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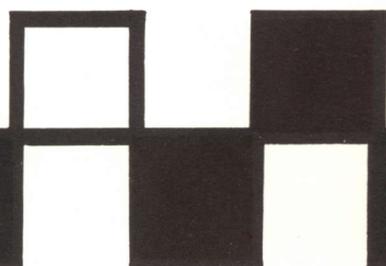
Commission

**Directorate-
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for Economic
and Financial
Affairs**

**The economic situation
in the Community**

4

1967



Quarterly survey

**Commission of the European Communities
Directorate-General for Economic and Financial Affairs
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EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

DECEMBER 1967

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Note:

This survey was completed around mid-January 1968. As regards the most recent developments and where it has not been possible to take them into account because of the pace at which national statistics are prepared and the time it takes to publish the survey in five languages, the latest issue of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

The pace of economic growth in the Community slowed down quite distinctly in 1967. In Germany, production declined even in absolute terms during the first half of the year, and in most other countries, too, it showed in the same period some tendency to slacken. It was only after the middle of the year that there was a gradual revival in the pace at which the economy generally was growing. In 1967 the real gross Community product was therefore only about 2.5 % higher than in 1966 (following a growth rate of 3.9 % in the preceding year). This brings the growth of the real gross Community product since 1958 to about 55 %, while in the same period growth in the United States was just on 49 % and only some 32 % in the United Kingdom.

The expansion of aggregate demand in money terms slowed down appreciably in the Community from 1966 to 1967. Demand from abroad still showed a high rate of growth, despite what at times had been a very distinct flattening out of the expansionary curve; at 8 % the rise in visible exports (value, foreign trade statistics) was only slightly lower than the 8.5 % registered from 1965 to 1966.

Internal demand, however, advanced at a distinctly weaker rate than from 1965 to 1966. Compared with 1966, gross fixed asset formation in the Community as a whole has in fact shown little or no growth in terms of volume and a growth of only about 1 % in terms of value. The increase in capital expenditure on building remained very limited and spending on plant and machinery was somewhat lower than a year before. Wenn the year is taken as a whole, stock-building too provided little or no stimuli to growth.

Total consumer expenditure for 1967 rose less rapidly than in 1966. Public current expenditure on goods and services showed no change in the rate at which it was expanding, but the growth of private consumers' expenditure fell in terms of value from 7.8 % in 1966 to about 5.5 % in 1967.

If the estimated figures for 1967 are included, private consumption in real terms has since 1958 risen by about 55 % in the Community as a whole; expressed per head of population the increase will have been some 41 %.

The slower expansion of private consumers' expenditure in 1967 was largely due to the way the disposable income of households developed; here the main factor was a decline in the advance of the total wages bill, itself caused by a more limited increase in numbers employed and a quieter trend in wages.

Against the background of this comparative weakness of internal demand, supply from within the Community expanded only very moderately from 1966 to 1967. Industrial production (as defined by the Statistical Office of the European Communities) was probably only about 1.5 % higher than a year earlier, following an expansion of some 5 % from 1965 to 1966. The contribution made by the services sector to the expansion of internal production was somewhat larger than that of industry generally, and the contribution of agriculture was exceptionally vigorous.

Because of the slower pace at which production was expanding, the situation on the labour markets in the Community eased further in 1967, and the average number of unemployed was quite appreciably higher than in 1966. In several member countries, however, there was a very marked tendency for unemployment to level off or even decline during the second half of the year.

Imports from non-member countries were only a little higher in 1967 than in 1966. In terms of volume, visible imports were not much more than 2 % higher than a year earlier—following a growth rate of as much as 7 % from 1965 to 1966.

The expansion of visible trade between member countries was also considerably slower than in 1966; import statistics show that it amounted to about 4 %, against 11 % in 1966.

The level of prices in the Community as a whole rose at a decidedly slower rate than from 1965 to 1966; both the price index for the gross Community product and the consumer price index went up by about 2.5 % following an increase of 3.4 % in the previous year.

With imports nearly stagnant and exports rising with almost unabated vigour, the Community's balance of visible trade with non-member countries closed in 1967 with a surplus which is estimated at 900 million u.a.,¹ following a deficit of about 1 300 million u.a. in the previous year.

In the circumstances, the surplus on the Community's current account was considerably higher than in 1966, while capital transactions—according to the incomplete information available so far—may have closed with a deficit. From the end of 1966 to the end of 1967, the official gross gold and foreign exchange reserves of the member countries rose by some 1 060 million u.a.; the net foreign

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

exchange position of the commercial banks also showed a further distinct improvement—at least until the autumn.

This time it is particularly difficult to assess the economic outlook for 1968, since any such assessment must take into account the devaluation in mid-November 1967 of sterling and of some other currencies, the domestic measures of restraint which the most important countries involved have taken in connection with devaluation and the measures, announced by the President of the United States at the beginning of 1968, to improve the American balance of payments. The impact of all these moves cannot yet be evaluated with sufficient certainty. There is, at any rate, no doubt that the preliminary forecasts of economic development in the Community for 1968, as published in the Quarterly Survey 3/1967, need some modification.

The main change, of course, is likely to be in demand from abroad, which without the events mentioned would have expanded at a slightly faster pace but which will now certainly be appreciably slower than last year.

Internal demand in the Community, however, will probably suffer little from the direct and indirect effects of these measures. Gross fixed investment, for instance, can still be expected to expand a good deal faster than in 1967, though the strength of the upswing will vary with the type of investment and the member country concerned. Aggregate expenditure on consumption, too, will rise considerably more vigorously than in 1967; private consumers' expenditure in particular may revive distinctly.

In view of the signs of greater buoyancy in internal demand, supply from the Community in 1968 can also be expected to expand decidedly faster. True, agricultural production is likely, if weather conditions are normal, to be only marginally higher than in 1967, when it had been exceptionally good; but the rise in industrial production is likely to be fairly pronounced, and the contribution of the building industry and of the services sector in real terms may be up perceptibly.

All in all, the Commission now puts the probable growth of the gross Community product from 1967 to 1968 at 4.5 %.

There will probably also be a further vigorous rise in imports from non-member countries so that, with exports presumably slightly muted, the Community's balance of trade must be expected to deteriorate again perceptibly. The surplus on aggregate current account may as a consequence be distinctly smaller.

Although the prospects outlined above suggest a fairly balanced development of supply and demand over by far the larger part of 1968, it must be expected that in most member countries the rise in prices will gather some momentum. Initially this may well be due in the main to autonomous and exogenous factors; in the longer term—when economic activity is again in full upswing—developments in the business situation may themselves lead to fresh upward pressures on prices.

In the circumstances, the first task of those responsible for economic policy will be to ensure that the recovery of general economic activity that began in the middle of 1967 continues in 1968 and that the fresh acceleration likely to occur in economic growth shall be free from strain not only in the short run but also in the long.

The steps already being taken to support economic activity should therefore be reinforced in those cases where—influenced by factors such as foreign trade—the growth of production and employment falls short of the expectations set out in this Survey. In those member countries where economic growth is already rapid and can be expected to continue, or where a distinct acceleration of the pace at which demand is expanding would sooner or later jeopardize equilibrium, there is even a case for increased caution, particularly in the way the public authorities implement their budgets.

A. Balance sheet for 1967

1. The world economic situation in 1967

In the major industrial countries of the western world, including the Community, economic growth began to lose momentum appreciably in the autumn of 1966, but the slowdown came to a halt towards the middle of 1967. In the second half of the year the forces of expansion gathered strength once again, though the degree of improvement was not the same in all countries. There had been the usual time-lag of close on one year before the developing countries reacted to the weakening of international industrial activity; they began to curtail import orders only when the economic revival in the industrial countries was already obvious.

In the United States, where in the early months of 1967 public expenditure—particularly on defence—was the only variable which continued to rise with unabated vigour, private domestic demand started to pick up from the end of the second quarter onwards. Private consumption thus tended to rise at a slightly faster pace, boosted by substantial wage increases and weakened only temporarily by loss of income due to strikes. The drive to run down stocks also ceased—first at producer level and somewhat later among dealers as well—and the stock acquisition trend began to rise again. Lastly, investment in building and in plant and machinery by industry showed signs of reviving—although the revival remained very weak, partly because firms were operating at a relatively low degree of plant utilization and because of fears that corporation tax might be raised with retroactive effect.

Backed by the trend of demand, industrial production started to rise again slightly after the middle of the year; the hiatus in September-October was probably mainly attributable to strikes in major sectors of activity (motor industry, production of non-ferrous metals, transport of steel products). At first the improvement in industrial production had no effect on the situation on the labour market, probably in the main because the employment and unemployment figures had failed to reflect the cuts in production during the preceding months. The real gross national product, which (seasonally adjusted) had contracted slightly in the first

quarter, has since begun to expand again; from 1966 to 1967 it probably expanded by about 3 % (about 6 % in terms of value).

The revival of internal demand did not change the market situation to an extent leading to noticeable price increases; nevertheless it made it easier for firms to pass on cost increases. The upward pressure on prices, which had previously been comparatively modest, thus gained in strength in the second half of 1967. The concurrent trend of United States imports, too, provides evidence that these price movements were mainly a result of cost inflation: the considerable elasticity of US domestic supply kept the import trend comparatively flat until well into the fourth quarter. As during the better part of 1967 the growth of exports was more lively than that of imports, the surplus on the visible trade balance increased again—slightly—for the first time since 1964. Nevertheless the deficit on the overall balance of payments increased perceptibly, largely as a result of capital outflows, which assumed particularly appreciable proportions towards the end of the year in connection with the adjustment of international exchange rates.

In the United Kingdom, all important components of domestic demand remained weak until the middle of 1967—except for public spending, which continued to expand vigorously, and for a slight upward movement in residential construction—although the measures of restraint adopted in 1966, particularly in the fields of incomes and credit policy, had been relaxed gradually since the beginning of the year. The contribution of export demand also remained rather weak, partly because of internal factors connected with structural aspects and the rate of exchange, partly for reasons inherent in the international business situation, and partly as a result of the Middle East crisis. From the third quarter onwards, however, there were signs of a slight recovery in private consumers' expenditure, since the downward pressure on incomes resulting from the employment situation, which initially had, if anything, been deteriorating further, was more than offset by wage concessions on a wide front and by additional welfare payments. In addition, the stockbuilding trend may have started to rise again, the stocks of

the processing industries having apparently fallen below the minimum level. Fixed investment by industry continued to decline (apart from variations) but this trend was no longer as marked as before.

All in all the slight revival of economic activity may have sufficed (though only just) for a GNP growth rate for 1967 of much the same scale (1.5 %) as that recorded for 1966. Special factors (import boom after the removal of the import surcharge at the end of November 1966, effects and after-effects of the Middle East crisis of June and of the dock strikes of September-October 1967) had a far greater impact on the trend of imports than structural factors on the development of the economy at home. At any rate, the payments surplus expected by the British Government did not materialize, probably because the deficit on visible trade climbed steeply. This situation, aggravated by speculation against sterling, forced the Government to devalue on 18 November.

In most other industrial countries outside the Community, the economic trend was comparatively settled in 1967, although by the end of the year there were signs of a recovery. In real terms, economic growth in the continental EFTA countries did not exceed some 2 to 3.5 %—with expansion below average in Austria, where the main opposition to a still more pronounced slowdown came from the anticyclical spending policy of the public authorities, and above average in Norway, where, however, the inflationary expansion of demand may, under the influence of tighter restrictive measures, have slackened somewhat in the course of the second half of the year. Lastly, in Japan the exceptionally fast upswing led to an overheating of the economy; efforts have been made for several months to counter this situation by monetary and budgetary measures (increase in official discount rate and cuts in public spending).

With economic activity in the industrial countries still slackening in the first half of 1967, demand in terms of quantity for raw materials from the developing countries lost further momentum and—as the world market prices for these products declined—there was a further slowdown in the rise of their export proceeds. Moreover, several Arab and Asian countries sustained a loss in exports as a result of the Middle East conflict. The import policy of the

developing countries, however, which initially was fairly expansionary, did not become more cautious until world demand for raw materials and semi-finished products started to revive again somewhat in the second half of the year. By then the developing countries' trade deficits had probably swelled to an appreciable size; it appears, however, that the overall deficit was more than offset by net capital inflows, so that the foreign exchange reserves of this group of countries—at least in the period for which statistical data are available (up to the summer of 1967)—grew steadily. The devaluation of sterling (which led to corresponding devaluations in several developing countries) meant losses in international purchasing power for the countries maintaining sterling balances. In some cases the losses were quite heavy.

2. Demand

As it was only by the middle of the year that world economic activity started to recover, and as initially the recovery was rather weak, the trend of Community exports, adjusted for seasonal variations, was rather sluggish during the actual course of 1967. On a year-to-year comparison, however, the slowdown in growth was none the less negligible, in view of the high level of exports already reached at the beginning of 1967. This may have been the reflection of a relative improvement in the international competitive position of the Community, resulting from the slower rise in internal prices and the appreciable elasticity of export supply in most member countries. At all events, visible exports to non-member countries (as defined for the foreign trade statistics) appear to have grown from 1966 to 1967 by about 8 % in terms of value (compared with 8.5 % a year earlier).

In view of the pattern of Community exports, the distinct loss of momentum in the expansion of demand for imports, particularly of plant and machinery, by the United States had a specially strong inhibiting influence. At the same time the rate of expansion of sales to the developing countries fell slightly behind that of the previous year. Exports to the EFTA countries increased at much the same (modest) tempo as from 1965 to 1966, while deliveries by the Commu-

nity to the countries of the Eastern bloc rose appreciably.

