



**European
Communities**

Commission

**Directorate-
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**The economic situation
in the Community**

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**Commission of the European Communities
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EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

JUNE 1968

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Note :

This Survey was completed on 10 June 1968. For very recent developments which it may not have been possible to take into account—because of inevitable delays before statistics become available in the member countries and in view of the time needed to publish a report appearing in five languages—the reader is referred to the most recent issue of “Graphs and Notes on the Economic Situation in the Community”.

I. THE OVERALL SITUATION

With tariff barriers between the Member States due to disappear completely on 1 July 1968, the Community's economy is expanding vigorously.

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

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

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

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

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

The surpluses on current account in the first four months were to a large extent offset by deficits on capital transactions with the non-member countries. The official gross foreign exchange reserves of the Member States declined between December 1967 and April 1968—the last month for which data are available—by 620 million units of account. ⁽¹⁾ At the same time the foreign exchange position of the commercial banks improved once again perceptibly.

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

In the second half of 1968, the expansionary movement in the Community should assume broader proportions; however, the consequences of the social tensions in France are not yet fully predictable.

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

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

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

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

Preliminary forecasts for 1969 point to continuing expansion, though the policy decisions still to be taken in major non-member countries and uncertainty over

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

future developments in France mean that these forecasts are more than usually tentative. The contribution of export demand will, it is true, be smaller in 1969 than it was in 1968; but the development of internal demand, and particularly of private consumption, should provide a vigorous spur to economic expansion, so that for the Community as a whole the forecast that gross Community product will rise roughly as much as in 1968 seems to be entirely realistic.



A. Recent developments¹

1. Demand

After a temporary slowdown early in the year, due mainly to the modest pace at which private consumers' expenditure was expanding, overall demand made a definite recovery in early spring.

Demand from abroad—in terms of actual exports of goods and services to non-member countries—has been very dynamic. This has, however, been largely the outcome of exceptional factors. For example, the extremely rapid progress of sales to the United States is due to the fact that, as a result of strikes in the copper industry and threats of steel strikes, American industry placed substantially increased orders with foreign suppliers in the early months of the year. The prospect of an increase in import charges was probably a further factor. Lastly, exports of Community consumer goods gained considerably from the heavy purchases made by British consumers in anticipation of heavier taxes in the March budget.

However, the very high level of United States imports is not solely a consequence of the exceptional factors mentioned above; it is also due to the underlying economic trend. The expansion of the United States economy—accompanied by more and more marked symptoms of inflation—has continued at a considerable pace. The main components of American domestic demand have all developed vigorously. In addition to public expenditure, which has once again risen appreciably, private consumers' expenditure, in particular, has been soaring under the impact of wage increases and higher transfer incomes. Industrial fixed investment has also made good some lost ground and residential construction has continued to make gains, despite the higher interest rates charged in recent months.

Both the domestic production of the United States and its imports have expanded vigorously. Since exports expanded much less briskly than imports, the surplus on trade tended to contract. In March there was even a deficit, the first in more than five years, but this was partly due to an eleven-day strike in the port of New York. The upward price movement on the domestic market again gathered momentum, especially since the restrictive monetary policy, which included two increases in the official discount rate (on 15 March and 18 April), bringing the rate from 4.5 % to 5.5 %, has so far not been backed up by effective tax measures. The implicit price index of the gross national product is at present rising at an annual rate of 4 %.

In the United Kingdom the expansion of overall demand has continued. It is true that the wave of private consumer buying since devaluation of November has subsided since the budget statement for 1968/69 and that, in view of the upward price movement largely due to devaluation, consumption expenditure in real terms seems to be more or less stagnant. However, the Government decisions concerning savings to be made in public expenditure have not yet materialized to any substantial extent. In addition, the outlook for the private sector, and consequently its propensity to invest, have continued to improve. A fairly distinct tendency for exports to expand has also become discernible, although heavy increases in sterling prices have seriously eroded the advantages which devaluation originally conferred on British exporters.

Industrial production in the United Kingdom is rising slightly, but without causing any noteworthy decline in unemployment. The rise in imports having flattened out more and more in the spring, the trade balance has shown a slight improvement.

In the other industrialized non-member countries, economic trends have since the beginning of the year continued to develop along fairly diversified lines. Whereas some of them (Austria, Switzerland and Sweden)

¹ The analysis which follows refers mainly to trends up to the middle of May. It does not take into account the effects of the strikes in France, which at the time of writing could not yet be assessed in quantitative terms.

have begun, in some cases by using expansionary measures, to overcome the sluggishness which affected growth last year, others

(Norway, Denmark, Canada, Japan) have been compelled to step up the struggle against overtly inflationary trends.

Visible exports to non-member countries

(Values and % changes on preceding year)

	1967						1968
	Million u.a. ¹	Year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
To all non-member countries	31 627	+ 7.5	+ 11	+ 9	+ 3	+ 6.5	+ 12
of which:							
To industrial countries ²	20 473	+ 7	+ 9.5	+ 8	+ 3.5	+ 7	+ 13
including:							
United States	4 423	+ 8	+ 12.5	+ 6	- 2	+ 14	+ 41.5
EFTA	10 425	+ 4.5	+ 4.5	+ 6	+ 1.5	+ 5.5	+ 8
— United Kingdom	2 847	+ 12	+ 5	+ 12.5	+ 7.5	+ 23	+ 20.5
To developing countries ³	8 295	+ 4.5	+ 9.5	+ 5.5	- 1.5	+ 3.5	+ 10.5
including:							
Associated Overseas Countries and Territories	1 789	+ 5	+ 8	+ 11	+ 0.5	+ 0.5	+ 14.5
To other areas ⁴	2 858	+ 22.5	+ 27.5	+ 33	+ 17.5	+ 13	+ 11

Source: Statistical Office of the European Communities.

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.

The developing countries have apparently been less hesitant about importing than in the second half of 1967. At all events—with demand from the Associated Overseas Countries and Territories rather lively—Community sales to the developing countries as a whole reached a fairly high level in the first quarter.

The expansion of internal demand has gathered momentum since the beginning of

the spring. Gross fixed asset formation maintained the quite rapid growth rate achieved at the end of 1967, and indeed seems to have gathered momentum during the spring.

The expansion of expenditure on plant and machinery, though varying very widely from industry to industry, was particularly brisk. Whereas effective demand for agricultural machinery remained weak and the extractive

industries again refrained from major purchases of equipment, investment expenditure by manufacturing industry rose sharply, a trend which began in certain basic industries and spread gradually to the capital goods sectors. Relevant factors here were the favourable outlook for the expansion of demand, an increase in profits and therefore in funds available for ploughing back, and above all the need to streamline and modernize operations in face of keener international competition.

In some member countries the underlying upward trend of investment in construction was temporarily concealed during the winter by a more than seasonal decline in building activity but reasserted itself in the spring. Indeed, it probably gathered momentum in the second quarter, for the order situation in the Community had been improving since the middle of 1967. This trend is certainly attributable to a large extent to the increasing impact of official incentives to construction activities which began to be implemented last year in several Member States. In France and Belgium, measures adopted with the same objective early in 1968 are also beginning to take effect. Civil engineering has been the sector in which growth is strongest. However, residential construction also seems to have recovered vigour, particularly in Italy, France, and more recently in Germany. The expansion of effective expenditure on industrial or commercial building continued in the Community as a whole; but the rate of expansion remained moderate since the renewed propensity to invest among managements has so far been reflected, particularly in Germany, by only a limited expansion of capacity.

Stock formation made a heavy contribution to the expansion of overall demand. The increase in output compelled managements to adjust their stocks of raw materials and semi-manufactures, and this movement was all the more important in some member countries because stocks had been cut back sharply for a time last year in anticipation of the introduction of the tax on value added on 1 January 1968. In several countries, particularly Germany and France, the consumer goods sector also reconstituted heavily depleted inventories.

Consumption expenditure is still the least dynamic component of overall demand in the Community. In terms of value, public consumption grew only moderately in most member countries; of late the growth of private consumers' expenditure has again been weaker than that of the other components of domestic demand, although signs of a recovery have been discernible since the spring, particularly in Germany, France and Italy. Private consumers' expenditure remained fairly expansive only in the Netherlands.

A modest acceleration in the growth of disposable incomes of households was the main determinant of trends in the field of private consumers' expenditure. Household incomes improved principally because of the healthier employment situation, but wage rates also rose—with particular vigour in the Netherlands—and social security pensions were increased almost everywhere. However, in most of the member countries, households were saving an appreciable proportion of their additional incomes and the savings ratio for the Community taken as a whole rose appreciably.

Only a very small proportion of the extra margin of private consumers' expenditure was allocated to consumer durables—notably to passenger and estate cars. This state of affairs was particularly noticeable in France and Germany, countries in which, however, there had been heavy buying shortly before the reform of the turnover tax system at the beginning of the year. In Germany, sales of private cars have recently begun to climb again.

2. Production

In line with the development of overall demand, Community supply grew appreciably, without the increased use of technical capacities leading to any substantial strain.

The (adjusted) growth of industrial production, which—after its spurt in the final months of 1967—was relatively slack early in 1968, rallied at the end of the first and in the course of the second quarter. According to the adjusted index of the Statistical Office of the European Communities, by the first

quarter of 1968 the year-to-year increment for industrial production (excluding construction and food, beverages and tobacco) had declined to only 0.5 %, from 3 % in the autumn of 1967; for the second quarter, however, a good 1.5 % could be expected, though this estimate does not take industrial stoppages in France into account.

The highest growth rates were in the basic materials industries. True, the extractive industries in general made only a modest contribution to the recovery—mainly because of the continuing weakness of coalmining. From the beginning of the year onwards, output of iron and steel expanded sharply: manufacturing industry and steel dealers were replenishing depleted stocks and export demand was heavy. Chemicals continued to make gains and the output of plant and machinery also progressed. Most Community shipyards had more work in hand and the production of utility vehicles was appreciably affected in all the countries by the economic improvement. The output of the Community's mechanical engineering industry (apart from agricultural machinery) also expanded sharply.

So far the consumer goods industry has proved less dynamic. The situation of textiles improved slightly in only a few member countries. It was solely thanks to heavy sales abroad that the production of passenger and estate cars continued to climb steeply, despite the rather slack domestic demand early in the year in most of the member countries.

In the construction industry, in which activity had been relatively weak in most member countries in the first months of the year because of bad weather, the spring recovery was, on the whole, fairly vigorous. Consequently, for the Community at large, the year-to-year comparison again probably showed an appreciable increase in output. Despite the rise in the number of starts, the industry is still running a fair way below capacity.

According to available data, the industries providing services near or at the final consumer stage showed less vigour than those more closely geared to industrial production and to the export trade.

Despite the appreciable expansion of internal supply, the (adjusted) number of persons gainfully employed (including the self-employed) in the Community rose—at any rate until the spring—at only a slow rate. In particular the number of persons in paid employment (i.e. wage- and salary-earners) increased on the whole relatively little. The production rise was to a large extent achieved through a continuing rapid growth of productivity per hour worked and a longer effective working week. Consequently, managements were rather reluctant to take on additional labour, although of late the number of workers in industry seems to be moving upwards a little faster, not only because of a slowdown in productivity gains, but also because of the more dynamic trend in construction. The trend was particularly marked in Italy, where indeed a labour shortage—albeit limited to specific areas—emerged in certain building trades; here the productivity reserves of industry as a whole seem more limited than those available in the other countries.

In the light of these tendencies the underlying improvement in the Community's labour situation was only a slow one, and unemployment declined appreciably only in Italy and Germany. In France, where the number of unemployed again rose a little at the beginning of the year, the trend in the weeks before the strike movement may well have been somewhat more favourable. At all events, a slight revival of the demand for labour has been discernible for some time in the seasonally adjusted series for unfilled vacancies.

3. The balance of the markets

After staging a vigorous recovery towards the end of 1967, Community imports continued to expand in the early months of 1968. It is true that, according to customs returns, the progress of visible imports was less marked than in the autumn of the previous year because of the gradual disappearance of certain exceptional factors (e.g. the strong rise in imports of oil products) and also because

purchases of agricultural produce fell; in addition there was an appreciable decline—due to changes in the methods of collating the statistics—in the figures concerning Italian imports of manufactures. However, this development did not reflect any change in the underlying trend, which continued to be influenced by the expansion in the member countries. Demand for raw materials and semi-manufactures remained brisk. In addition, imports of plant and machinery increased substantially because of the more favourable investment trend.

The main beneficiary of the heavy demand for raw materials and plant and machinery in all the member countries was the United States, so that American sales to the Six maintained the recovery already under way in the last quarter of 1967. In addition, the upturn in purchases from the United Kingdom has been confirmed in recent months. Imports from the developing countries too, particularly from the Associated Overseas Countries and Territories, were running at a fairly high level. Lastly, the build-up of trade with the countries of eastern Europe was reflected in Community imports.

The expansion of intra-Community visible trade continued at an appreciable rate in the period under review. The seasonally-adjusted import figures show a 5% year-to-year increase for the first quarter of 1968. This rapid rise in internal trade is mainly a consequence of the direct and indirect effects of the very heavy increase of German imports on intra-Community trade: accounting for almost one third of all import demand within the Community, these imports rose, on a seasonally adjusted basis, by almost 10% (value) between September-December 1967 and January-April 1968. In France imports from the other member countries were also increasing up to the time when the strike movement broke out. Similarly, purchases by the Belgo-Luxembourg Economic Union and the Netherlands rose briskly, although in the Netherlands the rate of expansion slackened a little for a time in reaction to very heavy buying before the raising of import taxes on 1 January 1968. Italy is the only country in which purchases from the

partner countries have of late been relatively weak.

The very lively demand in Germany boosted the exports of the other Community countries. In particular, Italian exports—which also benefited from the acceleration in the rate of growth of imports into France and the Benelux countries—climbed steeply.

As for the visible intra-Community trade balances of the individual member countries, the underlying trend of the German surplus has been to contract in recent months because of the vigorous growth of imports. Conversely, the slowdown in Italian imports led to an improvement in Italy's visible trade balance with the other Five. The French and Benelux balances showed little change.

Consumer prices, which at the beginning of the year rose sharply in Germany and France—mainly in connection with changes in the indirect tax arrangements—have since shown remarkable stability in most member countries. Neither the relative development of the various supply and demand components nor that of production costs has so far posed any serious threat to price stability; in most of the member countries the stabilization of unit costs in industry has been favoured by very rapid productivity gains and by the modest scale of wage increases. In addition, the moderating impact on the general price level of the trend of certain agricultural prices (fruit, vegetables and pigmeat) persisted. On the other hand, the upward movement in the prices of basic products, notably non-ferrous metals, and the persistent upward drift of charges for services acted in the opposite direction.

In view of the pattern of trade—partly determined by special factors—the Community's visible trade balance and overall current account vis-à-vis non-member countries showed a temporary improvement in the first quarter. Although short-term funds flowed into several member countries—mainly because of the new wave of currency speculation—there was a deficit on capital transactions with non-member countries in the first

Visible imports from non-member countries

(Values and % changes on preceding year)

	1967						1968
	million u.a. 1	%	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	30 767	0	— 1	0	— 2	+ 2.5	+ 6.5
of which:							
Industrial countries ²	16 954	— 2	— 3.5	+ 1	— 4.5	— 2	+ 6
including :							
United States	5 858	— 2.5	— 5.5	+ 6	— 6	— 5.5	+ 7
EFTA : total	7 093	— 2	— 2.5	0	— 5	— 1.5	+ 6.5
United Kingdom	2 701	— 2.5	— 1	+ 3	— 3	— 1.0	+ 5.5
Developing countries ³	11 521	+ 1.5	+ 1.5	— 2	— 0.5	— 8	+ 7
including :							
Associat. Overseas Countr. and Territories	2 275	— 0.5	+ 3.5	— 6	— 4	+ 6.5	+ 12
Central and South America	2 743	+ 0.5	+ 1.5	+ 5	+ 5	— 10.5	— 3.5
Other areas ⁴	2 237	+ 9	+ 4	+ 6.5	+ 11	+ 12.5	+ 11.5

Source : Statistical Office of the European Communities.

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.

quarter of 1968, due largely to heavy long-term capital exports from Italy and Germany. Consequently, the improvement in the Community's overall payments balance was a small one. At 800 million u.a., the surplus was only a little higher than a year previously. While the payments balances of France and the Benelux countries approximately balanced out in each case, the German surplus was just as high as in the first quarter of 1967. There was a fairly heavy first-quarter deficit on the Italian payments balance, which had deteriorated at the beginning of the year, as is normally the case.

Gross official gold and foreign exchange reserves contracted in the first four months by about 620 million u.a., and the commercial banks appreciably improved their foreign exchange position, as is normal after the year-end settlements.

Transactions with abroad served to expand domestic liquidity only in Germany, their effect being the opposite in the other member countries. The cash transactions of the public authorities also served to curtail liquidity in a number of countries. In France, mainly for technical reasons connected with

taxation arrangements, Treasury cash transactions probably served to siphon off liquidity for a time up to the beginning of the strike movement and in Germany the deficit on the Federal budget—in contrast with the outturn in previous months—was only a small one, a development due mainly to seasonal factors, but perhaps also attributable in part to an increase in tax revenues due to delays in the collection of turnover taxes, the tax on value-added system having entered into force on 1 January 1968. In the Netherlands, on the other hand, there was a substantial deficit on the central government budget in the first quarter of 1968. In Belgium, tax revenue in the first quarter fell

short of forecasts, while expenditure grew at a faster rate, so that central government indebtedness rose sharply here too. Similarly, in Italy, Treasury operations, which had yielded a surplus in the first quarter of the previous year, closed for the January/March period with a heavy deficit, due mainly to heavy investment expenditure by the public authorities.

Bank advances to business and private customers continued to forge ahead in most member countries as a result of the favourable economic trend and high bank liquidity. In France credit expanded a little more slowly, probably because—in view of taxation

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ^{2 4}		1968 ^{3 4}
	At current prices in '000 million u.a. ⁵	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	69.5	+ 3.3	+ 5.9	+ 1	+ 2	+ 6
Public current expenditure on goods and services	43.8	+ 2.8	+ 8.0	+ 3.5	+ 7.5	+ 3
Private consumers' expenditure	182.3	+ 4.3	+ 7.8	+ 3	+ 6	+ 4
Gross Community product	301.5	+ 3.9	+ 7.2	+ 3	+ 5	+ 5
Balance exports ⁶ less imports ⁶ (at current prices, in '000 million units of account)	+ 2.8		+ 3.5		+ 5.8	+ 4.7

¹ Statistical Office of the European Communities : National Accounts 1957-1966.

² Commission estimates.

³ Commission forecasts.

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

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

⁶ 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.

arrangements—dealers were in need of less credit. In Italy too, as compared with the same period of 1967, the volume of credit expanded relatively little, for business was progressing less vigorously here than in the other member countries in the first months of the year.

Money-market rates in the Community were scarcely affected at all by the increases from February onwards on the New York money market and on the Euro-dollar market. Speculative inflows of funds from abroad probably tended to keep rates down, while the Banque de Belgique has helped to reduce them by a recent cut in Bank rate. The Community bond markets were also unaffected by interest rate increases on non-European capital markets. If anything, rates charged on the capital market remained

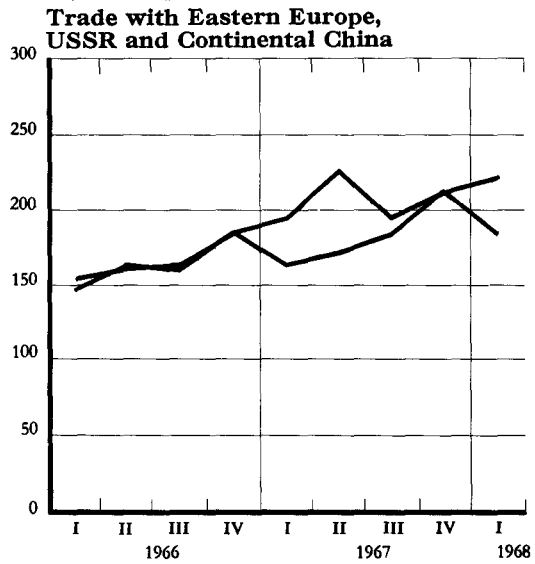
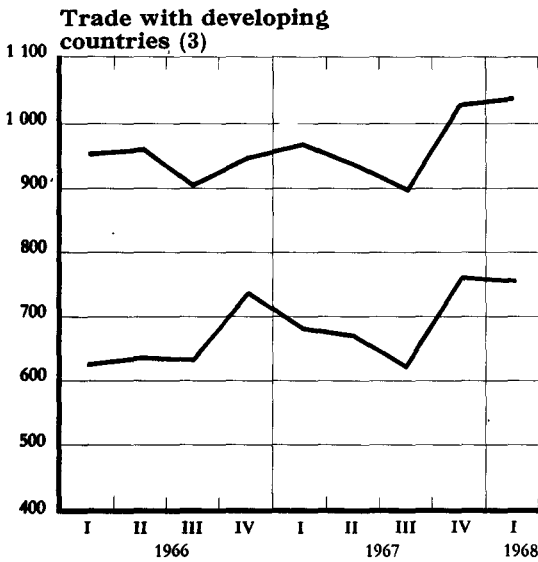
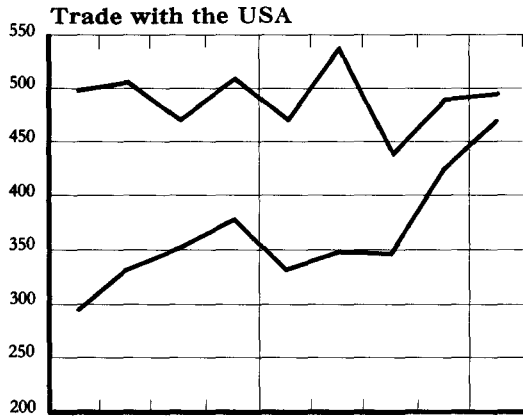
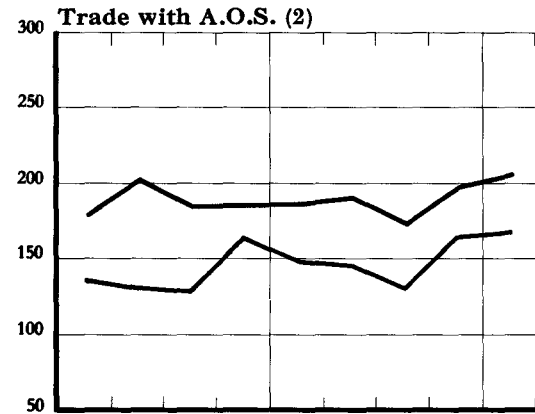
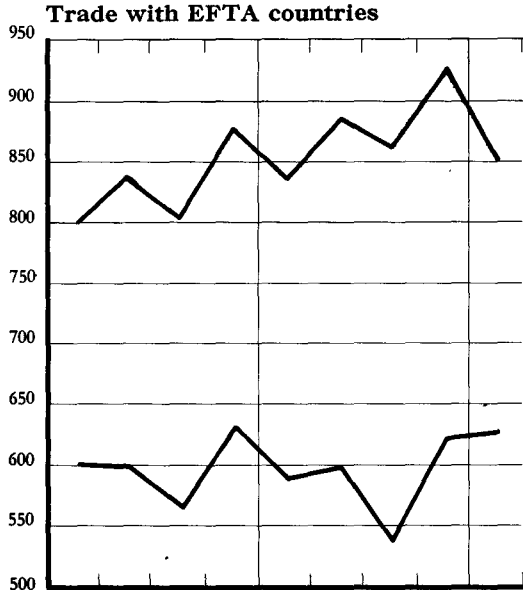
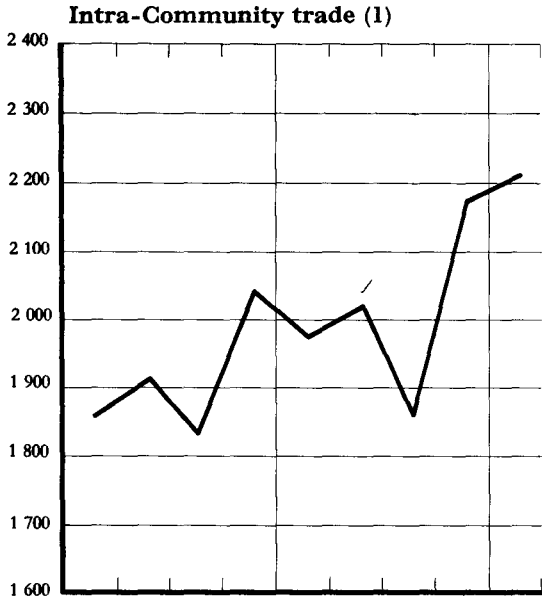
stable or even tended to inch down. Only in the Netherlands did yields increase a little, partly because of heavy official borrowing, both by administrative authorities and by nationalized industries.

On the Community equity markets, price trends were generally favourable. The announcement of a programme to restore equilibrium in the United States balance of payments, the temporary intensification of the war in Vietnam, and the renewed wave of currency speculation in March neutralized for only a short time the internal factors making for higher quotations: the main factor here was the optimistic assessment of the future development of the economy. However, prices dipped for a time in all the member countries when the strikes broke out in France.

COMMUNITY TRADE

Monthly averages

In million u. a. *



— 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.

B. Outlook

The trend of export demand between now and the end of 1968 will be affected by widely diverging factors: the restrictive measures adopted in recent months or now in preparation in major member countries are likely to affect world trade to a growing extent; secondly, however, the main tariff cuts to be made in 1 July 1968 as agreed in the GATT Kennedy Round should spur on international merchandise trade.

Because of the uncertainty as to future events in South-east Asia and in particular as to United States economic policy, it is particularly difficult to predict business trends in the United States. However, the probability that direct taxes will be raised with retroactive effect and that the rise of public expenditure will be curtailed — both essential to the success of the already restrictive monetary policy, now that the inflationary trend is stronger—has recently increased.

When preparing their export forecasts, the Commission's departments have assumed that policy to curb inflation in the United States will be more severe in the second half of 1968 and may, under certain circumstances, include a flattening-out of the growth of defence expenditure. For 1968 there is probably no reason to expect that these measures will achieve more than the beginnings of a quieter growth rate towards the end of the year. Real GNP growth for the full year should therefore once again be quite appreciable (about 4.5 %). The trend of American imports is, however, likely to be affected by the disappearance of exceptional factors, such as the stockbuilding drive early in the year as a hedge against strikes. All in all, the expansion of Community exports to the United States is very likely to slacken appreciably in the course of the year.

United Kingdom economic policy, as defined, in particular, in the Chancellor's budget speech on 19 March, is unlikely to change to any substantial extent in the near future. It remains, however, very difficult to foresee how the authorities will implement in practice the prices and incomes policy — on the effectiveness of which the success of the reorgani-

zation measures as a whole will largely depend.

Assuming that the British Government's economic policy programme is largely implemented, the growth of the United Kingdom real GNP could well reach an approximate rate of 3 % for 1968. Here, the main requirements are a recovery of exports and a substantial improvement in private fixed investment. The consequent higher imports of raw materials, semi-manufactures and capital goods should be more than offset by lower purchases of consumer goods. Whatever happens, it is therefore to be expected that British imports, which, under the impact of certain exceptional factors, had reached an excessively high level early in 1968, will decline during the rest of the year.

As for the other industrialized countries, no noteworthy factor seems likely to influence world economic trends either in favour of expansion or of contraction. Restrictive measures of varying severity implemented in Japan, Canada and in certain Scandinavian countries will entail a slowdown of economic expansion, particularly in Japan and Norway; in Japan growth should, however, remain brisk during 1968.

