There are also plans to introduce income tax reliefs for the lower income groups. Furthermore, the threatened upward movement of prices and a certain amount of advance buying in the second half of the year to beat the introduction of TVA on 1 January 1971 could have a bad effect on the saving habits of households, so that the expansion of consumer demand in

money terms could be stimulated from this quarter too.

Despite the lower rate at which overall demand is expanding, the degree of utilization of the factors of production will in general continue to be very high. In view of the very high level already reached by the end of 1969, value added by industry at constant prices could come to 7 %, a little more than the average growth recorded over the years since 1958. Given the slower growth of output in the building industry and activity in the service sectors, and provided agriculture enjoys normal weather conditions, the growth rate of GNP between 1969 and 1970 at constant prices can be estimated at 5 %.

Since the depleted reserves of production capacity mean that a distinct slackening in the expansion of output per man-hour is to be expected, industry's manpower requirements are likely to increase; unemployment can therefore be expected to decline further and the situation on the labour market to become more strained.

As the imbalance between domestic supply and the expansion of demand becomes more acute, imports are likely to go up considerably. There should, in particular, be an appreciable increase in imports of finished goods, especially investment and consumer goods from other member countries. Imports of raw materials and semi-manufactures on the other hand should slacken somewhat, partly because of the reduced pace of domestic production and partly because firms are likely to be more cautious in their approach to stockbuilding in the second half of the year.

The sharp pressure still exerted by demand, coupled with the tendency for production possibilities to decline, the probable rise in wage costs per unit of output, and the increased cost of imports (due in part to the revaluation of the DM), are so many grounds for fearing that the internal upward movement of prices will remain considerable if it does not actually gather more speed. In the circumstances, it is essential that the restrictive short-term economic policy adopted in 1969 be maintained for the time being. Indeed, given the danger of a further acceleration of the upward trend of prices and the deterioration in the current account, a tightening of restrictive measures would seem to be in order, especially as existing

sources of strain in the Belgian economy must be removed well before the introduction of TVA if the price situation is not to be aggravated by the changeover to the new tax system.

In the field of credit policy, the Central Bank has already announced that the ceiling on lending will be maintained during the first half of 1970. The expansion of lending by the banks and other financing institutions will be limited, with due allowance for seasonal swings, in the same way as in the second half of 1969. The rediscount ceiling, too, is to be lowered again on 31 March 1970, bringing it to 10%. Should it appear in the next few weeks that there is a danger of private consumers' expenditure expanding too rapidly, it might also become necessary to tighten up further on the conditions for hire purchase and personal loans.

The draft budget for 1970, drawn up on the assumption that the introduction of TVA would be postponed, provides for the balancing of the ordinary budget, as in 1969. When tax revenue that goes direct to the fund for economic expansion and regional conversion is taken into account, there is even a surplus of Bfrs. 5 000 million. If the ordinary and the extraordinary budgets are combined, and if the "conditional"

appropriation to stimulate the economy (*tranche conjoncturelle*) is taken into account, total public expenditure would still be rising by some 13%, or more than the percentage increase in GNP in money terms. Such a sharp increase at the present time seems completely unjustifiable from the angle of short-term policy, especially as the progressive effect of taxation is being weakened by a partial alignment of rates on the rise in the price level and as it would be difficult in present circumstances to gain acceptance for an increase in the burden of taxation. It must also be remembered that, taken overall, the expenditure to be financed outside the budget and the outlays of the regional and local authorities will no doubt also advance strongly. In other words, no use ought to be made of the contingency appropriation; even if it is held in reserve, the Central Government's net financing requirements, at Bfrs. 27 000 million, will once again be higher than in the years prior to 1968.

The full reduction in the borrowing requirement that is desirable on grounds of short-term policy may not in fact be possible, but it is essential that considerably less use be made of short-term borrowing than was the case in 1969.

Belgium

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1958=100	Million u.a.	% of totals
	1964	1965	1966	1967	1968	1968	1968	1968
Visible exports								
Total	+ 15.5	+ 14.2	+ 5.2	+ 3.0	+ 16.0	267	8 155	100.0
Intra-EEC	+ 19.0	+ 12.3	+ 6.1	+ 3.2	+ 18.5	381	5 248	64.4
To non-EEC countries	+ 10.3	+ 16.5	+ 3.9	+ 2.5	+ 11.7	174	2 907	35.6
Exports of food, beverages and tobacco								
Total	+ 3.2	+ 31.5	+ 8.4	+ 18.8	+ 15.5	418	640	7.8
Intra-EEC	+ 5.2	+ 31.6	+ 5.4	+ 25.7	+ 24.6	597	524	6.4
To non-EEC countries	- 2.1	+ 31.3	+ 17.1	+ 1.3	- 13.4	177	116	1.4
Exports of raw materials, fuel and power								
Total	+ 2.3	+ 3.1	+ 0.5	- 2.4	+ 13.4	184	692	8.5
Intra-EEC	+ 5.2	+ 1.4	+ 1.5	- 3.6	+ 10.8	179	413	5.1
To non-EEC countries	- 2.1	+ 5.9	- 1.0	- 0.5	+ 17.4	198	279	3.4
Exports of semi-finished and finished industrial goods								
Total	+ 18.5	+ 14.4	+ 7.7	+ 2.3	+ 16.4	271	6 823	83.7
Intra-EEC	+ 22.3	+ 12.7	+ 9.8	+ 1.9	+ 18.7	408	4 311	52.9
To non-EEC countries	+ 12.7	+ 17.1	+ 4.2	+ 2.9	+ 12.8	172	2 512	30.8
Visible imports								
Total	+ 15.9	+ 7.6	+ 12.6	0	+ 15.3	264	8 276	100.0
Intra-EEC	+ 17.5	+ 10.1	+ 15.4	- 0.6	+ 13.7	310	4 533	54.3
From non-EEC countries	+ 14.0	+ 4.8	+ 9.1	+ 0.6	+ 17.3	224	3 742	45.2
Imports of food, beverages and tobacco								
Total	+ 16.8	+ 15.2	+ 8.1	+ 10.0	+ 2.5	215	1 006	12.2
Intra-EEC	+ 16.3	+ 22.5	+ 10.6	+ 11.8	+ 23.7	334	519	6.3
From non-EEC countries	+ 17.2	+ 10.6	+ 6.4	+ 8.6	- 3.3	156	487	5.9
Imports of raw materials, fuel and power								
Total	+ 14.3	+ 1.5	+ 1.1	- 2.1	+ 22.8	193	1 972	23.8
Intra-EEC	+ 12.9	+ 3.1	+ 5.2	- 5.5	+ 17.6	160	678	8.2
From non-EEC countries	+ 4.4	+ 0.6	- 1.3	- 0.2	+ 25.7	217	1 294	15.6
Imports of semi-finished and finished industrial goods								
Total	+ 16.4	+ 8.8	+ 18.3	- 1.1	+ 16.7	325	5 298	64.0
Intra-EEC	+ 18.9	+ 10.3	+ 18.4	- 1.1	+ 13	383	3 336	40.3
From non-EEC countries	+ 12.1	+ 6.2	+ 18.1	- 1.2	+ 23.6	258	1 962	23.7