While the trend of demand from abroad, if compared with the previous year, remained relatively vigorous, the expansion of internal demand in the Community slowed down considerably from 1966 to 1967. This applies in particular to gross fixed asset formation, which in 1967 was only about 1 % higher than in the previous year. This very low growth rate for the Community as a whole masks, however, trends which varied from one country to another: in Germany and Luxembourg gross

fixed asset formation declined considerably, in Italy the growth of investment accelerated, in France and the Netherlands the very vigorous increase continued, and in Belgium the rise of expenditure on fixed investment slowed down.

In the Community as a whole, the expansion of capital expenditure on building by enterprises (including residential construction) remained very modest. As the year advanced, the prevailing tendency in the Belgo-Luxembourg Economic Union was for investment in building actually to decline; the case of Germany was even more striking—here industrial commercial

Visible exports from Community to non-member countries

(Exports 1966 and % year-to-year changes)

	1966		1967			
	million u.a. 1	Full year	1st quarter	2nd quarter	3rd quarter	Full year 5
To all non-member countries	29 412	+ 8.5	+ 11	+ 9	+ 3	+ 8
of which:						
To industrial countries 2	19 127	+ 8.5	+ 9.5	+ 8	+ 3.5	+ 7.5
including :						
United States	4 098	+ 19.5	+ 12.5	+ 6	— 2	+ 7
EFTA : total	9 999	+ 4	+ 4.5	+ 6	+ 1.5	+ 4.5
United Kingdom	2 541	+ 7.5	+ 5	+ 12.5	+ 7.5	+ 10
To developing countries 3	7 955	+ 6	+ 9.5	+ 5.5	— 1.5	+ 5
including :						
Associated overseas countries and territories	1 707	— 1.5	+ 8	+ 11	+ 0.5	+ 6
To other areas 4	2 330	+ 18.5	+ 27.5	+ 33	+ 17.5	+ 27

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.

⁵ Commission estimates.

expenditure on building probably pointed downwards until well into the autumn and it was only towards the end of the year that residential construction tended to show some improvement. As against this, in France there were signs at a comparatively early stage of a distinct recovery, with the main contribution coming from the measures taken in support of publicly-assisted housing and from the improved facilities for obtaining finance. The situation was similar in Italy, where the recovery in residential construction was, however, relatively weak, while industrial building activity expanded more distinctly than before. In the Netherlands, investment in residential and industrial building rose considerably from 1966 to 1967, all the more in that it was favoured by especially mild weather and by the maintenance of a liberal building permit policy by the authorities and—for residential construction—by measures taken to combat regional unemployment.

In the Community as a whole, industrial investment in plant and machinery effected in 1967 fell somewhat short of the figures for the previous year. In the Netherlands and in Luxembourg, investment in plant and machinery declined (apart from variations) until late in the year. In Germany, too, the propensity to invest was still very weak until the middle of 1967; only in the course of the second half of the year, may investment activity have rallied slightly. By contrast, spending on plant and machinery continued to expand at a very lively pace in France and above all in Italy; in France, the effects were still to be felt of the investment decisions taken in 1966 on the basis of favourable business expectations and of the tax reliefs granted during a limited period; in Italy, mainly because firms were operating nearer capacity, new investment projects were carried out at a pace which, on a year-to-year comparison, was actually appreciably faster, though the underlying expansionary trend slackened perceptibly in the course of the summer and probably did not revive again until towards the end of the year.

In the Community as a whole, investment by the public authorities rose very distinctly from 1966 to 1967. In Germany, where the Länder and above all the local authorities still curtailed spending sharply in the first half of the year and where the programmes to stimulate economic activity began to produce results only

gradually, this type of investment declined perceptibly compared with 1966. In the other Community countries, however, investment by the public authorities expanded very briskly and in Italy and especially in the Netherlands even distinctly faster.

Seen for the year as a whole, stockbuilding made little or no additional contribution to demand. At the beginning of the year, inhibiting trends actually prevailed. There was probably a general reduction of stocks of raw materials and semi-manufactures. In addition, stocks of finished products were run down in Germany and in France, where the cuts were made in view of the introduction (Germany) of the tax on value added and its extension to retail trade (France), both at the beginning of 1968. The Middle East crisis also led to a temporary reduction of petroleum stocks towards the middle of the year. In the second half of the year, however, stockbuilding probably tended upwards again after stocks of some raw materials had fallen to the technically indispensable minimum and after the German and French authorities had adopted tideover regulations regarding the tax treatment of the stocks on hand on 1 January 1968.

Aggregate expenditure on consumption in the Community expanded less rapidly than in 1966. Public current expenditure continued to rise at the same pace, it is true. The slowdown in Germany and in the Belgo-Luxembourg Economic Union in the rise of public expenditure contributing to consumption was in fact practically offset by a certain acceleration in the other member countries.

By contrast, private consumers' expenditure showed a rate of advance which had fallen to some 5.5 %, as against 7.8 % in 1966. Since, compared with 1966, the upward drift of prices was only slightly faster in Italy and was much the same in France while in the other member countries it was considerably smaller, the trend of the volume of private consumers' expenditure provided a less clear indication of the slowdown: consumption in real terms still expanded by some 3 %, compared with 4.3 % from 1965 to 1966.

As from 1966 to 1967 the Community population expanded by almost 1 %, real consumption per head increased by only some 2 %, compared

with 3.3 % from 1965 to 1966. This time there were particularly wide disparities in the growth of consumption per head from one country to another; for example—an exact reflection of respective economic trends—Italy registered a rate of advance of 5 % while there was virtually no growth at all in Germany.

The trend of private consumers' expenditure in 1967 too varied quite distinctly from member country to member country. In Germany, where spending on consumption had declined slightly in the early months of 1967, the second half of the year brought signs of a recovery. In the Netherlands and in France, private consumption—following a sluggish development in the first half of the year—also showed some tendency to revive towards the end of the summer. In Italy, however, where initially expansion had continued at a very fast pace, the rate of growth slowed down distinctly for a time around the middle of the year.

This trend in private consumer's expenditure depended chiefly on the changes in the disposable income of households, these changes being in their turn mainly determined by the trend of earned incomes. In Germany, the wages and salaries bill was thus hardly any higher than in 1966, and in the Benelux countries the rise was distinctly more modest than from 1965 to 1966 as the total number of hours worked declined slightly and the increase in hourly wage rates slowed down. Transfer incomes climbed steeply and in many cases even more rapidly, but this only partly offset the trend of total income of households, particularly since income from property and entrepreneurship also expanded at a weaker rate. Lastly, there was the added fact that the changed situation on the labour markets and protracted uncertainty as to the future trend prompted consumers to save a greater portion of their income than previously.

The proportion of total consumption expenditure allocated to food, beverages and tobacco—in 1966 it amounted to about 37 % in the Community as a whole—was apparently no longer declining. Demand for textiles and clothing was comparatively weak. The growing reluctance of households to spend hit consumer durables hardest. In the Community as a whole the figure for newly registered passenger and estate cars nevertheless still rose by 3 % (value) compared with 1966, but this was sole-

ly because in the Netherlands the average for 1966 as a whole had been comparatively low owing to the tax increase which took effect on 1 January 1966, and because Italy, too, again registered an unusually high growth rate.

3. Production

The rather marked weakness of internal demand was the reason why from 1966 to 1967 supply from the Community rose only very modestly—by only about 2.5 %. Previously, the lowest growth rate registered since the entry into force of the EEC Treaty had been 3.2 % (in 1958).

Agricultural production, however, advanced very appreciably in 1967. The grain harvest in the Community, for instance, was 14 % higher than in 1966 and thus reached about the same level as in 1965. This improvement is solely due to higher production per hectare, for the area under cultivation was smaller than in 1966. Potato and sugarbeet production in the Community as a whole was also up on 1966. The same applies to vegetables other than potatoes. The Community's wine production, too, was above the level of 1966, while fruit crops declined, if anything. Lastly, livestock production in the Community as a whole rose very perceptibly from 1966 to 1967, the increase being some 5 %.

Among supply components, the growth of industrial production was particularly weak. As defined for the Index of the Statistical Office of the European Communities (this excludes construction and food, beverages and tobacco) it rose by about 1.5 % only, compared with a rise of 5 % from 1965 to 1966. However, after having shown virtually no change in the first half of the year, the index—adjusted for seasonal and fortuitous variations—revealed a slight recovery from the summer of 1967 onwards. In Germany in particular, where downward tendencies were dominant until the spring, recovery was gathering momentum after the middle of the year. In the Netherlands and in France, where the trend had been very weak in the first half of the year, there were also signs that industrial production was picking up towards the end of the summer. In Italy, in-

dustrial production had still been forging ahead in the first half of the year, only to lose considerable momentum in the summer months, but here, too, the pace is likely to have picked up

again in the autumn. As against this, in Belgium the trend of industrial production remained rather hesitant during the better part of the year.

Industrial production in the Community

(% change on preceding year¹)

	1965	1966	1967 ²
Germany	+ 6.1	+ 1.4	— 3.5
France	+ 1.5	+ 6.8	+ 3.5
Italy	+ 4.4	+ 12.8	+ 9.5
Netherlands	+ 7.0	+ 7.4	+ 4.5
Belgium	+ 1.8	+ 2.0	+ 0.5
Luxembourg	+ 0.8	— 4.3	+ 0.5
Community	+ 4.4	+ 5.0	+ 1.5

¹ Calculated on the basis of the indices of the Statistical Office of the European Communities.

² Commission estimates.

The loss of momentum in industrial activity in the Community as a whole affected only a few of the basic material industries to more than a mild extent. Output in the chemical industry and the petroleum processing industry expanded at a somewhat slower pace in only a minority of the member countries; in the Community as a whole growth remained fairly vigorous. Thanks to the lively expansion of export demand the output of the iron and steel industries, which had fallen slightly from 1965 to 1966, was stepped up by some 5.5 %, although internal demand for additions to stocks had been declining during the better part of the year. In mining, however, the downward tendencies which are due to structural difficulties in this industry gained in strength; in 1967, coal output had fallen by some 10 % and iron ore output, too, was probably 10 % lower than in the previous year. The output of building materials, which was influenced by the sluggish trend of building activity, was hardly higher than in 1966.

In most consumer goods industries, the year-to-year comparison shows a decline for 1967. The Community's textile production, for instance, probably dropped by about 10 % from 1966 to 1967, under the influence of a decline which, though varying in degree, affected all member countries. The same applies to the leather industry. Compared with 1966, the number of passenger and estate cars produced in the Community as a whole also fell considerably—by some 5 %—mainly because of production cuts in Germany in the first half of the year. The food, beverages and tobacco industries were almost the only ones whose activity continued to increase at a comparatively lively pace.

As regards the trend of production in the capital goods industries, a comparison with 1966 shows that at Community level the vigorous growth in France, Italy and the Netherlands more than offset the sharp decline in Germany. In Belgium, production in the capital goods industries marked time at much the same level as in 1966.

For the Community considered as a whole, the developments deserving special mention are a vigorous expansion of production in the industries which produce plant and machinery for the chemical and the mineral oil industries and a fairly general recovery in shipbuilding.

The contribution of the building industry in real terms was probably hardly such as to assist the growth of internal supply in 1967. Public demand for building services expanded fairly briskly in the Community as a whole—despite the steep decline which continued in Germany in the first half of the year—but demand for industrial building and residential construction as a whole probably did not increase, although in France and—to a lesser extent—in Italy the trend of residential construction started to recover somewhat as the year advanced.

Similarly, the services sector contributed in 1967 only to a limited extent—though more than industry as a whole—to the expansion of internal production. Distribution services—particularly wholesale trade—and freight transport services were those for which the contribution in real terms rose less than in 1966, while the supply of other services, particularly travel and leisure activities, appears to have suffered less from the general weakness of demand.

All in all it can be assumed that the real gross Community product rose by about 2.5 % in 1967, following a growth rate of 3.9 % for 1966. This slowdown in growth was solely due to the 0.5 % fall in the gross domestic product of Germany. In the other member countries, economic activity as a whole continued to forge ahead: if the growth of the gross domestic product lost a little momentum in France (4 % in 1967 as against 4.9 % in 1966) and in Belgium (2.5 % as against 2.8 %), it accelerated appreciably in the Netherlands (from about 2.8 % to 5 %) and was somewhat greater than from 1965 to 1966 in Luxembourg (2 % after 1 %).

As a result of the slowdown of the growth of internal production, the total number of persons gainfully employed in the Community, which had already decreased somewhat in 1966 owing to the business situation in Italy, showed a further—and more perceptible—fall in the year under review. This was mainly due to the situation in Germany and, to a considerably smaller degree, in the Benelux countries. The total labour force, too, probably continued

shrinking in the Community. The tendency for children to stay at school longer and for workers to retire earlier may have depressed the ratio of gainfully employed to total population further in several member countries. Undoubtedly the current ratio also reflects—particularly in Germany—the sluggish business situation and the corresponding relaxation of strain on the labour market; a high proportion of the less skilled, “marginal” workers have certainly now stopped working. In the Community as a whole, these factors making for a reduction of the labour force could not be fully offset either by the entry into employment, in France, of young persons born in years when the birth rate was high, nor by the fact that in Italy the downward trend of the ratio of gainfully employed in certain sections of the population, which was connected with the drift from the land and the shift from farm work to other occupations, lost strength. But as the decline in the Community’s labour force was smaller than the decline in the number employed, unemployment rose, on the average for 1967, appreciably as compared with 1966.