The developing countries' share of world trade will probably be affected, on the export side, by the modest recovery of world demand for raw materials and semi-manufactures, and by a corresponding improvement in the relevant prices; the tendency for these countries' export earnings to decline in the course of 1967 and the contraction of their foreign exchange reserves (expressed in international purchasing power), due partly to the devaluation of sterling, could well engender some measure of import resistance in the second half of 1968, though this cautious attitude is unlikely to last, since the exports of the developing countries will probably continue to improve.

All in all, Community exports to non-member countries must be expected to slow down appreciably in the second half of 1968, if only because certain exceptional factors sti-

mulating sales abroad will no longer be operative.

On the other hand, internal demand should grow more rapidly, not only because of an upsurge of investment but also because private consumption will be developing more vigorously.

The expansion of gross fixed asset formation will very probably be even more brisk than in the first half of 1968. Generally speaking, the impact of favourable factors which have helped to revive or strengthen the propensity to invest since the middle of 1967 (more propitious business conditions, improved profits, improved borrowing opportunities, need for rationalization and modernization) will continue to be fully effective. In addition, the rapid progress of production and the fact that a growing number of industries are running progressively nearer capacity should serve to speed up the tempo of investment. Lastly, the completion on 1 July 1968 of the customs union in the Community should provide a substantial investment incentive. At all events, the latest information on trends of orders and the results of the surveys of industry suggest that there will be a definite increase in expenditure on plant and machinery in the second half of 1968, particularly in France and Germany. In France, however, investment by private industry and by public undertakings could well slacken appreciably because of financing difficulties caused by turnover losses during the strikes and by the sharp wage increases.

With regard to investment in building, progress already noted in the second quarter should gain strength in coming months. Apart from the fact that investment here will almost certainly benefit in most of the member countries from the improvement in industrial investment, this prediction is also based on the trend of demand in other sectors of construction: for example, statistics on building licences, building starts and mortgage loans suggest that residential construction will gather momentum in most member countries. In Germany, France and Belgium, it should be stimulated by the various official measures adopted to revive growth, particularly in respect of public-assisted housing. The very lively expansion of public invest-

ment as a whole in the Community will certainly continue, but it will probably cease to accelerate. For example, in Germany, expenditure planned under the first and second economic revival programmes scarcely seems likely to make further contributions to construction activity. Furthermore, in view of the relative uncertainty as to the results of the finance reform, the German communes could well show some reticence to commit themselves to further investment expenditure. In the Benelux countries, where public investment recently achieved a fairly high level, no substantial expansion of expenditure is likely before the end of 1968, given the financing problems this would entail.

Investment in stocks could remain very heavy, though the growth rate of this demand component should slow down: at the production stage, the phase of steady replenishment of depleted stocks of raw materials and semi-manufactures should, in the second six months, give way to a period of normal adaptation of stock holdings to the rate of production. Supply from the consumer goods industries has so far been very elastic, and dealers, too, may well therefore revert to a more cautious attitude once stocks are restored to a normal level.

The expansion of private consumers' expenditure will probably speed up appreciably in the second half of the year: the increase in employment, which in the Community as a whole has so far been relatively slow, should gain strength. In addition, given the present situation with regard to collective bargaining negotiations, more substantial wage increases than those conceded in the past twelve months must be expected. They will be particularly sharp in France, where considerable pay improvements were agreed for the public and private sectors during the recent disturbances. As for income from property and entrepreneurial activities, results obtained by firms in the upswing phase could well also lead—except in France—to an increase in consumption expenditure by the self-employed. Lastly, in several member countries, particularly France but also Italy, further increases in social transfer payments are planned. Moreover, the possibility that the improvement in the economic climate and growing job security may strengthen the propensity

of households to consume is not to be ruled out. In Germany, Belgium and France in particular, private consumption should contribute more to the expansion of domestic demand; in the other member countries it will also continue to rise.

All in all, the faster growth of internal demand, which is likely to be only partly offset by slacker export demand, holds out prospects of a very lively expansion of internal production.

The growth rate of industrial production (apart from seasonal variations) should gather further momentum. Growth rates will probably be highest in Germany and France. In France production growth will be spurred on not only by the efforts of firms to make good some part of output losses suffered during the strikes but also by a predicted boom in private consumption. But in the other countries, too, expansion could well attain considerable proportions, although in the Netherlands and Italy productivity reserves are relatively limited and in the Netherlands negotiated reductions in the working week will be implemented.

The underlying improvement of the situation on the Community labour market will continue during the coming months. In particular, the number of persons in paid employment should rise a little more rapidly — the expected trend in construction will mean an increase in available jobs, and in certain industries readiness to take on more staff should grow as productivity gains decline. In some countries, however, a fairly large number of school-leavers will swell the ranks of young workers in autumn, and therefore only a relatively slow decline of unemployment can be expected there.

In view of the more rapid expansion of internal demand, the trend of imports, which in the first quarter of 1968 was relatively subdued, will probably revive. It is true that the good harvests of 1967 should continue to inhibit imports right into the third quarter of 1968, and since firms are easing stocks of intermediary products down to a normal level, purchases of raw materials and semi-manufactures could well flatten out. On the other hand, an appreciable increase in imports of plant and machinery and manufactured

consumer goods is to be expected—especially as devaluation in certain non-member countries could well stimulate imports more strongly than before. In addition, merchandise imports will expand appreciably because of the reduction of the Community's common external tariff and the implementation of the first two stages of the tariff reductions agreed in the Kennedy Round. The resulting stimulus to French and Italian imports will be particularly powerful because both these countries will at the same time completely eliminate the remaining discrepancies between their domestic customs tariffs and the common external tariff. The average rate of external customs duties will thus be reduced from 14.4 % in France and 13.8 % in Italy to 10.7 % in both countries, whereas in Benelux and Germany, it will decline relatively little, from only 11.2 % and 11 % respectively to 10.7 %. In addition, in view of the balance-of-payments problems in the United States, which could well prompt the adoption of protectionist measures impairing the international division of labour and tending to harm world trade, the Community has proposed that the third stage of the Kennedy Round tariff reductions—under which there is to be a further one-fifth reduction (from 10.7 to 9.7 %) of the average customs charge on Community imports—should be brought forward to 1 January 1969 for the Community and that the corresponding United States tariff cuts should be put back two years. A precondition for any such «asymmetrical» acceleration of the tariff cuts is, however, that the United States introduces no further protective measures or import charges and that the American Selling Price System is abolished in accordance with the Kennedy Round agreements.

In the second half of the year the Community's internal trade will also probably climb rapidly. For one thing, the increasingly general recovery will stimulate trade to a considerable extent. Secondly, the final abolition of internal customs duties, which will also be the biggest tariff reduction ever made in one step in the Community—15 % of the duties in force on 1 January 1957—will be a sharp spur to intra-Community trade.

Since deliveries to non-member countries will probably weaken and imports from these

countries gather momentum, the Community's visible trade balance—which was still improving in the spring—should begin to deteriorate again.

Prices have so far been virtually stable, but in most member countries they could now well start moving upwards a little once more. In the first place, it must be expected that food prices as a whole will rise somewhat, since, assuming normal harvests, a number of factors holding them down until the middle of 1968 will cease to be operative. In addition, the more dynamic development of overall demand, which is likely to be accompanied in some countries by a slightly more lively upward movement in unit costs, could lead to a price increase for manufactures, albeit a very moderate one. An additional factor pushing up prices is that in Germany TVA rates are being raised from 10 to 11 % and from 5 to 5.5 %. In France, where wage concessions far outstrip productivity gains, a sharp price increase is to be feared.

In view of the foreseeable trend in the second half of 1968 and the results already available for the first quarter of the same year, it would seem that there is little reason to amend the estimates relating to origin and utilization of the Community gross product for the full year 1968. Only the estimated rate of growth of exports of goods and services to non-member countries needs to be revised upwards in view of the results recorded at the beginning of the year. No correction is called for in the rate of growth for the Community gross product—assessed at 5 % in the last Quarterly Survey — even assuming that in France, as a result of the strikes, expansion proves weaker—on a year-to-year basis—than was expected.

Tentative forecasts of the Commission's staff with regard to the economic trend in 1968 point to vigorous expansion in the Community. One of the most important conditions for this is, however, that the economic policy decisions still to be taken in major non-member countries do not unduly impair world trade. Provided that its members co-ordinate their action, the Community—given its economic potential and the size of its gold and foreign exchange reserves—should not have too much difficulty in coping with some

loss of momentum in world economic activity.

In view of the prevailing uncertainty—particularly in respect of export demand—predictions for 1969 can be made only on the basis of certain specific hypotheses.

For example, with regard to the United States, it is assumed that economic expansion—now very vigorous—will weaken. Taken with a \$ 6,000 million cut in the planned increase in Federal expenditures, the imminent adoption of the restrictive taxation measures recommended for some time by the Administration (10% increase in direct taxes) should ease inflationary pressure. In addition, an end to the Vietnam war would allow of certain savings in expenditure on the armed forces. Even if the resources thus made available were wholly or partly used to improve internal structures, there should be, all in all, at least in 1969, a slowdown of the expansion of effective public expenditure, were it only because the implementation of new expenditure programmes would be postponed. The repercussions of this slowdown on the balance of payments will be all the stronger since many firms which are now mainly engaged in the production of defence equipment would probably once again devote more attention to their export markets.

With regard to the United Kingdom, it has been assumed that the authorities will maintain their restrictive policy, which in 1969 should allow of only a slight further increase in general economic activity. None the less, some recovery of private consumption seems possible in the second half of 1968 and early in 1969, following income increases mainly due to the expansion of employment. A slight tendency for British imports to expand once again should therefore become discernible.

Economic developments in the other industrialized countries outside the Community will make only a relatively moderate additional contribution to world trade and, consequently, to Community exports. On the other hand, import demand in the developing countries could harden once again, if, as is expected, stronger world demand for raw materials and semi-manufactures leads to a more than temporary increase in their prices,

provided however that countries such as the United States and the United Kingdom do not scale down aid programmes too severely for balance-of-payments reasons.

All in all, if the assumptions concerning the trends in the main non-member countries should prove correct, the growth of Community exports should be less vigorous than in 1968.

As for internal demand, it is very probable that 1969 will see a more rapid shift in the Community towards a « consumption economy ». Two factors support this prediction: firstly, the growing impact towards the end of 1968 of production growth—and productivity gains will then almost certainly be contracting—on the number of persons employed and on time worked; secondly, the fact that wages per person in paid employment will probably rise more vigorously once again.

At the same time in most member countries the propensity of firms to invest should remain strong, especially since they will be working nearer capacity, which is a stimulus to rationalization and plant extension.

With regard to residential construction, the phase of relative weakness in 1967 and early 1968 will very probably be followed by an increasingly evident recovery, especially as

manpower reserves will still be available to the building industry—at least in most member countries—for some time. On the other hand, public investment could well lose a little momentum, following a growth spurt in 1967 and 1968, partly attributable to economic policy, even though the need for more universities, hospitals, roads, ports, etc. will constitute a major incentive to further public spending.

In general, the outlook for overall demand suggests that the growth rate for the Community real product in 1969 will be about 5 %. Assuming normal crops, such an expansion would involve an increase in imports even perhaps exceeding that in 1968. In view of the—still highly tentative—assumptions adopted with regard to world business conditions and the trend of exports, the result would be a deterioration in the Community's visible trade balance, and this would constitute a major contribution to improving equilibrium in international payments.

The trends indicated above entail an appreciable increase in the degree of utilization of technical capacities and a definite fall in the number of unemployed. In view of the differing regional pattern of unemployment, bottlenecks would therefore be more likely to occur and cost and price trends to mount more rapidly once again.

C. Short-term economic policy

The outlook described above shows clearly that a dangerous slowdown of economic activity in the Community, which was still not ruled out completely at the time of the Council's policy recommendation of 9 March 1968, is now not to be expected in the near future. The economic upswing in the Community has assumed sufficient inner momentum to ensure adequate growth in the Member States even if export demand were to weaken as a result of United States and United Kingdom efforts to achieve better payments equilibrium. An important and encouraging point in this connection is that efforts to restore the payments balances in these two countries have not been based on trade protection measures; such measures would have meant the loss of notable advantages, procured through the international division of labour, for productivity and general living standards; in particular they would certainly have hampered even further any rapid elimination of the real causes of the payments disequilibria: excess demand and sharp cost and price rises within the countries concerned. Both in the United States and in the United Kingdom the emphasis of balance-of-payments policy has therefore been placed on measures to eliminate excess demand and to contain the upward cost movement. In both countries tax increases have been or shortly will be decided upon and the expansion of expenditure has been appreciably curtailed in the new budgets presented. The British Government is also endeavouring to get the cost and price trend under better control through an appropriate incomes policy.

Conversely, the vigorous economic expansion in the Community and in particular the expected deterioration of the trade balance with non-member countries should facilitate the solution of the payments problems besetting the two countries. The Community proposals—mentioned in Section B above—for an asymmetrical implementation of the forthcoming tariff reduction instalments agreed in the Kennedy Round represent a further contribution to the solution of the United States payments problems: the Community seeks the answer to these problems in an ex-

pansion, and not a curtailment, of international trade.

The economic outlook in the Community is definitely in line with the growth aims fixed in the Council's policy recommendation. In some member countries economic growth is indeed even more favourable than the Governments foresaw at the time. Further stimulation of overall demand through additional measures to spur on the economy is consequently no longer to be envisaged. The outlook for the second half of 1968 and in 1969 on the other hand indicates that the danger referred to in Section 5 of the recommendation is greater: namely that strain may emerge and pose a threat to rapid and balanced growth. Were it only on account of the general trend of demand in the Community towards the end of 1968, it would have been unwise to regard this danger as negligible, especially if private consumption were to climb rapidly. However, the developments in France have increased this danger.

It is true that at the time of drafting of this report it has not yet been possible to analyse in detail the impact of the strikes and the decisions and agreements reached during the social disturbances in France; however certain problems and basic guidelines in connection with the economic development in the second half of 1968 and early in 1969 are already discernible. They are treated in more detail in the second half of this report and therefore described only broadly here: in the first place there will have been considerable production losses as a result of the protracted stoppages in a large area of the economy; despite the margin of capacity still available in France and the appreciable productivity reserves this implies, a complete recovery of these losses through overtime during the remainder of the year hardly seems feasible. The second important factor is the heavy increase in wage and salary incomes and an appreciable addition to social benefits, which, even if a high savings ratio among private households is assumed, will be bound to boost consumer demand in monetary terms. Industry is faced with a considerable upward push of wage costs: this, combined with turnover losses

during the disturbances, will appreciably affect its finance situation, which already was not particularly favourable. Firms will therefore endeavour to offset the upward wage-cost movement by price increases.

The tasks facing those in charge of economic policy in France are therefore extremely difficult. They must first concentrate on re-establishing a normal situation as rapidly as possible and particularly on preventing any cumulative inflationary process based on a repeated and perhaps accelerating upward movement of the price and wage spiral. Such a process would sooner or later impair the international competitiveness of the French economy, thus endangering future economic growth and with it the workers' jobs. Obviously, some increase in prices will be unavoidable in view of the scale of the cost increases decided upon. The aim must be to keep this increase as small as possible and consequently—the main consideration—to prevent it becoming the occasion of further wage increases. Therefore existing productivity reserves should be fully mobilized, and this will depend on co-operation from all workers. Secondly, the inflationary gap between supply and demand caused by production losses and rapid income increases should be bridged, as far as possible, by heavier imports. In this connection it is important to note the great advantages for the French economy, and particularly for the French workers, which France's membership of the Common Market represents precisely for the solution of present problems: competition within the Common Market can do much to curtail the upward price movement and thus safeguard real wage improvements. On the other hand, protectionist measures would promote inflationary upward price movements and endanger the productivity gains achieved in the past ten years and the consequent improvement of the standard of living. They would in particular also curb the future development potential of the French economy and the possible increase in real incomes.

Consequently, the French Government has decided on full compliance with the commitments accepted for 1 July 1968 with regard to the elimination of tariff obstacles vis-à-vis the other Community member countries and the alignment of French tariff rates on the

common external tariff. This means that for the sake of limiting the upward price movement France will accept a deterioration of her current account in coming months. The case for this policy is all the stronger since official French gold and Foreign exchanges reserves—at about \$ 6000 million—are ample, and since appreciable IMF facilities are available. Here we should stress the principle of solidarity in the Community which means that at a time of serious payments difficulties one Member State can rely on the support of the others. The Treaty of Rome provides several ways in which Member States can come to the aid of a partner. One of the aims is to prevent, within the Community framework, a deterioration of the current account being accompanied by considerable flights of capital which would be economically undesirable for all the Member States.

The French Government began reintroducing exchange controls to counter purely speculative capital movements, while payments for current transactions and normal capital transactions—including the direct investments of French firms abroad—are to be safeguarded. Rapid consolidation of the economic situation in France and close co-operation of the Member States at Community level should ensure that exchange controls remain exceptional and operate only provisionally.

In addition to the acceptance—as a matter of policy—of a vigorous increase in imports, budget and credit policy measures adapted to the new situation are also needed to consolidate the economic situation. Mainly because of tax losses due to the strikes, the appreciable rise in wages in the public services, the sharp increases in social benefits and heavier expenditure for the improvement of education, the budget deficit in 1968 will certainly turn out appreciably heavier than the estimate of FF 5 000 million made early in May. The authorities must ensure that the seeds of further inflation are not sown by the measures used to finance the deficit. The right approach is to siphon off purchasing power from private consumers, for example through State loans. This would help to curtail the expansion of consumer demand in monetary terms and to slow down the upward price movement. If a structural

reorganization of the central government budget is not feasible this year, the priorities for the various public expenditure items should definitely be overhauled when planning the 1969 budget, and—in order to scale down the deficit of public administrations—necessary expenditure increases in specific fields should as far as possible be offset by savings under other headings. Here, however, the authorities should bear in mind the need to increase the performance of the French economy and enhance job security by improving economic and social infrastructure, particularly the educational system; this will mean limiting expenditure items mainly devoted to consumption. With a view to the rapid consolidation of the economic situation, there is also a case for allowing the restrictive impact on domestic liquidity of balance-of-payments trends in the next months to take its effect—another way of holding down the upward movement of prices and demand.

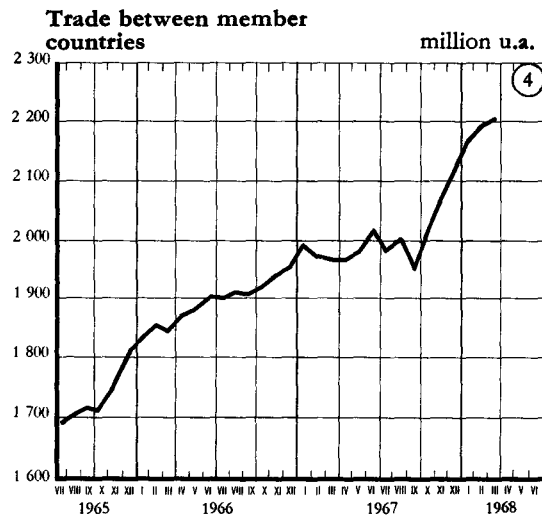
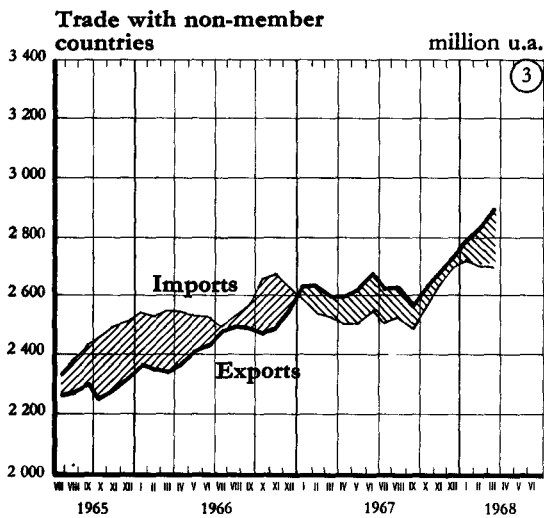
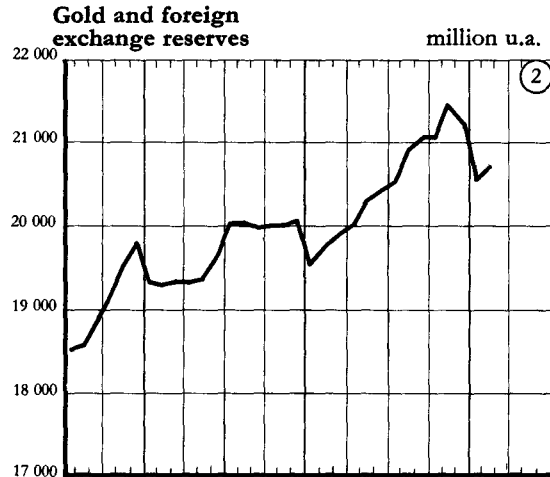
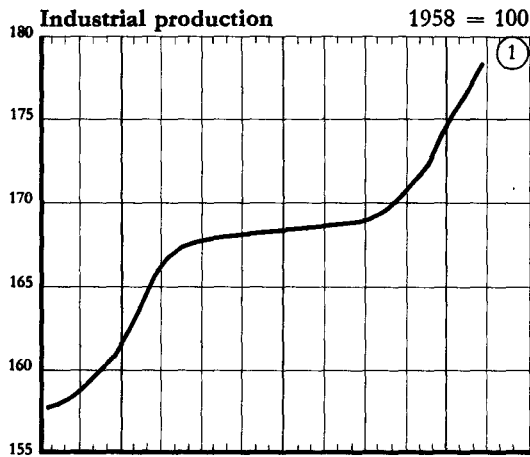
The necessary rapid consolidation of the French economy will be considerably facilitated by strong expansion in the other member countries, ensuring heavy French exports. Here, the outlook is very good. In fact, as mentioned above, the danger cannot be lightly brushed aside that in some member countries strain may emerge towards the end of 1968 and during 1969, as a result of which what has so far been a very satisfactory price climate would be appreciably impaired. On this basis, those in charge of short-term economic policy in these countries should begin adjusting now to the direct and indirect effects of the demand boom from France. In all circumstances the aim must be to prevent the Community developing into a general centre of inflation. Consequently, special vigilance and flexibility is needed in the use of the various economic policy instruments, so that rapid expansion can be ensured without equilibrium being endangered.

In the first place, the policy for the stabilization of interest rates should be pursued along concerted lines; this would have the advantage of contributing to improved payments

equilibrium in the countries with heavy payments surpluses. Secondly, in view of the economic recovery, which, in most member countries, is steadily gaining a wider basis and is being propelled by vigorous internal momentum, budget policy should now be trimmed to a less expansive course. In particular, in current budget preparations for 1969, the increase of central government expenditure should be related to what will probably be a very vigorous expansion of the other demand components. At the same time the authorities should avoid direct or indirect recourse to central bank credit to finance deficits. Perhaps, in the unlikely event of economic expansion in 1969 not proving sufficiently rapid, additional expenditures or tax reliefs could be provided for with a view to adjusting the economic trend.

For the rest, the upward business movement should be used by the authorities as an opportunity to solve important structural problems, with a view to ensuring rapid and balanced expansion in the longer term. For budget policy this means that the emphasis in additional spending should now be even more heavily on investments, particularly those for the improvement of economic and social infrastructure. A specially favourable circumstance here is that in building and construction, the industry generally absorbing the great bulk of public investment expenditure, there is still ample free capacity available in most member countries. Special attention should be given to the improvement of training facilities: current unemployment in some member countries is largely due to the inadequate occupational adaptation of labour to the requirements of the economy. The aims here must be first to ensure, by properly designed and generous retraining programmes, that redundant workers find jobs in industries offering better future prospects and better wage opportunities. The second objective is to provide the right training to enable young people to meet the demands of a technically sophisticated economy in the throes of rapid structural change.

ECONOMIC INDICATORS



NOTES :

Source : Statistical Office of the European Communities.

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Total gross reserves of gold and foreign exchange held by the monetary authorities of the Community countries at the end of each month.

Graph 3. 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 customs returns.

Graph 4. Three-month moving averages of the seasonally adjusted value of trade between EEC countries, as shown by customs returns for imports.

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

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	1 167.5
Total population ('000)	183 317
Density of population per sq. km.	157
Numbers in employment ('000)	74 531
Numbers in employment, breakdown by main sector (%):	
— Agriculture	16
— Industry	44
— Services	40

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross Community product	7.7	5.4	5.6	4.4	5.9	4.6	3.9	152	—
Industrial production	12.3	6.7	6.3	5.2	7.0	4.6	5.0	167	—
Visible imports	20.5	5.5	11.2	10.7	7.3	5.1	6.5	197	—
Private consumers' expenditure	6.2	6.2	6.3	6.0	4.4	4.4	4.3	150	61
Gross fixed asset formation	10.4	10.1	7.1	5.4	8.3	3.2	3.3	172	23
Visible exports	11.1	3.2	0.8	3.8	9.6	10.8	8.5	178	—
Intra-Community visible trade	22.0	14.5	13.8	16.2	13.5	11.9	10.9	324	—
Gross product per capita	6.7	4.4	4.2	3.3	4.7	3.5	2.9	139	—

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	162	167	170	173	173	175	158	133	170	173	178	172
	1967	164	169	171	174	172	175	158	134	173	179	186	184
	1968	171	178	184									
Imports from non-member countries (cif, million u.a.)	1966	2 522	2 375	2 789	2 524	2 566	2 626	2 418	2 295	2 605	2 637	2 631	2 675
	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	2 696	2 606	2 811	3 709								
Exports to non-member countries (fob, million u.a.)	1966	2 153	2 179	2 567	2 372	2 451	2 485	2 505	2 226	2 460	2 626	2 527	2 849
	1967	2 563	2 413	2 678	2 681	2 595	2 721	2 543	2 353	2 525	2 918	2 763	2 876
	1968	2 781	2 771	3 025	2 848								
Balance of trade (million u.a.)	1966	- 369	- 196	- 222	- 152	- 115	- 141	+ 87	- 69	- 145	- 61	- 104	+ 174
	1967	- 44	+ 21	+ 68	+ 166	+ 31	+ 67	+ 177	- 18	+ 81	+ 298	- 21	+ 39
	1968	+ 85	+ 165	+ 214	+ 139								
Intra-Community trade (million u.a.)	1966	1 667	1 790	2 091	1 861	1 903	1 963	1 852	1 696	1 960	2 015	1 977	2 013
	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								

NOTES

Source : Statistical Office of the European Communities.