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	111.1	112.1	110.9	113.2	108.4	111.8	110.4	112.7	111.5	113.8	112.4	119.3
	1968	114.9	113.9	117.2	113.1	114.6	124.5	118.3	123.5	124.4	120.6	124.5	124.9
	1969	131.4	126.4	131.5	128.6	133.9	134.7	135.2	136.5				
Unemployed (1 000)	1967	70.6	74.2	79.3	83.8	85.8	85.3	85.6	86.8	88.6	94.5	96.0	96.5
	1968	98.2	98.3	103.7	106.4	106.4	104.4	104.1	102.2	100.8	102.7	101.4	101.0
	1969	97.9	96.4	92.7	90.4	86.5	81.5	81.9	79.7	79.4	79.6		
Construction : permits for residential construction (1 000)	1967	2 861	3 048	2 944	3 183	3 464	3 644	3 449	3 054	2 790	2 864	2 772	3 057
	1968	2 634	2 161	3 923	2 405	3 569	3 111	3 410	3 108	2 850	3 879	3 321	3 427
	1969	2 927	3 623	3 230	4 083	4 155							
Private consumers' expenditure : department store turnover (1963 = 100)	1967	128	127	134	128	121	129	126	138	129	123	127	134
	1968	129	131	135	133	136	131	137	149	127	134	146	143
	1969	145	135	146	142	155	142	144					
Consumer prices (1963 = 100)	1967	114.24	114.45	115.02	115.83	116.23	116.31	116.10	116.42	116.90	117.14	117.49	117.65
	1968	118.20	118.27	118.38	118.63	118.76	119.18	119.41	119.52	120.00	120.46	120.48	120.91
	1969	121.44	121.96	122.62	122.95	123.32	123.65	124.10	124.28	124.78	125.18	125.42	
Visible imports (million u.a.)	1967	605.0	565.9	594.6	572.2	603.8	651.7	490.4	641.6	511.9	618.9	687.2	629.6
	1968	633.4	706.0	702.6	643.5	704.3	609.7	658.1	690.7	665.9	769.7	703.1	692.1
	1969	765.6	778.2	775.4	809.7	826.5	883.2	850.5	794.5	864.9			
Visible exports (million u.a.)	1967	608.5	571.1	583.4	599.3	586.8	582.5	526.0	573.4	530.5	648.5	619.0	650.1
	1968	622.2	675.7	654.5	705.8	667.5	603.4	695.1	681.8	676.9	747.1	706.0	753.0
	1969	844.2	698.9	737.6	804.1	831.5	806.8	867.9	753.0	914.5			
Balance of trade (million u.a.)	1967	+ 3.5	+ 5.2	- 11.2	+ 27.1	- 17.0	- 69.2	+ 35.6	- 68.2	+ 18.6	+ 29.6	- 68.2	+ 20.5
	1968	- 11.2	- 30.3	- 48.1	+ 62.3	- 36.8	- 6.3	+ 37.0	- 8.9	+ 11.0	- 22.6	+ 2.9	+ 65.9
	1969	+ 78.6	- 79.3	- 37.8	- 5.6	+ 5.0	- 76.4	+ 17.4	- 41.5	+ 49.6			
Official gold and foreign exchange reserves (million u.a.)	1967	1 970	1 939	1 951	1 972	2 044	2 118	2 152	2 196	2 212	2 220	2 244	2 202
	1968	2 168	2 116	2 150	2 116	2 090	1 996	1 972	1 964	1 888	1 896	1 902	1 886
	1969	1 898	1 890	1 880	1 950	2 000	2 024	2 032	2 100	2 106			
Money supply (Bfrs '000 million)	1967	330.2	329.1	328.9	333.9	331.1	335.6	335.6	340.4	343.3	341.5	345.5	341.9
	1968	345.9	346.4	352.4	355.7	358.5	361.8	357.3	365.6	361.9	363.0	368.0	367.3
	1969	368.0	373.8	374.7	378.0	377.4	382.2	375.1	380.1	374.0			

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US \$ 1) at the official exchange rates.

Graph 1

— Trade with non-member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 2

— Industrial production: trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

Graph 3

— Labour market: series adjusted for seasonal variations; three-month moving averages.

Graph 4

— Trade with other member countries: series adjusted for seasonal variations; three-month moving averages; exports fob, imports cif.

Graph 5

— Wages and consumer prices: agreed wages for manual workers, all branches, source: Ministère du Travail et de l'Emploi; consumer prices, source: Ministère des Affaires Economiques.

Graph 6

— Bank lending: loans made by monetary institutions.

Table 1 and 2

— Owing to revision of the national accounting arrangements in Belgium, the information needed for Table 1 (Key indicators) and Table 2 (Indicators for internal and external equilibrium) was not available when this Survey was prepared.

Table 3

— Exports fob, imports cif; conversion at official exchange rates; the products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

— Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco.
 — Unemployed: end-of-month figures, adjusted for seasonal variations.
 — Construction: seasonally adjusted number of residential buildings authorized.
 — Private consumers' expenditure: seasonally adjusted indices of department store turnovers.
 — Consumer prices: not adjusted for seasonal variations.
 — Imports cif, exports fob; conversion at official exchange rates; figures adjusted for seasonal variations.
 — Balance of trade: difference between seasonally adjusted imports and exports.
 — Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange at end of month.
 — Money supply: notes and coin in circulation, excluding cash holdings of the Treasury, the Central Bank and other banking institutions other than the Post Office giro; residents' sight deposits (up to one month) with banking institutions; sums held with the Post Office giro, the special Treasury accountants and non-residents.