Despite the decline in the number of persons gainfully employed—which was sharper than in 1966—overall productivity (in terms of real gross value added per person gainfully employed) advanced less than in 1966, since the growth of internal production in the Community had slowed down.

The number of persons in paid employment, which accounts for about three quarters of the total number of persons gainfully employed in the Community, actually declined on the average for 1967, following what in 1966 had already been only a very slight increase. True, in all branches of industry and in the services sector the number of persons in paid employment rose distinctly faster in Italy and grew only a little more slowly than before in France; in the other member countries, however, industry in particular registered a decline which indeed in Germany attained considerable proportions. In the second half of 1967, however, the underlying trend already pointed to a slight improvement in Germany and in the Netherlands.

In view of this trend, the decrease in the number of self-employed in 1967 must have been smaller than in 1966; still, the tendency towards an improvement in the pattern of employment

continued as less productive activities, particularly in agriculture, were being given up.

In the Community, the total number of hours worked by persons in paid employment fell appreciably from 1966 to 1967. This is certainly in part also a reflection of the continued—though in the past year probably somewhat less marked—tendency to shorten the agreed working week and to lengthen the annual holiday. The strongest influence, however, came from the reduction, due to the business situation, in the number of hours worked per week in industry and building. On the year-to-year comparison, the reduction was particularly noticeable in Germany, although here the situation started to revert to normal from July onwards.

In the Community the number of unemployed again rose distinctly, but this was mainly due to the trend in the early months of the year: by the end of the spring the rather strong upward unemployment trend in several member countries had worked itself out. Subsequently, the situation became fairly stable, and from July onwards unemployment showed a slight tendency to decline in Germany and a little later also in the Netherlands. In France, however, where the rise gathered further momentum in the spring and the summer, it has since slowed down only slightly, mainly because the growth in the number of persons gainfully employed continued to be sluggish while the labour force went on expanding vigorously. By contrast, the fall in unemployment was quite noticeable in Italy although in the early months of 1967 in particular a considerable number of workers previously employed in the other member countries returned home.

In the circumstances, the situation on the labour markets of the Community eased appreciably, particularly in the first half of the year: additional evidence of this is the drop in the number of unfilled vacancies. In the second half of the year, however, demand for manpower picked up again in several member countries while at the same time—as pointed out above—the number of unemployed showed signs of declining.

4. Balance of the markets

Imports of goods and services from non-member countries, after having actually declined (apart

from variations) at the beginning of 1967, thereafter tended to mark time at an even level until well into the year. It was only in the autumn, when final demand was more lively again and when in several member countries manufacturers and dealers began to replace depleted stocks, that a recovery set in. In terms of volume, visible exports in 1967 as a whole were probably only some 2 % higher than in 1966.

This relatively weak trend of Community imports was chiefly due to the business situation and reflected the almost complete stagnation or even contraction of economic activity in most member countries in the first half of the year.

The weakness of import demand in the Community hit exports from the industrialized non-member countries hardest. Purchases in the EFTA countries, for instance, were in terms of value almost 2 % lower than in the previous year, with imports from the United Kingdom presumably remaining at much the same level. The value of imports from the United States, too, was probably only a little higher than in 1966. As against this, Community imports from the developing countries still maintained their high level in the first quarter, chiefly because of the persistence of lively demand for certain tropical agricultural products, but subsequently they were adversely affected by the outbreak of the Middle East crisis. Purchases in the petroleum producing countries of Africa in particular fell sharply for the same reason. This special factor on the other hand contributed to a faster rise in deliveries by Latin America to the Community. Imports from eastern Europe, though expanding less rapidly than from 1965 to 1966, accounted once again for a larger share of the total.

With growth losing momentum in the Community as a whole, visible intra-Community trade also expanded at a pace which was substantially slower than in 1966. Import statistics show that in 1967 the increase reached only about 5 % in terms of volume (1966: 11 %). Although the tendency for the growth of intra-Community trade to slow down, increasingly apparent since the middle of 1966, disappeared from the spring of 1967 onwards, the upward movement remained weak during the greater part of the year—despite a further reduction of internal duties on 1 July 1967. Only

Visible imports from non-member countries

(Exports 1966 and % year-to-year changes)

	1966		1967			
	million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	Full year ⁵
All non-member countries	30 735	+ 7.5	— 1	+ 0	— 2	0
of which:						
Industrial countries ²	17 315	+ 6.5	— 3.5	+ 1	— 4.5	— 1
including :						
United States	6 021	+ 6	— 5.5	+ 6	— 6	+ 1
EFTA : total	7 242	+ 5	— 2.5	+ 0	— 5	— 2
United Kingdom	2 782	+ 7	— 1	+ 3	— 3	0
Developing countries ³	11 312	+ 7.5	+ 1.5	— 2	— 0.5	0
including :						
Associated overseas countries and territories	2 282	+ 11.5	+ 3.5	— 6	— 4	— 1.5
Central and South America	2 731	+ 4.5	+ 1.5	+ 5	+ 5	+ 7
Other areas ⁴	2 056	+ 16	+ 4	+ 6.5	+ 11	+ 8

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.

⁵ Commission estimates.

in the closing months of 1967 were there signs that the pace of growth was accelerating again somewhat.

The lack of vigour in the trend of intra-Community trade in 1967 was chiefly due to the slackening of economic activity in Germany and the direct and indirect effects this had on the business situation in the other member countries; to a lesser extent it was, however, also attributable to internal factors in these countries. Imports by Germany, which alone account for almost one third of intra-Community trade, were so weak during the greater part of

the year that the overall performance for 1967 also failed to match the 1966 result. In France, the expansion of import demand slowed down increasingly after the beginning of the year; the result was that—despite a recovery from the autumn onwards—the growth of France's imports from other member countries in 1967 was down to 11.5 % (1966: 21 %). In the Benelux countries, too, the rather slow growth of domestic demand had an adverse influence on imports from the other member countries. In the Netherlands, imports from the other Community countries rose by only a little less than 5 % from 1966 to 1967, compared with

an increase of 8.5 % in the previous year. In the Belgo-Luxembourg Economic Union, where imports of capital goods in particular were flagging, imports from other EEC countries rose by no more than about 3 % above the level of the previous year, after having increased by 15.5 % from 1965 to 1966. Only in Italy did demand for imports show a dynamic trend; the value of Italian purchases from the other member countries rose by almost 22 % in 1967, that is by the same rate as in the previous year.

The effects of the slack demand from Germany were, of course, also reflected in the export figures for 1967. It was mainly due to this factor, though also to a stagnation of sales to the Belgo-Luxembourg Economic Union (by France) and a distinct slackening of the growth of deliveries to France (by Italy), that Italian and French exports to the other five Community countries respectively were hardly higher than in 1966. Sales by Germany also showed at times a sluggish trend as a result of the slowdown of French imports and of what was only a weak growth of demand in the Benelux countries. Lastly, exports by the Belgo-Luxembourg Economic Union to other member countries declined distinctly (apart from variations) up to the beginning of the autumn. As against this, exports by the Netherlands to the other Community countries forged ahead throughout the year, mainly because exports of agricultural products—particularly to Germany—rose once again.

The intra-Community trade trends were reflected in the visible trade balances between each member country and the respective remaining five Community countries. Germany's export surplus on trade with the five again soared in 1967; at more than 1 000 million u.a. it almost matched the record level of 1963. At the same time both the Netherlands and the Belgo-Luxembourg Economic Union increased to some extent their surplus on visible trade with the other three countries. By contrast, in France and in Italy, where in 1966 the balance of trade had already started to deteriorate, this tendency continued also in 1967; the deficit on intra-Community trade of the two countries was in each case 450 million u.a. higher than in 1966. At almost 700 million u.a., France thus registered what was by far the heaviest deficit since 1958.

In 1967 the general price level in the Community rose considerably more slowly than in the previous year. While from 1965 to 1966 both the price index for the gross Community product and the index of consumer prices had still increased by almost 3.5 %, the rise was only some 2.5 % from 1966 to 1967.

The upward pressure on prices as reflected in the national retail-price or the cost-of-living indices persisted during the first half of the year in most member countries. In the third quarter, the overall indices showed little or no change, influenced as they were by seasonal factors and the particularly good harvests of certain crops. Towards the end of the year, however, the indices were again influenced by upward pressure on prices, which was particularly strong in the services sector. The trend was, however, different in Germany, where throughout the year the index of consumer prices showed little or no tendency to rise.

The fact in Germany and in the Netherlands in particular the rise in prices unmistakably lost momentum, both on a year-to-year basis and in terms of the trend during the year (see table below), is probably largely due to the slowdown in the rise of unit costs. While in 1966 the progressive easing of strain in the relationship between supply and demand was not yet sufficient to curb the upward drift of prices noticeably because unit costs continued to rise perceptibly, the combined influence of the more settled economic situation and the slackening of the increase in costs—at least at producer level—in 1967 contributed to a stabilization of prices.

In this connection it must be pointed out that in 1967 the prices for imported raw materials and semi-manufactures were on average lower than in 1966 although freight rates (especially transport charges for petroleum) had gone up as a result of the Middle East crisis. Similarly, the quieter trend of business activity and the consequent keener competition exerted a downward pressure on the prices for the raw materials and semi-manufactures produced in the Community itself.

It appears, however, that the trend of wage costs per unit of output helped even more to curb the rise in prices. In the Benelux countries, for instance, the increase in wage costs had been much weaker than in 1966, due to

Rise in consumer prices

(as defined for the national accounts)

(% change on preceding year)

	1965	1966	1967 ¹
Germany	3.3	3.6	1.5
France	2.4	2.8	3
Italy	4.4	2.8	3
Netherlands	3.7	6.2	3.5
Belgium	4.6	4.1	3
Luxembourg	4	4	2
Community as a whole	3.3	3.4	2.5

¹ Commission estimates.

the noticeable slowdown in the rise in wages. The same applies to Germany, where the more distinct advance in productivity compared with 1966 was an additional factor helping to hold costs down. As against this, in Italy productivity advanced less markedly than in the previous year, and this, combined with a vigorous rise in wages per person employed and an arrangement under which social expenditure previously borne by the State now reverted to firms, probably contributed to a more pronounced upward movement of wage costs per unit of output (which had risen only slightly in 1966). In France, wage costs per unit of output appear to have risen at much the same pace as in the previous year. As there was also an appreciable upward adjustment of some public service charges in France and Italy, while in Italy indirect taxes were raised as well, consumer prices in these two countries rose at practically the same rate as from 1965 to 1966, with the upward drift even gathering momentum in Italy as the year advanced.

In contrast with the trend in 1966, the trend of agricultural prices in 1967 helped to slow down the general upward price movement. As the weather was good, the supply of crop products was plentiful, and this forced the prices for potatoes, fruit and vegetables in particular

appreciably below the high level they had reached a year earlier. The only exception was Italy, where crops of fruit and wheat in 1967 were still affected by the flood disaster of autumn 1966. Most livestock products, too, reached the market at the same prices as in 1966. Pigmeat prices tended downwards throughout the year, and prices for beef (apart from seasonal variations) showed little or no increase.

Generally speaking, the rise in the level of consumer prices in 1967—due partly to higher private service charges in the less productive industries—was caused to an appreciable degree by an upward adjustment of controlled rents and also by increases in public service charges and in indirect taxes, which in part were effected with a view to overcoming structural deficits in the budget.

The Community's balance of visible trade with non-member countries continued to improve. With imports virtually marking time, while exports continued to rise at almost the same pace as from 1965 to 1966, there was a surplus which for 1967 as a whole probably reached some 900 million u.a., following a deficit of about 1 300 million u.a. in the previous year.

In the circumstances, the surplus on current account is likely to have been considerably higher than in 1966. By contrast, capital move-

ments between the Community and non-member countries—to judge by the incomplete information so far available—closed with a deficit. At all events, the rise in interest rates in the course of 1967 in the United States and on the Eurodollar market is likely to have encouraged capital outflows, while the capital outflows following the devaluation of sterling in mid-November and the very appreciable increase in official discount rates in the United Kingdom and the United States (*inter alia*) do not appear to have reached large proportions.

The official gross gold and foreign exchange reserves of the member countries rose by some 1 060 million u.a. from the end of 1966 to the end of 1967, as against an increase of only 460 million u.a. in the corresponding period of the previous year. Moreover, until the autumn the net foreign exchange position of the commercial banks in the Community as a whole again showed a distinct improvement.

All in all, transactions with non-member countries had an expansionary effect on internal liquidity in the Community. However, the trend varied appreciably from one member country to another. In France, the inflow of funds from abroad remained quite modest during by far the greater part of the year; it was not until the end of 1967 that its contribution to domestic liquidity became once again somewhat more substantial: the current account probably balanced out with virtually no surplus and the overall balance of payments, i.e. including capital movements, probably showed a smaller surplus than in 1966. Despite high surpluses on current account, the increase in liquidity registered by Germany was none too great either, not only because of heavy exports of long-term capital but also because the commercial banks on balance exported short-term funds. In Belgium, however, where the surpluses on current account were not associated with net capital exports, transactions with abroad had a strong expansionary effect on liquidity. In Italy, transactions with abroad also led to a distinct increase in liquidity—although the surplus on current account fell considerably in 1967 and net capital exports far outstripped the 1966 figure. Lastly, in the Netherlands internal liquidity contracted under the influence of transactions with abroad, although the current account moved into surplus;

here, there was a deficit on capital movements, with the result that the overall balance of payments also closed with a deficit.