Table 1

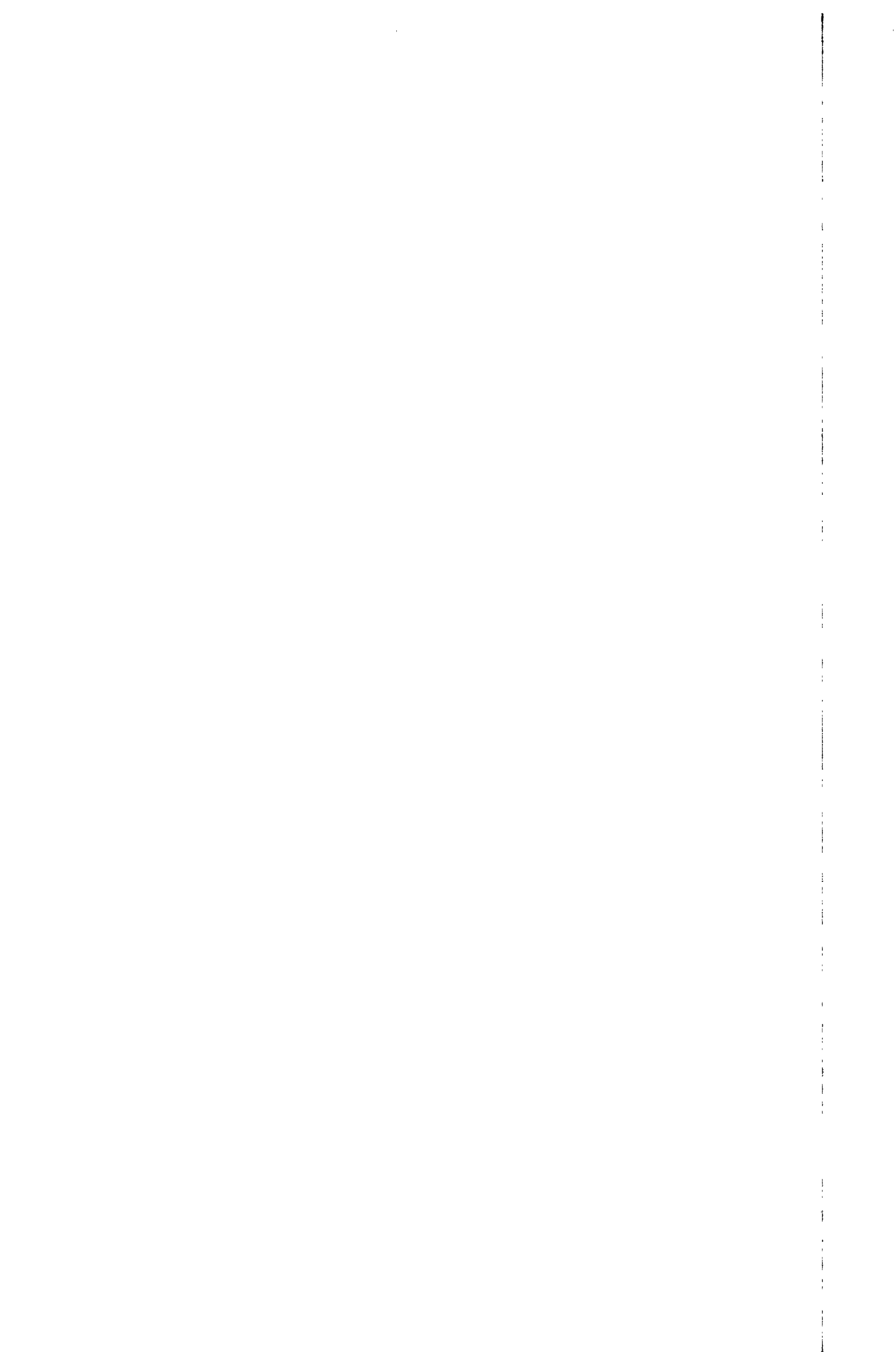
- Total population at mid-year.
- Numbers in employment at mid-year.

Table 2

- The final column of the table gives a % breakdown of GNP at market prices by main categories of expenditure. The calculation of the Community's GNP has been made on the basis of official exchange rate.
- Industrial production: index of the Statistical Office of the European Communities, excluding construction, food, beverages and tobacco.
- Imports of goods (cif) from countries which are not members of the EEC, as shown by customs returns.
- Exports of goods (fob) to countries which are not members of the EEC, as shown by customs returns.
- Trade between EEC member countries, as shown by customs returns relating to imports.

Table 3

- See note to Table 2.
- Conversion into units of account was effected at official exchange rate (1 unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate).



II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES



A. Germany

By the middle of the year the buoyancy of the economy in the Federal Republic of Germany has reached a point where there can be no further doubt concerning the lasting character of the upturn. Although the rise in consumption was still moderate during the first few months, the brisk expansion of all other components of demand shows that the stimuli created by the two programmes to promote economic activity and the Government's policy on credit have seeped through the economy and that a spontaneous upsurge is now affecting more and more sectors of business activity.

The present trends in demand suggest that there will be persistent, vigorous growth in the coming months. The vigorous increase in stocks and the appreciable expansion in fixed investment, together with lively development of demand from abroad, will provide a steady stimulus for production and employment and, as a result of the consequent expansion of incomes, will also lead to a more marked rise in private consumption.

In view of these prospects, the present situation calls for no particular action. Those responsible for economic policy should, however, make full use of the upsurge in business activity to provide a solution for the structural problems that would considerably facilitate more stable expansion.

1. Recent developments

In spring the underlying forces of expansion came further to the fore, with the result that the economy of the Federal Republic of Germany is now undergoing its fifth cyclical upswing of the post-war era.

Demand from abroad continued to provide as much stimulus as before, and in the first four months of the year visible exports rose even faster than previously. Customs returns show that their value was 10% higher than a year previously. A major cause of this was the increase in business activity which was occurring in the other member countries too and has led in particular to an expansion of deliveries to the Netherlands and the Benelux Economic Union. The speed up in exports, especially to the United States and the United Kingdom, may however also have been partly facilitated by a number of special factors dealt with in Chapter I.

The upward movement of domestic demand depended chiefly on a rapid increase in investment. Thus, gross fixed asset formation, the expansion of which was at times somewhat hesitant during the first months of the year after the very sudden revival at the end of 1967, was again rising vigorously in the spring months. Besides this, corporate profits have further improved and managements consider on the whole that sales prospects are more favourable. As their doubts concerning the lasting character of the upswing faded, their propensity to invest rose further and led to heavier outlays on plant and machinery. The revival of capital expenditure on building has, on the other hand, been fairly slow.

Whereas during the slowdown of economic activity the decline of demand was aggravated by the rundown of stocks, the economic trend is now receiving powerful stimuli from the reversal of the situation. The rundown of

stocks caused last year by the changeover to the tax on value added has in the last few months been replaced by a very vigorous process of replenishment. Clear indications of this are the increased supplies of steel—exceeding the current increase in the output of manufacturing industry—and trade reports which show that a start had been made, even in the field of the traditional consumer goods, with replenishment of the seriously depleted stocks.

In contrast with this, consumption still suffered for a time from the after-effects of the slowdown in economic activity. Even after the rise in wages and salaries given to workers and employees in the public sector on 1 January, public current expenditure on goods and services rose relatively little. So far, private consumers' expenditure has shown only a fairly moderate upward movement, although the signs of a revival in consumption have been increasingly numerous since the spring. The reticence hitherto shown by households in their purchases of consumer goods is mainly due to the fact that there is always some time-lag between the revival of business activity and the expansion of incomes. The gross wage and salary bill in the first quarter was none the less almost 3 % higher than a year before, after having failed in the intervening quarters to maintain the earlier level. Against this, the price rises which occurred when the changeover to the tax on value added was made and social insurance contributions were increased at the beginning of the year had a delaying effect on consumption. Furthermore, households appear to have invested a larger proportion of their additional income in fresh savings. This is reflected by the trend of deposits in savings banks, which in the first three months of the year exceeded those of the same period of last year by no less than 30 %. Households showed very appreciable reluctance to purchase consumer durables, especially motor-cars, with the result that in the first quarter registrations of new passenger cars dropped below the already depressed level of the same period of last year.

On the labour market unemployment continued to decline rapidly during the spring; at the end of May there were 265 000 out of

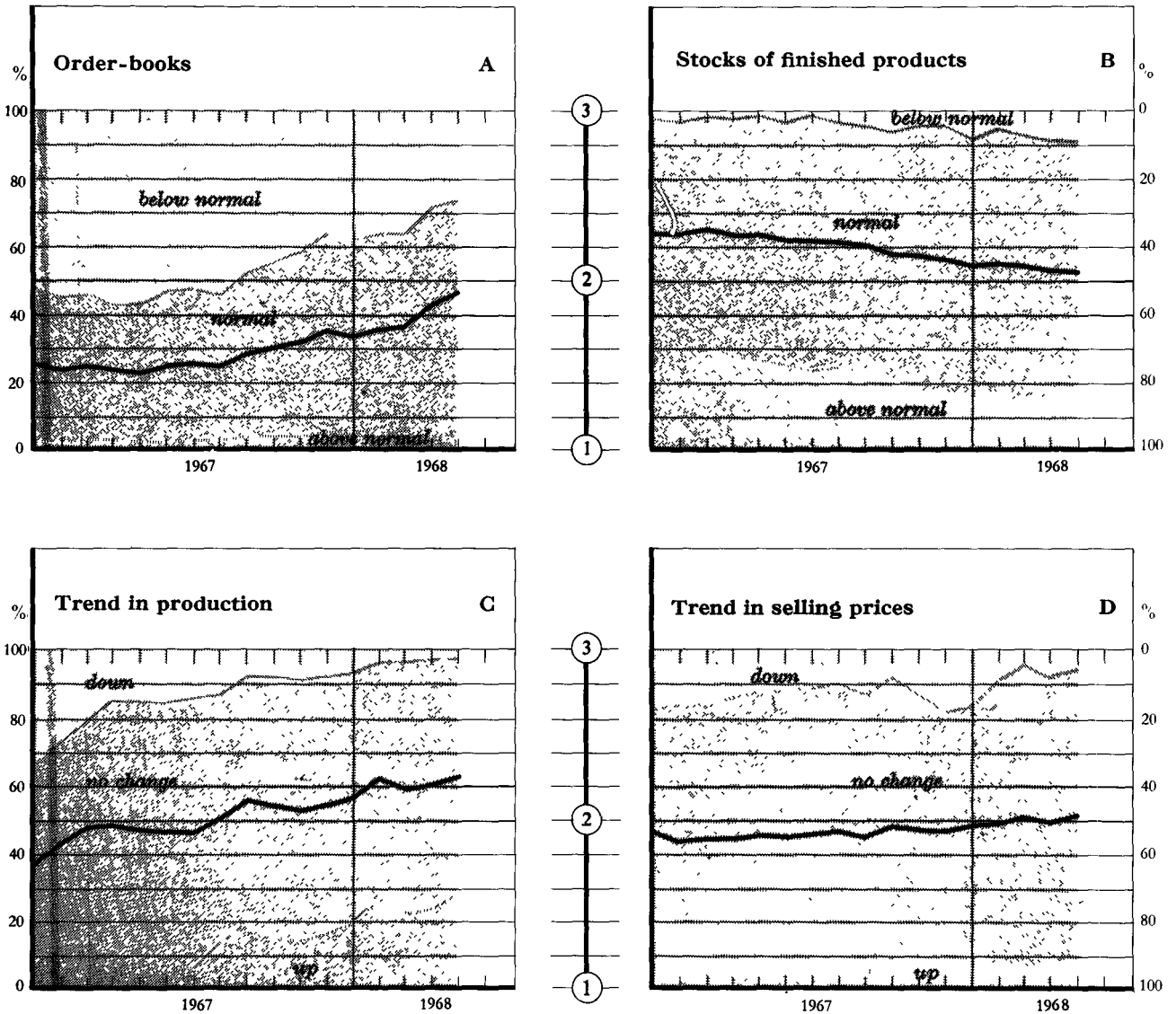
work, or 194 000 less than a year earlier. For the first time since 1966 the number of foreign workers also rose again and at some 500 000 the number of vacancies was once more appreciably higher than the number of unemployed.

The growing strength of the factors contributing to a rise in economic activity is now distinctly reflected in the lively expansion of industrial production. Taking the average of the first quarter, the Federal Statistical Office's production index, seasonally adjusted by the Federal Bank, was about 7 % above the low point it registered in the second quarter of 1967; in April it was 10.5 % higher than in April 1967. Production rose in all branches of industry. Considerable progress was achieved not only by the basic materials industries but also by those producing consumer goods. Besides this, building output again rose, order books in the building industry having registered some improvement at the end of last year as a result of the measures to boost economic activity.

Meanwhile the growth of demand made itself felt even more keenly in the rise in imports. The fact that the upsurge of business activity in Germany had such powerful and rapid repercussions on supply from abroad especially from the other EEC countries, is largely to be attributed to the extent to which the German economy is integrated with those of the other EEC members. In addition non-member countries were able to benefit greatly from the drive to rebuild stocks of raw materials. The value of merchandise imports during the first four months of the year, as shown in the foreign trade statistics, was 16 % higher than in the corresponding period of the previous year.

So far, the consolidation of upward pressures has hardly led to any change in the price climate. At the beginning of the year, however, when the tax on value added was introduced, there were not only considerable changes in the pattern of prices but also an overall rise in their level; in the months which followed there was only a slight readjustment downwards. Evidently a number of enterprises again feel that, in view of the way demand is developing, they are in a strong enough position to introduce price increases in spite of

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, grey and violet) 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".



competition. In May the unadjusted index of industrial producer prices (inclusive, that is, of tax on value added) was 3.5% higher than a year earlier; it should, however, be remembered that in this field any comparison with prices of a year earlier has been rendered problematic by the changes made in the turnover tax system. With food prices tending to decline, the seasonally adjusted index for the total cost of living rose 1% between December and May; in May it was barely 1% above the level of a year earlier.

In spite of the vigorous acceleration of imports, there was no notable diminution of the still very large surpluses on trade in the first four months. Customs returns show that the

credit balance amounted to DM 5 400 million. In contrast with the same period in the previous year, the services account closed with a surplus, so that, with transfer payments almost unchanged, the surplus of DM 3 800 million on current account was almost the same as a year earlier. In capital movements, the increase in long-term exports was maintained. As a result of international speculation in currency, the basic tendency for the net foreign exchange holdings of the commercial banks to improve, which was still very marked in January, was interrupted and large sums from abroad flowed to the banks. Between January and April the gold and foreign exchange reserves of the Federal Bank increased by DM 1 600 million.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ¹		1968 ²
	At current prices (in DM '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume ⁴
Exports ³	91.4	+ 10.8	+ 12.7	+ 9.2	+ 7.5	+ 6.5
Gross fixed asset formation	118.9	+ 0.2	+ 2.5	- 7.7	- 9.8	+ 7
Public current expenditure on goods and services	69.7	+ 1.0	+ 8.2	+ 3.2	+ 6.5	+ 2
Private consumers' expenditure	255.7	+ 3.5	+ 7.5	+ 0.6	+ 2.4	+ 2
Gross national product	452.7	+ 2.3	+ 6.2	- 0.1	+ 0.6	+ 5
Imports ³	92.0	+ 2.7	+ 4.9	- 0.4	- 1.9	+ 10.5

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 2/1968.

² Commission forecasts.

³ Goods, services and factor income.

⁴ At preceding year's prices.

Notes :

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

(b) The 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.

In the spring, the liquidity of the banks was at a high level, although the cash transactions of public authorities were having fairly contractive effects. Rates on the money market fluctuated around a decidedly low average level, and the banks met the demands for credit made by business and private customers in a period where interest rates were tending downwards.

The very cheerful mood that had been apparent on the stock market early in the year was maintained. At the same time a contribution to further recovery was made by the bond market, where the tendency for interest rates to decline reasserted itself in spring even on the capital market after an interruption that had lasted since the middle of 1967; this tendency was assisted by the restraint with which the public authorities offered new issues.

2. Outlook

The outlook for the development of the economy for the rest of the year is completely favourable. The growth now appears to have gathered sufficient force of its own and requires no further overall measures to stimulate it; on the other hand, it shows no signs of possible overstrain.

The relatively vigorous increase in demand from non-member countries during the early months of the year could be followed by a certain slowdown of exports to these countries. This may become all the more marked as the efforts of the United States and the United Kingdom to restore their balances of payments lead to a reduction of their high levels of imports. However, there is much to support the view that these efforts will not exert their full effects until 1969. Furthermore, with the disappearance of the customs barriers in the EEC on 1 July 1968, and with the general improvement of the Community's economic situation, a more rapid growth in demand from the other member countries is to be expected, so that, on the whole, exports will expand fairly vigorously, thanks to the Community's high degree of economic self-sufficiency.

With the continued brisk demand for capital goods, the basis for further development of the upsurge has become considerably wider and more sound. In the coming months, the growth of investments will probably result in appreciably increasing expenditure on plant and machinery. As a matter of fact, orders for capital goods have recently increased very quickly. During the first quarter, orders received exceeded sales by more than 20%. The spring fairs likewise show that more and more of the capital goods industries, including, of late, mechanical engineering, are being influenced by the boom in capital investment. Expenditure on building may also be expected to accelerate as the upswing gathers momentum. It is only in civil engineering that a certain slackening-off could occur, after the orders arising from the economic development programmes have been executed, unless the public authorities, and more particularly the municipalities, increase the extent of their capital projects. On the other hand, the tendency to replenish stocks will probably exert an expansionary effect on the whole of the economy for the rest of the year as well.

In comparison, it is more difficult to assess the prospects for private consumers' expenditure. Conditions for a more pronounced increase in private consumption would undoubtedly arise from the development of the wage and salary bill, which will probably be markedly stimulated, in particular by the higher total number of hours worked and the increased wage rates under new collective agreements. Admittedly, it remains to be seen whether households' propensities to save do not continue to grow. Furthermore, earlier periods of upsurge have shown that, as economic expansion becomes more consolidated, households' propensities to purchase also grow. At all events, the rise in orders placed by domestic customers with industries producing consumer goods—in the first quarter they were more than 8% above the level for the same period in the previous year—shows that business is already preparing for a development of this kind.

Thus, in the coming months demand should progressively grow within the limits of available supply, which is still characterized by an

elastic domestic supply. Conditions for increased industrial production are favourable, at any rate from the capacity point of view. This is even truer of construction, in which unused capacities continue to influence the market, despite the recent revival of demand.

It seems hardly likely that imports in the coming months will be able to keep pace with the very high rate of expansion of the first four months. After stocks have been replenished, a certain weakening in the vigorous increase of supplies of raw materials from non-member countries might occur. On the other hand, imports of finished products, especially capital goods, will probably rise more briskly, and this would particularly favour purchases from other EEC member countries.

The trend of prices will probably again be adversely affected in the summer months by the tax on value added. The increase in the rate of this tax from 10 % to 11 % or 5 % to 5.5 % on 1 July will not fail to affect the general price level.

The prospects so far noted in no way modify the quantitative forecasts published in the last Quarterly Survey (1/1968) of the results for the whole of 1968. The rise in the real gross national product compared with 1967 will therefore probably amount to at least 5%.

In fact, a further broadening of the upswing is to be expected for the year 1969. The effects of a considerable speed-up in private consumption might be added to the continuous brisk upward movement of investment, since employment and incomes will increase faster. However, it is difficult at present to evaluate the stimuli which the world economic situation will exert in 1969.

With this reservation, it may now be considered possible that real gross national product will grow approximately as much in 1969 as in 1968.

Since the policy to stimulate economic activity has promoted the revival of economic growth, the scope of short-term economic policy is shifting towards guiding the framework which liquidity and budget policy pro-

vide for the expansion of the whole national economy, and qualitatively improving the conditions of growth by means of progressive structural policy to underpin the upturn.

During the past months, liquidity and interest rate policy, together with the high level of saving by households, have successfully set the decline in long-term interest rates in motion again. It would be desirable for this tendency to continue in order to help stabilize the balance of payments. The task of budgetary policy remains the same: the possibilities open to all categories of public authorities to increase capital investment should be completely and simultaneously exploited. At the same time, care must be taken to ensure that strains are not introduced into the economy in 1969 through too quick an increase in public expenditure, and through recourse to direct or indirect financing of the deficit by the central bank, which is no longer justified because of the now broadly based upsurge. The Government is actually making efforts to change the structure of the Federal budget for the benefit of capital expenditure. On the other hand, a similar trend in the Länder and municipalities is hardly to be expected as yet. Uncertainties over planning are arising at municipality level owing to the protracted arguments about financial reform; if more is not known soon concerning the future improvement of municipal finances, these uncertainties may have effects on certain public investments which will be to the disadvantage of the further course of economic activity.

The close connection between economic policy and structural policy became especially evident during the recession. The decline in economic activity appears to have caused certain "structural" changes in the behaviour of enterprises and households, providing fresh data for economic policy; but, quite apart from this, it is now desirable for the solution of structural problems themselves to be more seriously considered, especially since some structural questions are easier to solve during an upswing than in times of weak business activity. At the same time, price conditions should be improved by measures of competition policy—particularly, for instance, the abolition of resale price maintenance.

3. The economic situation in West Berlin

So far this year, the economy of Berlin has also continued to advance. Especially during the spring, demand and production trends were influenced by the recovery of business activity in the Federal area.

During the first quarter there was a noticeable rise in deliveries to the Federal area, which play a very important part in the economy of the industrial city of Berlin. These deliveries more than made up for the continued decline in exports. This revival in demand greatly benefited the output of industries producing consumer goods. On the other hand, to judge from statistics for orders and production, the demand for capital goods continued to lag. Last winter considerably more days were lost in the construction industry than during the mild winter of 1966/67. The basic tendency for capital expenditure on building continued to be more favourable in West Berlin than in the Federal area, and was more markedly felt in the spring. No further decline in private consumption appears to have occurred during the early months. In fact, incomes again showed an upward movement. Households did, however, devote a large proportion of this increased income to augmenting their savings and were consequently very slow in acquiring durable consumer goods.

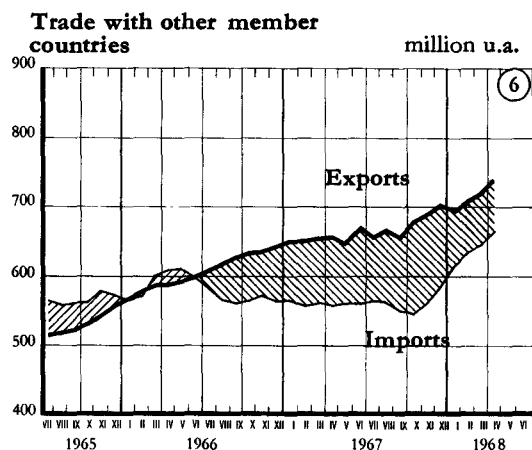
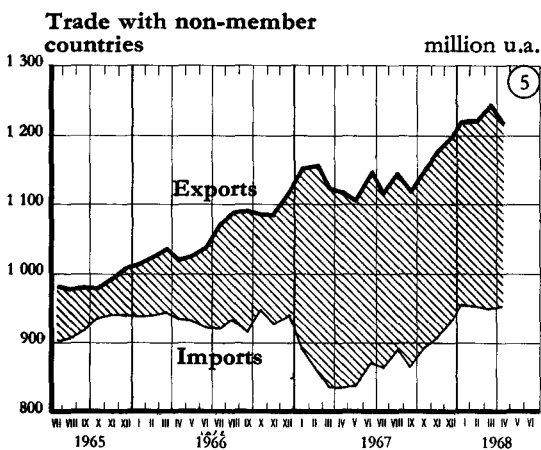
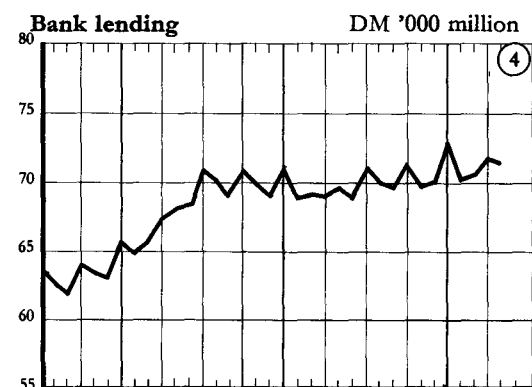
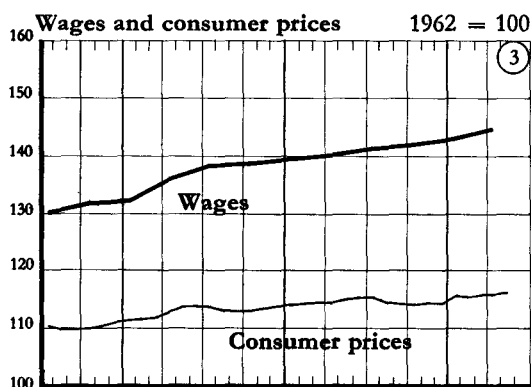
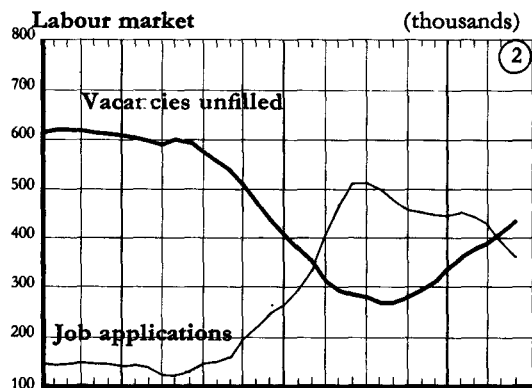
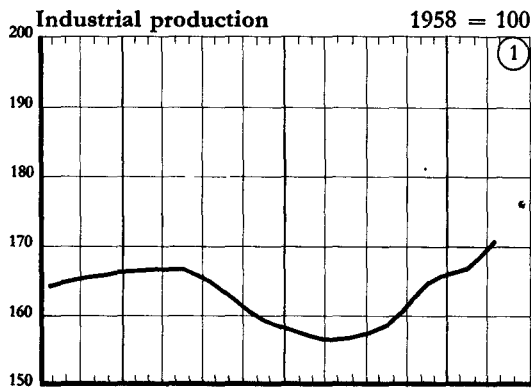
The number of unemployed perceptibly decreased from February onwards. In May the unemployment rate was 1 0/0 of persons in paid employment, i.e. as low as in autumn, when the economy began to recover. In this

connection it should be borne in mind that the proportion of unemployed only partly fit for work, on account of their age or state of health, is relatively large in West Berlin. Industrial production has slightly revived, but for once it is somewhat lagging behind the development of production in the Federal area. Nevertheless, in the first four months it just exceeded once more the level for the corresponding period in the previous year.

The prospects for economic development in the coming months indicate further consolidation of the expansionary forces. Orders for products of manufacturing industry continued to increase. Furthermore, a large proportion of the measures introduced in 1967 to promote economic activity have only begun to exert their full effects on production and incomes in the course of this year.

Thus, although the overall demand policy has produced quite favourable conditions for growth, a more vigorous increase in investment still remains the central task of Berlin's economic policy. Just as in the old industrial regions of the Federal area, the establishment of highly capitalized manufacturing industries with great future prospects should be promoted in the longer term. Moreover, this would benefit the labour market, in two ways: firstly the local Berlin workers would enjoy better earning capacities and advancement prospects, and secondly the power of attraction exerted by the city on the national labour market of the Federal Republic would be enhanced all round and this might lead to an improvement in the age structure of the labour force.

ECONOMIC INDICATORS



NOTES :

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

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2 : Series adjusted for seasonal variations (Three-month moving averages).

Graph 3. Source : Statistisches Bundesamt. Cost-of-living index at middle of month; index of average hourly gross earnings in industry (including construction).

Graph 4. Short-term loans to business and private customers within the country.