Luxembourg

The Luxembourg economy expanded vigorously in 1969. The main stimulus came from greater activity in investment. Production rose sharply. Real GNP increased by about 7 %, a higher growth rate than any attained since 1964. The upward movement of prices was relatively moderate.

Economic growth could slow down appreciably in 1970. In particular, there may be a distinct easing in the pace at which exports of iron and steel products have been expanding. The expansion of gross fixed asset formation could also lose some of its dynamism. As against this, the upward trend of private consumers' expenditure should gather speed, thanks to a vigorous increase in incomes. There is a growing danger that the upward movement of prices will gain appreciably in strength, partly because the cost of imports threatens to increase further.

1. Developments in 1969

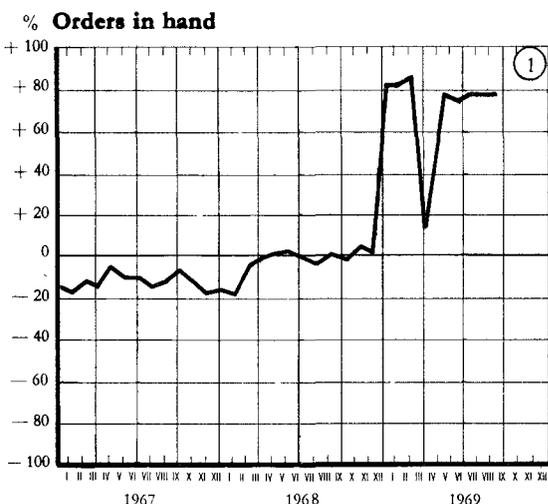
The strong upswing in economic activity which got under way in Luxembourg early in 1968 persisted with undiminished vigour in 1969 without causing undue strain. Although there were signs from summer onwards that production was beginning to slacken, real economic growth in 1969 was the highest achieved since 1964.

The stimulus to production provided by demand from abroad gained further in strength until the summer. The considerable increase in exports can be attributed to a particularly brisk demand

for iron and steel, and to growing sales both of electric power and of goods produced by newly-established industries. Exports to other Community countries speeded up very appreciably. All in all, the growth rate of exports of goods and services should be distinctly higher (19.5 %) than in the previous year. The increase in terms of volume will be less marked, because 1969 brought an appreciable increase in export prices, the first for many years.

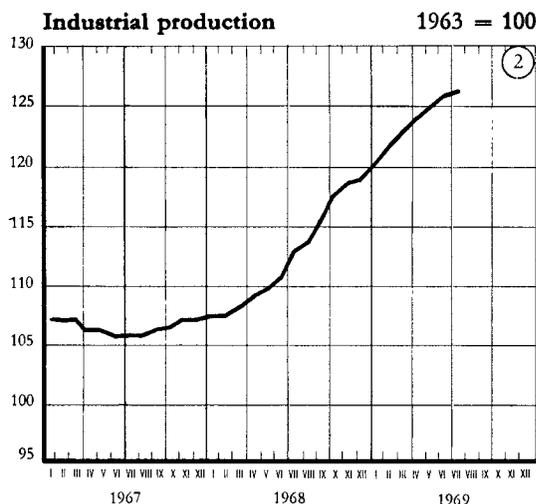
The expansion of domestic demand grew perceptibly stronger, largely because of the extremely dynamic trend of gross fixed asset formation. Iron and steel enterprises and the industries recently introduced to the country extended their investment programmes considerably, and this led to an extraordinarily rapid increase in fixed asset formation. At the same time investment in residential construction increased distinctly faster than in 1968. As against this, the growth of public investment expenditure was not as fast as in the previous year. All in all, it can be estimated that gross fixed asset formation at current prices increased by 26.5 % in 1969, against 7.5 % in 1968.

The stimulus provided by the development of public and private consumption continued to be very strong in 1969. Under the influence of a considerable increase in incomes, expendi-



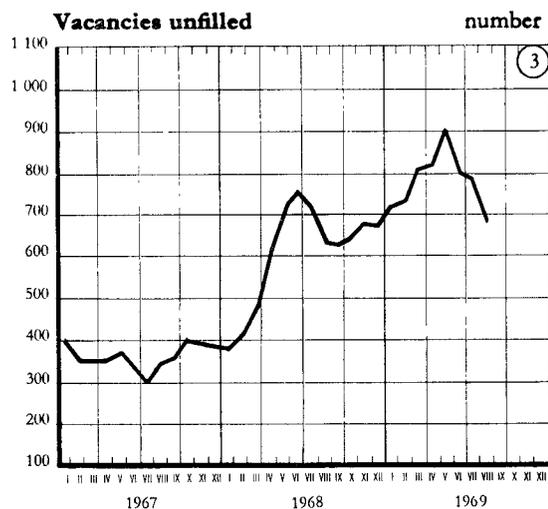
ture by households on consumption again expanded with great vigour. Employment probably increased somewhat more rapidly than in 1968, largely because there was no further drop in numbers employed in the basic materials industries; and in the iron and steel industry, where wage rates had risen considerably in 1968, gratuities and production bonuses were also distinctly higher. Sizable pay increases were awarded in other industries too, and the minimum wage rate was raised in June. Although, in view of the heavier burden of taxation and social security charges, the increase in net incomes was less than the increase in gross incomes, the disposable incomes of households again experienced a high growth rate because of the increase in transfer incomes and income from entrepreneurship and property. Private consumption at current prices may have increased by about 7.5 % in 1969, so that growth was about the same as in 1968.

Domestic demand expanded at an accelerated rate in 1969. Despite some weakening of industrial production towards the end of the year, industry's contribution to gross national product at constant prices increased by about 12 % during 1969, against 6 % in 1968. Since output in the other sectors of the economy was also more vigorous than in 1968, GNP at constant prices should have risen by about 7 % as compared with the 4 % of the previous year.



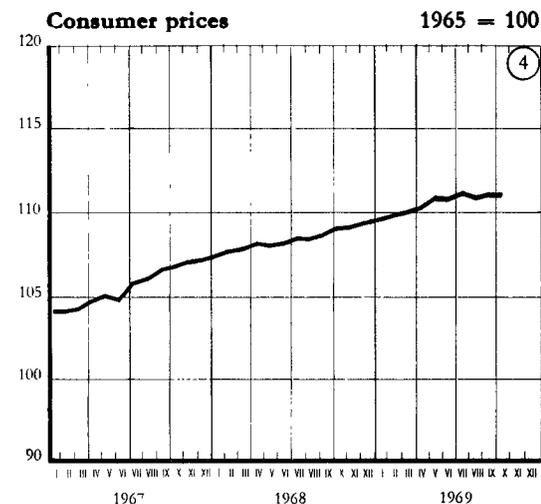
Although the more lively trend of production was largely explained by advances in productivity, employment increased faster than in 1968. This led to some increase in the pressures felt on the labour market as the year advanced—

particularly in the building industry and in some service industries; the situation was not helped by the fact that efforts to step up recruitment of foreign workers did not keep pace with the expanding demand for manpower.