In all member countries except Italy, the cash operations of the public authorities increased domestic liquidity to a far greater extent than in 1966. In the five countries where economic growth was comparatively weak the cash deficits of the public authorities rose considerably in 1967 and were financed largely by recourse to the money market. This trend was mainly due to a vigorous and in some cases distinctly faster expansion of public spending. At the same time, however, the growth in tax receipts had slowed down—chiefly as a result of the business situation. In Germany, the tax revenue of the Federal Government, the Länder and the local authorities in the second quarter thus actually fell short of receipts in the corresponding period of the previous year. With general economic activity continuing to expand fairly vigorously, Italy was the only Community country where the cash operations of the public authorities closed with a smaller deficit than in 1966.

The development of bank lending to business and private customers, too, contributed to an increase in domestic liquidity in almost all member countries. The only exception was Germany, where investment activity was tending downwards during much of the year and where it was only in the last months of the year that demand for credit by business and private customers and consequently bank lending again started to expand a little. In the other Community countries, the volume of credit continued to expand at a pace which was in some cases faster than in 1966. In France and Italy, demand for credit was mainly accounted for by investment needs—investment remained lively in the face of a comparatively barren capital market and rather limited scope for self-financing; here, credit expansion spurted sharply as the year advanced. In the Netherlands, the volume of credit also expanded very rapidly, although here investment activity did not show much of an expansionary trend; the lifting of credit restrictions and the rise in long-term interest rates in the spring and in early summer, which led borrowers to prefer comparatively cheap bank loans, were probably the main factors behind this development.

In Belgium, too, the expansion of the volume of credit gathered appreciable momentum.

Conditions on the money markets in almost all member countries tended to ease further. Still depressed by monetary- and credit-policy measures, call money rates drifted downwards during the greater part of the year.

The situation on the capital markets, however, was somewhat different. True, in the first quarter interest rates on the bond markets fell very sharply in Germany and the Netherlands, and there was a slight downward tendency in France, too. By the end of the spring, however, this trend, which in Germany and in the Netherlands had already started about the middle of

1966, had worked itself out. In the Netherlands interest rates subsequently rose again appreciably. In Italy, too, interest rates on the capital market have tended to creep upwards since the spring of 1967. Belgium was the only country where interest rates dipped slightly in the second half of the year. No doubt the larger number of issues floated by the public authorities in many cases prevented rates from falling further. It appears, however, that the capital markets of the member countries were also influenced by the distinct rise in interest rates in the United States and on the Euro-capital market from the spring of 1967 onwards, an upward movement strengthened by the currency devaluations and

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	+ 0.5	+ 1	+ 6
Public current expenditure on goods and services	43.8	+ 2.8	+ 8.0	+ 4	+ 8	+ 3.5
Private consumers' expenditure	182.3	+ 4.3	+ 7.8	+ 3	+ 5.5	+ 3.5
Gross Community product	301.5	+ 3.9	+ 7.2	+ 2.5	+ 5	+ 4.5
Balance exports ⁶ less imports ⁶ (at current prices, in '000 million units of account)	+ 2.8		+ 3.5		+ 5.5	+ 4.5

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.

by measures adopted in the United Kingdom and the United States.

Lastly, the trend on the bond markets, too, was not such as to facilitate a further fall in interest rates. In most member countries, share prices have risen vigorously since the end of 1966, with only a short break in the second quarter. This development was probably due to growing confidence in the future economic trend—itsself supported in several member countries by certain programmes and measures to stimulate economic activity—and subsequently reinforced by increasing signs of an actual improvement in the business situation. In France, however, it was not until August that share prices started to rise again—a development doubtless also

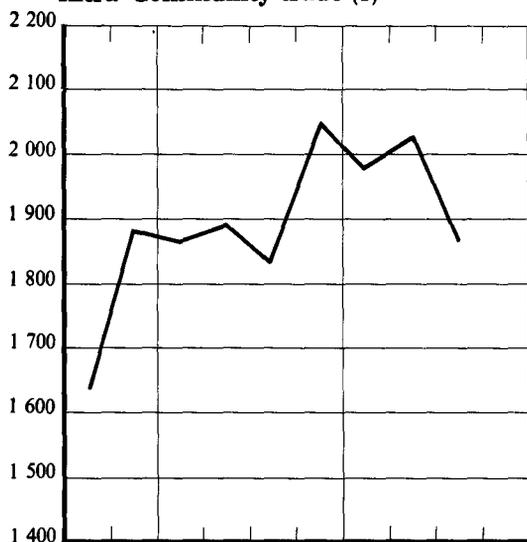
partly due to the fact that certain fears had been dispelled by the publication of the regulations on economic and social reforms. In Italy, equities dipped sharply when the rules on the taxation of dividends were tightened up again in the spring, but here, too, they rallied in the third quarter. In the closing months of the year, however, certain external factors, such as the fresh but temporary aggravation of the Middle East crisis, the uncertain trend on the New York Stock Exchange and, in particular, the devaluations, together with the restrictive measures taken by major non-member countries in connection with devaluation, curbed, in all member countries except Germany, the rise of share prices, and at times quotations were actually falling.

COMMUNITY TRADE

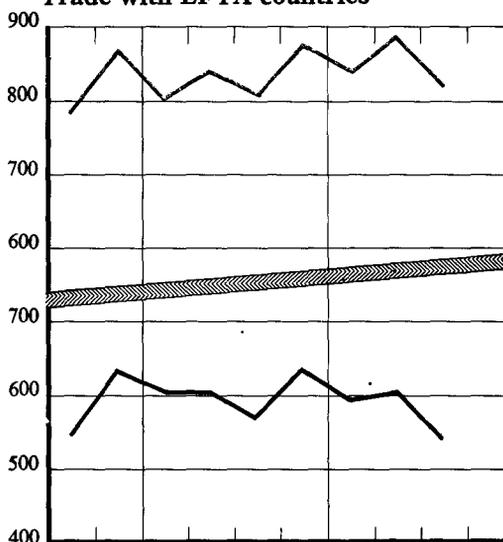
Monthly averages

In million u. a.*

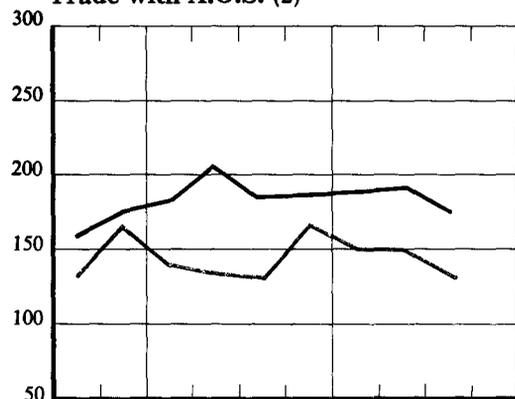
Intra-Community trade (1)



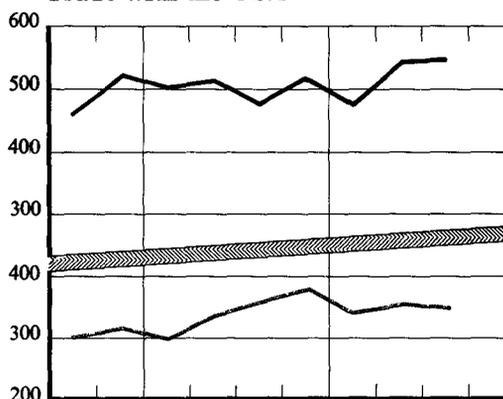
Trade with EFTA countries



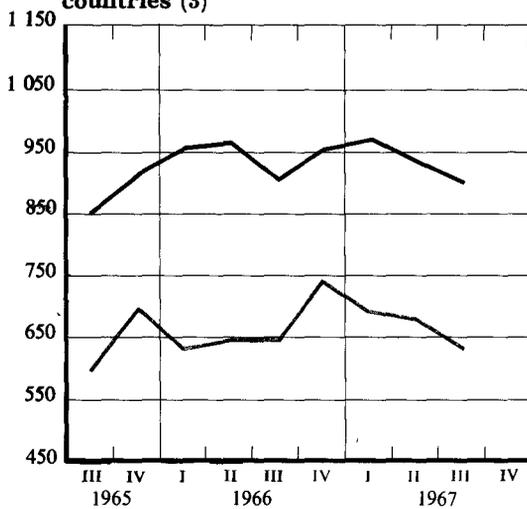
Trade with A.O.S. (2)



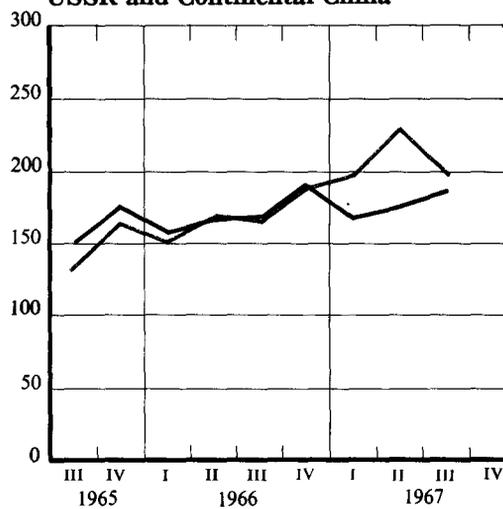
Trade with the USA



Trade with developing countries (3)



Trade with Eastern Europe, USSR and Continental China



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 for 1968

The mid-November currency devaluations alone have sufficed on this occasion to render an assessment of the economic outlook for 1968 particularly hazardous: the changes in sterling and other exchange rates and the restrictive measures, chiefly of a monetary nature, adopted at the same time by important non-member countries necessitate certain adjustments, particularly with regard to foreign trade, to the tentative forecasts for the Community economic trend in 1968 published in Quarterly Survey No. 3/1967.

The expression of such adjustments in quantitative terms is, however, hampered by a variety of problems. To be complete and internally consistent, the revised forecast for Community exports, for instance, would have to be based on a quantitative estimate of the import trends of the major corresponding importing countries, trends which the devaluations will be bound to affect. Even if the recalculation covers only the major devalued currencies (for the Community, these are the pound sterling, the Spanish peseta and the Danish krone), this still necessitates an assessment of two decisive points which is very difficult to make, since they escape any objective evaluation. Firstly, one can only guess how far the measures of monetary and budgetary policy accompanying the change in the exchange rates will help to make devaluation a success (particularly by forestalling undue cost and price increases in the devaluing countries). Secondly, only a rough estimate can be made as to how the effects of devaluation will be phased out in time and how much of the impact will be felt in 1968, although it is probably safe to assume that no substantial results will be discernible before the middle of the year.

In addition, it cannot yet be foreseen in how far the devaluations—assuming they have a perceptible impact—may not prompt counter-measures by the non-devaluing countries. Such measures would constitute a further unknown variable. The fact that after the devaluations the unrest on the international foreign exchange markets continued and led to increased pressure on the dollar has indeed already induced the United States Administration to announce measures to improve the US balance of payments.

Lastly, it must be borne in mind, in connection with the forecast for 1968, that although foreign trade is definitely the variable which will be affected most by the devaluations, internal demand in the Community too will probably be influenced to some degree, although here the process will not only take the form of a direct cause-and-effect reaction, but will also develop through changes in the economic climate and in the behaviour of manufacturers, investors, traders and consumers.

Working hypotheses have therefore had to be established for all the problems mentioned in order to simplify calculations and narrow down the range of possible results. The forecasts for 1968 are based on the assumptions:

- i) That by and large the devaluation of sterling and of the other currencies will be a success;
- ii) That most of the effects of the devaluations and of the supplementary measures on the Community's balance of payments and economic growth will make themselves felt in 1968;
- iii) That the non-member countries which have not devalued will not take a defensive stand, for example by trying to offset any deterioration in their payments balances by curbing the expansion of their domestic demand.

A second reason why it has been difficult to forecast economic developments in the Community for 1968 has been the fact that at the beginning of January 1968 the President of the United States announced a programme designed to improve the United States balance of payments by some \$3 000 million. The programme includes arrangements to make direct investment abroad subject to authorization, rules to curtail bank lending to foreign customers, restrictions on private foreign travel, savings in public expenditure abroad, and plans to improve the visible trade balance. To attain the last-mentioned objective the intention also seems to be to create a system of drawback on exports and equalization levies on imports in order to offset differences in the burden of indirect taxes.

The measures required for the implementation of this programme have, however, not yet been fixed in detail—one of the main reasons being that some of them still have to be proposed

by the Administration to Congress and must be approved by the latter. For this reason it is at this stage extremely difficult to assess—even only approximately—the implications of the programme. From the information available so far it can, however, be concluded that the measures concerning capital movements (which are expected to account for about 50 % of the planned improvement in the balance of payments) will come into force at once, while it will be some time before the measures concerning the current account will be applied.

The effects of both the devaluations and the US payments programme on capital movements are therefore likely to make themselves felt fairly early in 1968, while it will probably be only in the second half of the year that the current accounts will be substantially affected.