Graphs 5 and 6. Series adjusted for seasonal variations (Three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

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

Germany

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	248.5
Total population ('000)	59 873
Density of population per sq. km.	241
Numbers in employment ('000)	26 292
Numbers in employment, breakdown by main sector (%)	
— Agriculture	10.4
— Industry	47.1
of which : Construction	7.7
— Services	42.5
Percentage share of gross domestic product	
— Agriculture	5.1
— Industry	49.4
of which: Construction	7.7
— Services	45.5
Gross product per capita (DM)	8 077

TABLE 2: Key indicators

	% change by volume on preceding year								Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1967		
Gross national product	8.8	5.4	4.2	3.4	6.6	5.6	2.3	— 0.1	152	—
Industrial production	10.7	6.3	4.5	2.7	8.5	6.7	1.9	— 2.2	158	—
Total imports	16.9	8.1	11.4	8.0	10.7	15.0	2.8	— 0.4	232	19.6
Private consumers' expendi- ture	6.9	6.8	5.9	2.9	5.3	6.3	3.5	0.6	153	58.2
Public current expenditure on goods and services	7.6	7.8	11.5	7.5	— 0.5	6.9	1.1	3.2	168	16.6
Gross fixed asset formation	11.3	9.4	5.9	2.9	12.0	6.5	0.2	— 7.7	165	22.7
Total exports	13.0	3.5	3.9	9.0	9.6	7.2	11.0	9.2	212	22.9
Gross national product per capita	7.7	4.0	2.8	2.2	5.3	4.3	1.2	— 0.5	138	—
Gross national product per person gainfully employed	7.0	4.0	3.4	3.0	6.2	4.9	2.6	2.9	148	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	11.1	4.5	10.2	10.9	10.3	12.5	8.0	247	21 736	100
Intra-EEC	19.6	20.9	20.8	8.4	6.7	16.0	9.4	333	8 002	36.8
To non-EEC countries	7.6	1.0	4.7	12.5	12.4	10.6	7.2	215	13 734	63.2
Exports of food, beverages and tobacco										
Total	4.3	7.3	16.0	20.5	25.0	- 2.0	27.0	296	541	2.5
Intra-EEC	1.0	8.1	23.9	22.1	22.6	6.6	61.2	436	285	1.3
To non-EEC countries	6.8	6.9	11.5	19.5	26.6	- 7.8	2.7	218	255	1.2
Exports of raw materials and manufactures										
Total	11.8	4.5	10.1	10.8	10.0	12.9	7.5	246	21 195	97.5
Intra-EEC	20.1	12.2	20.8	8.1	6.3	16.3	8.1	330	7 717	35.5
To non-EEC countries	7.6	0.9	4.6	12.3	12.1	11.0	7.2	214	13 478	62.0
Visible imports										
Total	8.3	12.2	6.0	12.2	19.6	3.2	- 3.7	236	17 352	100
Intra-EEC	13.3	16.6	8.7	17.4	30.7	4.2	- 1.1	362	6 864	39.6
From non-EEC countries	6.1	10.3	4.7	9.7	13.6	2.5	- 5.4	192	10 488	60.4
Imports of food, beverages and tobacco										
Total	7.9	20.1	- 8.3	8.3	21.6	2.4	- 4.2	184	3 582	20.6
Intra-EEC	15.8	15.9	- 0.0	9.3	28.0	6.8	0.1	286	1 442	8.3
From non-EEC countries	4.4	22.2	-12.2	7.8	18.1	- 0.1	- 6.9	149	2 140	12.3
Imports of raw materials and manufactures										
Total	8.4	9.9	10.7	13.3	19.0	3.3	- 3.6	254	13 769	79.4
Intra-EEC	12.5	16.8	11.5	19.7	31.3	3.5	- 1.4	389	5 422	31.3
From non-EEC countries	6.7	6.8	10.3	10.2	12.5	3.2	- 5.0	207	8 347	48.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1962 = 100)	1966	112	117	121	128	126	127	116	107	122	125	127	117
	1967	106	111	114	119	119	117	112	104	122	126	131	130
	1968	111	118	125	131								
Unemployed (1000)	1966	269	236	141	121	108	101	102	106	113	146	216	372
	1967	621	674	576	501	458	401	377	359	341	361	395	526
	1968	673	590	460	331	265							
New orders received (1958 = 100)	1966	173	178	216	193	193	188	176	170	192	192	183	169
	1967	160	162	187	176	179	190	171	170	194	216	207	195
	1968	184	189	203	207								
of which:													
home orders	1966	163	170	208	186	185	178	169	161	184	181	169	150
	1967	144	145	171	163	165	171	160	158	182	206	192	173
	1968	163	171	188	193								
foreign orders	1966	211	213	250	227	230	234	207	208	232	243	248	255
	1967	229	239	260	237	243	277	227	223	249	261	271	291
	1968	274	269	273	275								
Construction : permits issued (DM '000 million)	1966	2.95	2.97	4.00	3.75	3.85	4.03	4.15	4.03	4.04	4.13	3.33	3.47
	1967	2.76	2.68	3.11	3.50	3.32	3.69	3.78	3.60	3.70	4.35	3.88	3.13
	1968												
Private consumers' expenditure: Retail turnover, value (1962 = 100)	1966	109	109	133	133	131	122	131	120	125	135	144	179
	1967	115	109	134	127	129	128	129	122	127	134	144	192
	1968	113	112	132	140								
Total visible imports (million u.a.)	1966	1 446	1 397	1 685	1 476	1 541	1 544	1 478	1 449	1 482	1 607	1 530	1 533
	1967	1 393	1 276	1 442	1 406	1 403	1 556	1 401	1 408	1 414	1 579	1 613	1 653
	1968	1 553	1 538	1 659	1 651								
Total visible exports (million u.a.)	1966	1 492	1 490	1 757	1 559	1 701	1 645	1 708	1 537	1 727	1 809	1 719	2 012
	1967	1 750	1 629	1 816	1 867	1 724	1 884	1 726	1 654	1 791	1 989	1 906	2 025
	1968	1 869	1 862	2 102	1 926								
Balance of trade (million u.a.)	1966	+ 46	+ 93	+ 72	+ 83	+ 160	+ 101	+ 230	+ 88	+ 246	+ 201	+ 189	+ 479
	1967	+ 357	+ 352	+ 373	+ 461	+ 321	+ 327	+ 325	+ 246	+ 377	+ 410	+ 292	+ 372
	1968	+ 316	+ 324	+ 443	+ 275								
Official gold and foreign exchange reserves (million u.a.)	1966	6 190	6 139	6 150	6 072	5 974	6 193	6 441	6 433	6 454	6 616	6 652	6 771
	1967	6 490	6 684	6 759	6 723	6 759	6 702	6 639	6 690	6 808	6 737	6 914	6 853
	1968	6 486	6 749	7 030	6 839								
Money supply (DM '000 million)	1966	74.0	74.5	74.2	75.9	76.9	77.7	77.3	77.7	76.7	76.5	79.3	79.5
	1967	74.4	76.3	75.6	77.0	77.6	78.7	79.3	79.7	80.2	80.5	84.2	87.3
	1968	81.5	81.3	81.0	81.8								

Germany

NOTES

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

Table 1

- Total population. Average for year (estimate).
- Numbers in employment. Average for year (estimate). Source : Statistisches Bundesamt.
- Shares industries in gross domestic product at factor cost (1966); industry including small workshops. Source : Statistisches Bundesamt.
- Gross national product at market prices.

Table 2

- Changes based on 1958 prices; for 1967, however, the base- year is 1954.
- Gross national product at market prices.
- Industrial production: value added at market prices (incl. small non-shops).
- Total exports and imports: goods, services and factor income.

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 and manufactures (Groups 2-9 CST).

Table 4

- Industrial production. Source: Statistisches Bundesamt. All industries, including construction, adjusted for varying length of months.
- Unemployed: Position at end of month; not adjusted for seasonal variation. Source: Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.
- New orders. Source: Statistisches Bundesamt. Unadjusted index (value) for manufacturing industry (excluding foodstuffs); value index (calendar months).
- Construction. Source: Statistisches Bundesamt. Building permits, estimates of construction costs (excluding civil engineering).
- Private consumers' expenditure. Source: Statistisches Bundesamt. Index of value of retail of trade turnover; value index.
- Exports fob, imports cif. Conversion at official exchange rate. Source: Statistisches Bundesamt.
- Official gold and foreign exchange reserves. Bundesbank's gross reserves of gold and convertible currency at end of month.
- Money supply. Notes and coin in circulation, excluding cash holdings of credit institutions. Sight deposits of non-banks and of private residents (excluding public authorities' deposits with the Bundesbank). End-of-month figures.

B. France

Since the middle of May 1968 the French economy has been going through a severe social crisis, and there have been protracted and extensive strikes. Negotiations, held first at national level and then at that of the individual industries, led, among other things, to pay rises. In view of the production losses, which can hardly be made good completely, these events have caused a major hiatus in economic trends as between the first part of 1968 and the months to come. Until the middle of May, growth had been gathering momentum appreciably, for export demand was vigorous and since January the authorities had implemented measures to support business activity. Industrial investment and private consumers' expenditure also showed clear signs of revival. The growth of industrial production therefore became more rapid and the employment situation began to improve.

The outlook for the coming months is difficult to assess at the present moment. It may however be supposed that there will shortly be an expansion of consumption, as a result of which productivity and production will go on increasing rapidly. The rise in prices threatens to become appreciably more severe and the external account will probably deteriorate.

The Government found it necessary to take measures in the field of foreign transactions. The obligations entered into for the reduction of customs tariffs on 1 July 1968 will be honoured in their entirety, but temporarily, and as an exceptional measure, exchange controls have been introduced for the purpose of stemming the flight of capital.

1. Recent developments

From the beginning of the spring until the middle of May economic growth was definitely gathering momentum.

Export demand was an important factor in this trend. According to seasonally adjusted customs returns, visible exports in March and April exceeded those of the fourth quarter of 1967 by about 12% and those of March and April 1967 by about 14%. Whereas previously the additional exports were mainly a small number of items going to certain industrial countries, all categories of products and almost all the main trading areas now shared in the upward trend.

The rapid growth of export demand had direct effects on production and income,

firms were no longer concerned as to the implications of the extension of TVA to the retail trade, and optimism revived almost everywhere in private industry following government measures to stimulate the economy: for these three reasons domestic demand expanded more rapidly, with less variation as between the various demand components.

In particular, the growth of gross fixed asset formation, especially in industry, showed signs of accelerating a little towards the end of the first quarter of 1968. Although technical production capacities were still available, both the need to rationalize and modernize plant, on the one hand, and increased profits available for ploughing back on the other were major factors encouraging firms to intensify operations. The modest revival in

residential construction which has been maintained since 1967 seems also to have gained strength recently. The investment of central government and public enterprises continued to climb steeply.

The trend of investments in stocks not only reflected the acceleration of the general upward movement but also constituted in itself an important factor contributing to expansion: dealers were building up again their stocks of finished goods, which had been fairly heavily depleted, and increased industrial production entailed higher stocks of raw materials.

The increase in private consumers' expenditure also grew a little more brisk after the winter months, but the recovery still lagged considerably behind that of the remaining components of demand. The improvements to pension, social security benefits, etc. decided upon by the Government were, it is true, relatively heavy and the growth of the wage- and salary-bill had become a little faster owing to a slight improvement in the situation of the labour market; however, the increase in the disposable incomes of households was curbed during the first months of 1968 by high tax payments owing to the coincidence of the closing payments for 1967 with the first third of the prepayments due for 1968; the effects of these payments were only partly offset by the tax exemptions granted by the Government at the end of January.

The more vigorous development of overall demand influenced both domestic production and imports. Industrial production, in particular, showed considerably faster growth. According to the seasonally adjusted INSEE index, it rose by 2.8 % between December 1967 and March 1968 compared with 1.3 % between September and December 1967. This meant that in March it was 7.2 % higher than a year previously. Whereas the production of semi-finished goods and capital goods grew faster, the rise in the production of consumer goods was comparatively moderate, trends varying appreciably from industry to industry. Production rapidly increased in building and civil engineering, mainly owing to the revival of residential construction and to a continuing heavy flow of contracts placed by the public authorities.

Although productivity gains remained high, the acceleration in growth meant that firms drew rather more heavily on available manpower. According to a survey by the Ministry of Social Affairs, the results of which must, however, be systematically adjusted upwards for an estimate of the actual trend of employment, the seasonally adjusted number of unemployed remained practically stable between 1 January and 1 April 1968, whereas it had fallen by 0.6 % over the preceding months. There was therefore a trend towards stabilization on the labour market: apart from variations, the rise in the number of applications for jobs appears to be gradually losing momentum, while an increase in vacancies was registered for the first time for more than a year.

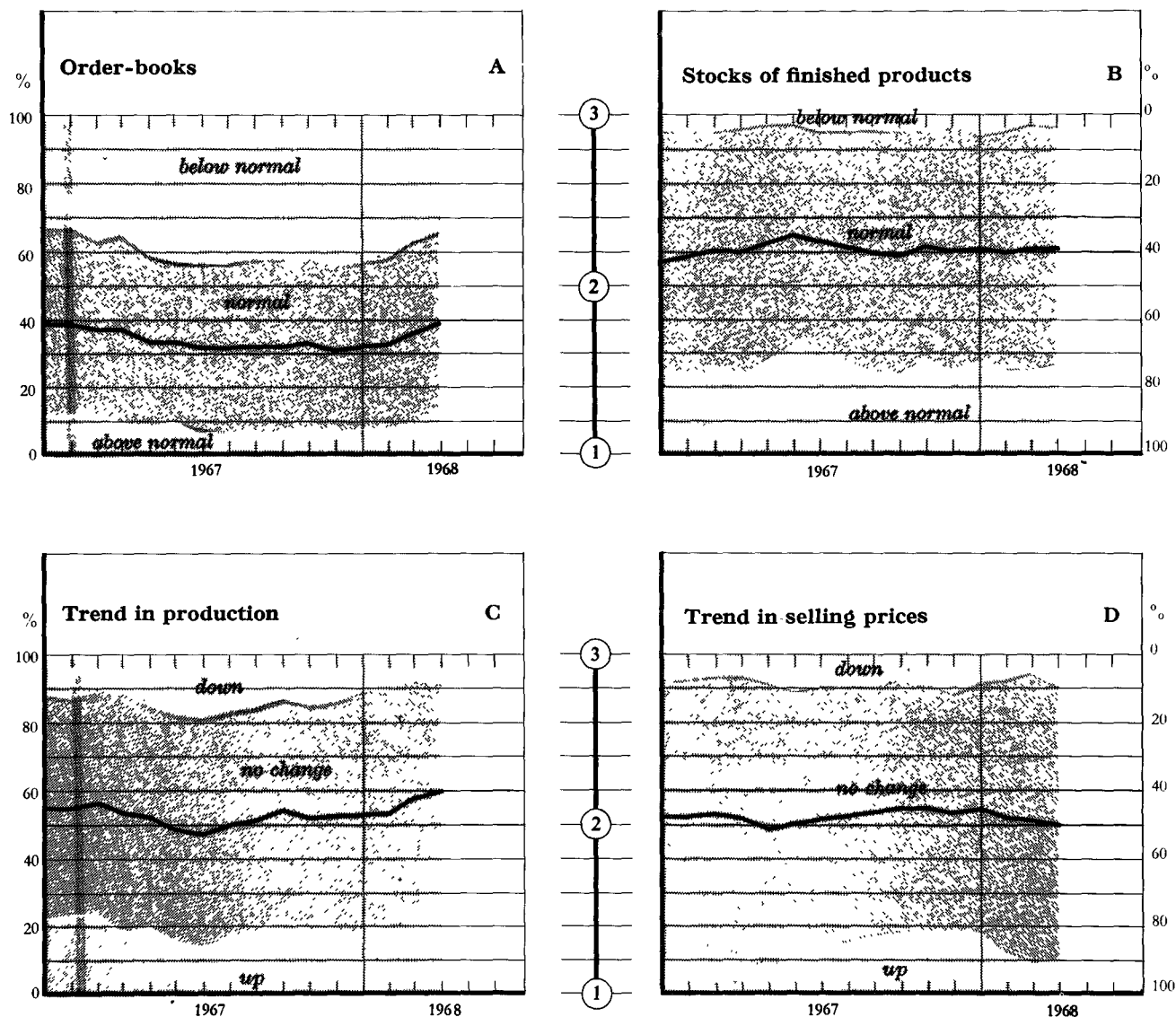
The speedier growth of domestic demand and production had led to a more rapid rise in imports. The seasonally adjusted customs returns show that the volume of visible imports rose by almost 5 % between the fourth quarter of 1967 and April 1968. In April, the year-to-year growth of this supply component was 13 %.

After the consumer price index had risen sharply in January 1968 on account of the extension of the TVA to the retail trade, it increased only slightly during the subsequent months. An adaptation of food prices ran counter to the upward movement. On the other hand the rise in charges for services remained very rapid. All in all consumer prices in April 1968 were 3.8 % higher than in April 1967.

Since exports rose far more rapidly than imports, the visible trade balance again improved. Indeed, after achieving near-equilibrium at the beginning of 1968, it probably showed a slight surplus at the start of spring. Allowing for short-term outflows of capital, the overall balance of payments probably once again very nearly balanced out. The official gold and foreign exchange reserves declined by about \$135 million during the first four months of 1968, but this was offset by an improvement in the net foreign holdings of the commercial banks.

As in 1967, the balance of payments thus had no significant impact on the development of

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, grey and violet) 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".

domestic liquidity. The heavy inflow of tax revenues during the opening months of 1968 meant that the effect of Treasury cash transactions was mainly restrictive for a time. The only factor serving to expand the liquidity of the economy to any appreciable extent was the increase in bank advances, which were running about 16 % higher in February 1968 than in February 1967.

Equilibrium was attained on the money market without any great difficulty. Indeed, the Banque de France intervened on several occasions to hold interest rates up and thus to counteract fluctuations in capital movements with abroad. There was a distinct improvement of conditions on the capital market, where equity prices had gained ground appreciably by the middle of May.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²	
	At current prices in FF '000 million	% change on preceding year			
		Volume	Value	Volume	Value
Exports ³	70.0	+ 6.9	+ 8.2	+ 5	+ 4.5
Gross fixed asset formation	100.6	+ 6.2	+ 8.4	+ 7.5	+ 9.5
Public current expenditure on goods and services	62.4	+ 3.4	+ 6.8	+ 5	+ 8.5
Private consumers' expenditure	295.5	+ 4.9	+ 7.8	+ 4	+ 7
Gross national product	464.7	+ 4.9	+ 7.7	+ 4	+ 7
Imports ³	65.4	+ 11.1	+ 13.2	+ 5	+ 5

¹ National Accounts 1957-1966, Statistical Office of the European Communities, Brussels, 1967.

² Commission estimates .

³ 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.

2. Outlook

The social unrest which came to a head in the middle of May and led to prolonged strikes in most industries has considerably changed the outlook for the rest of the year and must affect the overall figures for 1968.

In the negotiations between the Government and both sides of industry with a view to terminating the strikes, the draft of a protocol of agreement was signed on 27 May 1968. In essence it contains the following arrangements concerning wages: real wages are increased by 7 % from 1 June (including the

upward adjustments already effected since 1 January) and by another 3 % from 1 October 1968; furthermore, the guaranteed minimum wage in trade and industry (SMIG) is to be increased by 35 % as from June—it was later decided to increase in turn the guaranteed minimum agricultural wage (SMAG) to the same level as that of the SMIG, entailing a rise of 56 %. The number of hours worked per week is to be reduced by 1 or 2 hours by the end of 1969 at the latest, though the details concerning whether and how far corresponding income losses are to be offset will be settled industry by industry. An advance of 50 % is being granted to workers who lost pay through the strikes; if the number of working hours corresponding to this payment cannot be made good before the end of 1968 the advance—or the balance thereof—will accrue definitively to the employee.

The draft protocol also contains other important provisions. A bill on the exercise of trade union rights within the enterprise will be laid before Parliament. The proportion of medical expenses to be borne by the insured person, which in August 1967 was increased from 20 to 30 %, has been reduced to 25 %. As from 1 October 1968 retirement pensions are to be raised by a percentage which is yet to be settled. Measures will be introduced into the 1969 budget in the field of family allowances and allowances in respect of housewives not gainfully employed. The draft reform bill concerning personal income tax, will be laid before Parliament in autumn 1968, which will contain tax reliefs for persons in paid employment. Besides this, the Government has committed itself to increase the funds to be made available for employment services and the vocational training of young people.

On the basis of the draft protocol, fresh negotiations were started between the employers' associations and the trade unions in each industry. In these negotiations, the conditions for the resumption of work in the individual industries were more precisely defined. Although even the overall effects of the wage increases which are being granted or are to be granted in each industry are as yet difficult to quantify, it is clear that the improvements foreseen in the draft protocol have in

many cases been exceeded. Furthermore, the negotiations within the public service led to very considerable increases. The basic salary is being raised by 8.5 % during the period 1 January-1 October 1968, and improvements were made in the salary schedules of most grades of officials. As an initial estimate it may be assumed on the whole that the wage- and salary-bill will increase by approximately 13 % in 1968 compared with 1967. In any assessment of the extent of this rate of growth, it should be noted that the earlier forecasts were based on a rise in the wage- and salary-bill of approximately 8 to 9 % and that the acceleration decided upon is confined to a period of only a few months, from June to October 1968. The special character of the problems now facing the French economy thus becomes apparent. It is true that equally large or even larger increases in the wage- and salary-bill have occurred in France and in other Community countries during the past years, but these high rates of increase were usually achieved progressively and not in one step.

The hiatus in the economic trend about the middle of 1968 has created considerable uncertainty now affecting all analyses of the future, even the very short-term ones. The behaviour of consumers and firms thus represents not only a relevant but, in the present psychological climate, an especially important factor of uncertainty. Certain tendencies are, however, already discernible.

In particular, the increase in private consumers' expenditure will presumably be very rapid in the months ahead: income from wages and salaries will rise so sharply that the increase in the gross income of households is unlikely to be jeopardized by a loss of momentum in the rise of incomes of the self-employed (indeed no such slowdown may occur). As the direct taxes on personal incomes will rise only moderately, disposable incomes will expand briskly.

A certain proportion of the additional incomes is likely to be allocated to private residential construction, demand for which has remained fairly sluggish over several years. However, demand for consumer goods, which has increased relatively moderately since 1965, will also expand very rapidly. A relevant consid-

eration is that a deterioration of price conditions might erode the savings ratio.

The outlook for the development of investment in capital goods is considerably less certain. While expenditure on residential construction could well climb steeply, the implementation of some items in the investment programmes of the public administration and public enterprises might be deferred if budgetary problems were to necessitate changes in the pattern of public expenditure. It is especially difficult to assess the future trend of the propensity to invest among private firms. It is true that a predicted narrowing of idle capacity margins, the opportunities provided for passing some of the increase in labour costs on to prices by the vigorous expansion of consumption, the need to rationalize the productive apparatus in those industries in which foreign competition will be much keener, and the Government's grant of special credits to small and medium-sized enterprises, are all investment incentives; but the social unrest and the uncertainty resulting from the unusual economic situation might cause enterprises to postpone their investment decisions for at least a few months. In addition to these general considerations, investment demand could well vary widely from industry to industry, i.e. with the ratio of wages to added value and according to how far higher wages can be accounted for by higher prices.

Exports constitute a very important demand component in the present situation. There is much to suggest that world demand is remaining vigorous, mainly as a result of the increasing acceleration of expansion in Germany and the continued high rate of growth in other industrial countries. In any case, however, French exports are now gaining less from export demand than could be assumed a few months ago. Furthermore, the level of exports depends to a large extent on managers' price and marketing policies—they will have to choose whether to make the most of sales opportunities on a rapidly expanding home market or to assert themselves on foreign markets.

The key to the trend of overall demand in the months ahead will thus be the powerful expan-

sion of private consumers' expenditure. This will be directly reflected in a very brisk increase in production, as a considerable margin of idle production capacity is available in most industries—especially in the industries near or at the consumer stage. According to the INSEE survey of industrial enterprises, the margin for expanding production without taking on fresh staff amounted to 11% in March 1968—just as wide as in March 1967 although industrial production increased by 7% during the intervening period. Productivity gains alone should therefore ensure a brisk growth rate for industrial production. Furthermore, there is plenty of additional manpower available at present, and this will allow of a further acceleration of production growth. However, it will be worthwhile for firms to take further staff on only if the additional labour costs are accompanied by a corresponding expansion of turnover. The trend of unemployment in the coming months cannot therefore be determined with certainty.

It is still too early to examine precisely how the acceleration of overall demand will influence the growth of domestic production, the rise in prices and the development of imports. Certain tendencies may, however, already be predicted. Apart from the very appreciable increase in domestic production, already mentioned, numerous factors suggest that there is likely to be a spurt in the upward price movement during the rest of 1968: the productivity gains during the second half of 1968—though they will undoubtedly be substantial—will by no means suffice to offset the recently agreed wage increases; if the financial situation of industrial enterprises and the future development of their investments are not to be seriously impaired, some of the increase in labour costs will have to be translated into higher prices. In addition, charges for services, which have already risen very appreciably during recent years, threaten to mount even faster.

However, the French economy is becoming more accessible to imports, and competition will probably curtail the expected price increase, whereas a protectionist policy might have triggered off an inflationary wage- and price-spiral once again. However, a substantial deterioration in the foreign trade balance will have to be accepted; production losses

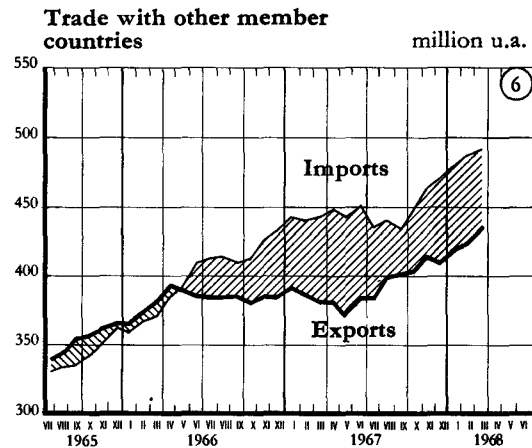
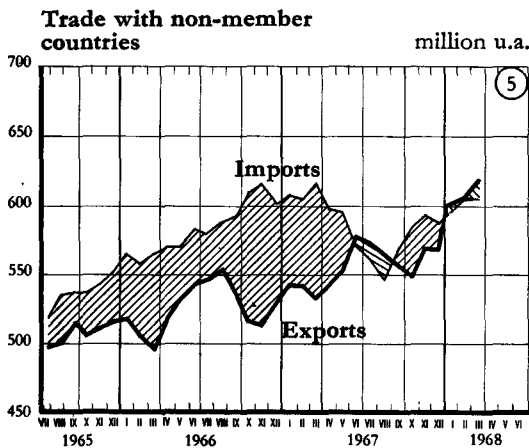
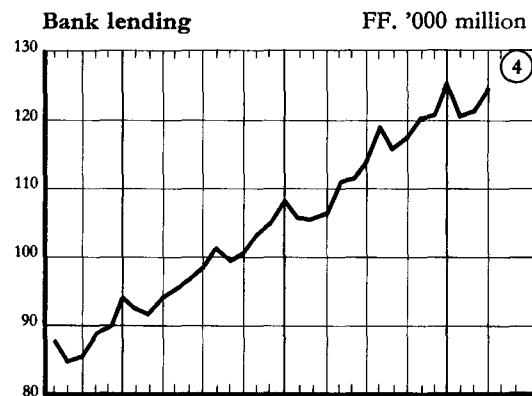
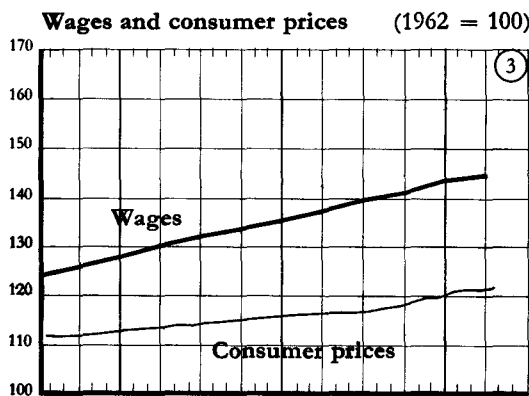
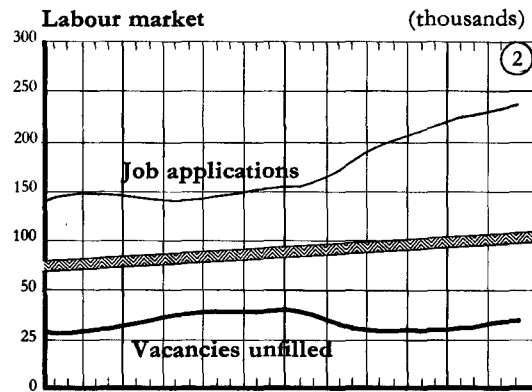
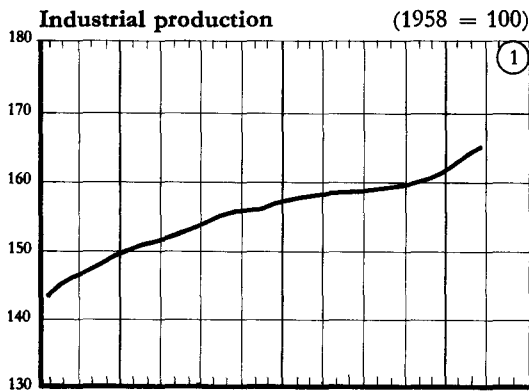
due to the strikes, the spurt in demand (especially for consumer goods), the increased competitiveness of foreign products and the 1 July tariff reductions (abolition of intra-Community tariffs, adjustment to the external customs tariff) will all boost imports. The other EEC member countries—especially Italy, the bulk of whose sales to France are consumer goods — will probably benefit most from France's increased purchases abroad.