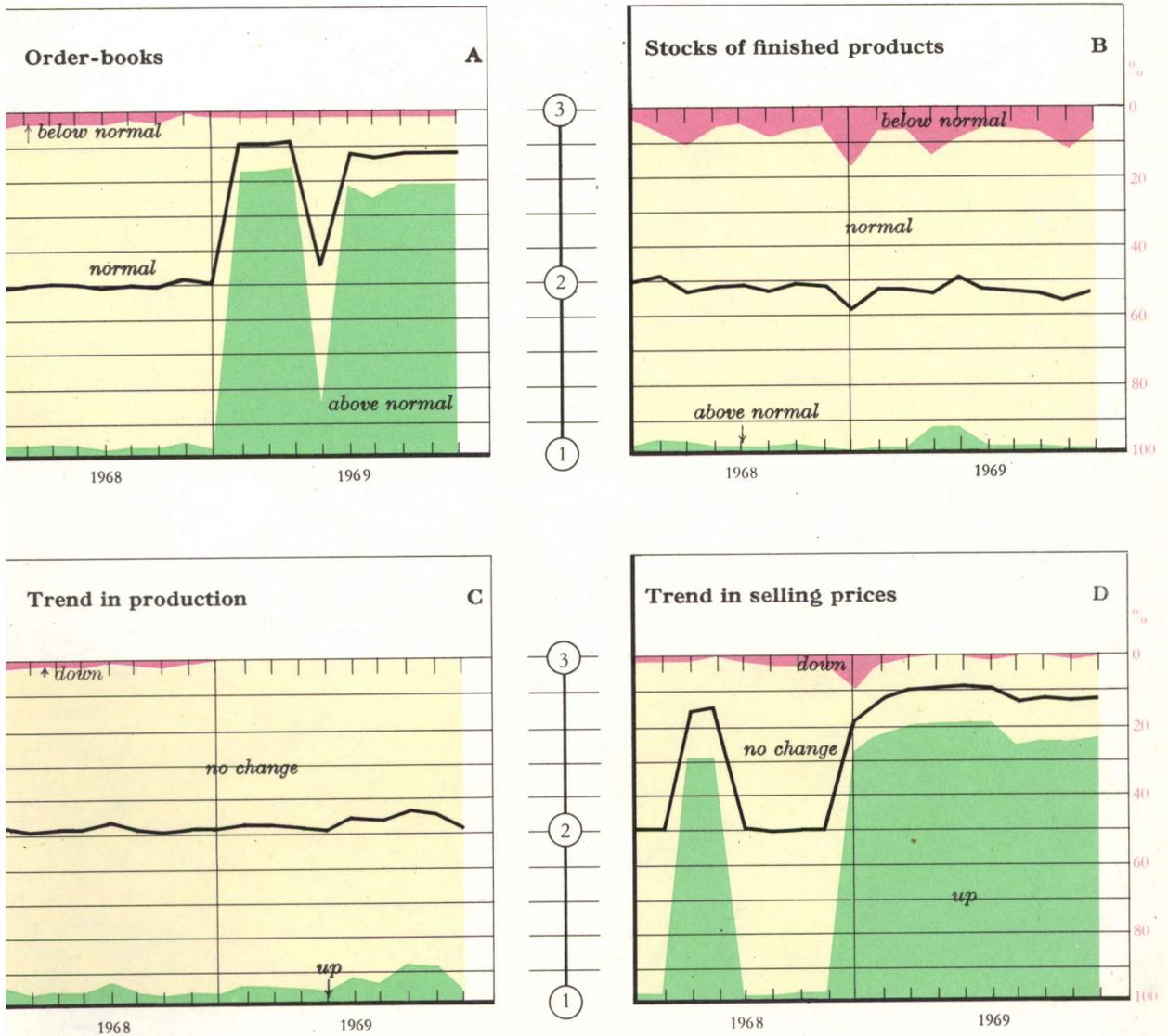


There was an appreciable increase in recourse to supplies from abroad. Visible imports grew at an accelerated pace mainly because investment in plant and machinery was stepped up considerably. The increase in total imports of goods and services between 1968 and 1969 at constant prices can be put at 16.5 %, against 9.5 % in the previous year.

Because the elasticity of supply—and of imports in particular—remained high, the price climate was calm. In the second half of the year, however, domestic prices rose somewhat faster, as services and industrial products—especially those from abroad—became more expensive. All in all, the consumer price index rose by 2.3 % during the first nine months of 1969.



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Grand Duchy of Luxembourg by STATEC.

GRAPHS A, B, C and D: The three colours (green, yellow and red) show the percentages of the three different answers. The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows:

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

Demand for and supply of goods and services

	1967 ¹	1968 ¹		1969 ²		1970 ³
	At current prices (in Lfrs. million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	27 960	+ 10.2	+ 10.2	+ 14½	+ 19½	+ 6½
Gross fixed asset formation	8 883	+ 3.2	+ 7.3	+ 18	+ 26½	+ 3
Public current expenditure on goods and services	4 245	+ 3.1	+ 7.1	+ 2½	+ 7	+ 2
Private consumers' expenditure	21 648	+ 4.3	+ 7.0	+ 5	+ 7½	+ 5
Gross national product	35 412	+ 4.0	+ 7.1	+ 7	+ 13½	+ 3
Imports ⁴	27 324	+ 9.4	+ 9.5	+ 16½	+ 19½	+ 7½

¹ Service central de la statistique et des études économiques (STATEC), Luxembourg.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook for 1970

The Luxembourg economy will continue to expand in 1970 although perhaps with considerably diminished vigour. Despite the progress being made in diversification, exports will be considerably less buoyant in view of the expected easing of export demand for iron and steel products. Even if the slowdown in the expansion of sales by the new industries is relatively modest, it appears at the time of writing that total exports of goods and services at current prices will increase between 1969 and 1970 only by some 6.5 %.