In the following comments on the probable development of supply and demand in the Community in 1968 it has not been possible to make allowance for every conceivable effect of the devaluation of sterling and other currencies and of the measures announced by the US Administration. The comments are based on the hypotheses which are considered to be most likely and also presuppose that in the Community economic policies will be pursued which are in line with the various individual requirements. (Economic policy is discussed in section C of this Chapter).

One thing has become clear—that the new circumstances imposed from outside on the member countries of the Community have by no means completely nullified the forecasts previously made for 1968. Internal demand in the Community in particular is still likely to expand distinctly more rapidly than in 1967. As against this, the year-to-year growth rate of export demand (i.e. actual exports of goods and services to non-member countries), which would have been slightly higher had the major non-member countries not adopted the measures discussed above, is now almost certain to be appreciably lower.

For it must be assumed that the fresh upswing of world economic activity which became increasingly obvious in the second half of 1967 will continue but that the Community will benefit to a limited extent only because of an import substitution trend—particularly in favour of the UK economy.

As regards the economic trend in the United Kingdom, it is likely that the monetary restrictions which took effect at the same time as devaluation (higher Bank rate, tighter credit rules) and the budgetary measures already taken or announced for the spring (in particular, increase in corporation tax and cuts in public expenditure) will in the shorter run partly offset the growth incentives normally to be expected from devaluation. The trend of fixed investment by enterprises in particular, which—with many firms running well below capacity—was not to be expected to recover rapidly anyway, will probably be affected by the cumulative effects of higher credit costs, of the withdrawal of certain subsidies and the increase in corporation tax. In addition, as a result of the restrictions on consumer credit the rise in private consumers' expenditure may well slow down, since it cannot be expected that the trend of incomes will benefit to any appreciable extent from the employment situation, nor can it be assumed—at any rate for the first half of the year—that wages will rise at a considerably faster pace. In the circumstances—with domestic prices under considerable pressure, notably from dearer imports—the volume of private consumption will at best show a slight increase. In view of the latest economic-policy decisions, the remaining components of domestic demand, too, especially public expenditure (which has been expanding vigorously), are likely to expand at a rather slower pace—at least during the greater part of 1968.

On the other hand United Kingdom exports will definitely be boosted by the relative lowering of the export price level. The competitive advantage, however, will probably be considerably lower than the rate of devaluation: for one thing, British firms will endeavour to quote higher (sterling) prices to absorb the unavoidable increases in production costs, the loss sustained by the removal of certain subsidies and the increase in corporation tax, while endeavouring at the same time to restore their export profit margins—which of late have been particularly narrow—to a “normal” level; secondly, the fact that the countries accounting for the bulk of UK trade did not follow suit when sterling was devalued can by no means be interpreted to mean that firms in these countries which compete with British firms will not adjust prices if market strategy so requires.

Lastly, a major rise in British exports of most high-grade manufactures would only be feasible if sales organization were extended accordingly and if marketing methods were adapted. This can hardly be done overnight.

All in all, the Commission—basing itself on the information available so far and on the assumption that the present economic policy will be continued—thinks it possible that in 1968 the expansionary factors will have a stronger influence on the economic trend in the United Kingdom than the inhibiting factors. This would mean that the recovery recorded in the second half of 1967 would continue and gather some momentum (adjusted trend) and that the overall growth rate of the economy for 1968 would be rather higher. Moreover, the current account will probably improve distinctly after a short transitional period. As capital movements, too, can be expected to show a considerably more favourable trend than before devaluation and the increase in Bank rate, the overall balance of payments of the United Kingdom may well yield a surplus in the course of 1968.

Of the other western European countries outside the Community only Spain, Ireland and Denmark devalued with sterling, the first two to the same extent and the latter by a smaller percentage. While the new exchange rate can be expected to boost tourism in Spain, there is unlikely to be any marked contribution to the expansion of the Danish economy as a result of increased exports: the price elasticity of demand for foodstuffs is generally relatively low and the international agricultural markets are organized along rather inflexible lines. In the other countries of western Europe, the fact that it is more difficult to export to the United Kingdom and that British competition on the world market will be keener may to a certain degree (depending in particular on the pattern of exports, both with regard to the countries of destination and the type of products exported) have an adverse effect on the economic trend and may indirectly also act as a brake on trade between these countries.

The economic outlook in the United States has also changed as a result of the devaluation of sterling and has led the US Administration to base its economic policy on the defence of the dollar, after heavy speculation in gold and very

substantial outflows of capital from the United States in the last few weeks of 1967: it was to be expected that as a consequence of the British measures there would not only be a perceptible fall in the surplus on current account but that the balance of capital transactions would also come under heavier pressure. The deterioration in the US balance-of-payments situation foreseen as a result would have been all the stronger since the underlying trend at home had for some time already shown a distinct inflationary bias. True, the Administration had already long considered tightening up fiscal policy and had submitted to Congress a bill raising personal and corporate income tax. But there was a considerable delay before the bill—to which proposals to cut public spending had been added—was dealt with by Congress, and in view of the foreseeable effects of the devaluation of sterling on the external payments position of the United States, the monetary authorities therefore adopted a restrictive monetary and credit policy. At the beginning of 1968 finally the balance-of-payments programme was announced; it must, however, be assumed that by itself (that is without the simultaneous use of fiscal and monetary policy) this programme will by no means suffice to restore internal and external economic equilibrium in the United States—and has indeed already been pointed out clearly by members of the US Administration.

In the circumstances, it must be expected that in 1968 the development of domestic demand and domestic production in the United States will be inhibited by certain restraining forces, although economic growth may still be faster than in 1967. Imports will now definitely not attain the rate of expansion originally forecast for 1968; it is even doubtful whether they will grow faster than in 1967 at all—especially if a system of import taxes is introduced in the near future.

The share of the developing countries in world trade may continue to decline in 1968. In the first place, some of these countries sustained losses in the purchasing power of their foreign exchange reserves as a result of devaluation. Secondly, the recovery under way in the major industrialized countries will probably not now be quite as vigorous as expected: a sharp recovery would have meant substantial gains in the export proceeds of raw-material-producing coun-

tries, since these countries would have been selling larger quantities at higher prices.

As against this, demand for imports by the Eastern bloc will certainly continue to expand, though the advance will hardly be as rapid as for 1967.

All in all, the world economic outlook for 1968 outlined above suggests that world demand for Community products will rise distinctly less rapidly than in 1967; these tendencies will at best be mitigated slightly by the first tariff reductions to be made under the agreements concluded under the Kennedy Round. Visible exports, which in terms of value had risen by close on 8 % from 1966 to 1967, must therefore be expected to grow appreciably more slowly in 1968. As exporters will probably be prepared to make price concessions, the loss of momentum is likely to be reflected more distinctly in the value than in the volume of visible exports.

As suggested at the beginning of this Chapter, the direct and indirect effects of the devaluations on internal demand in the Community will presumably not be extensive. Nevertheless it is not wholly out of the question that these measures may impair business expectations and consequently the propensity to invest, and that this may mean a somewhat weaker rise in expenditure on plant and machinery and a slower replenishment of depleted stocks than originally forecast.

The impact of the balance-of-payments measures announced by the US Administration may be much more substantial, especially for those member countries—such as Belgium—in which investments by subsidiaries of American companies account for a comparatively high portion of total gross fixed asset formation. But the importance of the measures should not be overestimated: they will affect directly only the methods of financing and not investments as such. The majority of the projects already started will therefore still be carried out, the funds needed being raised in Europe rather than in the United States. It is true that the heavier calls on the European capital markets likely to be made raise in quite general terms—i.e. taking into account the need for proper and adequate financing of the projects of domestic investors as well—the problem of the equilibrium of these markets; a mitigating factor, however, is

that most of the effects of the proposed American measures are likely to be spread out over a period of several years.

It therefore remains a reasonable assumption that gross fixed asset formation in the Community as a whole will expand from 1967 to 1968 at a distinctly faster pace. Trends will vary, however, fairly appreciably according to type of investment and according to country. Investment in public building and in plant and machinery should forge ahead, whereas spending on residential construction is likely to expand only moderately. As for the individual countries, there will be a fundamental change in the trend of gross fixed asset formation in Germany and—though to a lesser extent—Luxembourg: substantial growth should follow the steep decline revealed in the year-to-year comparison for 1966/67. In the other member countries, on the other hand, expenditure on gross fixed asset formation could well grow a little more slowly in 1968 than it had done in 1967.

Apart from certain inhibiting external factors which might exert an influence on investment in plant and machinery, it seems that by and large conditions now favour a recovery of this demand component. Most internal factors, for instance, suggest that the propensity to invest will increase fairly vigorously. Again, this applies mainly to Germany, where the trend of orders received and the results of business surveys point to an appreciable upswing of investment activity in 1968, particularly in industry. The general business climate is likely to improve further and financing conditions are favourable: enterprises have now a considerably wider margin for self-financing, and profit expectations appear to be good in view of the prospective increases in turnovers and of what will probably be only a very modest rise in production costs; moreover there are few obstacles to borrowing from outside. However, as at the moment firms are running well below capacity, the main emphasis of investment activity in Germany in 1968 will probably be on rationalization rather than extension.

In France, the flow of orders for plant and machinery slackened a little after a tax-induced spurt at the end of 1966. This change—perhaps partly also due to the perceptible loss of momentum throughout the economy in the first half of 1967—may affect the trend of actual

spending by enterprises on plant and machinery in the early months of 1968. None the less, it can be expected that gradually the positive factors will prevail again, partly as a result of the various measures which were taken in 1967 or entered into effect at the beginning of 1968 and which are likely to improve firms' access to finance. Moreover, very extensive investment programmes have again been drawn up for the public enterprises and under these programmes spending will be considerably heavier than in 1967. In Italy, the pressure to invest in plant extension will grow since in 1967 the degree of plant utilization was distinctly higher and sales expectations are good. Investment in plant and machinery will gain, however, mainly from the rationalization drive, stepped up further because of cost increases and the pressure of keener competition.

In the Netherlands and in Luxembourg investment in plant and machinery was, if anything, actually declining during the greater part of 1967. Some measure of improvement may be expected in 1968. By contrast, in Belgium productive investment by enterprises will probably rise at a somewhat slower pace.

Investment in building and construction will probably rise less vigorously in 1968 than investment in plant and machinery. Admittedly, according to the programmes announced so far, investment in public building is likely to rise sharply in all member countries and particularly in Germany. Industrial building activity, too, can now be expected to expand appreciably. By contrast, for the Community as a whole, residential construction will probably show a less pronounced rise than in 1967. True, in Germany, France and Belgium the trend may be more favourable than in 1967, but in the Netherlands it must be expected to point downwards while in Luxembourg it will at best remain stationary at the level of 1967.

Investment in stocks will probably contribute decisively to the faster expansion of overall demand: now that sales expectations have improved and certain tax reforms have entered into force, the contraction of stocks in most member countries during the greater part of 1967 is in fact likely to be followed by a corresponding restocking phase, quite apart from the need, generated by the expansion of pro-

duction, for increased stocks of raw materials and semi-manufactures.

From 1967 to 1968, expenditure on consumption will rise considerably more vigorously than from 1966 to 1967. To judge by the draft budgets worked out so far, the expansion of public current expenditure should slow down somewhat but allowance must be made for the fact that in the course of the year the budget estimates are usually revised upwards. As for the factors determining the trend of private consumers' expenditure, it can be assumed with a fair degree of certainty, in view of the expected acceleration in the growth of production and employment, that the disposable income of households will grow at a distinctly faster pace than in 1967. With the general economic climate improving progressively, the propensity to save may weaken a little. For this reason, private consumers' expenditure will rise perceptibly faster from 1967 to 1968 than from 1966 to 1967. In particular, it must be expected that private consumption in Germany, which had virtually marked time in 1967, will now forge ahead—although the expansion from one year to the other will probably again be weaker than that in the other member countries. The country with the highest percentage increase for 1968 should be Italy. The differences from one member country to the other in the trend through the year, however, might be less distinct than in 1967.

As pointed out already, the expansion of private consumers' expenditure will be mainly supported by a rise in disposable incomes distinctly faster than in 1967. In Germany in particular a more vigorous increase in incomes may be expected, since here the total number of man-hours worked will certainly rise and hourly earnings, too, are likely to show gradually a more distinct upward tendency again; in addition, incomes other than incomes from paid employment can be expected to rise appreciably, particularly the amounts self-employed persons withdraw from their businesses. In France, too, disposable incomes can be expected to rise more briskly than last year. In Italy, where the rapid economic growth of the last few years has reduced the margin for productivity gains, the development of incomes will again be stimulated by a perceptible increase in employment. Only in the Netherlands is the growth

of disposable income likely to slow down a little, despite the fact that the tax burden will be less heavy this year than last: as there will hardly be any increase in the total number of hours worked, the upward movement of wages could well slow down further in 1968 and this development will probably not be offset completely by the more rapid expansion of income from property and entrepreneurship.

In view of the prospects for the development of overall demand in 1968 and the quite extensive reserves of technical production capacity and manpower available in almost all sectors of the economy, internal Community supply will probably expand noticeably faster.

Agriculture might, however, prove an exception. Even with normal weather conditions, there will probably be no more than a modest rise in agricultural output compared with the exceptionally good results achieved last year.