In the months ahead the current-account surplus will therefore decline, a situation which must, however, be viewed in the context of France's very large gold and foreign currency reserves (approximately \$6 000 million at the beginning of May). The effects of the deterioration of the goods and services account on the overall balance of payments might be appreciably accentuated by a flight of capital. In May, France's foreign exchange losses totalled some \$307 million, the greater part of which occurred during the second half of that month. The Government therefore found itself obliged to introduce exchange control as a temporary and exceptional measure, the object of which is to prevent speculative exports of capital. The new arrangements prohibit all transactions by a resident for the constitution of new assets or means of

payment abroad and the intended export by a resident of funds and securities. On the other hand, general permission is still granted for payments for trade in goods and services—except for business travel or tourism, in respect of which expenditure of over FF 4 000 or 1 000 respectively per person is subject to prior authorizations, to be granted generously—and for non-speculative capital movements, such as direct investments abroad by French firms.

In comparison with the forecasts made in Quarterly Survey 2/1968, considerable changes must be made in the overall economic forecasts for the year 1968. However, in view of the considerable measure of uncertainty which still persists, it is impossible to express such forecasts in quantitative terms. In any case, for 1968 as compared with 1967, private expenditure will probably expand appreciably faster than was originally expected. As far as domestic supply is concerned, it is unlikely that the considerable production losses can be made up in full, especially in industry, although growth is expected to be very rapid during the rest of the year. All in all, however, the real gross domestic product will probably show a noteworthy increase for 1968.

ECONOMIC INDICATORS



NOTES :

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

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Source : INSEE. Series seasonally adjusted. Three-month moving averages. End-of-month figures.

Graph 3. Source : INSEE. National index of consumer prices (259 items). Index of hourly wage rate, all activities, all regions.

Graph 4. Source : Conseil national du Cr dit. Short-term credits (up to 2 years) from monetary institutions to business and private customers. End-of-period figures.

Graphs 5 and 6. Series adjusted for seasonal variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

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

France

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	551.2
Total population ('000)	49 275
Density of population per sq. km.	89
Numbers in employment ('000)	19 675
Numbers in employment, breakdown by main sector (%):	
— Agriculture	16.7
— Industry	39.9
of which : Construction	9.6
— Services	43.4
Percentage share of gross domestic product :	
— Agriculture	8
— Industry	41
of which: Construction	8
— Services	52
Gross product per capita (FF)	10 132

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross national product	+ 7.4	+ 4.4	+ 7.1	+ 4.8	+ 6.0	+ 4.5	+ 4.9	151	—
Industrial production	+ 7.6	+ 5.5	+ 6.7	+ 5.8	+ 7.4	+ 4.3	+ 5.8	155	—
Total imports	+16.5	+ 7.0	+ 8.7	+12.2	+12.2	+ 3.6	+11.1	193	14.8
Private consumers' expendi- ture	+ 5.6	+ 5.9	+ 6.9	+ 6.8	+ 4.7	+ 3.8	+ 4.9	148	63.7
Public current expenditure on goods and services	+ 2.7	+ 3.4	+ 4.3	+ 1.2	+ 4.9	+ 5.9	+ 3.4	137	13.3
Gross fixed asset formation	+ 6.8	+10.5	+ 7.9	+ 7.5	+11.7	+ 5.7	+ 6.2	175	21.8
Total exports	+17.2	+ 5.5	+ 3.1	+ 7.9	+ 7.7	+11.4	+ 6.9	198	15.1
Gross national product per capita	+ 6.3	+ 3.3	+ 5.1	+ 3.0	+ 4.7	+ 3.4	+ 3.8	136	—
Gross national product per person gainfully employed	+ 7.3	+ 4.4	+ 6.8	+ 3.5	+ 4.7	+ 4.5	+ 4.8	148	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.s.	% of the total
	1961	1962	1963	1964	1965	1966	1967			
Visible exports										
Total	+ 5.1	+ 2.1	+ 9.8	+11.3	+11.8	+ 8.3	+ 4.5	222	11 377	100
Intra-EEC	+18.7	+12.0	+14.0	+12.8	+18.0	+12.0	+ 2.0	414	4 701	41.3
To non-EEC countries	- 0.6	- 2.9	+ 7.3	+10.3	+ 7.8	+ 5.8	+ 6.3	168	6 676	58.7
Exports of food, beverages and tobacco										
Total	+17.4	- 2.9	+22.0	+14.4	+11.4	+ 7.4	+ 3.0	268	1 769	15.5
Intra-EEC	+26.1	+ 1.4	+34.5	+16.6	+26.3	+19.4	+ 6.0	730	890	7.8
To non-EEC countries	+13.6	- 5.1	+15.4	+13.0	+ 2.0	- 2.0	0	162	879	7.7
Exports of raw materials and manufactures										
Total	+ 3.3	+ 3.0	+ 7.8	+10.7	+11.8	+ 8.5	+ 4.8	216	9 608	84.5
Intra-EEC	+17.5	+13.9	+10.9	+12.1	+16.4	+10.5	+ 1.1	376	3 811	33.5
To non-EEC countries	- 2.7	- 2.6	+ 6.0	+ 9.8	+ 8.9	+ 7.2	+ 7.4	168	5 797	51.0
Visible imports										
Total	+ 6.3	+12.6	+16.1	+15.4	+ 2.7	+14.5	+ 4.5	221	12 377	100
Intra-EEC	+13.8	+20.0	+23.9	+20.4	+ 6.7	+20.8	+10.7	438	5 373	43.4
From non-EEC countries	+ 3.2	+ 9.1	+12.2	+12.6	+ 0.3	+10.5	+ 0.2	160	7 004	56.6
Imports of food, beverages and tobacco										
Total	- 2.3	+19.8	+ 5.1	+14.9	- 0.5	+ 8.4	- 2.6	132	1 870	15.1
Intra-EEC	-12.3	+37.6	+37.4	+26.2	+ 8.9	+ 1.3	+16.6	484	4 446	3.6
From non-EEC countries	- 0.8	+17.4	.	+12.5	- 2.8	+10.3	- 7.4	108	1 424	11.5
Imports of raw materials and manufactures										
Total	+ 8.5	+10.9	+18.8	+15.5	+ 3.4	+15.8	+ 5.9	250	10 507	84.9
Intra-EEC	+16.3	+18.7	+22.7	+19.8	+ 6.5	+22.9	+10.5	434	4 927	39.8
From non-EEC countries	+ 4.5	+ 6.6	+16.3	+12.6	+ 1.2	+10.6	+ 2.4	182	5 580	45.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	151	157	157	158	158	162	142	95	154	161	166	167
	1967	160	161	163	161	159	165	142	97	158	165	170	171
	1968	166	171	174									
Unemployed ('000)	1966	171.3	167.3	155.6	145.5	134.1	122.7	121.1	124.4	137.2	153.6	165.7	173.5
	1967	193.8	194.3	189.2	188.7	179.0	168.3	163.2	174.4	193.4	216.9	238.2	248.1
	1968	271.8	273.8	264.0	250.5								
Construction: permits issued ('000)	1966	41.3	36.3	42.1	48.0	36.6	49.4	44.2	40.5	38.2	42.1	44.2	47.2
	1967	31.6	36.2	41.1	37.7	42.2	40.3	41.3	35.7	36.7	37.2	39.8	49.6
	1968												
Private consumers' expenditure: turnover of department stores (1962 = 100)	1966	121	107	126	127	124	135	129	114	141	140	143	222
	1967	127	110	137	129	133	139	131	119	157	139	149	226
	1968	(134)	(122)										
Total visible imports (million u.s.)	1966	897	935	1 093	994	1 002	1 060	929	779	993	1 030	1 054	1 104
	1967	1 067	1 039	1 172	1 047	1 067	1 018	927	772	1 011	1 053	1 064	1 150
	1968	1 089	1 104	1 224	(1 183)								
Total visible exports (million u.s.)	1966	774	873	1 023	947	915	960	951	729	843	950	920	1 013
	1967	883	903	992	970	921	1 024	956	702	917	1 039	1 020	1 056
	1968	985	1 066	1 165	(1 072)								
Balance of trade (million u.s.)	1966	- 123	- 62	- 75	- 47	- 87	- 100	+ 22	- 50	- 150	- 80	- 134	- 91
	1967	- 184	- 136	- 180	- 77	- 146	+ 6	+ 29	- 70	- 94	- 19	- 44	- 94
	1968	- 104	- 38	- 59	(- 111)								
Official gold and foreign exchange reserves (gross, million u.s.)	1966	5 468	5 503	5 571	5 649	5 724	5 821	5 967	5 963	5 893	5 856	5 798	5 744
	1967	5 710	5 716	5 705	5 722	5 748	5 772	5 814	5 824	5 835	5 848	6 182	6 108
	1968	6 053	6 014	6 023	6 027	5 721							
Money supply (FF '000 million)	1966	174.5	173.5	175.6	177.3	177.7	182.1	186.3	184.0	184.7	185.0	182.7	190.7
	1967	187.8	185.6	188.3	191.7	189.6	194.8	197.6	193.7	195.4	193.9	190.3	199.5
	1968	192.3	189.4	190.9									

France

NOTES

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

Table 1

- Total population at mid-year.
- Numbers in employment at mid-year.
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. 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 and manufactures (groups 2-9 CST).

Table 4

- Industrial production, excluding construction, food, beverages and tobacco.
- Unemployed : position at end of month.
- Construction. Building permits granted for housing. Source: Bulletin statistique du Ministère de la construction.
- Private consumer's expenditure. Index of value of total turnover of department stores, "5 and 10's", and other non-specialized stores.
- Exports fob, imports cif. Conversion at official exchange rates.
- 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 end of month.
- Money supply. Source: Conseil national du crédit. Fiduciary circulation (total of coins and notes in circulation, excluding coins and notes held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with Post Office savings accounts or with Treasury agencies, plus the sight deposits relating to the activities pursued within France by the banks — registered banks, banques populaires, caisses de crédit agricole and the Banque française du commerce extérieur — no matter whether these deposits are shown in French francs or some other currency or whether they belong to residents or non-residents). End-of-month figures.

C. Italy

The lively development of business activity in the fourth quarter of 1967 gave way in the following months to a more subdued movement. A reliable assessment of this change of trend and its extent is, however, rendered considerably more difficult by an unusually large number of special factors.

Export demand definitely continued to expand vigorously. As for domestic demand, private consumers' expenditure and in particular investment in building and construction probably showed a distinct upward tendency, but investment in plant and machinery appears to have made rather hesitant progress.

With employment still rising, industrial production (adjusted) was growing at a slower rate. The import trend was weak.

Against this background of supply and demand the tendency—discernible for some time—for prices to become stable, grew firmer, and the balance of payment staged a recovery.

Despite the uncertainties of a special nature, mainly affecting the prospects for export demand, economic activity is expected to expand for the rest of the year. The estimate that real GNP will have grown by about 5.5 % in 1968 remains valid, and for 1969 too growth of this order of magnitude appears feasible, but here the danger of strain may well increase.

In view of these prospects, short-term economic policy measures should be implemented with particular vigilance and flexibility.

1. Recent developments

Exports of goods and services were still rising very rapidly in the opening months of 1968; visible exports to the other member countries, especially Germany and the Netherlands, developed with particular vigour. Exports to the United Kingdom and the United States grew very fast, in part owing to the special factors described in Chapter I. A breakdown by class of goods shows the highest growth rates for exports of textiles and steel. All in all, exports in the first four months, according to customs returns, exceeded those for the same period of 1967 by 12.3 % in terms of value. The growth of exports of services probably accelerated, largely owing to a sharp increase in tourism.

At the same time domestic demand also continued to move upwards, though no longer as fast as towards the end of 1967, when it had advanced very vigorously after a short period of stagnation. This time, however, the results obtained from an analysis of the business situation are a very uncertain guide since the partial statistical indicators which are available for assessing the tendencies of domestic demand have been considerably distorted by a number of special factors.

After its vigorous recovery in late 1967 fixed investment should at least have maintained its level since then. Though investment in plant and machinery may have advanced hesitantly because managements were postponing firm decisions pending a clearer view of the future,

the trend of investment in building and construction, which in Italy accounts for nearly two-thirds of fixed investment, was definitely upwards. The results of the EEC Business Surveys in the building and construction industry leave no room for doubt on this point. Not only has the underlying expansionary trend in commercial building and public works continued, but residential construction is apparently also now growing.

Stockbuilding, on the other hand, seems to have declined, after expanding with exceptional vigour in the second half of 1967 mainly because of the abundant harvest.

Private consumers' expenditure doubtless expanded appreciably: the conclusion of new wage agreements and certain changes in the pattern of employment led to a distinct increase in wage income per person employed. The fact, furthermore, that farmers' incomes went up considerably in the second half of 1967 probably contributed further to the expansion of private consumers' expenditure. And lastly, the steady growth of employment and the decision to raise pensions by a total of between Lit. 130 and 140 000 million in the period from May to December are likely to have increased the propensity to consume of households. Purchases of durable goods may have shown an above-average growth; registrations of new passenger cars, for instance, which were still declining in the second half of 1967, are tending up again.

On the supply side, industrial production continued to move upwards, but its rate of growth slackened quite distinctly. For the three-quarters or so of industrial production for which adjustments can be made to discount seasonal variations, there was a growth rate of 1.5% in the first quarter of 1968 by comparison with the preceding quarter according to the ISTAT index,⁽¹⁾ while the corresponding rate for the fourth quarter of 1967 was still running at about 5%; the growth of semi-manufacturers slowed down as did that of consumer goods and capital goods. A consideration of the adjusted trend from quarter to quarter, however, shows that the slow-down in the growth of industrial production was not so marked as the figures suggest.

¹ Seasonally adjusted by ISCO.

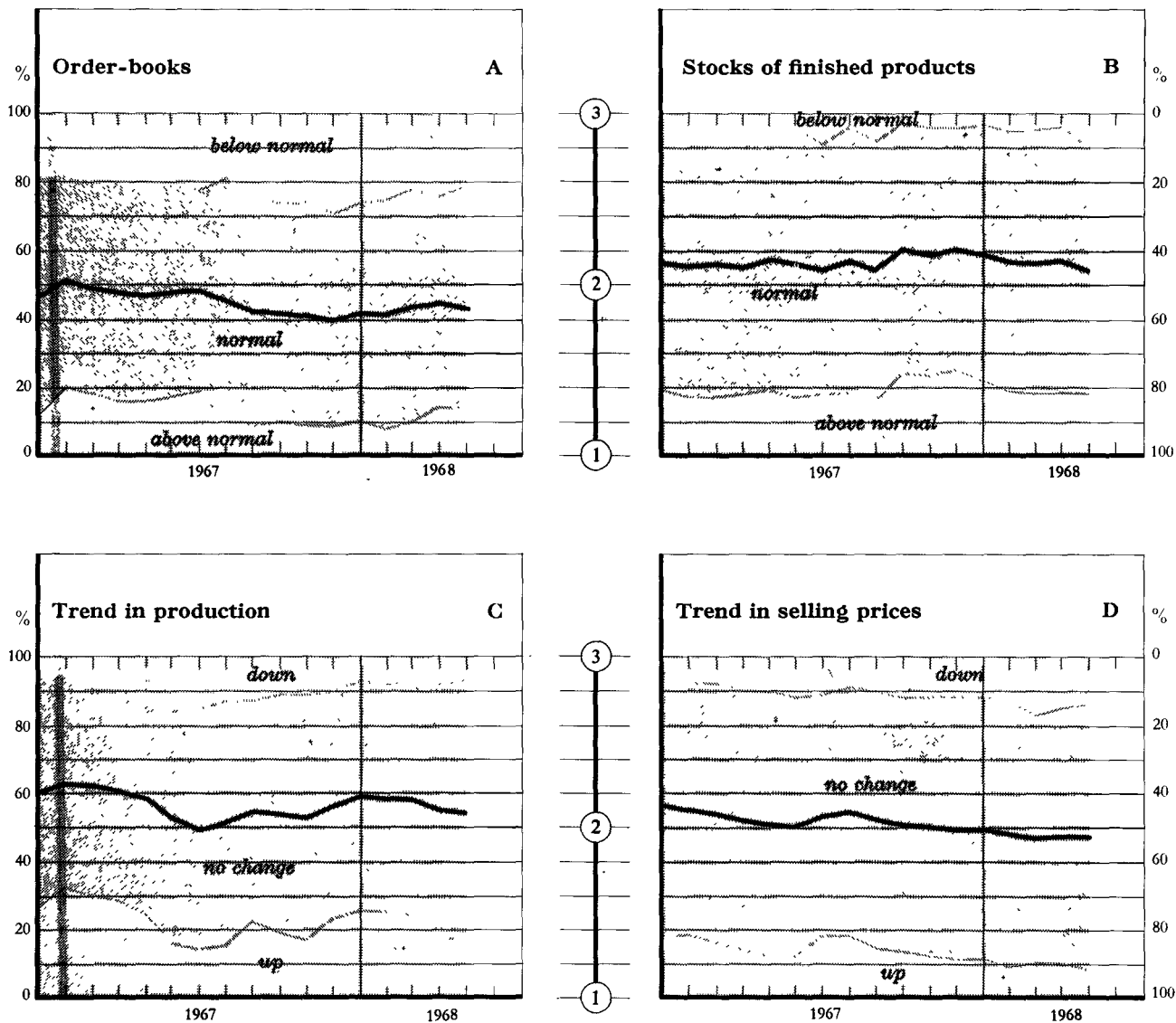
Firstly, the increase in production towards the end of 1967 was particularly vigorous, doubtless partly because of a drive to make good production losses, and when these ceased there was eventually a decline in pace. Secondly, up to March 1968 EEC Business Surveys—at least in respect of stocks of finished product and order-books—by no means suggested an unfavourable trend of production. Total industrial production in the first quarter was 4.7% higher than a year earlier.

The building and construction trend also still pointed upwards and production in the services sector certainly continued to expand.

Despite a spell of particularly bad weather, which considerably influenced employment in some outdoor trades, the number of persons in paid employment continued to rise. According to ISTAT sample surveys, it was 0.7% higher in January than in January 1967, in part owing to exceptionally mild weather. Employment registered above-average growth rates in industry (excluding building and construction) and particularly in the services sector (up 1.8% and 3.1% respectively). The number of unemployed continued to tend downwards; according to ISTAT figures it was 812 000 or 7.5% below the January 1967 figure and accounted for 4.1% of the labour force (4.4% in January 1967). The number of short-time workers in January was no less than 23% lower than in the same month of 1967.

Imports of goods and services seem to have made rather hesitant progress. In the first four months of 1968 customs returns showed visible imports to have been nearly 1% lower than a year before in terms of value. As regards the underlying trend, however, the significance of the statistical data is strongly influenced by a number of special factors. One of them, and perhaps the most important, concerns the actual method of conducting the survey, which, in the period under review, tended to make the imports seem lower over a number of months than they were. In addition to this, imports of agricultural products, part of which were registered only incompletely this time, declined as a result of the excellent harvests in Italy in 1967. Oil imports, furthermore, diminished sharply at the beginning of 1968 after climbing fast in the

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, grey and violet) 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".

preceding months because importers had feared the loss of certain subsidies. In part, however, the development of visible imports was also a function of the underlying business trend and reflected the slower growth of industrial production. Imports of services seem, on the other hand, to have expanded vigorously.

The price climate remained remarkably stable in the opening months of the year despite the spell of exceptionally cold weather. The wholesale price index was particularly stable, for the higher prices of capital goods and of auxiliary materials and products were almost entirely offset by lower prices for consumer goods. The consumer price index went up slightly and so, in particular, did the prices of

services, partly as a result of a first partial decontrol of rents. In March the retail price index was 1.2 % higher and the consumer price index 1.9 % higher than a year before. The price climate seems to have remained calm in April too.

The trend of visible trade with abroad led to a considerable, if only partly non-seasonal, recovery of the trade balance. Foreign exchange figures showed a deficit for the first quarter of Lit. 87 000 million, as against Lit. 200 000 million a year earlier. At the same time net income from trade in services went up sharply. The deterioration, consequently, in the overall balance of payments was far smaller than usual at this time of year despite a particularly heavy deficit on capital

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ¹		1968 ²
	At current prices (in Lit. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ³	6 602	+ 13.2	+ 12.0	+ 6	+ 7.4	+ 9.5
Gross fixed asset formation	6 724	+ 3.4	+ 5.3	+ 10.1	+ 12.9	+ 8
Public current expenditure on goods and services	5 183	+ 3.5	+ 6.9	+ 2.7	+ 4.8	+ 4
Private consumers' expenditure	22 324	+ 5.9	+ 9.0	+ 6.1	+ 9.3	+ 5.5
Gross national product	35 648	+ 5.7	+ 8.0	+ 5.9	+ 8.7	+ 5.5
Imports ³	5 435	+ 13.7	+ 16.2	+ 10.5	+ 12.5	+ 10

¹ «Relazione Generale sulla situazione economica del Paese (1967)».

² Commission forecasts.

³ 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 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.

movements. The overall deficit, which amounted in the first quarter to Lit. 95 000 million, corresponded to a decrease in net official gold and foreign exchange reserves of nearly Lit. 84 000 million and further net imports of funds by the commercial banks of the order of some Lit. 10 000 million. Official gold and foreign exchange reserves also contracted in April.

Operations with abroad therefore had a restrictive effect on the banks' domestic liquidity in the first quarter, although less than usual at this time of year. The operation of the monetary authorities worked in the same direction—but to a much more powerful extent; in December, however — in connection with the announcement of a bank clerks' strike—these operations provided the banks with abundant liquidity through an exceptionally sharp increase in central bank credit. Considerable sums, furthermore, were brought into the banks both through the Treasury's cash transactions and, above all, as a result of an exceptionally sharp reduction in the circulation of notes and coin, which was partly seasonal and partly due to special factors such as bank strikes. Owing to the continuing, though slower, expansion of bank advances, the banks' liquidity margins however shrank further because of the consequent raising of minimum reserves.

Although on the securities market bonds were once again issued on a large scale, above all by the public sector and by state-controlled enterprises, the level of long-term interest rates remained remarkably stable; this was facilitated by temporary purchases of securities by the monetary authorities. The equity market, however, remained inactive and prices declined further despite favourable company reports on the past business year.

2. Outlook

Despite the quieter business trend in the opening months of the year and the uncertainties concerning export demand,¹ the most probable hypothesis for the rest of the year

is still that in general the economy will expand rapidly.

Even if a somewhat slower growth of exports is to be expected in the coming months, the outlook for the growth of export demand is very favourable. A considerable spur to Italian exports will come from the more and more widely confirmed upswing of the business trend in the other member countries and from the sharp expansion of consumption in France. The removal of tariff restrictions within the Community on 1 July 1968 should provide an additional incentive. Exports to non-member countries will probably increase as a whole, although business activity in some non-member countries which play a particularly important role in world trade may in fact weaken. Italy's international competitive position has remained exceedingly strong and Italian industry may therefore well be able to take considerable advantage of the first world-wide tariff reductions agreed upon during the Kennedy Round. This should have a far greater influence on the trend of exports than the restrictive effects to be expected from the November 1967 devaluations and from the restrictive measures already taken or announced in various countries.

The outlook for export demand should do much to encourage fixed investment in the coming months. Investment in plant and machinery, in particular, will probably soon expand in more lively fashion, especially if the pressure to rationalize grows as a result of the removal of tariff restrictions. Available information on new projects and the results of the Business Surveys point to appreciable expansion of investment in building and construction. A considerable increase in public works is to be expected in particular.

Consumption expenditure will also continue to expand. Public current expenditure on goods and services will probably grow at a faster rate until the end of the year, mainly on account of a pay increase for officials totalling Lit. 100 000 million. Private consumers' expenditure can be expected to show a very lively growth, for a further distinct growth of the nation's wage-bill is to be expected, involving an increase both in wages and salaries, and in transfer payments—a high proportion of which are spent on consumption.

¹ See the last two Quarterly Surveys.

In view of the outlook for the trend of demand, industrial production may well grow appreciably until the end of the year. The expansion of building and construction is likely to accelerate. A very firm growth of production in the services sector is also to be expected.

In the circumstances, a distinct increase in the volume of employment and a further reduction in unemployment are still likely. Except in certain regions and specific trades, no strains of note are to be feared on the labour market in the short run.

Imports of goods and services should increase at a faster pace in the second half of the year. The contribution made by the further development of demand will be supplemented by the appreciable tariff reductions introduced on 1 July 1968. On this date, not only will duties on trade within the Community be removed completely, but the average duties on Italy's visible imports from non-member countries will be reduced, as a result of the final adjustment to the common customs tariff and the implementation of the first steps of Kennedy Round tariff reductions, from 13.8 % to 10.7 % i.e. by about one-quarter. In these circumstances the trade balance will probably deteriorate again.

In view of the relatively high elasticity of supply, and on the assumption of a normal harvest, the upward movement of prices will probably remain very limited between now and the end of the year.

The forecast figures published in the last Quarterly Survey for the main supply and demand components can be maintained, with slight corrections, for imports and exports and for investment. Thus a growth rate of 5.5 % can still be expected for the gross national product.

The initial forecasts for 1969 suggest that the increase in the real gross national product could amount to some 5.5 % in the coming year too; the role of domestic demand in business expansion could well gain in importance and employment should increase more rapidly. Guiding demand in order to achieve economic growth that is free of strains, and therefore durable, may consequently become more difficult.

In view of the prospects, which are, however, particularly uncertain this year, not only because of the devaluations and the measures taken or announced by the United States, but also owing to the difficulties already referred to with regard to analysis of the current business trend, greater vigilance in the matter of short-term economic policy and considerable flexibility in the implementation of the various instruments of economic policy may well be advisable.

Shortly before the dissolution of Parliament in March because of the coming elections in May, an exceptionally large number of laws and regulations were issued. As a whole they should not impose a heavy burden on the central government budget. Of particular significance, next to the raising of pensions mentioned in the last Quarterly Survey, was the enlarging of a fund set up a few years ago to finance small and medium-sized industrial enterprises; the implementing provisions for a law which provides for school-building investments of about Lit. 344 000 million in 1967 and 1968 were also adopted.