Domestic demand is likely to be affected by the weaker expansion of gross fixed asset formation. Investment by the new industries should admit-

tedly show a marked increase, but investment in the iron and steel industry, which had made a strong recovery in 1969, may flatten out in 1970. There should be a further vigorous increase in expenditure on residential construction despite the fact many building projects were brought forward to 1969 to beat the introduction of TVA. The expansion of public investment could be slower in 1970. All in all, gross fixed asset formation at current prices may increase between 1969 and 1970 by about 12 %.

Consumption expenditure will continue to expand very rapidly in 1970 and is likely to reach a higher annual growth rate than in 1969. This is true of public, and particularly true of private,

consumption, as wage increases, for one thing, could turn out to be considerably larger. In the first place, it is certain that further sizable improvements in wage rates will be approved in connection with the renegotiation of wage agreements, particularly in the iron and steel industry and in building. In the second place, the increases in money terms resulting from application of the sliding wage scale will be higher than in 1969. Moreover, because of the revaluation of the DM there may well be a tendency for wages to rise to prevent manpower migrating to Germany.

As against this, employment is expected to be less dynamic than in 1969. If allowance is also made for the effect that purchases brought forward to beat the introduction of TVA at the end of 1969 will have on the pattern of spending by households, it can be estimated that private consumption will increase between 1969 and 1970 by about 11 % at current prices.

The expansion of domestic supply is likely to slacken appreciably in 1970. Despite the high level of industrial production at the end of 1969, the average growth rate for the year should—on the assumption that the output of steel remains practically unchanged—amount to no more than 3 %. On the assumption that there will be a general slackening in the trend of output in other economic sectors, the growth rate of real GNP should be about 3 %.

Imports of goods and services, like domestic production, will increase much more slowly than in 1969 as there will probably be a distinct slackening in imports of raw materials and semi-manufactures. None the less, the balance on current transactions is likely to be less favourable in 1970, particularly as there is likely to be a quite marked deterioration in the terms of trade.

There should be no great change in labour market trends in 1970. Manpower requirements in the services sector and in construction could increase further, while industry's requirements could decline.

Forecasts for the trend of prices in 1970 are mainly influenced by the effects that the introduction of TVA could have not only on consumer price levels but also on the cost of building projects in the private and public sectors. When in addition allowance is made for the

higher cost of imported goods, due in no small measure, but not exclusively, to the revaluation of the Deutsche Mark, there is clearly a risk of consumer prices hardening appreciably more than in 1969.

The marked deterioration in internal equilibrium indicated by the forecasts for 1970 raises serious problems with regard to short-term economic policy. Early in November the Government announced the introduction of a number of restrictive measures which can be summed up as follows: credit, and in particular lending to finance expenditure on construction and consumption, will be restricted; hire-purchase terms will be more stringent, a closer watch will be kept on prices and trading margins will be frozen at their level of 1 November; the sliding wage scale will be adjusted to widen the gap between the points at which it comes into operation, and the two sides of industry will be invited to stagger wage increases. The proposed rates of TVA, and in particular those for some foods and pharmaceuticals, are to be lowered as a temporary measure.

Although it is not yet possible to give an accurate assessment of the effect this programme will have, the general orientation of the measures announced does seem to be in line with the requirements of the business situation. Special caution will still be needed in the matter of budget policy. In view of the probable monetary and financial imbalances, the handling of budgetary expenditure and the methods used to finance any deficit should be such as to help ease the strains on the economy. The main lines of the 1970 budget, even allowing for the latest announcement of restrictive measures, does not seem to be entirely in line with the requirements of the situation. It shows an increase of about 6.5 % in ordinary expenditure and overall expenditure will be as much as 7.2 % higher than in 1969. The budget deficit stands at Lfrs. 1 331 million as compared with Lfrs. 1 096 million in 1969, which means that it will increase by 0.5 % of GNP. In addition to a higher deficit, there is a risk of the authorities making even more use of short-term borrowing; this should be avoided to the greatest extent possible. Moreover, care must be taken to ensure that there is no repetition of the 1969 pattern of considerable over-spending on items of ordinary expenditure.

TABLE 1 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	108.4	107.3	107.3	106.2	105.2	105.1	107.3	104.7	106.5	105.6	109.1	107.9
	1968	106.1	106.7	108.4	109.3	110.7	111.8	109.5	115.9	117.5	118.5	119.0	117.9
	1969	124.5	123.4	125.5	125.7	125.9	122.1	116.0	122.7				
Unfilled vacancies	1967	427	317	362	393	373	255	282	390	374	399	357	355
	1968	401	490	570	793	834	649	672	570	633	699	703	614
	1969	837	731	865	865	983	554	831	658	733			
Construction : permits for residential construction	1967	28	13	22	5	22	5	14	17	8	23	10	9
	1968	30	16	13	13	23	7	23	12	19	14	18	18
	1969	19	28	6	24								
Consumer prices (1963 = 100)	1967	111.10	111.06	111.19	111.57	111.88	111.65	112.85	112.88	113.62	113.72	113.96	114.12
	1968	114.24	114.83	114.95	115.19	115.09	115.19	115.41	115.40	115.59	116.12	116.29	116.74
	1969	116.96	117.08	117.30	117.57	118.08	117.94	118.26	118.11	118.31	118.39		

Luxembourg

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Graph 1

— Orders in hand; source: EEC Business Survey; balance between percentage of managements reporting order books to be above normal (+) and those reporting them to be below normal (—).

Graph 2

— Industrial production: trend curve; estimate established on the basis of indices of the Statistical Office of the European Communities (excluding construction, food, beverages and tobacco), adjusted for seasonal and fortuitous variations.

Graph 3

— Unfilled vacancies: series adjusted for seasonal variations; three-month moving averages.

Graph 4

— Consumer prices; source: STATEC.

Table 1

- Industrial production: adjusted for seasonal variations, excluding construction and foodstuffs.
- Unfilled vacancies: seasonally adjusted end-of-month figures.
- Construction: seasonally adjusted number of residential buildings authorized.
- Consumer prices: not adjusted for seasonal variations.

Brussels, 9 July 1969

Commission Memorandum to the Council on the maintenance of balanced economic growth

At a Council session of 12 December 1968, the Commission described the lines of short-term economic policy which it considered should be followed in the endeavour to deal with the problems that the economic situation in the Community presented at the time. Subsequently, in the first half of 1969, the economic climate changed appreciably in several member countries and also outside the Community. Some of the objectives which the Commission had proposed in its Memorandum have been attained, but the problems of internal equilibrium are still far from being solved. Most Member States are faced with the emergence or the strengthening of inflationary strains. Arrangements that provide for exceptions to the general rules impair the functioning of the Common Market.