The key to the acceleration in the growth of internal supply will probably be a more rapid expansion of industrial production. Allowing for the recovery towards the end of 1967 and in view of the healthy trend expected for 1968, the year-to-year increase in Community industrial production (as defined by the Statistical Office of the European Communities, i.e. excluding construction and food, beverages and tobacco) can be estimated at about 6 % for 1968—a slight advance on the 1966 growth rate. The most marked improvement should occur in the Federal Republic of Germany where, after falling by 3.5 % in 1967, production can be expected to rise by about 6 % this year. In Belgium, too, production will go up perceptibly faster (from 0.5 % to about 2.5 %). In the Netherlands and France, however, the improvement on the 1967 growth rates will only be slight. (The rates should go up from 4.5 % to 5.5 % and from 3.5 % to 5 %, respectively). In Italy, the growth rate for industrial production, which had reached about 9.5 % in 1967, should drop to about 8 % in 1968; nevertheless, it would still be much higher than in the other Community countries.

The revival in economic activity will almost certainly be particularly strong in those industries that were hardest hit by the effects of the slackening of business in 1967, i.e. the consumer goods and capital goods industries. Where

consumer durables are concerned, for example, output of passenger and estate cars can be expected to rise by approximately 9 %, following a decline of 5 % for 1967. Mechanical engineering is one of the capital goods industries the output of which is likely to increase again (especially in the Federal Republic of Germany), and the recovery in shipbuilding in the Community as a whole should continue.

With regard to mining and the basic industries, output of coal should continue to fall, although, in view of the general improvement in the business situation, it will certainly do so more slowly than in 1967. The iron and steel industry might produce appreciably more than in 1967, and the brisk expansion of output in the chemical and mineral oil industries can be expected to continue. Lastly, in the building materials industry, output is likely to rise considerably faster.

In 1968, the net value added at constant prices by the building and civil engineering industry, which remained at almost the same level in 1967, might well rise about as rapidly as that added by the rest of industry. Owing to a marked increase in the public authorities' demand for building work, production will probably expand particularly strongly in civil engineering and in some branches of building proper.

In the services sector, on the other hand, production seems likely to rise less rapidly than in industry (excl. construction); here, it should be borne in mind that, previously too, the slowdown in the expansion of demand had less effects on this sector and that, in any case, for structural reasons, any acceleration of growth in the services sector takes longer to get under way than in industry.

If these assumptions prove correct, the Community's gross product would rise in real terms by about 4.5 % in 1968, as against only 2.5 % for 1967.

The more rapid increase in domestic production will have a favourable effect on the Community labour markets. In the Community as a whole, the number of persons in paid employment, which was lower in 1967 than in 1966, should rise perceptibly in 1968. Since the labour force is expanding, although only slightly, the number of unemployed in the Community as a whole

should therefore drop substantially, without this engendering,—at any rate during the greater part of the year—perceptible strain on the labour markets. In some member countries, it is more likely that problems connected with structural or regional unemployment will still persist.

In line with the trend of production, the number of persons in paid employment should increase, especially in manufacturing industry and in building and construction. At the same time, with further progress towards a normal total of weekly working hours, the number of hours per head worked in the Community as a whole during the year should go up slightly, so that the overall total of hours worked will increase somewhat more than the number of persons in paid employment.

As domestic demand rises more rapidly, the Community's visible exports, which rose but little in 1967, will also now forge ahead once again. The increase in volume for 1968 could well be nearly 10 % compared with 1967. The devaluation of sterling and other currencies will also stimulate the growth of imports, particularly of manufactures and semi-manufactures. As it is, moreover, likely that the alteration in exchange rates will also lead to a fairly weak trend in international raw material prices and to further downward pressure on the prices of finished manufactures produced by the non-devaluing countries, the Community's imports should again increase rather less in value than volume.

With this probable trend in imports and with the slower growth rate for exports to non-member countries which is now forecast for 1968, the Community's balance of trade should deteriorate appreciably in 1968. The surplus on the overall current account can likewise be expected to contract.

After the slowdown in 1967, trade between the member countries is sure to expand considerably in 1968. The various devaluations will of course lead to some manufactures being imported from non-member countries rather than from other Community countries, so that the growth of intra-Community trade will be somewhat hampered.

Although the outlook for the development of supply and demand in the Community suggests a

generally fairly balanced trend in 1968, some acceleration of the increase in the general price level must, however, be expected in most member countries. Here, certain autonomous and external factors will probably prove decisive.

In this connection, various tax measures are of considerable importance. In the Federal Republic of Germany, for example, consumer prices may well go up as a result of the change-over to the tax on value added system on 1 January 1968 and of the raising of the TVA rate which is planned for 1 July 1968. In France, too, the forthcoming extension of the TVA system to retail trade is likely to affect prices and lead—particularly at the beginning of the year—to a sudden jump in the consumer price level, accompanied by some decrease in the prices of capital goods. In the Netherlands, almost half of the rise in consumer prices will be due to the increases in turnover tax and in rents.

Furthermore, food prices will probably show a tendency to rise in most of the member countries. The good harvests of 1967 will, admittedly, help to keep prices down until well on into 1968, but—even given normal weather conditions—the possibility that agricultural prices will go up again later on cannot be ruled out.

On the other hand, the prices manufactures in the Community might well be kept down by external influences, although the impact of the devaluations ought not to be overestimated. For one thing, the devaluing countries export prices will certainly not be reduced by the full devaluation percentage, because adjustments will doubtless be made in those countries—mainly as a result of cost increases and the abolition of export subsidies—which will partly offset the effects of devaluation. Secondly, imported manufactures account for only a modest share of the total supply of this class of goods in the Community.

The internal forces that push prices up and are conditioned by the economic situation—i.e. the forces resulting from the supply/demand relationship and from the cost trend—should definitely remain moderate at first. Since production and imports are both very elastic, there will not be any particular strain on the markets, and the trend in wage costs will reflect a growth rate for hourly wages that is largely unchanged

or even somewhat slower than before, and a further substantial (but not faster) advance in productivity.

All in all, the Commission expects that prices in the Community as a whole will rise more

rapidly. The private consumer price index, which went up by about 2.5 % in 1967 could well go up by approximately 3 %. This estimate is, however, particularly uncertain because the effects of changes in the field of indirect taxation are extremely hard to predict.

C. Economic policy

After years of rather vigorous and at times even very rapid growth of general economic activity, the record for 1967 shows that the gross Community product has for the first time since 1958 been growing appreciably less rapidly. This phase of a slowdown in growth was, however, of comparatively short duration; it began in summer 1966 and was most evident in the final quarter of that year. By the spring of 1967 the restraining factors had already practically worked themselves out and from the middle of the year expansion gradually picked up again.

The renewed vigour of the forces contributing to expansion springs in large measure from factors arising from the economic situation: the disparities which had appeared in the period of economic overheating were eliminated as the pressure of demand decreased, and the stage was relatively soon set for a fresh upswing.

These factors were, however, also stimulated and supported through policy measures. From the end of 1966 onwards, the authorities responsible for economic policy have indeed veered away from the principle of priority for the stabilization of prices and costs, following in this the recommendations on the main lines of economic policy which the Council, acting on proposals from the Commission, had addressed to the Member States on 22 December 1966 and 11 July 1967.

The change in economic policy was first apparent in a gradual relaxation of the restrictions on credit and of monetary policy; in most member countries this was carried to the point where active support was being given to the capital markets. But budget policy, too, contributed considerably to the revival in general economic activity: the authorities accepted the heavier deficits which automatically ensued from the shortfall—at least in relative terms—in tax revenue and the rise which occurred in some types of social expenditure, and then made adjustments in the way budgetary expenditure was handled or put in hand programmes with a direct impact on economic activity.

As explained in detail in the preceding section on the outlook for 1968, the acceleration in economic growth which started in the second half of 1967 will continue in 1968, bringing

the expansion of the real gross Community product to some 4.5 %—almost the average rate for the last ten years.

This slight acceleration will be mainly the result of a further upswing of domestic demand in Germany. The recessive tendencies registered in the German economy at the end of 1966 and the beginning of 1967 inhibited the growth of production and employment in the other countries of the Community too; correspondingly, the revival of business activity in Germany ought to contribute to growth throughout the Community. The more rapid expansion of demand which is anticipated in Germany will benefit the business situation of the Benelux countries in particular, but it will also have a great influence on the trend of the economy—and so on policy decisions in this sphere—in France and Italy.

There is, however, some degree of uncertainty about the expectation that growth in the Community will continue at a fairly rapid pace throughout 1968; the reason lies less in the state of internal demand than in certain extraneous factors such as the devaluation of sterling and the measures to improve the American balance of payments.

Among the factors which in some member countries still leave doubts on the extent to which internal activity will in fact grow during the next few months are certain structural reforms which either came into force on 1 January 1968 or will only become fully effective in the course of the year. In France, for instance, the extension to retail trade of the tax on value added may lead to price increases which may check the real growth of consumption by households and consequently affect the growth of production and of the propensity to invest. In Belgium, the reluctance of entrepreneurs to invest will probably continue to be an element of uncertainty in the domestic situation. At the time this report was completed, it was not yet possible to say how far the measures recently announced in these two countries will dispel the doubts about growth.

The uncertainties due to extraneous factors stem from developments in the Community's balance of payments and its impact on internal liquidity.

Despite the fact that economic activity in the western world is likely to be more buoyant than in 1967, the trend of exports to non-member countries will most probably be less dynamic than was to be expected before the devaluations and the announcement of the American balance-of-payments programme. In addition, it may well be that capital movements and changes in the level of liquidity will exert some influence on the business situation in the Community—although its effect is unlikely to be noticed before the middle of 1968.

What consequences, if any, will be entailed for the economic policy of the Member States will, of course, depend on the business situation then obtaining in the Community. It is likely that by then overall economic growth will again have reached an entirely satisfactory rate, so that moderating influences from outside would if anything help to keep the economy steady; there would consequently be little if any need for counter-measures. In this connection it should be borne in mind that the scope for action to stimulate demand may prove very limited, especially as the development of prices and costs cannot yet be considered as being in every case satisfactory.

It appears that in all member countries—except perhaps Italy—the margin of technical capacity available is sufficient, and for some time to come productivity can be expected to rise considerably. The labour markets, however, are hardly likely to show any very high degree of elasticity, though there will, of course, be differences from one country to another. In Germany, Italy, and the Netherlands, manpower reserves will undoubtedly decline as the year advances. In Italy and the Netherlands there is also the fact that unemployment is in part structural or regional in character, so that in certain trades or in certain areas there may be sudden strains which, though localized, would have an impact on the economy as a whole. Such strains may appear first in Italy, particularly as in this country the labour market is likely to be influenced by the economic upswing in Germany. France and Belgium are the only countries where the labour market appears to be among the factors contributing to the elasticity of domestic demand; this elasticity is such that there could even be a very marked acceleration in the expansion of demand.

The economic policies which in the circumstances appear to be called for in the individual member countries are discussed in detail in the chapters devoted to these countries. Here it may suffice to repeat the generally valid requirement that economic policy in the Community should make sure that the recovery now under way in general economic activity will be maintained; the measures taken to support economic activity should be reinforced only if—as could happen later in the year under the influence of external factors—the pace of expansion were reduced. In any case, however, an economic policy designed to safeguard growth should provide stimuli of only limited intensity and duration, so that there should be no fresh threat to the tendencies now contributing to the stabilization of prices.

The authorities responsible for monetary and credit policy in the member countries may in 1968 be faced with a choice between various economically relevant objectives, especially if British and American measures led to net capital outflows from the Community on a scale that perceptibly influenced the internal liquidity of the member countries at the same time as Community-based subsidiaries of American firms may be seeking additional funds in the Community as a result of their greater need for capital. Whether and how far the resulting tendency for interest rates to rise will actually prevail depends largely on the importance the member countries attach to an adequate expansion of private investment, on the degree of deterioration in the overall balance of payments they would be prepared to accept and on the monetary and credit policy they then choose.

In connection with the first point—adequate expansion of investment—member countries are almost bound to want interest rates maintained at a comparatively low level. If there is to be balanced economic growth over the next few years, there will first have to be an adequate increase in investment, particularly as in all parts of the Community except France the expansion of investment by enterprises has in the past few years lagged behind the original forecasts for the period 1966-1970. Moreover, any far-reaching adjustment to the upward movement of interest rates that has occurred or can be expected in non-member countries would make it more difficult to restore equilibrium in the international payments situation.

With regard to the second point—the balance of payments—it seems clear that even appreciable outflows of private capital would be unlikely to lead to balance-of-payments problems for the Community as a whole, as 1968 can still be expected to bring a substantial surplus on visible trade and on service transactions. True, there is a possibility that the foreign exchange reserves of some member countries (particularly in France and in the Netherlands because of the prospective development of the current account in 1968) may decline temporarily; in both countries, however, the level of reserves is relatively high and in any case sufficient to allow of satisfactory economic growth; moreover, any resort to foreign resources would, from a cost and price angle, be beneficial to the domestic economic balance. There are, of course, limits to the use of such a policy, for member countries could not, in their efforts to promote investment policy, keep interest rates indefinitely at a level which would lead to unduly heavy exports of capital.

It must at any rate be hoped that the economic policy pursued by the major non-member countries will be such that, for the sake of equilibrium in international payments, a stop will be put as soon as possible to the phase of high interest rates. A return to lower interest rates on capital will, however, be possible only if the inflationary tendencies registered in these countries are combated successfully, mainly by the use of means other than those of credit policy, and if the attempts to reach balance-of-payments equilibrium are not limited to direct intervention in connection with foreign trade and capital movements.