It is clear that these budgetary decisions and measures will at least *tend* to accelerate the growth of public expenditure and therefore harbour risks as regards short-term economic policy, especially as expenditure appropriations carried over (*residui passivi*) have risen very sharply. Budgetary policy should, consequently, endeavour in future to contain the rise in current, mainly consumer-orientated budgetary expenditure and in any case to increase the proportion of investment expenditure in total budget spending. Should, contrary to expectation, the private propensity to invest not expand sufficiently, encouragement of industrial investment through tax concessions could be considered. In this connection it is to be borne in mind that considerable burdens have been, or will be, placed on enterprises through « defiscalization », i.e. transfer to industry of social expenditures defrayed by the State for a time, through tax increases and through higher contributions by employers to social insurance as a result of improved pensions. On account of the tariff reductions, all these burdens will be heavy. The manner of financing the deficit on the budget should as far as

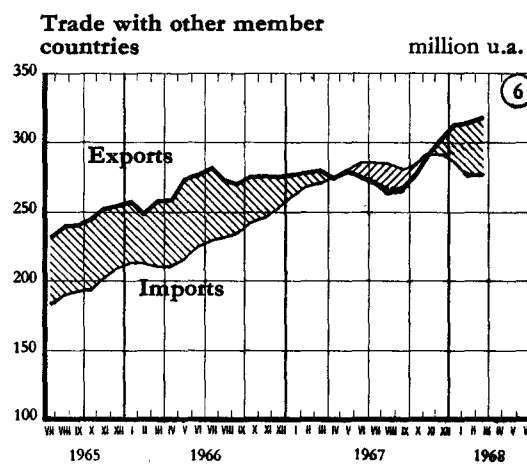
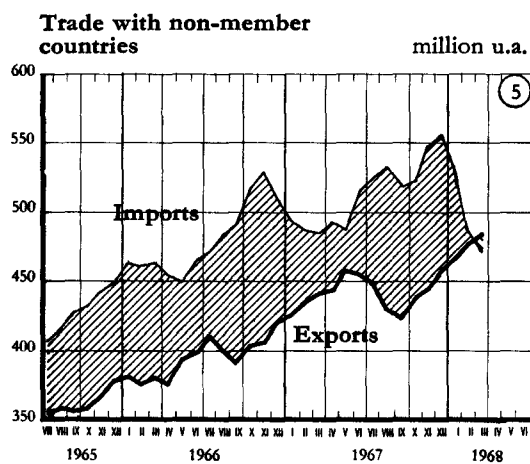
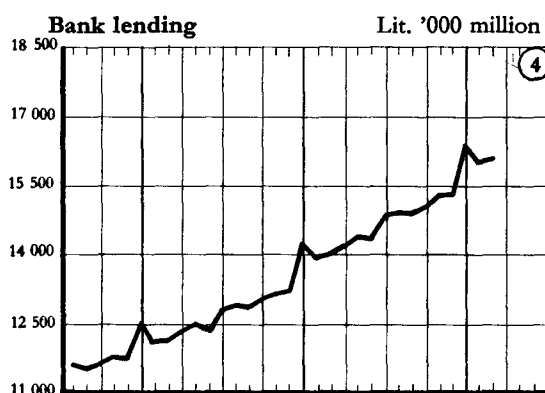
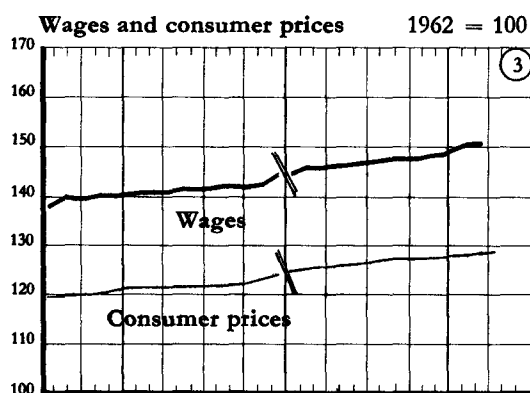
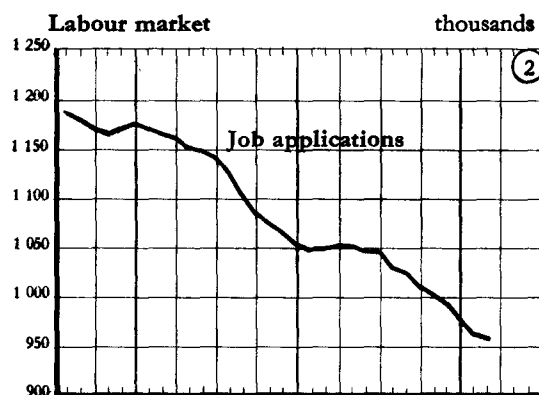
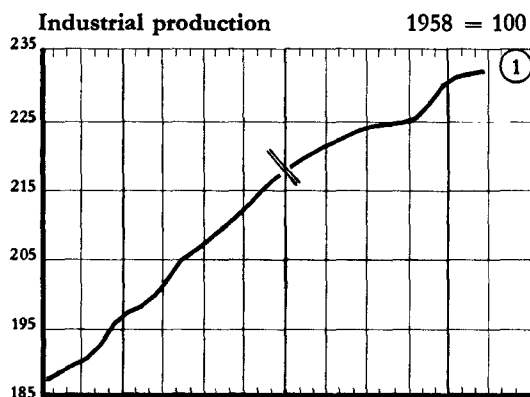
possible be adapted to the current and perhaps quickly changing demands of short-term economic policy.

In present circumstances, it is most important that monetary and credit policy should be flexible and effective. Initially, it should remain orientated towards expansion, but be in a position to switch fast enough to a less

expansionary course if there is too sharp a reduction in the elasticity of production.

This also seems the right time to carry out the necessary preparatory work for the implementation of an incomes policy on the lines of the draft of the Community's second medium-term economic policy programme and thereby make a better short-term guidance of the incomes trend possible.

ECONOMIC INDICATORS



NOTES :

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

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco; provisional indices from January 1967 because of introduction of new series).

Graph 2. Number of registered unemployed, in thousands. Series seasonally adjusted. Three-month moving averages.

Graph 3. Source: ISTAT. Agreed minimum wages in industry (incl. family allowances). From January 1967 new index (base year 1966) with wider coverage and based on hourly wages.

Graph 4. Short-term loans. Source : Banca d'Italia.

Graphs 5 and 6. Series adjusted for seasonal variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

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

Italy

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	301.2
Total population ('000)	52 409
Density of population per sq. km.	174
Numbers in employment ('000)	19 107
Numbers in employment, breakdown by main sector (%):	
— Agriculture	23.9
— Industry	40.7
of which : Construction	10.1
— Services	35.4
Percentage share of gross domestic product :	
— Agriculture	10.9
of which: Construction	35.6
— Industry	7.3
— Services	41.4
Gross product per capita (Lit.)	799 000

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	8.2	6.3	5.8	2.9	3.9	5.7	5.9	166	—
Industrial production	9.3	8.8	7.9	2.0	3.1	8.0	7.9	189	—
Total imports	14.8	16.4	22.6	- 5.4	1.5	13.7	10.5	306	17
Private consumers' expendi- ture	7.3	6.7	10.0	2.0	2.0	5.9	6.1	184	64
Public current expenditure on goods and services	4.8	5.4	5.1	3.4	3.6	3.5	2.7	145	14
Gross fixed asset formation	11.8	10.0	9.8	- 7.1	- 8.9	3.4	10.1	161	19
Total exports	16.5	12.2	7.0	12.0	20.4	13.2	6.0	320	19
Gross national product per capita	7.7	5.6	5.0	2.0	3.0	4.5	5.0	155	—
Gross national product per person gainfully employed	8.0	7.4	7.6	3.1	5.8	7.5	4.6	174	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	14.7	11.4	8.2	18.0	20.7	11.7	8.3	343.0	8 699.7	100
Intra-EEC	21.8	23.7	10.3	26.4	27.6	12.8	3.4	556.2	3 873.0	38.8
To non-EEC countries	11.8	5.8	7.0	13.4	16.4	11.0	11.7	276.0	5 326.7	61.2
Exports of food, beverages and tobacco										
Total	10.6	14.5	- 3.4	2.4	20.5	1.5	4.8	177.0	903.2	10.4
Intra-EEC	14.7	23.4	- 8.7	8.3	31.4	0.4	- 1.7	242.4	459.3	5.3
To non-EEC countries	7.4	6.5	2.1	- 3.3	9.5	2.8	12.4	138.3	443.9	5.1
Exports of raw materials and manufactures										
Total	15.5	10.9	10.2	20.5	20.7	13.1	8.7	384.9	7 796.5	89.6
Intra-EEC	23.9	23.9	15.6	30.4	26.9	15.2	4.3	698.9	2 913.7	33.5
To non-EEC countries	13.7	4.5	7.7	15.5	17.2	11.8	11.6	303.5	4 882.8	56.1
Visible imports										
Total	10.6	15.9	24.5	- 4.1	1.6	16.7	13.2	307.5	9 699.1	100
Intra-EEC	17.2	22.9	31.1	- 4.5	- 3.1	21.6	21.7	496.1	3 391.6	35.0
From non-EEC countries	8.1	13.0	21.5	- 3.9	3.9	14.4	9.0	255.3	6 307.5	65.0
Imports of food, beverages and tobacco										
Total	5.3	7.3	57.5	2.4	18.9	9.7	0.7	325.7	1 778.9	18.3
Intra-EEC	- 1.3	10.0	73.1	15.7	20.6	13.5	26.6	619.3	481.8	4.9
From non-EEC countries	6.6	6.8	54.4	- 0.6	18.4	8.7	- 6.4	276.9	1 297.1	13.4
Imports of raw materials and manufactures										
Total	11.6	17.5	19.2	- 5.5	- 2.4	18.6	16.4	303.7	7 920.2	81.7
Intra-EEC	19.2	24.1	27.8	- 6.6	- 6.3	23.0	20.9	480.3	2 909.8	30.0
From non-EEC countries	8.4	14.4	14.8	- 4.8	- 0.2	16.3	13.9	250.2	5 010.4	51.7

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1966 = 100)	1966	90.7	91.8	105.1	97.5	106.6	99.2	105.6	78.0	108.5	107.8	103.3	105.4
	1967	103.4	103.2	114.8	109.9	112.9	111.1	113.6	79.5	114.1	117.2	112.7	105.7
	1968	103.2	111.5	116.7									
Unemployed ('000)	1966	1 012	.	.	665	.	.	719	.	.	681	.	.
	1967	878	.	.	628	.	.	584	.	.	669	.	.
	1968	812	.	.									
Building : domestic turnover of building materials (1964 = 100)	1966	78.2	70.8	97.2	100.2	106.8	103.3	110.5	111.1	94.2	111.6	105.4	103.7
	1967	98.7	86.9	109.6	108.0	121.3	131.7	122.0	125.0	101.1	127.7	130.9	113.8
	1968	106.6	92.0										
Private consumers' expenditure : turnover of department stores (1963 = 100)	1966	119	88	106	121	123	130	118	103	127	146	137	227
	1967	116	94	130	117	136	140	134	110	148	149	143	248
	1968	123	110										
Total visible imports (million u.a.)	1966	716	665	729	665	717	706	707	561	815	802	754	784
	1967	827	760	796	809	785	810	851	689	791	870	879	839
	1968	756	736	826	(848)								
Total visible exports (million u.a.)	1966	572	598	712	612	722	699	723	592	681	758	678	685
	1967	661	690	771	715	763	708	745	615	715	818	754	745
	1968	739	775	858	(821)								
Balance of trade (million u.a.)	1966	- 144	- 66	- 17	- 53	+ 5	- 7	+ 16	+ 31	- 134	- 44	- 76	- 48
	1967	- 166	- 70	- 23	- 95	- 17	- 102	- 106	- 74	- 77	- 52	- 125	- 94
	1968	- 16	+ 38	+ 32	(- 27)								
Official gold and foreign exchange reserves (net, million u.a.)	1966	4 425.0	4 336.4	4 337.6	4 404.2	4 433.8	4 537.3	4 772.3	4 995.8	4 758.2	4 672.6	4 642.4	4 679.4
	1967	4 514.2	4 473.1	4 535.5	4 647.4	4 708.2	4 721.0	4 876.2	5 135.0	5 233.0	5 359.5	5 335.0	5 246.0
	1968	5 139.0	5 149.0	5 104.0	5 081.0	(5 035.0)							
Money supply (Lit. '000 million)	1966	14 029	13 933	14 046	14 118	14 321	14 598	14 850	14 744	15 003	15 182	15 274	16 373
	1967	15 840	15 662	15 981	16 157	16 417	16 576	16 778	16 623	16 964	16 956	17 075	18 877
	1968	17 863	17 652										

() Provisional figures.

Italy

NOTES

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

Table 1

Source: Relazione generale sulla situazione economica del Paese (1967).

- Present-in-area population (resident population less persons temporarily abroad). Average for year.
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

Source for 1966-67 : Relazione generale sulla situazione economica del Paese (1967).

- GNP at market prices.
- Industrial production: value added by industry at factor cost.
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. 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 and manufactures (groups 2-9 CST).

Table 4

- Industrial production. Source: Istituto Centrale di Statistica.
- Unemployed. Source : Istituto Centrale di Statistica.
- Construction. Internal trade in building materials, calculated from turnover taxes. Source : Istituto per lo Studio della Congiuntura.
- Private consumers' expenditure. Retail sales of department stores, based on the turnover of 22 department stores and "single-price" stores. Not very typical of the trend in private consumption as a whole.
- Exports fob, imports cif. Conversion at official exchange rate.
- Official gold and foreign exchange reserves. Source: Ufficio Italiano dei Cambi.
- Money supply. Notes and coin in circulation excluding cash holdings of the Treasury. Sight deposits of non-banks with registered credit institutions; banks drafts in circulation (whether vaglia or assegni) issued by the Central Bank and other banks and credit institutions.

D. The Netherlands

The economic upswing gained further strength during the spring months. The rise in overall demand was mainly accounted for by increased exports. At the same time, however, the trend of final domestic demand also made a vigorous contribution. The expansion of production was very lively, but has still not led to any appreciable improvement in the employment position. Despite substantial productivity gains, labour costs and prices still rose appreciably. The deficit on the current account remained relatively heavy.

The underlying expansionary trend will probably continue during the next few months and should facilitate a decline in unemployment. However, the outlook for demand and costs suggests that the foundations on which balanced economic growth must rest may become even less firm than before. The Government is therefore endeavouring to check the upsurge of costs through incomes-policy measures. Besides this, it seems expedient that the other instruments of economic policy, particularly the budget, should be more closely geared to the objective of balanced growth.

1. Recent developments

Among the demand components which contributed most to the upswing of the Dutch economy during the spring months, exports again took first place. It is true that deliveries to the non-member countries (apart from variations) had practically stopped increasing altogether, but the expansion of exports remained brisk because of a powerful upward movement in sales to the other EEC countries. According to customs returns for April and May, visible exports were running 18% higher by value than in the same months of the previous year.

During the first half of 1968, gross fixed asset formation continued to rise. The key to this trend was a renewed advance in industrial investment, spurred on by an increase in corporate profits in 1967, the favourable business outlook for 1968 and a credit policy which was once again expansionary. Construction of industrial and commercial buildings expanded vigorously in 1967, and purchases of plant and machinery now seem to be following this movement. Public investment also continued to rise appreciably, at least until the first

months of the year. On the other hand, investment in residential construction, which expanded vigorously in 1967, mainly as a result of the powerful upswing in expenditure on subsidized housing, appears to have stopped growing.

With regard to investment in stocks, the very brisk increase in stocks of raw materials and semi-manufactures which was still under way at the end of 1967 gave way, it is true, to a slacker trend, but dealers now seem to be replenishing their stocks of finished goods at a faster rate once again.

As for the increase in public current expenditure on goods and services, officials' salaries rose more slowly in the first half of 1968 than in 1967 and a number of the special factors (e.g. purchase of defence equipment) stimulating central government consumption were no longer operative. By contrast, the expansion of private consumers' expenditure did not slow down. Firstly, the results of the negotiations carried on since the beginning of 1968 for the renewal of the annual collective bargaining agreements will probably have the effect that the increase in the total wage

and salary bill will, at 7.5 %, be almost as heavy as in 1967. Secondly, transfer incomes rose again. Thirdly, incomes from property and entrepreneurship also increased rapidly.

The expansionary influence of demand was reflected in the continued vigorous growth of industrial production. According to the Statistical Office's (CBS) index of production per working day, it was 11.5 % higher in May 1968 than in May 1967. Whereas growth at the end of last year and at the beginning of this year could be attributed chiefly to a powerful increase in the output of natural gas and of the chemical industry, other industries are now playing a larger part in the expansion.

In spite of the steady rise in production, the improvement in the labour-market situation remained slow until well into spring. It is true that the number of vacancies went on growing, but the seasonally adjusted unemployment figures show no sign of any substantial change. The unemployment rate (the number of unemployed as a percentage of the civilian labour force) persisted, apart from variations, approximately at the level of the end of 1967 (1.8 %), essentially because the increase in industrial production has up to now still been largely accounted for by capital-intensive industries and because the labour requirements of the building and construction industry have declined. Besides this, the rise in labour costs is compelling managements to invest in rationalization, one consequence of which is that fewer additional workers are needed.

Until the middle of the year, imports continued to climb sharply, although, from month to month (corrected), the increase was not so rapid as at the end of 1967 and at the beginning of 1968, when imports were boosted by the impending increase in import taxation of 1 January. The increase in import demand, which benefited both the other EEC countries and non-member countries, concerned all the important categories of goods, in particular consumer goods. All in all, in April and May 1968 visible imports (volume) were running 11 % above the figure for the same period of the previous year.

Since the beginning of this year, it has been evident from the price trend that the under-

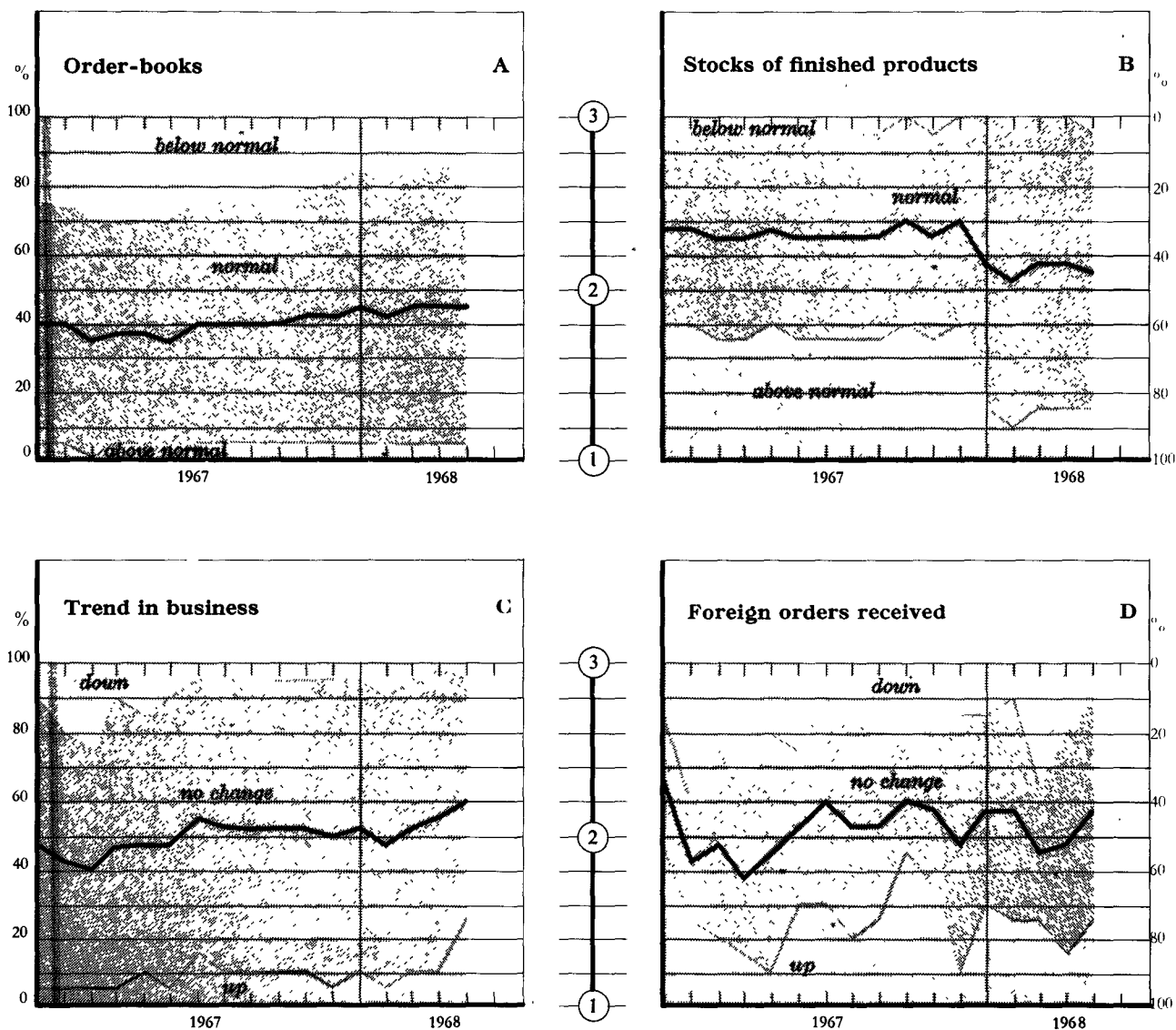
lying forces exerting pressure on prices have gained some strength. In addition, autonomous factors—mainly higher rents and the raising of the turnover tax on certain items—also affected the trend. Their impact has been partially offset by the declining trend of agricultural prices. Between January and March the cost-of-living index rose by 2.3 %, and in March was 4.6 % above the level of March 1967.

In spite of the favourable export trend, customs returns indicate that the balance of visible trade (adjusted) deteriorated somewhat. Since services earnings and investment income expanded, the current account (on a transactions basis) showed a deficit of approximately Fl. 190 million. As for the remaining items of the balance of payments, there was a heavy outflow of short-term capital, and Dutch investors bought foreign securities in considerable quantities. In the first quarter, the overall account closed with a deficit of Fl. 310 million. While the foreign exchange reserves of the commercial banks contracted by Fl. 85 million between December 1967 and March 1968, the gold and foreign exchange reserves of the Nederlandsche Bank dropped by Fl. 225 million.

Although transactions with abroad tended to reduce domestic liquidity in the first quarter, the central government's higher cash deficits made additional liquidity available to the money market. Private demand for short-term bank loans stayed very high and the lower level of interest rates on the money market compared with rates on the capital market certainly played an important part in this; in the first quarter, short-term borrowing was consequently 24 % above the level of the corresponding period of the previous year. In March the liquidity ratio (the relationship between primary and secondary liquid resources and national income) attained its highest level since 1963.

The slowly rising trend of interest rates on the capital market also continued into the spring. Mainly as a result of the increasing capital requirements of public and semi-public enterprises, new issues by companies increased more vigorously; on the other hand new issues by public authorities were smaller than in the previous year.

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, grey and violet) 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

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices (in Fl. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	33.36	+ 7.0	+ 6.2	+ 7	+ 6.5	+ 9
Gross fixed asset formation	17.03	+ 6.2	+ 12.2	+ 7	+ 10.5	+ 3
Public current expenditure on goods and services	10.74	+ 2.9	+ 11.8	+ 5	+ 13	+ 2.5
Private consumers' expenditure	39.87	+ 2.6	+ 9.0	+ 5	+ 8	+ 4.5
Gross national product	68.99	+ 2.8	+ 8.9	+ 5.5	+ 9.5	+ 4.5
Imports ⁴	33.11	+ 7.8	+ 8.4	+ 6	+ 5.5	+ 8

¹ Statistical Office of the European Communities, National Accounts, 1957-1966.

² Estimates of the Dutch Central Planning Office.

³ Commission forecasts.

⁴ Goods, services and factor income.

Notes:

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

(b) The forecasts are approximations based on certain hypotheses worked out by the Commission and 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

It is to be expected that the pace at which the Dutch economy has been expanding will be maintained until the end of the year, though the prospects that balanced development can be ensured are not now as good, mainly because of the persistent upsurge of costs.

In the next few months exports of goods and services will go on rising, although perhaps no longer as vigorously as in spring. The slackening of demand from the United States and the United Kingdom and the fact that sales of agricultural produce will no longer benefit from soaring domestic supply as they did in 1967 will certainly help to curb export

growth. However, visible exports can be expected to climb steeply as wide margins of productive capacity are still available to the export industry and the increase of labour costs per unit of output in this sector appears to be considerably smaller than elsewhere. In addition to this, exports will be spurred on by the healthy economic trend in the Community, by the establishment of the customs union between the member countries, and by the first tariff cuts agreed in the Kennedy Round for 1 July 1968.

Although investment in residential construction will be sluggish and the rate of growth of public investment will be definitely slower, gross fixed asset formation will again increase

during the second half of 1968, since firms' fixed investment and, above all, their outlay on plant and machinery will probably mount higher. It is not yet certain, however, whether the transitional measures (in connection with the introduction of TVA on 1 January) and those adopted to stimulate expenditure on building and construction can obviate a delay in the execution of some investment programmes. The advent of the new TVA might also induce firms to cut back their stocks considerably at the end of the year.

One reason why public current expenditure on goods and services will increase is that official wages and salaries will be adjusted to pay increases in the private sector. Private consumers' expenditure will probably expand more appreciably within the next few months. This development will probably be favoured by rapid growth in the disposable incomes of households. In addition, the fear that the TVA may entail higher prices may well lead to advance buying of certain items.

On the demand side, the conditions allowing of an upswing in production and employment are therefore fulfilled. Nevertheless, the elasticity of production could well decline somewhat, especially since certain cuts in the length of the working week from the middle of the year onwards have been agreed in manufacturing industry and in building and construction. In view of the continuing upward thrust of labour costs, it is by no means certain that the consequent loss of working hours will be fully offset by the creation of new jobs. Even so, unemployment will probably decrease again, and a factor which will also play a role is that, with the increasing expansion of business activity in Germany, the demand for Dutch frontier workers will probably grow.

The expansion of imports, especially those of capital and consumer goods, will probably remain very vigorous. Consequently, the balance of trade is hardly likely to improve.

The tendency for the disparity between the rise in labour costs and the increase in the productivity of labour to widen is a threat to price conditions, and the level of consumer prices in particular is likely to mount once

again in the next few months, especially since farm produce prices will no longer be falling.

In view of the current underlying trends, particularly in the field of fixed investments, the forecasts for 1968 made in the last Quarterly Survey (1/1968) can now be adjusted upwards. Imports and exports will also be higher, with the result that the growth rate of the gross national product at constant prices could well reach 4.5 %.

Tentative analyses of the outlook for 1969 point to a sustained expansion of overall demand. The uncertainty concerning the development of the world economic situation, and a further rise of production costs in the Netherlands must, however, reflect on export prospects. Although investment in capital goods will probably register another considerable rise, the increase in real terms of private consumers' expenditure might be undermined by a faster increase in prices. The GNP growth rate will probably amount to approximately 4% (volume).

The outlook suggests that the task of those responsible for short-term economic policy will not be an easy one. Their main problem will be to reconcile rapid economic growth against a background of greater price stability with a satisfactory level of employment both at national and regional level. Another difficulty is that the prospects for world business are now rather uncertain. Finally, the introduction of the tax on value added on 1 January 1969 may not only strengthen the upward movement of consumer prices but could also prompt reactions among managements and consumers the effects of which are at present difficult to assess.