In the circumstances, special importance attaches to the Council's examination of the economic situation and to the joint fixing of the lines of short-term economic policy for the coming months.

I. The situation in the Community

1. *General survey*

For about a year the Community has been passing through a phase of boom in which economic growth has been unusually rapid.

Even though there are considerable differences from country to country, essential elements in the trend are the same: investment by enterprises is booming, the expansion of expenditure on consumption is gaining speed, and intra-Community trade is growing vigorously. In most member countries, the expansion of production is impeded by bottlenecks; there are the characteristic signs of a very high degree of

utilization of the available capacities, a strong rise in the level of orders on hand, a fall in stocks of finished products held by industry, and a lengthening of delivery periods.

When due allowance is made for probable developments in the second half of this year, the growth of the real gross Community product from 1968 to 1969 can already be put at about 6.5 %, a rate which has not been reached since 1960.

The rapid expansion of production was accompanied by an appreciable decline in unemployment. There are, however, fairly sharp contrasts in the pattern: on the one hand there is an unmistakable manpower shortage, on the other, certain regions and industries are still faced with unemployment because workers are not sufficiently ready to take up new occupations or move to new areas.

Price increases have in most member countries assumed disquieting proportions. The key to this trend is the strength of excess demand coupled, in several countries, with an appreciable rise in production costs.

The rise in wage incomes has in all Member States been lively in the past few months; in most it has even tended to gather additional momentum. The other types of income have also been expanding distinctly.

The strains inherent in the business situation are also evident in the trend of foreign trade. Since the beginning of the year, the Community's balance of trade has tended to deteriorate; trends in the individual Member States have been similar although differing in strength, particularly as import demand has not been showing the same vigour everywhere.

All in all, these tendencies make one thing very clear: the Community has drifted into a process of inflation, and what is now needed is action to prevent this process from gaining in strength during the next few months.

2. *The situation in the various Member States*

In France, the expansion of demand continues to exert heavy pressure on resources. This expansion, which is based on the dynamism of investment by enterprises and on the strength of private consumption, has till very recently been supported by the creation of liquidity through the transactions of the banks and the Treasury. Strains on the labour market have increased and prices, which in the first quarter had shown a comparatively satisfactory trend, are rising. The closeness to a state of full employment appears to be conducive to sharper wage increases. Although exports are doing quite well, the balance of trade continues to be in heavy deficit as a result of very high imports. Despite the restrictions placed on capital movements by exchange control there have, for both commercial and speculative reasons, been further heavy outflows of foreign currency since the beginning of the year.

In the Netherlands, the upswing of production is increasingly hampered by bottlenecks. The labour market in particular is no longer sufficiently elastic to satisfy the growing demand for labour, particularly as the remaining pockets of unemployment are very unevenly distributed from region to region. After the introduction of the tax on value added, prices in the first four months showed such an unusually rapid rise that in April the Netherlands Government introduced a temporary price freeze. The deficits on current account (on a transactions basis, not adjusted for seasonal variations) and on private movements of long-term capital were more than offset by an improvement in the leads and lags and by imports of short-term capital.

In Belgium, production has until recently been able to follow the faster expansion of demand comparatively well, but the price climate has deteriorated. Reactions to the plan to introduce the tax on value added on 1 January 1970 are incidentally likely to give a vigorous boost to private consumption even now, and so to strengthen the tendency towards imbalance.

The trend of the current account in the Belgo-Luxembourg Economic Union has been satisfactory, but exports of private capital have run at a very high level, mainly because of the higher interest rates on the international markets.

Luxembourg is facing problems similar to those in Belgium, but less pressing.

In Germany, the scope for expansion has narrowed considerably since the end of 1968; this is particularly evident in the acute shortage of manpower. Demand appears to be maintaining its rapid expansion. Exports and investment continue to develop along decidedly dynamic lines and the rise in private consumers' expenditure is tending to accelerate. The price climate is deteriorating. Despite a boom that has brought full employment, the balance of payments continues to show heavy surpluses on current account; exports of capital, however, have been substantial enough for the basic balance to be at present in deficit.

Italy appears to be the country where there is currently the greatest chance that the elasticity of supply will be high enough to ensure rapid expansion while maintaining stability of prices. Except in building and construction, the expansion of output is obviously not being hampered to any significant extent by either a shortage of manpower or lack of technical production capacity. The situation may, however, deteriorate soon if, as must be expected, the expansion of domestic demand and the rise in wage costs accelerate considerably. The surplus on current account has been shrinking; the heavy outflows of capital have led to a fall in official gold and foreign exchange reserves and are making it more difficult to finance economic expansion.

II. The problems

1. *World economic problems*

The expansion of world trade is still fairly vigorous, even though—as forecast in the Commission Memorandum of December 1968—its tempo slowed down further in 1969, mainly because of the efforts by the United States and Great Britain to dampen demand at home.

The upward thrust of prices in the American economy remains strong. Consequently, the monetary authorities have gradually intensified

their drive to limit the expansion of the volume of money. The American banks, whose liquidity came under pressure as a result of both the strong demand for credit and the policy of restriction, made such heavy calls on the Euro-dollar market that interest rates on this market reached exorbitant levels.¹

For the Community, the American policy of dampening economic activity has had three consequences. Firstly, the rise in exports to non-member countries has slowed down, though not very sharply so far; secondly, the outflow of private capital has expanded substantially, and thirdly, it has since November 1968 been necessary to raise interest rates on the money markets to an unusually high level.

The outlook for the further trend of international trade and payments is at the moment particularly uncertain. The key to the trend will be the way in which the American economy reacts to the anti-inflationary measures. The extent to which these measures bite will in the last resort determine how severe American money and credit policy will in the event be, and it will also influence the trend of interest rates on the international capital markets.

On the trend of world trade, the most probable hypothesis is that imports by the United States will decline. This decline may already be evident in the second half of the year since there are various indications that the growth of production, which at the beginning of 1969 was still considerable, may flatten out in the fairly near future. Profit margins are shrinking and the investment plans of enterprises, which have so far been stepped up vigorously and whose implementation has in the recent past practically safeguarded economic growth, are now somewhat less substantial; the volume of permits for residential construction is contracting, and the disposable incomes of households appear to be no longer rising as strongly as before. As selling becomes more difficult, there may be a tendency to run down stocks, and this might entail a weakening of production. Should this happen, imports by the United States would suffer disproportionately.