Another important problem facing the Community is that any monetary and credit policy which seeks to offset the—absolute or relative—contraction of liquidity due to the balance-of-payments situation, already contains the germ of future inflationary developments unless the measures taken are limited in scale or selective in character. It is, in fact, quite conceivable that the increase in liquidity which could occur if, for instance, the public deficits were financed by recourse to the money market or if bank lending to business and private customers rose too steeply might in the somewhat more distant future prove to be too great. Such a development would be particularly dangerous if at the same time the commercial banks had substantial

liquid funds in foreign currencies which they could repatriate easily. In such circumstances any restrictive monetary and credit policy measures demanded by the need to limit the expansion of domestic liquidity would have their braking effect reduced if they were not entirely nullified.

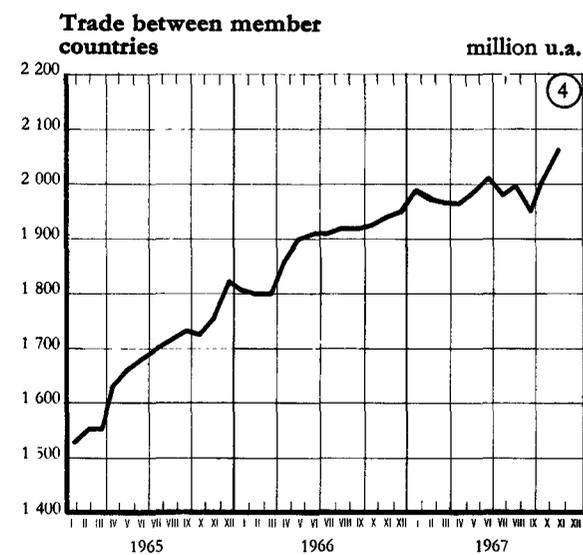
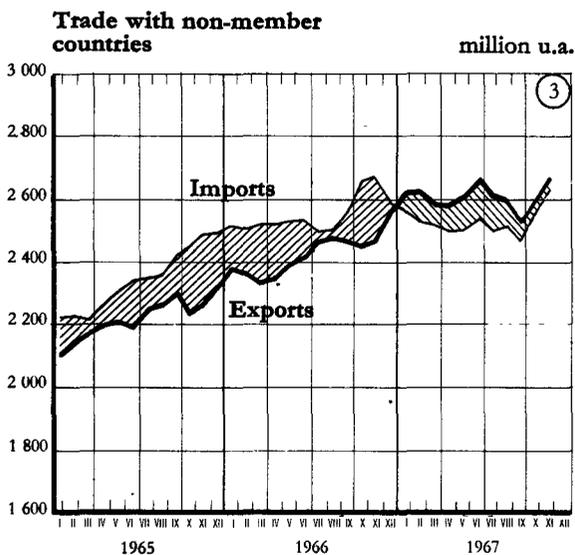
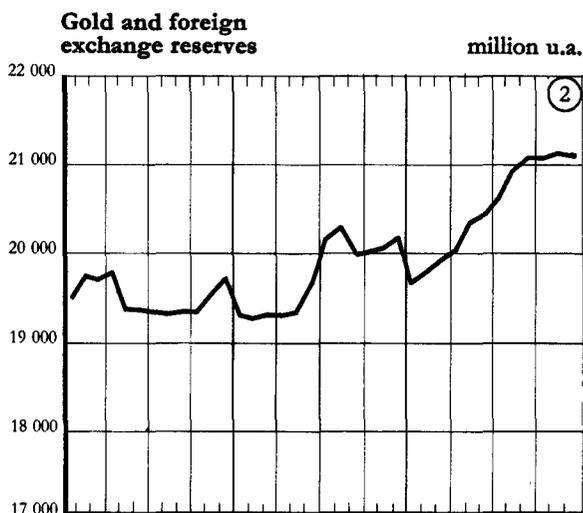
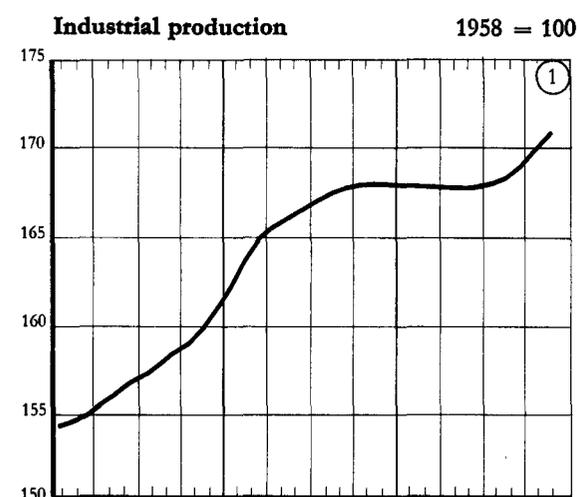
At the end of 1967 the cash deficit on the national budget of most member countries was perceptibly heavier than a year earlier. The forecasts for 1968 suggest that in several member countries these deficits will rise further or at least be once again heavy. The trend of economic activity in 1967 and the continued need to give temporary support to economic expansion in 1968 justify in very large measure the manner in which the public authorities are handling their budgets. But the tendency towards heavy deficits cannot be accepted without reserve if it is due to excessive expansion of public consumption and current transfers at the expense of the rise in public investment which would be particularly desirable in the present phase of the economic cycle. Moreover, the deficit on public budgets should in no circumstances be allowed to go beyond the minimum necessary for safeguarding economic expansion. The Governments should therefore maintain their drive to eliminate the structural part of these budget deficits.

The recommendations on this subject which the Council of Ministers made on 11 July 1967 should still be used in the months ahead as a guideline for budget policy in the member countries. If economic activity were to slow down again, as might happen later in the year as a result of the British and American measures, there would then be a case for using the budget as a method of support. In view, however, of the already heavy deficits and of the monetary and credit policy recommended, it would no doubt be inadvisable to use such measures on a large scale, and where they are used, the aim should be mainly an expansion in public investment or the encouragement of private investment. Only in France, where reform of the turnover tax system makes the economic trend subject to an additional factor of uncertainty, might it in certain circumstances be advisable to support the disposable income of households by budgetary measures, which would need to be selective and of very limited duration.

Evidently a policy of this sort, which aimed at supporting economic activity, would have to be accompanied by strict cost and price discipline. In view of the still quite appreciable tendency for prices to rise in most member countries, the progress towards stabilization of prices made so far and likely to be made in 1968 cannot

yet be considered as in any way satisfactory. In Germany and France care should be taken in particular that reform of the turnover tax system does not lead to an appreciable rise in the level of consumer prices; such a rise, incidentally, could certainly not be justified as an inevitable consequence of this reform.

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)	183 315
Density of population per sq. km.	157
Numbers in employment ('000)	74 530
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)	1965	154	159	158	163	164	164	148	128	162	167	171	166
	1966	162	167	170	173	173	175	158	134	170	173	177	172
	1967	(165)	(169)	(171)	(174)	(172)	(173)	(158)	(134)	(173)	(179)		
Imports from non-member countries (cif, million u.a.)	1965	2 243	2 090	2 422	2 368	2 380	2 352	2 404	2 156	2 388	2 443	2 562	2 757
	1966	2 522	2 375	2 789	2 524	2 566	2 626	2 418	2 295	2 605	2 687	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		
Exports to non-member countries (fob, million u.a.)	1965	1 940	2 064	2 414	2 172	2 249	2 192	2 348	1 907	2 291	2 380	2 368	2 652
	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	2 358	2 525	2 913		
Balance of trade (million u.a.)	1965	- 303	- 26	- 8	- 196	- 131	- 160	- 56	- 159	- 95	- 63	- 194	- 105
	1966	- 369	- 196	- 222	- 152	- 115	- 141	+ 87	- 69	- 145	- 61	- 104	+ 174
	1967	- 44	+ 21	+ 68	+ 166	+ 31	+ 67	+ 177	- 18	+ 81	+ 293		
Intra-Community trade (million u.a.)	1965	1 445	1 576	1 801	1 630	1 661	1 691	1 735	1 437	1 734	1 871	1 812	1 933
	1966	1 667	1 790	2 091	1 861	1 903	1 968	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	2 445		

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).

Opinion on the economic budgets for 1968

1. At a meeting held on 11 and 12 January 1968 the Short-term Economic Policy Committee examined the economic outlook for 1968 and relevant problems of economic policy. This study was based on the economic budgets for 1968 and the forecasts worked out by the Commission. The Committee also took into account the latest economic data and the probable effects of the devaluations, which occurred after the economic budgets had been drawn up. The Committee members also described their first impressions—in view of the present state of information, necessarily of a summary nature—of the effects which the measures announced by the United States may have on the economic situation in the Member States.

2. After a fairly distinct slowdown, economic activity in the Community revived gradually from the summer of 1967 onwards. In Germany, the spring brought a recovery which was encouraged by official measures and which subsequently gained vigour. Almost simultaneously activity revived in most other member countries. In the Netherlands and in Luxembourg the economic trend improved after the middle of the year. In Italy, where it was only from the second quarter of 1967 onwards that the slackening of the economic trend abroad made itself felt, production started to expand again towards the end of the year. In France, domestic demand stimulated by various official measures, expanded and exports showed some buoyancy, so that growth gradually gathered momentum again from the summer of 1967 onwards. Economic activity in Belgium, by contrast, has so far shown no signs of having benefited from these improvements.

On the threshold of 1968, the Committee therefore notes an obvious general amelioration in the trend underlying economic development.

3. In the Community as a whole, the pace of real growth will probably become appreciably faster in 1968 and may reach 4 to 4.5 %, compared with a growth rate of 2.5 % for 1967. In the individual member countries, the following real GNP growth rates are predicted: Germany 4 %, France 4.5 %, Italy 5.5 %, Netherlands 3.5 %, Belgium 3 %, Luxembourg 2.5 %.

4. The inner momentum of the business trend and the effects of the measures of support or stimulation adopted in the previous year are likely to ensure that in most member countries comparatively rapid expansion will continue in the first half of 1968.

Various problems will, however, remain. In most member countries the price and cost trend is not yet completely satisfactory. A special problem may also arise in France, where the extension of the tax on value added will probably affect prices in the first quarter. The employment situation is also a matter of some concern in several member countries, where a problem is posed not only in connection with general business activity, but also because of structural or regional difficulties. In general, however, unemployment will probably tend to decline or at least settle at a stable level in 1968.

5. On the money and capital markets, the circumstances in which sterling was devalued and the measures adopted in connection therewith reinforced the tendency for interest rates to rise which had prevailed outside the Community since the middle of 1967. The implementation of the United States balance-of-payments programme will probably aggravate this problem. The Committee thinks it desirable that there should be concerted action in the framework of economic policy to avoid as far as possible a rise

in interest rates which might jeopardize investment. The Monetary Committee in particular should consider this question.

This upward pressure on interest rates may prove quite appreciable because recourse by the public authorities to the capital markets in some member countries—particularly Germany and Italy—will be heavy and because there will at the same time also be an increase in private demand for capital. Lastly, the subsidiaries of American companies in the Community—if they continue to step up their investments at the current rate—may feel prompted to make increased calls on the capital markets of the member countries, all the more so as the Euro-issue market may be somewhat disturbed.

6. The U.S. balance-of-payments measures and the devaluations have already affected the economic climate and their impact will probably grow stronger in the second half of the year. As it is still uncertain what the economic conditions

will be by that time, economic policy implications are difficult to assess at this stage.

It may well be that towards the end of the year the expansion of internal demand in the Community will be sufficiently strong to render largely superfluous any action to counter the inhibiting influence of outside factors. In the absence of an upswing, however, the external factors may have an effect which could hardly be ignored, since it would impede growth and the rise in employment. There might then be a case for countermeasures.

In the circumstances, the Committee feels that in the next few months economic policy should continue to support economic expansion, in line with the objectives laid down in the recommendations of 11 July 1967. Developments must, however, be watched very closely so that at any given moment appropriate measures can be taken in concert, with due allowance for the needs and resources of each economy.

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Federal Republic of Germany

For the first time in the history of the Federal Republic of Germany, there has been a decrease—albeit a slight one—in the gross national product in real terms. Previously there had of course been times when demand was very weak, but this weakness was accompanied only by a slowdown in growth and never before (in the year-to-year comparison) by a decline in production and the numbers of people in employment.

The economic trend during 1967 was, however, very uneven. In the first few months of the year recessive tendencies were still clearly predominant, because industrial investment continued the decline that had begun in the second half of 1966 and public investment also decreased. Although export demand—which was still rising—provided considerable support during this period, household incomes and consumption tended to fall.

At about the middle of the year, however, a gradual recovery began—made possible by a marked improvement in the general economic climate which was partly due to the progressive easing of monetary and credit policy and to the steps taken by the Federal Government to stimulate economic activity. Industrial production began to revive and unemployment fell. By the end of the year the German economy was expanding once again, while most costs and prices remained stable.

In 1968 the upswing is fairly certain to continue gathering momentum. Nevertheless the tendencies towards improvement, born of the renewed optimism in the business community and in households, ought to be given further support initially from a particularly high level of public investment—notably by rapid implementation of the second programme to stimulate economic activity. Meanwhile, new measures to boost demand should be planned only if, contrary to current expectations, there were to be a fresh slackening of economic growth either because the Länder and communes were handling their budgets in a way ill-suited to the economic situation, or because of the effects of the devaluations and the US balance-of-payments arrangements on external trade and the capital market. Otherwise, in the rather longer-term, the possibility of a further threat to the considerable degree of cost and price stability achieved in 1967 could not be ruled out.