Within the framework of the policy to combat unemployment, the Government has refrained from comprehensive budgetary measures and has rightly adopted selective measures only. For example, at the beginning of the year, arrangements were made, with retroactive effect dating back to 12 October 1967, to facilitate the writing off for tax purposes of building investments undertaken by firms in provinces with a high level of unemployment. In addition, bounties have been granted since 15 May for new investments. Furthermore, additional expenditure for public works in these provinces was approved;

this took the form either of enlarging the relevant programmes or of bringing forward the schedules for their implementation. Again, in certain areas, credit facilities were granted to small and medium-sized enterprises beset by structural difficulties, and measures to assist the woollen industry were adopted, including credit guarantees.

In view of the danger that equilibrium may continue to deteriorate in 1968 and that inflationary tendencies may grow worse in 1969 (a danger to which the monetary authorities also referred when the annual report of the Nederlandsche Bank was presented at the end of April), the Government proposed in May the introduction of a set of appropriate measures. Firstly, the 4% recommended as a maximum wage increase in the framework of the collective bargaining agreements (valid for one year) was confirmed for 1968, and a quarter of an hour reduction in working time per day was specified as a maximum to be negotiated in the agreements. Secondly, all the 1969 collective bargaining agreements are to be automatically extended by six months if the economic situation shows that this is necessary. Furthermore, tax reliefs—to come into effect on 1 January 1969—are planned for the wages- and income-tax, and social transfer incomes are to be raised in order to counterbalance the prices increases to be expected in connection with the introduction of the tax on value added. Lastly, expendi-

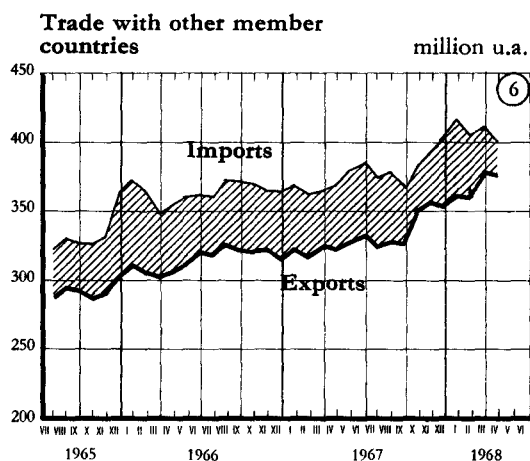
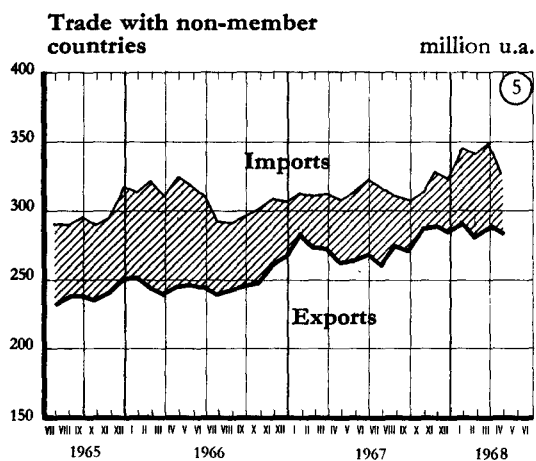
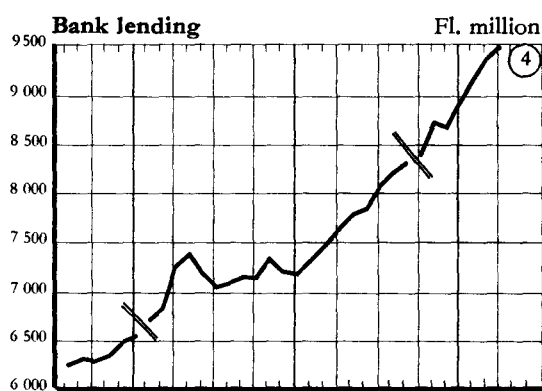
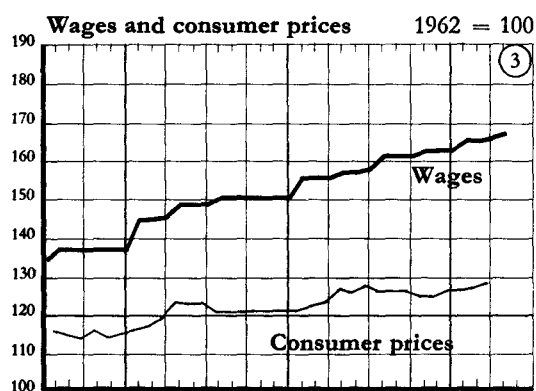
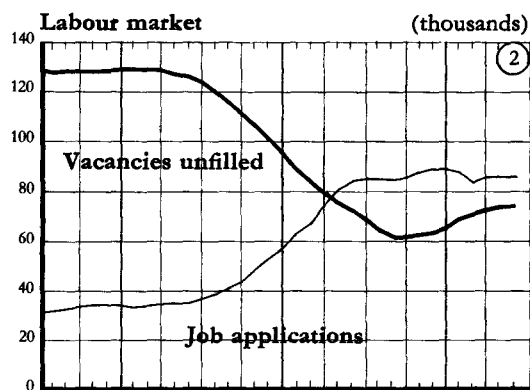
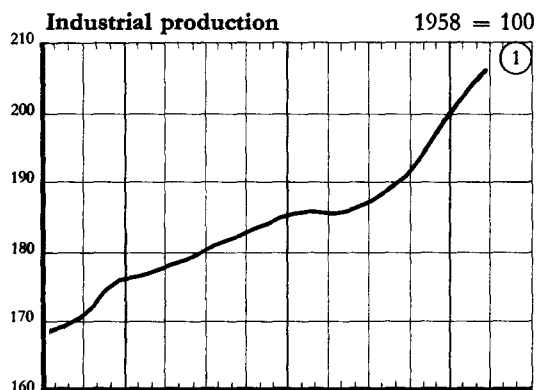
ture on the campaign against unemployment is to be raised by Fl. 150 million.

These incomes-policy measures could well help to prevent an aggravation of economic disequilibrium. In any case, however, labour costs per unit of output will continue to increase very rapidly in 1968, partly because of the rise in social expenditure and the carrying over of costs from 1967, and it is to be feared that they may rise even faster in 1969.

Therefore the danger should be emphasized that if the other instruments of short-term economic policy are not deployed in the right relationship to each other, the business climate could well deteriorate.

At present, the Government's main economic policy aim is the elimination of structural unemployment through an improvement of the economic structures of the provinces most affected. The authorities should take care to ensure that the programmes to combat unemployment do not entail an additional increase in the total volume of public expenditure liable to jeopardize the structural reorganization of the official budgets. Therefore the increases in expenditure should, as far as possible, be offset by savings under other headings. If this is not feasible in the short term, the authorities should avoid financing the budget deficit through recourse to the money market, since at the present time an expansive budgetary and credit policy is not advisable.

ECONOMIC INDICATORS



NOTES :

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

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Adjusted for seasonal variations. Three-month moving averages.

Graph 3. Cost of living for manual and office workers. Source : CBS. Wages—index of gross hourly earnings in industry (excluding mining, quarrying and construction). Index of negotiated wages.

Graph 4. Short-term bank advances. Revised series as from September 1967.

Graphs 5 and 6. Series adjusted for seasonal and accidental variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

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

Netherlands

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	33.5
Total population ('000)	12 455
Density of population per sq. km.	372
Numbers in employment ('000)	4 548
Numbers in employment, breakdown by main sector (%):	
— Agriculture	8.2
— Industry	41.6
of which : Construction	10.4
— Services	50.2
Percentage share of gross domestic product :	
— Agriculture	7.5
— Industry	41.4
of which: Construction	(7)
— Services	51.1
Gross product per capita (Fl.)	6 033

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross national product	+ 8.9	+ 3.5	+ 3.8	+ 3.7	+ 9.4	+ 5.3	+ 2.8	151	—
Industrial production	+10.1	+ 4.2	+ 4.8	+ 5.4	+10.2	+ 6.5	+ 5.6	171	—
Total imports	+17.3	+ 5.8	+ 7.5	+ 9.5	+14.4	+ 7.2	+ 7.8	220	47.8
Private consumers' expendi- ture	+ 6.4	+ 5.8	+ 6.5	+ 7.7	+ 6.3	+ 7.8	+ 2.6	159	57.8
Public current expenditure on goods and services	+ 6.6	+ 4.4	+ 5.1	+ 7.8	+ 1.9	- 0.6	+ 2.9	130	16.0
Gross fixed asset formation	+11.6	+ 6.7	+ 4.4	+ 2.1	+17.6	+ 5.6	+ 6.2	188	25.4
Total exports	+13.3	+ 3.0	+ 6.2	+ 6.2	+11.6	+ 8.7	+ 7.0	190	47.2
Gross national product per capita	+ 7.6	+ 2.2	+ 2.4	+ 2.2	+ 7.9	+ 3.8	+ 1.4	136	—
Gross national product per person gainfully employed	+ 6.9	+ 2.1	+ 1.7	+ 2.3	+ 7.8	+ 4.0	+ 1.8	135	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967			
Visible exports										
Total	+ 6.9	+ 6.5	+ 8.2	+17.0	+10.1	+ 5.6	+ 7.9	226	7 288	100
Intra-EEC	+10.9	+10.0	+17.3	+22.1	+10.2	+ 5.3	+ 6.7	299	4 003	54.9
To non-EEC countries	+ 3.6	+ 3.2	- 0.6	+11.2	+10.0	+ 6.0	+ 9.4	175	3 285	45.1
Exports of food, beverages and tobacco										
Total	+ 0.8	+ 6.9	+ 9.3	+ 9.5	+13.0	+ 0.3	+ 9.9	193	1 728	23.7
Intra-EEC	+ 3.1	+10.0	+12.1	+12.3	+19.7	- 0.2	+ 9.6	252	1 061	14.6
To non-EEC countries	- 1.8	+ 3.3	+ 5.8	+ 5.1	+ 3.6	+ 1.0	+10.5	141	667	9.1
Exports of raw materials and manufactures										
Total	+ 9.2	+ 6.3	+ 7.9	+19.6	+ 9.2	+ 7.3	+ 7.3	239	5 560	76.3
Intra-EEC	+14.3	+10.0	+19.4	+25.6	+ 7.1	+ 7.4	+ 5.8	321	2 942	40.4
To non-EEC countries	+ 5.2	+ 3.2	- 2.4	+13.1	+11.9	+ 7.3	+ 9.1	186	2 618	35.9
Visible imports										
Total	+12.3	+ 4.6	+11.6	+18.2	+ 5.9	+ 7.5	+ 4.0	230	8 340	100
Intra-EEC	+21.1	+ 6.7	+14.9	+19.0	+ 8.7	+ 8.7	+ 5.0	300	4 547	54.5
From non-EEC countries	+ 5.8	+ 2.5	+ 8.3	+17.4	+ 2.9	+ 6.0	+ 2.9	180	3 793	45.5
Imports of food, beverages and tobacco										
Total	+ 5.9	+ 6.3	+15.5	+16.2	+ 3.5	+ 3.9	+11.3	204	1 142	13.7
Intra-EEC	+41.5	- 7.0	+11.8	+22.0	+13.1	+ 8.8	+22.7	378	302	3.6
From non-EEC countries	- 1.0	+10.0	+16.3	+14.9	- 1.2	+ 2.5	+ 7.6	175	840	10.1
Imports of raw materials and manufactures										
Total	+14.0	+ 4.3	+11.0	+13.6	+ 6.3	+ 8.0	+ 2.9	235	7 198	86.3
Intra-EEC	+20.0	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	+ 3.9	295	4 245	50.9
From non-EEC countries	+ 7.7	+ 0.7	+ 6.1	+18.0	+ 4.2	+ 7.0	+ 1.6	181	2 953	35.4

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1966	117	119	123	126	125	124	105	115	125	133	135	132
	1967	123	126	128	131	126	130	108	122	132	140	144	145
	1968	137	141	143									
Construction (Fl. million)	1966			1 554			2 029			2 204			2 122
	1967			2 036			2 364			2 503			2 383
	1968			2 314									
Unemployed ('000)	1966	54.8	55.3	34.5	30.7	25.6	26.3	32.1	32.6	35.7	41.7	58.5	86.7
	1967	104.7	101.8	87.4	78.2	67.2	64.7	74.4	71.4	72.2	78.3	89.4	111.7
	1968	121.2	111.3	94.0	78.4	66.3							
Investment (Fl. million)	1966			4 128			4 937			4 924			5 108
	1967			4 699			5 446			5 321			5 692
	1968												
Private consumers' expenditure (1963 = 100)	1966	129	114	130	141	138	136	148	132	136	142	147	159
	1967	142	125	146	144	149	151	152	144	152	149	161	172
	1968	153	140	154									
Total visible imports (million u.a.)	1966	625	626	759	701	630	634	652	620	696	670	668	688
	1967	680	639	719	690	694	737	650	652	683	733	746	718
	1968	823	693	788	704	815							
Total visible exports (million u.a.)	1966	500	470	572	570	544	612	549	493	632	597	615	593
	1967	601	532	606	582	592	642	536	605	641	636	665	601
	1968	681	615	670	663	725							
Balance of trade (million u.a.)	1966	- 125	- 156	- 188	- 131	- 86	- 71	- 103	- 122	- 64	- 72	- 53	- 95
	1967	- 80	- 107	- 113	- 108	- 102	- 95	- 114	- 46	- 42	- 47	- 81	- 117
	1968	- 142	- 78	- 118	- 41	- 90							
Official gold and foreign exchange reserves (million u.a.)	1966	1 970	1 972	1 997	1 943	1 953	1 918	2 012	2 010	1 996	2 002	2 036	2 036
	1967	1 970	1 995	1 998	1 995	2 065	2 094	2 104	2 064	2 104	2 229	2 271	2 268
	1968	2 194	2 164	2 082	2 028								
Money supply (Fl. '000 million)	1966	17.09	17.07	17.04	17.50	18.10	18.58	18.43	18.04	17.98	17.77	18.03	18.34
	1967	17.39	17.97	18.27	18.74	19.31	19.98	19.67	19.33	19.55	19.19	19.44	19.51
	1968	19.59	19.31	19.71									

Netherlands

NOTES

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

Table 1

- Total population at mid-year.
- Numbers in employment, average for year. Source : CBS.
- Breakdown of GNP at factor cost.
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. 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 and manufactures (groups 2-9 CST).

Table 4

- Industrial production. Source: Centraal Bureau voor de Statistiek (CBS). General index, adjusted for number of working days.
- Construction. Source: CBS. Building production. Total value, quarterly figures.
- Unemployed. Source : CBS. Total unemployed.
- Investment. Source: CBS. Gross fixed investment. Total value, quarterly figures.
- Private consumers' expenditure. Source : CBS. Index of value of private consumption.
- Exports fob, imports cif. Conversion at official exchange rates.
- Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency held by the official monetary institutions.
- Money supply. Notes and coin in circulation, excluding cash holdings of monetary institutions. Sight deposits with credit institutions.

E. Belgo-Luxembourg Economic Union

Belgium

During the first half of 1968 there was a modest increase in the growth rate of the Belgian economy—mostly attributable to the rapid upward trend of export demand and the stimulus provided by the measures to encourage growth adopted by the Government early in the year. There are also signs of some improvement in firms' propensity to invest, but the increase in private consumers' expenditure has been modest so far.

As the year advances, there should be a continued recovery in economic activity and this should favour an appreciable increase in production. Intra-Community trade and an acceleration of private investment activity are expected to provide considerable impetus. Private consumers' expenditure too should become somewhat more lively. No basic deterioration in the conditions making for economic equilibrium need be feared for the time being in view of available production capacity.

The steps already taken by the Government can be regarded as sufficient to ensure adequate expansion of the economy. Advantage should be taken of the present upswing to push ahead with the structural improvements needed to secure optimum growth.

1. Recent developments

Exports of goods and services continued to expand during the spring. Visible exports were boosted by demand from other Community countries, particularly Germany and France. Exports to non-member countries too — particularly the United States and, to a lesser extent, the United Kingdom — were still quite appreciable, though this was partly due to the effect of the special factors discussed in Chapter I. As a result, visible exports in April-May were some 14% higher in terms of value than in the corresponding period of 1967.

It looks as if the growth rate of domestic demand only accelerated a little in recent months. There were, however, growing signs that the expansion of gross fixed asset formation was being consolidated. Presumably, this was chiefly because firms were more willing to invest, taking advantage of the more favourable profit situation and the improved business outlook. The most recent Business

Surveys, for instance, show that firms have made upward adjustments in their capital projects for 1968. There was also a slight improvement in the trend of investment in residential construction because the measures to support the economy adopted at the beginning of 1968 were already having an impact in the spring. Public investment continued to rise briskly.

On the other hand, investment in stocks of raw materials and semi-manufactures, which had been lively in the autumn of 1967 and the early months of 1968, has tended to fall off since the beginning of spring.

Expenditure on consumption is the only component of demand in which expansion has so far been relatively modest. Although the growth of public current expenditure on goods and services is unlikely to have slackened in the first six months of 1968, the rise in private consumers' expenditure remained weak. There was a rather limited increase in disposable incomes. The rise in the

wagebill slowed down perceptibly, and it was probably not until the second quarter that the total number of hours worked (seasonally adjusted) went up slightly.

Despite this, the overall growth of demand helped to speed up the expansion of domestic supply slightly. Industrial production — adjusted for seasonal variations — rose 3% between December and April, by which time it was 5.5 % up on the previous April. The greatest advances in production were recorded in semi-manufactures and capital goods. Furthermore, the decline in output in the building industry, which had persisted during the early months of 1968, seems to have given way to a slight recovery in the

second quarter, though strikes caused a temporary set-back.

Since the growth of production was mainly a result of increased productivity, the improvement in the economic situation has not yet had any appreciable effect on the labour market. Unemployment, the underlying trend of which had still been rising until the end of the winter, did not increase any further, however, and the number of unfilled vacancies has been edging upwards again since the end of 1967. In May the unemployment rate ⁽¹⁾ was 2.3 %.

¹ The number of persons drawing unemployment benefit expressed as a percentage of the total civilian labour force.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices (in Bfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	327.0	+ 3.7	+ 7.2	+ 6	+ 6.5	+ 7
Gross fixed asset formation	177.8	+ 5.9	+ 9.2	+ 2.5	+ 5.5	+ 2.5
Public current expenditure on goods and services	109.2	+ 6.5	+ 10.8	+ 3.5	+ 9.5	+ 2.5
Private consumers' expenditure	549.4	+ 2.9	+ 7.1	+ 2.0	+ 5.0	+ 2.5
Gross national product	847.4	+ 2.8	+ 7	+ 2.5	+ 6.5	+ 3.5
Imports ⁴	320.0	+ 7.8	+ 11	+ 3	+ 2	+ 8.5

¹ Statistical Office of the European Communities, National Accounts 1957-1966.

² Commission estimates.

³ Commission forecasts.

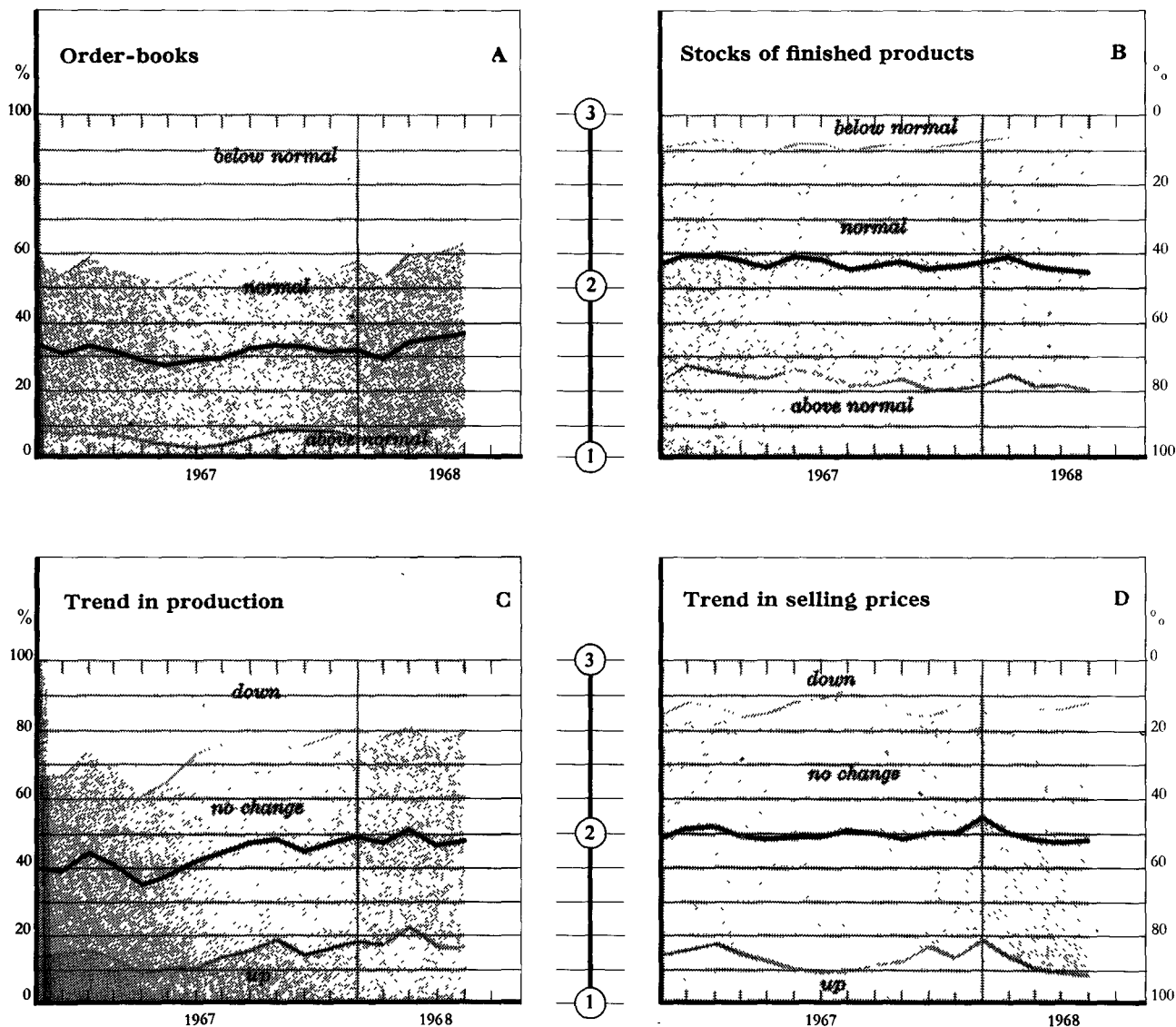
⁴ Goods, services and factor income.

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.

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, grey and violet) 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".

Imports continued to expand, though at a somewhat reduced pace. Customs returns show that in April-May visible imports were 10% higher than a year before.

The stability of food prices since the end of 1967 has kept the overall increase in domestic prices in check. Prices for services increased sharply yet again. According to the official consumer price index, general price levels in April-May were about 2.7% higher than in April-May 1967.

Since the end of 1967 there has been a deterioration in the balance of payments on current account, mainly due to the trend of external trade. In addition, net inflows of capital were considerably reduced, partly because of a temporary renewal of speculation in gold and foreign exchange. The overall balance of payments for the period January-April consequently showed hardly any surplus at all, though the surplus for the last four months of 1967 had been Bfrs 10 000 million. Although the banks stepped up their foreign assets, official foreign exchange reserves fell by Bfrs. 3 800 million.

The balance-of-payments trend therefore had a slightly restricting effect on the liquidity of the economy. Official cash transactions, on the other hand, caused liquidity to expand vigorously. The Government's cash deficit has grown considerably since the end of 1967, because the expansion of public expenditure continued unabated while revenue proved to be lower than expected. Bank advances to firms and private individuals increased sharply. The trend of interest rates on the money market was downwards at first but moved upwards again in April. Rates on the capital market remained relatively steady despite the fact that private investors were unwilling to step up their purchases of securities.

2. Outlook

The vigorous upswing in economic activity in the Community and the expansion of intra-Community trade associated with it will probably entail a further increase in export demand and continue to provide substantial

support for the expansion of the Belgian economy. The deterioration in the competitive position of Belgian exports because of rising production costs is likely to be halted during 1968. Newly established production units which are largely geared to the export trade will also make an appreciable contribution to the expansion of visible exports. Lastly, the definitive establishment on 1 July 1968 of customs union between the Community countries should stimulate exports of Belgian products. Despite the first tariff cuts agreed in the Kennedy Round, however, exports outside the Community could lose some momentum if, as expected, there is a substantial slowdown in sales to both the United States and the United Kingdom.

The growth rate of domestic demand will, if anything, speed up slightly over the next few months. Fixed asset formation, for instance, is likely to expand more briskly because of firms' increased propensity to invest and the effects of a continuing revival of investment in residential construction. As against this, however, the growth rate of public investment is unlikely to be maintained.

If these assumptions about the future trend of exports and fixed asset formation prove correct, the likelihood of private consumers' expenditure reviving will be greater. First of all, the favourable economic trend should mean that households will be less inclined to save large amounts in highly liquid form — a tendency they have shown for many months past. Secondly, an increase in the total number of hours worked, wage increases in the private sector caused by the sliding wage scales coming into play towards the middle of the year, and a simultaneous improvement in certain social insurance benefits should mean that the upward movement of the wage bill will be somewhat more vigorous.

All in all, the prospects of increased demand mean that production and imports should expand appreciably. The labour market situation too should therefore improve somewhat. In view of the only slight increase forecast for unit labour costs, there is unlikely to be any substantial speed-up in the adjusted upward trend of prices or any great

deterioration in the balance on current account before the end of the year.

The overall growth of gross national product in 1968, at constant prices, could be rather higher than the 3.5 % predicted in the last Quarterly Survey.

Preliminary forecasts of economic developments in 1969 indicate that the expansion of demand from non-member countries will slacken appreciably. The stimulus provided by intra-Community trade and a further upturn in domestic demand could, however, induce a more vigorous expansion of production. This presupposes that the present upward trend of spending by the private sector is maintained, but the introduction of the tax on value added scheduled for 1 January 1970 may draw reactions from consumers and businesses during 1969 which are difficult to assess at present. Subject to this reservation, and assuming that there is no substantial dip in the world economic trend, GNP can be expected to go up about 4 % at constant prices.