¹ Between mid-November and mid-June, the interest rate for three-month loans rose from 6.9 % to a peak of 12.5 %.

As Great Britain, too, has reason to persevere with an extremely cautious import policy, the result would be a cooling down of world trade, with direct or indirect repercussions that could probably not be offset by an expansion of imports into the Community.

If the cooling process were to assume considerable proportions, this would help to reduce the excess demand within the Community. The Member States whose current account shows heavy surpluses would have a chance to achieve a more balanced pattern of payments with abroad. Those Member States, however, whose current account is in deficit would find it more difficult to return to external equilibrium.

A slowdown in the expansion of world trade will not, incidentally, lead as a matter of course to an easing of the strains at present felt on the capital markets, especially the Eurodollar market. If the upward movement of prices in the United States does not slacken considerably, the monetary authorities may indeed find that they have to continue their restrictive policy for some time. The effects which this would have on the general business climate both in the United States and in Europe are difficult to assess. It is, however, quite reasonable to assume that a steady cooling down of economic activity in the world, coupled with the persistence of difficult financing conditions, will in the end induce managements in the Community to cut down their investments. The current situation in the EEC must be seen against the background of these world economic problems.

2. Problems facing the Community

For the first time in many years all Member States of the Community are simultaneously in a phase of rapid expansion. Demand in money terms is already or may soon be—though with differences of degree—in excess of the supply that the individual economies can mobilize. The result is that the transfer of any supply still available to place it at the disposal of those member countries where the strains are more serious is no longer enough for the differences developing in the rate of inflation to be reduced, and that the exporting countries are exposed to a growing pressure of demand from abroad. This enhances the danger of a cumulative inflationary process in the Community.

The tendency for the business situation to become overheated is, however, not equally strong in all Member States, and it must in any case be looked at against a background of widely varying balance-of-payments situations. The precise steps that must be taken if the margin of excess demand in the Community is to be eliminated and a better equilibrium established in the price and cost relations between Member States and in intra-Community trade are, of course, largely a function of these differences.

With a view to overcoming at least the most pressing difficulties, Member States have for some time been resorting more and more to arrangements that constitute exceptions to the general rules, by introducing exchange controls (which involve the development of parallel markets), or by imposing restrictions on capital movements, special taxes on visible trade, price controls, etc.

In the circumstances, care must be taken to see that the necessary return to equilibrium in the basic economic aggregates is brought about in a way that makes it possible to rescind the emergency arrangements at an early date, for after the degree of integration achieved previously, these arrangements are a step backward and a serious obstacle to further progress on the road to economic union.

III. The guidelines of short-term economic policy in the Community

1. Immediate requirements

The difficult economic problems facing the Community internally and externally, the need to bring national priorities into harmony with the general aim of a return to equilibrium in the basic economic aggregates of the Community, and the growing economic interdependence of the Member States urgently require the development of a joint strategy and co-ordinated action. This does not mean that the corrections to economic trends should be made against the background of an adjustment inflation or an adjustment deflation. The individual countries should instead seek to use the right mix of economic policy instruments in such a way that the measures being taken in the Community at any given time are in harmony with each other, involve a

minimum of social costs for the individual countries and make it possible to attain the objectives of Article 104 of the Treaty of Rome.

In the present situation, the Commission takes the view that top priority must be given to the removal of inflationary tendencies. It is especially insistent on this point because it has since 1967 been consistently calling for an expansionary policy, which was warranted by the economic trend observed in the various member countries during the past two years. Today, the Commission must warn against the threat of an inflation that would have serious economic and social consequences for the Community; modernization of the economy and the adjustment of economic structures would be impeded, because one result of inflation would be the retention of factors of production in industries with low productivity, or in marginal enterprises. The deterrent effects of the inflationary process on private saving would upset the balance of the financing circuit. In addition, inflation would once again hit the socially weakest groups, as their income usually adjusts to rising prices only with a considerable time lag, and they are the least able to hedge against declines in the purchasing power of money.

The struggle against inflation is in addition indispensable if confidence in a currency is to be maintained; it therefore helps defend currency parities, which must remain stable if the Common Market is to function smoothly.

Rapid and energetic action is needed—and perhaps now more than at any other time—if the Community is soon to return to a stable and healthy situation, failing which it would hardly be in a position to resist a possible setback in the world economic trend. In view of the uncertainty hanging over the international economic trend, it is indispensable that the Community should restore equilibrium in the basic economic aggregates.

To defer the necessary measures would only aggravate the imbalances that are to be found both at Community level and in the individual Member States. It would mean jeopardizing economic growth and job security in the months ahead and call in question the smooth functioning of the Common Market and the cohesion of the Community.

2. *General guidelines*

Faster mobilization of economic resources through increased use of the internal factors of production and recourse to imports is certainly the best way of closing the existing or potential gap between supply and demand. In its Memorandum of December 1968 the Commission, when dealing with structural policy, recommended that intensive use should be made of these methods; its opinion on this point remains unchanged. In particular, it emphasizes the need to step up the efforts for vocational training and retraining of labour so that the structural unemployment that still persists can be eliminated and the available manpower used more productively. The policy of throwing the markets open and encouraging competition, which the Community pursues in the field of foreign trade, is also an important instrument in the struggle against inflation. In addition, the markets with imperfect competition must be supervised more closely. It also goes without saying that the Member States must refrain from all measures which might have an adverse effect on the elasticity of supply, especially the mobility of the factors of production.

The pressure of inflation is, however, so strong and it takes such a long time for structural measures to lead to an expansion of production that today there is an unanswerable case for strict discipline in connection with the expansion of demand. What this requires is not a large-scale action leading on to a recession but an effort to keep the expansion of demand in money terms within the limits that are set by the growth of overall supply.

With the changes that have occurred on the international money and capital markets since 1968, those responsible for credit policy have little margin for manoeuvre. The higher interest rates introduced because of rising rates on the major international markets were in most cases also intended to dampen domestic demand. In the countries with heavy surpluses on current account, however, the raising of domestic interest rates to bring them into line with the international rates must not be carried too far, as this would severely hamper the exports of capital which are needed if these countries are to offset their surpluses on current account and to hold down the level of domestic liquidity. In such circumstances it would evidently be better

to switch more to those instruments which have a direct effect on bank liquidity and credit. In this context it should be pointed out that as a rule the effects of money and credit policy on actual demand make themselves felt only after a certain time, particularly if transactors have already adjusted their behaviour to an inflationary rise in prices.

Even though credit restrictions and higher interest rates must contribute to the desired dampening of economic activity, still greater importance attaches to budget policy in the efforts to regulate demand. The advantage offered by budget policy is that the restrictions in the individual member countries can be more easily mixed and therefore more closely co-ordinated at Community level. It allows of regulatory measures that are better adapted to the causes and the scale of the imbalances.

Generally, the impetus at present being given by the budgets must be reduced. In the countries which have to fight against exceptionally strong tendencies towards imbalance, strict limits should be placed on the rise in public spending and any budget deficit should be financed from domestic saving. Any excess tax receipts should in all countries be used to reduce public indebtedness, or even frozen in the Central Bank. If this proved insufficient to place the necessary check on the expansion of demand, consideration should be given, depending on the tax burden in each country concerned, to either an increase in direct taxation or a reduction in certain types of public spending, particularly subsidies, and to spreading other types of public expenditure over longer periods of time.

Care should in addition be taken to avoid concentration of spending in the areas and industries hardest hit by the strains caused by the boom. Some of the relevant decisions could be taken immediately. In addition, the budgets for 1970 should provide, if economic developments in the country concerned so require, not only for a distinct slowdown in the growth of expenditure but also for measures in the field of direct taxation, for the possible withdrawal of tax incentives to investment, and for a change in certain indirect taxes.

In the present situation it also seems advisable to encourage certain forms of private saving, particularly saving by employed persons. Consideration should in this context be given to rais-

ing interest rates on savings deposits, which allow of adjustment as interest rates charged to borrowers have risen.

The policy required to restore equilibrium will necessarily involve temporary sacrifices. All transactors must, however, become conscious of the new requirements of the economic situation in the Community and of the discipline that is needed to protect the currency. Only if all employers and employees contribute actively to the implementation of a coherent policy can it succeed, only then will it be possible to avoid more painful adjustment subsequently. The agreement recently concluded in the Netherlands Economic and Social Council could in this respect serve as a model.

3. Guidelines for the Member States

In France, the necessary return to basic equilibrium calls for the maintenance of a rigorous monetary and financial policy. If applied strictly, the credit policy measures currently in force can be expected gradually to produce results in the second half of this year. Any premature relaxation would be detrimental to the attainment of the aims envisaged. Care must at the same time be taken to see that the way the budget is implemented really does not lead to a heavier deficit than was laid down in November last year when the Finance Act for 1969 was adopted. Any extra tax receipts should be used to reduce the deficit. Moderation in the expansion of incomes remains a basic requirement if the policy of restoring equilibrium and defending the currency, pursued after the events of May 1968, is to prove a success and if economic activity and employment are at the same time to be kept at as satisfactory a level as possible.

In the Netherlands, the agreement concluded in June in the Economic and Social Council could prove of great help in the struggle against a wage/price spiral. In the final analysis, however, this move will be successful only if in 1970 the authorities combine the already restrictive monetary policy with rigorous handling of the budget, particularly in connection with taxes.

In Belgium, the effects which the system of tax on value added, to be introduced at the beginning of 1970, will have on the price trend will be kept within bounds only if this change takes

place in a comparatively calm economic climate. The budget should therefore be handled along particularly stringent lines and the restrictive bias of credit policy maintained with a view to ensuring that demand does not get out of hand at the end of 1969 and create a difficult situation.

In the Grand Duchy of Luxembourg, too, the budget needs to be handled cautiously. Closer co-ordination between the two sides of industry is, however, indispensable if a price and wages spiral is to be avoided.

In Germany, every effort must be made to avoid too strong an expansion of demand, which would entail an appreciable rise in prices in the months ahead. At the same time, however, care must be taken to see that action to obtain the required reduction in the surpluses on current account is not thwarted by an unduly strong dampening of domestic demand. The room for manoeuvre open to those responsible for economic policy is therefore very narrow. Demand should in the main be managed by budgetary means; in particular, extra tax receipts should still be frozen and the growth of public sector spending curbed. For balance-of-payments reasons, on the other hand, the instruments of monetary policy should be used with caution only. Exports of capital should be maintained at a high level as a means of offsetting the surplus on current account and siphoning off domestic liquidity.

In Italy, the prospective acceleration in the growth of domestic demand warrants greater restraint on the part of the authorities. In particular, there appears to be a case for exercising caution in the public finances, particularly as heavy additional burdens have been placed on the budget since the beginning of 1969. A cautious line in budget policy must, however, not impede the maintenance of an economic expansion that is compatible with the optimum utilization of resources. For the rest, it seems advisable that measures should be taken to check certain unusual exports of capital, the most important being arrangements that could make the conditions for investment on the Italian capital market more attractive.

Conclusions

Summing up, the Commission notes that the Community is at the moment caught up in an

inflationary process that must be brought rapidly under control.

Energetic, rapid action must be taken if the imbalances are not to grow even further and become a permanent feature; they would then entail a sharp rise in costs, and this in turn would seriously damage the competitiveness of several Member States. Such action is all the more urgent as the Community must quickly restore equilibrium in its basic aggregates so as to be in a position to counter the deflationary tendencies that may result from any easing in the world economic trend.

It will in any case be necessary to eliminate the inflationary tendencies if the cohesion of the Community is to be safeguarded, confidence in the stability of the currencies strengthened and the stage set for the removal, at the earliest possible date, of the present exceptional arrangements, which impair the Common Market's ability to function.

The policy recommended by the Commission is not aimed at bringing about a recession but at avoiding it, while there is still time, by putting the Community's economy on a sound footing.

The Commission requests the Council to agree not only to these aims but also to the means by which they are to be achieved, and notably:

(i) Systematic mobilization of the available resources so as to increase overall supply, mainly by means of measures in the field of vocational training and retraining of labour;

(ii) Limitation of the growth of overall demand in money terms to correspond with the possibilities of expanding overall supply; this should be achieved more through rigorous budget policy than through measures of monetary and credit policy, which are already in wide use and for which the margin of manoeuvre has been narrowed by developments on the international money and capital markets;

(iii) Active participation by both sides of industry in the drawing up and implementation of an economic and social policy in the Member States that can preserve the conditions for balanced economic growth.

By making concerted efforts on these lines, member countries can overcome the current difficulties and ensure that the economic growth they need will not clash with the necessary stability in the Community.