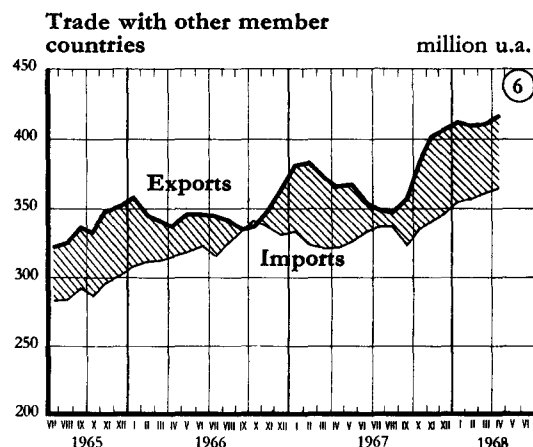
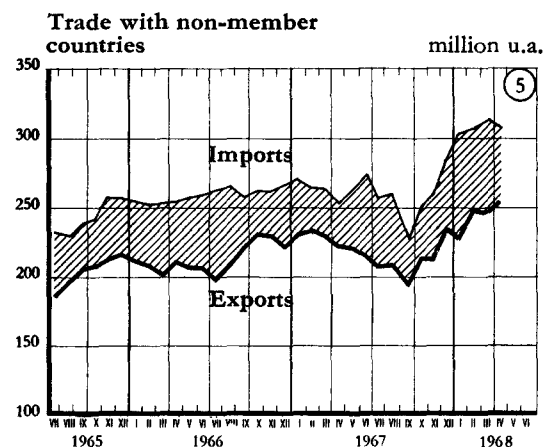
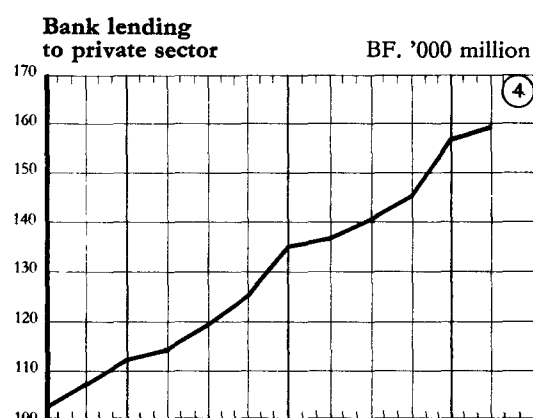
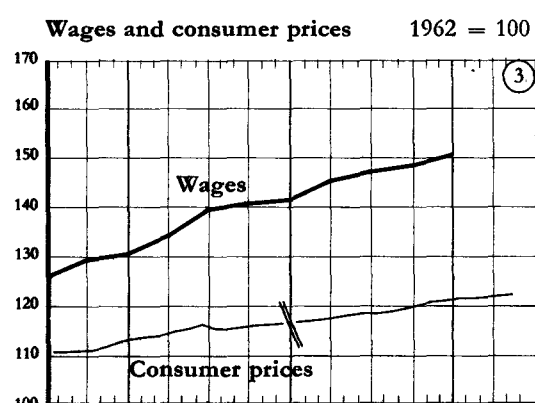
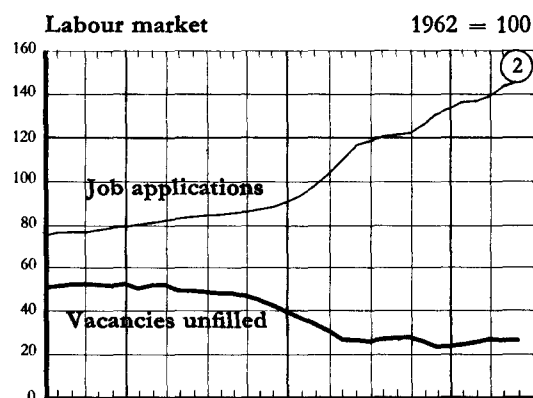
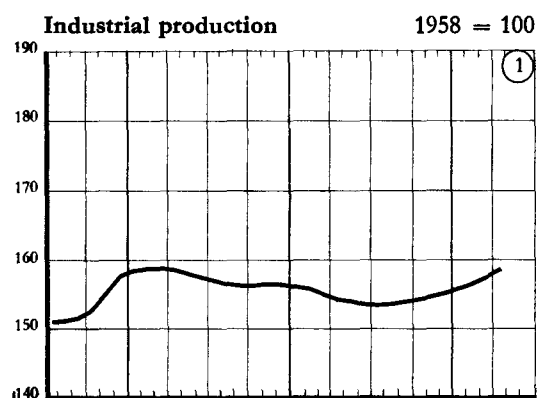
This survey of recent developments and the outlook for the year ahead leads to the conclusion that the introduction of further policy measures to stimulate growth will be warranted only if the adequate utilization of production capacity cannot be guaranteed — as a result of developments in certain major countries outside the Community, for instance.

Despite the Government crisis, which began on 7 February, the authorities have been able to adopt new measures to promote economic growth within the framework of the pro-

gramme announced last January. In the sphere of financial policy, the ceiling on the amount of bills issued or guaranteed by the State which the National Bank may include in its portfolio was raised from Bfrs. 10 000 million to 16 000 million early in April. Under an agreement which is to come into force on 1 September, the Government will ensure that its borrowing from the Bank does not exceed, on average, two thirds of this ceiling. At the same time, hire-purchase conditions were relaxed and tax rebates on exports of various products increased. Lastly, arrangements were made to implement the measures to promote state-subsidized housing announced at the beginning of the year.

In the budget field, it is probable that in the course of 1968 the interaction of the built-in stabilizers and the effects of the economic policy measures which have been adopted will lead to an increase—over and above that allowed for in the estimates—in government expenditure corresponding to about 1 % of GNP. In terms of economic desiderata, an increase of this order would still be justified at present, but it does raise problems from the financial point of view and in connection with budget reform. If these are to be more effectively tackled in 1969, care must be taken when drafting the budget for the coming year that efforts to cut back less urgent public expenditure are pursued and intensified. This would provide greater scope for the expansion of priority expenditure on structural improvements and at the same time make it easier to keep the growth of the national debt within the bounds set by supplies on the money and capital markets.

ECONOMIC INDICATORS



NOTES :

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

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Completely unemployed persons, receiving unemployment benefit. Adjusted for seasonal variations. Three-month moving averages.

Graph 3. Consumer prices. New index as from januari 1967. Source: Ministère des Affaires Economiques. Agreed wages for operatives, all branches. Source: Ministère du Travail et de l'Emploi.

Graph 4. Loans made by monetary institutions.

Graphs 5 and 6. B.L.E.U., series adjusted for seasonal and accidental variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rates.

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

Belgium

TABLE 1 : Basic data 1966

Total area ('000 sq. km.)	30.5
Total population ('000)	9 669
Density of population per sq. km.	312
Numbers in employment ('000)	3 669
Numbers in employment, breakdown by main sector (%):	
— Agriculture	6.0
— Industry	45.3
of which : Construction	(7.5)
— Services	48.7
Percentage share of gross domestic product :	
— Agriculture	5.8
— Industry	41.2
of which : Construction	6.9
— Services	53.0
Gross product per capita (Bfrs)	95 100

TABLE 2 : Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross national product	+ 5.4	+ 4.7	+ 5.9	+ 4.5	+ 6.9	+ 3.6	+ 2.8	143	—
Industrial production	+ 8.2	+ 4.7	+ 7.5	+ 5.2	+10.2	+ 3.2	+ 2.9	156	—
Total imports	+12.2	+ 7.2	+ 4.8	+ 7.7	+10.7	+ 7.6	+ 7.8	196	39.2
Private consumers' expen- diture	+ 5.7	+ 2.2	+ 4.4	+ 4.8	+ 3.5	+ 4.1	+ 2.9	133	64.9
Public current expenditure on goods and services	+ 5.3	+ 1.6	+ 8.8	+11.5	+ 4.1	+ 6.9	+ 6.5	162	13.3
Gross fixed asset formation	+12.8	+10.9	+ 5.8	+ 0.2	+11.8	+ 3.6	+ 5.9	178	21.4
Total exports	+ 9.5	+ 8.3	+ 7.7	+ 7.2	+11.2	+ 8.1	+ 3.7	183	38.7
Gross national product per capita	+ 4.9	+ 4.2	+ 5.3	+ 3.7	+ 5.8	+ 2.7	+ 2.1	135	—
Gross national product per person gainfully employed	+ 5.1	+ 3.7	+ 4.1	+ 3.6	+ 5.7	+ 2.7	+2.2	135	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	+ 3.9	+10.2	+11.9	+15.5	+14.2	+ 5.2	+ 3.0	230	7 031	100
Intra-EEC	+ 9.7	+17.7	+19.6	+19.0	+12.3	+ 6.1	+ 3.2	322	4 429	63
To non-EEC countries	- 1.7	+ 1.9	+ 1.6	+10.3	+16.5	+ 3.9	+ 2.5	155	2 602	37
Exports of food, beverages and tobacco										
Total	+15.6	+29.6	+29.6	+ 3.2	+31.5	+ 8.4	+18.4	361	553	7.9
Intra-EEC	+18.7	+31.2	+30.7	+ 5.2	+31.6	+ 5.4	+25.6	479	420	6.0
To non-EEC countries	+ 8.7	+25.7	+26.8	- 2.1	+31.3	+17.1	+ 1.1	204	133	1.9
Exports of raw materials and manufactures										
Total	+ 3.4	+ 9.2	+10.9	+16.4	+13.1	+ 5.0	+ 1.8	223	6 478	92.1
Intra-EEC	+ 8.9	+16.7	+18.8	+20.1	+11.4	+ 6.2	+ 1.4	311	4 009	57.0
To non-EEC countries	- 2.0	+ 0.9	+ 0.7	+10.8	+15.8	+ 3.2	+ 2.5	153	2 469	35.1
Visible imports										
Total	+ 6.6	+ 8.0	+12.2	+15.9	+ 7.6	+12.6	- 0.1	229	7 167	100
Intra-EEC	+12.7	+ 8.9	+15.5	+17.5	+10.1	+15.4	- 0.6	272	3 983	55.6
From non-EEC countries	+ 1.0	+ 7.1	+ 8.8	+14.0	+ 4.8	+ 9.1	+ 0.6	190	3 184	44.4
Imports of food, beverages and tobacco										
Total	+ 0.1	+11.0	+ 9.0	+16.8	+15.2	+ 8.1	+ 9.9	210	981	13.7
Intra-EEC	+ 7.4	+ 3.2	+17.2	+16.3	+22.5	+10.6	+11.8	270	419	5.9
From non-EEC countries	- 4.0	+15.9	+ 4.3	+17.2	+10.6	+ 6.4	+ 8.5	180	562	7.8
Imports of raw materials and manufactures										
Total	+ 7.6	+ 7.6	+12.7	+15.7	+ 6.6	+13.2	- 1.5	232	6 186	86.3
Intra-EEC	+13.3	+ 9.4	+15.4	+17.6	+ 8.9	+16.0	- 1.9	273	3 564	49.7
From non-EEC countries	+ 1.9	+ 5.6	+ 9.6	+13.4	+ 3.7	+ 9.7	- 0.9	193	2 622	36.6

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	143	144	162	151	146	158	120	146	162	160	155	156
	1967	150	147	160	151	150	161	113	146	162	165	162	156
	1968	157	156	166									
Construction (1962 = 100)	1966	63.1	97.3	117.6	108.8	106.9	118.9	71.1	117.3	122.6	112.7	109.8	100.7
	1967	84.6	94.1	117.0	110.3	113.7	121.1	71.4	113.7	118.0	121.5	116.4	78.5
	1968	76.6	85.4										
Unemployed ('000)	1966	69.7	68.2	63.3	61.1	57.5	53.3	55.7	54.9	56.0	58.4	65.0	74.9
	1967	82.5	85.7	84.4	83.8	81.9	77.9	79.1	78.1	80.3	87.5	96.0	106.7
	1968	114.5	113.7	110.3	106.4	101.5							
Investment (1961 = 100)	1966	106.7	141.0	154.7	155.1	165.8	170.0	117.8	153.9	160.2	155.9	165.1	156.1
	1967	134.6	151.1	167.0	167.7	170.4	176.8	122.1	159.1	160.2	175.9	176.9	141.8
	1968	(138.3)	(156.8)	(184.5)									
Private consumers' expenditure (1961 = 100)	1966	135.3	136.9	140.2	145.9	142.6	146.4	143.6	145.0	148.4	140.9	145.6	150.8
	1967	145.5	146.8	149.7	151.7	153.4	157.3	155.2	151.9	152.9	150.3	153.3	159.7
	1968	157.1	161.2	157.9									
Total visible imports (million u.a.)	1966	519	554	618	556	537	611	520	592	594	609	619	641
	1967	590	545	628	574	610	655	465	598	514	640	689	649
	1968	624	704	708	644								
Total visible exports (million u.a.)	1966	493	523	620	560	534	604	511	471	603	574	590	621
	1967	603	570	607	604	581	597	525	460	530	697	618	649
	1968	621	675	705									
Balance of trade (million u.a.)	1966	- 26	- 27	+ 7	+ 3	- 53	- 6	- 9	- 121	+ 9	- 34	- 29	- 15
	1967	+ 18	+ 25	- 20	+ 30	- 29	- 58	+ 60	- 133	+ 16	+ 57	- 71	0
	1968	- 2	- 29	- 3	+ 61								
Official gold and foreign exchange reserves (million u.a.)	1966	1 968	1 946	1 956	1 954	1 950	1 950	1 964	1 956	1 926	1 960	1 953	1 952
	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	2 163	2 202	1 960	(2 116)	(2 090)							
Money supply	1966	310.2	307.0	314.6	319.8	323.2	329.3	329.6	324.3	322.4	324.0	327.4	339.7
	1967	324.9	320.4	326.4	333.3	335.1	347.5	339.4	337.2	343.2	338.5	341.1	350.5
	1968	341.0	337.9	350.0	355.6								

() Provisional figures.

Belgium

NOTES

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

Table 1

- Total population at mid-year.
- Numbers in employment at mid-year.
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.

Table 3

- Data refer to BLEU. Exports fob, imports cif. Conversion at official exchanges rate. 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 and manufactures (groups 2-9 CST).

Table 4

- Industrial production. Source: Institut National de Statistique (INS). General index.
- Construction. Source: INS. Index based on number of man-hours worked.
- Unemployed. Source: Ministère de l'Emploi et du Travail. Wholly unemployed in receipt of unemployment benefit.
- Investment. Source: Département de l'économie appliquée de l'Université libre de Bruxelles (DULBEA). Gross fixed asset formation at current prices.
- Private consumers' expenditure. Source: DULBEA. Current prices.
- Exports fob, imports cif. Conversion at official exchange rate.
- Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency of the official monetary institutions.
- Money supply. Notes and coin in circulation, excluding cash holdings of the Treasury, the Central Bank and other banking institutions other than the Postal Cheque Office. Residents' sight deposits (up to one month) with banking institutions. Holdings of the special agencies of the Treasury and non-residents' holdings on postal cheque accounts.

Grand Duchy of Luxembourg

The Luxembourg economy showed stronger signs of recovery in the first half of 1968. Considerable stimulus was provided by export demand, but the growth of domestic demand too was more vigorous, mainly because of the revival of private investment activity.

The economic upturn can be expected to continue in the months ahead—thanks chiefly to the growing vigour of domestic demand.

1. Recent developments

The recovery in exports of goods and services already evident in the autumn of 1967 gained strength during the first half of 1968. The determining factor here was improved sales of iron and steel products—particularly to other member countries—and exports by newly established plants.

Domestic demand too expanded more briskly, principally because of a vigorous increase in capital expenditure. Since the end of the winter, for instance, fixed asset formation by enterprises has increased—as has investment in residential construction, though to a lesser extent. Public investment, on the other hand, provided no real spur to economic growth until the spring. It also looks as if the faster expansion of production and sales has induced businessmen to adjust their stocks of raw materials and semi-manufactures.

The growth of private consumers' expenditure is likely to have been more rapid during the first six months of the year because of the effect of the somewhat higher rate of expansion of disposable incomes caused mainly by wage increases in the iron and steel industry early in 1968 and a drop in taxation as a result of income-tax reform.

Growing demand affected imports in the main and imports of raw materials, semi-manufactures and capital goods in particular. The adjusted official index of industrial pro-

duction hardly rose at all. This index, however, does not give a complete picture of the actual trend of production since certain new branches of production are either inadequately covered or are completely excluded. For the first quarter the index was at the same level as in January-April 1967.

There has not yet been any perceptible improvement in the situation on the labour market, though the number of unfilled vacancies has gone up slightly. The total number of industrial workers is likely to have fallen back further.

Apart from an appreciable increase in food prices, the underlying trend of consumer prices went up only slightly. Nevertheless, the overall consumer price index in March-April was 3.3 % up on the year before.

2. Outlook

Expansion over the next few months should be at much the same rate as it has been since October 1967. The increase in export demand may perceptibly lose momentum as stocks in the other Community countries are brought back up to normal and sales of steel products to the United States fall from their current high level. Domestic demand, however, should expand sufficiently to offset the effects that this will have on economic growth. Fixed asset formation by industry will probably continue to expand. Residen-

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices (in Lfrs million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	27 937	+ 1	+ 1	+ 3	+ 3.5	+ 3.5
Gross fixed asset formation	9 811	— 2.5	— 1.5	— 15	— 13.5	+ 4
Public current expenditure on goods and services	3 637	+ 6	+ 12	+ 1.5	+ 4.5	+ 1
Private consumers' expenditure	20 141	+ 3	+ 6.5	0	+ 2	+ 3.5
Gross national product	33 868	+ 1	+ 4	+ 2	+ 3.5	+ 2.5
Imports ⁴	27 807	+ 1	+ 1.5	— 3.5	— 2.5	+ 4.5

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

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Notes :

(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.

tial construction should also benefit from the provisions with regard to premiums and interest subsidies introduced in autumn 1967 and early in 1968. Private consumers' expenditure is also likely to expand more vigorously. Not only are disposable incomes expected to rise more rapidly: households' propensity to consume could also increase with the continued improvement in the economic climate.

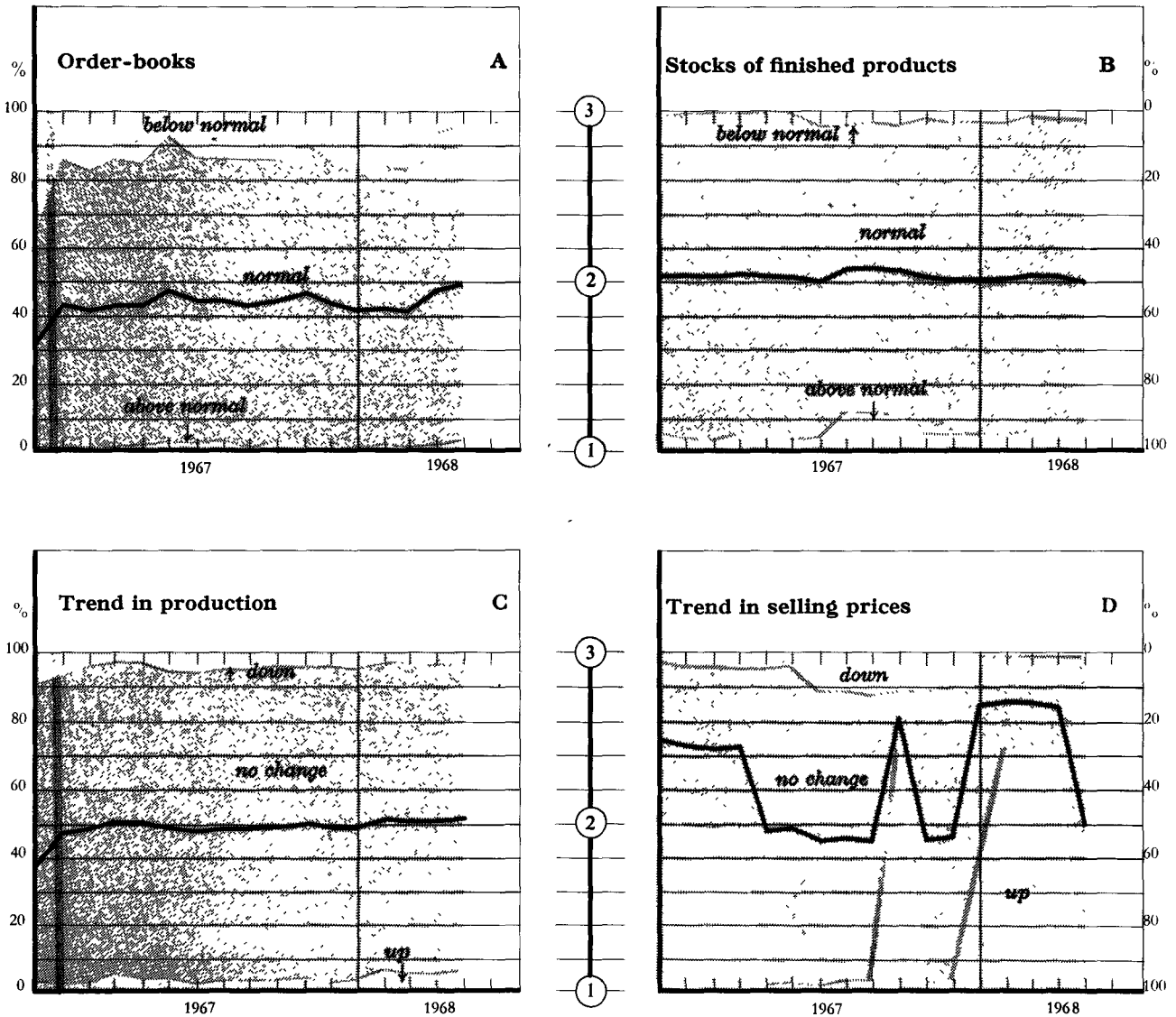
In view of these prospects, it is virtually certain that the 2.5% growth rate at constant prices forecast for gross national product in 1968 in the last Quarterly Survey will be achieved.

Preliminary forecasts for 1969 indicate that economic expansion can be expected to con-

tinue. All the components of demand should continue to grow. The possibility of steel exports slackening cannot be ruled out at this stage, but this should be offset by a more rapid expansion of exports by newly established plants. At 2.5-3% the growth rate of real GNP should again approximate to the yearly average set in the medium-term projections.

These growth prospects for the Luxembourg economy should provide a good basis for the structural changes which must be introduced if the obstacles which have stood in the way of faster and more balanced growth in the past are to be removed as far as possible. The authorities responsible for economic

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.

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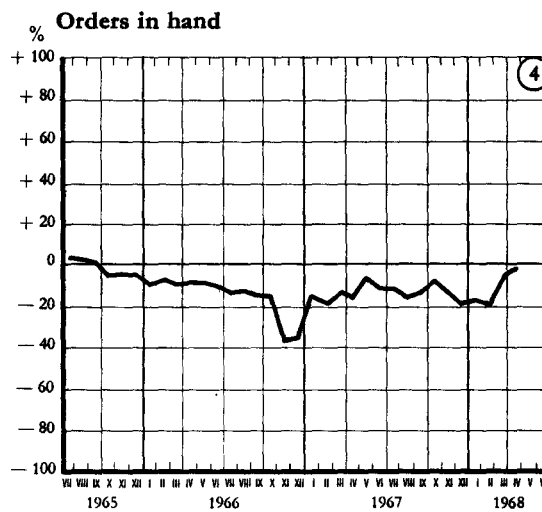
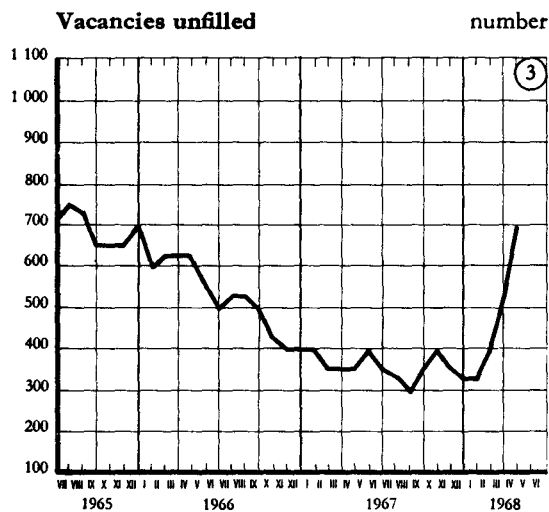
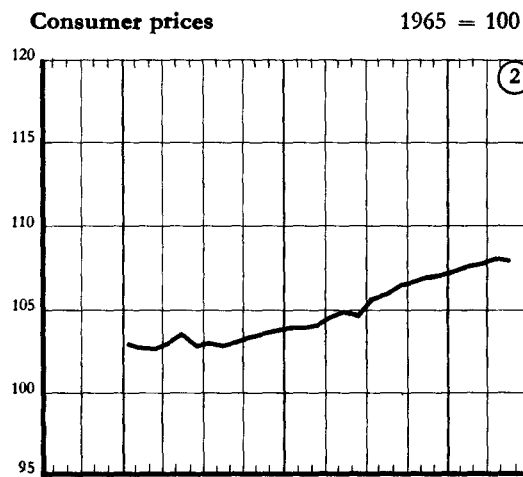
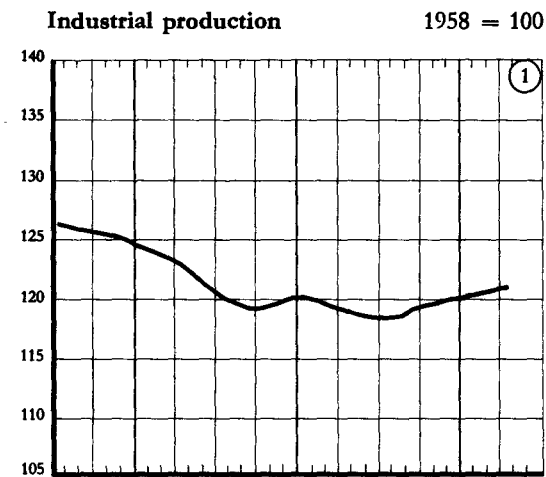
- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



policy should try, when the budget estimates for 1969 are being prepared, to make allowance for the need to cut back the expansion of public current expenditure so as to release more funds for investment. It would also

be a good thing if the provisions for the improvement of the structure of enterprises in trade and handicraft—which are still being studied—could be brought into force at an early date.

ECONOMIC INDICATORS



NOTES:

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

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Source: STATEC. New index.

Graph 3. Index adjusted for seasonal variations. Three-month moving averages.

Graph 4. Source: EEC business survey.

Luxembourg

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	2.6
Total population ('000)	(335)
Density of population per sq. km.	128
Numbers in employment ('000)	140
Numbers in employment, breakdown by main sector (%):	
— Agriculture	13
— Industry	46
— Services	41
Percentage share of gross domestic product in 1964:	
— Agriculture	6,2
— Industry	54,2
— Services	39,6

TABLE 2: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	120	121	119	122	125	124	119	111	119	121	121	117
	1967	120	121	121	123	124	122	121	111	120	119	123	119
	1968	116,9	120,2	122,2	126,5								
Crude steel production ('000 m.t.)	1966	369	354	380	367	353	369	368	346	377	383	365	360
	1967	371	360	389	379	372	377	376	356	382	375	376	368
	1968	375	377	398	393	408							
Construction (1958 = 100)	1966	45	53	91	99	101	101	96	95	94	87	73	54
	1967	39	46	69	72	81	78	78	69	70	70	65	55
	1968	40	49	66	75								
Workers employed in the iron and steel producing industry and in mining ('000)	1966	24.0	24.0	23.8	23.8	23.8	23.7	23.7	23.7	23.8	23.7	23.6	23.6
	1967	23.5	23.4	23.4	23.3	23.3	23.2	23.1	23.0	23.0	22.9	22.9	22.8
	1968	22.7	22.6	22.6	22.6	22.5							
Retail prices (1965 = 100)	1966	103.12	102.96	102.87	103.39	103.84	102.96	103.21	103.03	103.33	103.59	103.73	103.95
	1967	104.29	104.25	104.37	104.73	105.02	104.80	105.93	105.96	106.65	106.75	106.97	107.12
	1968	107.23	107.79	107.90	108.13	108.03							

NOTES

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

Table 1

- Total population at mid-year.
- Breakdown of gross domestic product at factor cost.

Table 2

- Industrial production.
- Crude steel production. Source : Service central de la statistique et des études économiques (STATEC).
- Construction. Index based on number of man-hours worked. Source: STATEC.
- Workers employed in the iron and steel producing industry and in mining. Source : STATEC
- Retail prices. New index published from 1 November 1967 onwards. Source: STATEC.

No 3/1968 of the Survey of the Economic Situation in the Community will be merged with No 4/1968 and will appear in December.