1. Balance sheet for 1967

The year 1967, which had begun with the economy still showing a predominantly downward trend, closed with unmistakable signs of an upswing. There was some recovery in domestic demand in the summer months, while export demand did much to sustain business activity throughout the year.

In the early months of the year in particular there was a further perceptible rise in industrial exports, which partly offset the impact of the shortfall in domestic demand on production and employment. As the year went on, the increase in actual exports levelled off noticeably, owing to the drop in new orders during the winter of 1966/67, but at the beginning of the autumn exports began to move up again. According to

foreign trade returns, visible exports in 1967 were nevertheless 8 % up on 1966, in value, following an increase of 12.5 % for 1966.

Exports to the Community countries continued to forge ahead throughout the year. The upsurge in economic activity in Italy, which remained very vigorous until at least the middle of the year, made a strong contribution to the continuing sharp increase of sales: one fifth of the Federal Republic's total increase in exports in 1967 was accounted for by deliveries to Italy. In the course of the year, exports to the other member countries tended (apart from variations) to rise somewhat less rapidly, although comparison of the full year's results with those for 1966 shows that high rates of growth were again achieved, especially for exports to France. As for sales to non-member countries, exports to the EFTA group considered as a whole proved very weak. Demand from the United States also became noticeably less vigorous in 1967, but deliveries were nevertheless, on average, markedly up on the very high level of 1966.

As exports of services also rose somewhat less in 1967 than in 1966, the year-to-year growth rate for overall exports (as defined for the national accounts) was 7.6 % in value—compared with 13 % for 1966.

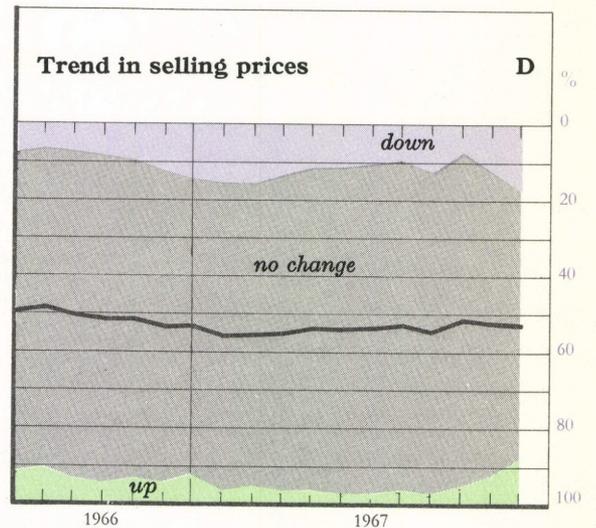
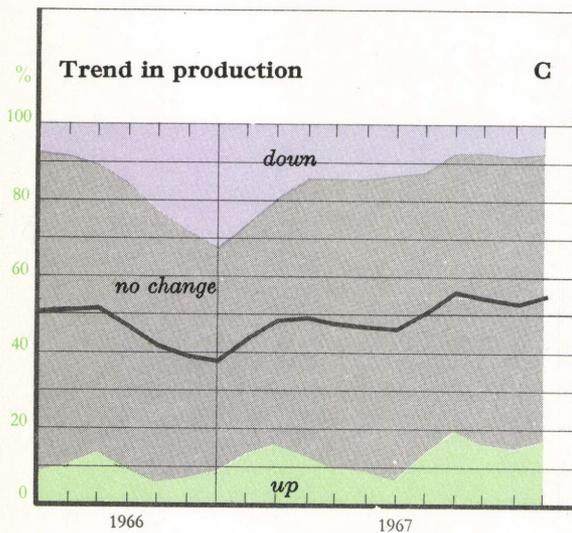
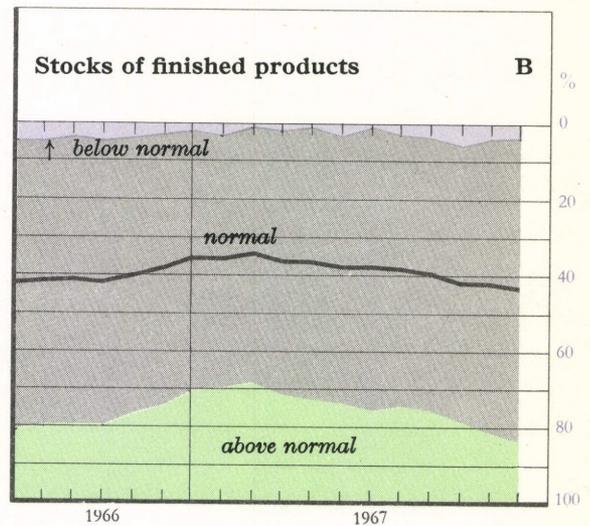
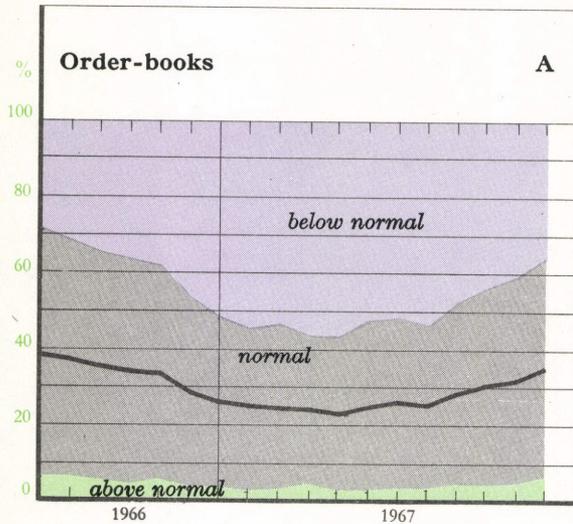
Whereas previous weaker spells in business activity in the Federal Republic of Germany had been reflected only in a slower rate of growth, the results for the full year 1967 show—for the first time—an actual drop in domestic demand. The key to this development was a sharp fall in expenditure on fixed assets coupled with a reversal of the previous trend of stock investment.

Expenditure on gross fixed asset formation, which (seasonally adjusted) had already dropped considerably in the second half of 1966, was—taking the average for 1967—11.2 % down on the previous year. The reasons for this extend far back into 1966. For one thing, after years of exceptionally high investment assessments of capacity potential had changed. Secondly, profits available for ploughing back as investment had declined owing to rapid increases in costs. Lastly, the fact that funds from outside sources became dearer and scarcer was of considerable significance. The decline in invest-

ment thus started was strengthened not only by immanent forces but also by political problems at the end of 1966. Owing to the very discouraging trend in profits and sales, enterprises made a further substantial cut in their investment in plant and machinery in the first few months of 1967. The stabilization of the general economic climate, which was mainly due to the economic measures adopted by the new government, and a more favourable trend in costs in the spring produced a change in enterprises' attitudes towards investment and—after a time—in their actual expenditure on plant and machinery.

Expenditure on building and construction—seasonally adjusted—also fell again sharply in the first half of 1967. Not until the third quarter does the trend appear to have flattened out—but at a fairly low level. For the full year, this type of investment was very nearly 10 % below the 1966 figure. The decrease in expenditure on industrial building and construction was particularly marked, and the downward trend appears to have continued until into the autumn. On the other hand, residential construction, which had also been cut back very sharply in the first half of 1967, should, from about the middle of the year onwards, have been stimulated appreciably by the first investment budget and falls in interest rates. Public expenditure on building and construction followed a similar pattern during the year. In the first half of 1967—notwithstanding the Federal Government's anticyclical policy with regard to expenditure and the expansionary monetary and credit policy pursued by the Bundesbank—it was still about 6 % down on the same period of 1966, because the cuts in this type of investment in the budgets of the Länder and communes had had a particularly marked effect. Not until about the middle of the year did it begin to pick up: the Federal Government's drive to induce all public investors to step up their capital expenditure in the way the economic situation requires, the fact that the revenues arising from the increase in the mineral oil tax accrue to the communes, and—in particular—the effects of the second programme to stimulate economic activity, which involves orders over two thirds of which go directly to the building industry, have all led to an appreciable improvement in the building industry's order books and have got production rising in

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".



almost all branches, but particularly in civil engineering.

The trend of stock investment had a markedly restrictive effect on business activity in general until well on in the year. The tendency to run down stocks in the first half of 1967, which was in any case already very pronounced owing to the downward trend in final demand, was probably considerably reinforced by fears concerning the burden of taxation that would fall on "old" stocks after the switch to the value-added tax system on 1 January 1968. Only after June did the general improvement in the economic climate and in new orders begin to be reflected in plans concerning stocks; moreover, after the tax reduction for "old" stocks had been increased in September, enterprises may well have begun to replenish their stocks in the autumn months—at least in some industries. Nevertheless, on the year-to-year comparison, stocks contracted by about DM 4 000 million in 1967.

In 1967 consumption made on balance only a rather modest contribution to economic activity. Admittedly, public current expenditure continued to forge ahead, since the growth of purchases on civil account hardly slackened at all and the increase in defence spending was maintained; in addition, expenditure on wages and salaries continued to go up, owing partly to the 1966 increases and partly to the fact that there were more people in employment.

Private consumer's spending, however, was only 2.1 % higher than in 1966, taking the average for the whole year, as against a 7 % increase for 1966. The general economic trend during the year (apart from variations) was slightly downward until the end of the second quarter; only then did the trend in retail turnovers, which account for about half of all private consumers' expenditure, suggest that consumer demand was beginning to recover. Comparing 1967 with 1966, the reduction in spending is seen to have hit consumer durables, especially cars, hardest. But there was also a perceptible fall in the demand for clothing. In addition, households cut their expenditure on certain services, including foreign travel—on which they spent 3.5% less in the second and third quarters than at the same time last year, whereas the year-to-year comparison for the corresponding six months of 1966 was still showing an increase of nearly 14 %.

The key to the weakness of private consumers' expenditure was the underlying downward trend in incomes, which lasted until the middle of 1967 and probably tended to level out only from the third quarter onwards. Gross incomes from paid employment remained unchanged in 1967 compared with 1966. This result reflects a decline of 4 % in the total number of hours worked on the one hand and a very calm trend in wages on the other. In addition, self-employed persons do not appear to have withdrawn much larger amounts from their businesses than in the previous year. The only factor that helped to expand disposable incomes was a strong increase in income transfers. Lastly, the weakness of private consumption may well also be partly due to the fact that, as the labour market situation had become unstable, a larger proportion of disposable incomes was devoted to saving—at least in the first half of the year—than in 1966.

In 1967 the labour market was for a relatively long time influenced by the underlying forces inhibiting economic activity. Until the middle of the year, the number of persons in employment, particularly in industry and building, tended to continue declining because, with firms running further below capacity, managements were trying to offset the growing burden of costs by laying off staff, the subsequent effect of which was a considerably faster increase in productivity as the year went on. Not until the third quarter did the labour force in industry and building (including civil engineering) begin to expand slightly once again. For the full year 1967 the number of wage-earners in employment was still 6.5 % lower in industry, and about 12 % lower in building and civil engineering, than for 1966. Given the employment situation, the number of unemployed rose (apart from variations) sharply; after June, however, a tendency for unemployment to fall back was becoming discernible, while at the same time the number of unfilled vacancies went up again. At the end of September, the unemployment figure (not seasonally adjusted) was 341 000; this represents an increase of 228 000 since the same time last year, but is lower than the figure for February, when there were 438 000 more people out of work than a year earlier. In September the unemployment rate (number unemployed as a percentage of the total number of persons in paid employment) stood at 1.6 %

The further rise in the unadjusted unemployment figure from October onwards was due solely to seasonal factors and the bad weather. The number of foreign workers also fell during 1967, to reach 991 000 by the end of September—322 000 fewer than a year earlier.

At first, the slight revival in the inflow of orders which was already apparent in the spring months of 1967 was being reflected in domestic production only after a certain time-lag. This was partly a reflection of the previous very sharp drop in new orders. Once order books had shortened considerably, there obviously had to be a sustained improvement in the number of new orders coming in before production could be stepped up. In addition, however, not all of the new demand had the effect of increasing production, were it only because some of it was met by running down stocks.

Be this as it may, industrial production (seasonally adjusted), which was still overshadowed by the recession in the first few months of 1967, began to show a pronounced upward trend again at the middle of the year and especially during the second six months. In the second quarter it was still 6.3 % down on the corresponding period of the previous year, but the gap narrowed to 2.6 % in the third quarter. In October the index of industrial production (all industries) regained its level of a year earlier, and in November it climbed higher. Thus industrial production—seasonally adjusted—was once again running at the previous record level of the spring of 1966. For the full year 1967, the Federal Statistical Office's index of production per working day shows that production fell by 3 % in comparison with 1966, as against an increase of 1.6 % for 1966 compared with 1965. Comparing 1967 with 1966, the biggest fall in production occurred in the industries which manufacture capital goods, particularly in mechanical engineering. But output of consumer goods, especially cars, also dropped sharply—particularly in the first half of the year.

The weakness of demand affected services less than manufacturing. Commerce and transport were still the quickest to react, the value added by them in 1967, in real terms, being at most the same as in the previous year. The increase in the supply of other types of services was, however, hardly any less rapid than before.

Agricultural production, which had declined in 1966 compared with 1965, went up in 1967, mainly because of good weather. The grain harvests and the output of fruit and vegetables exceeded, and livestock production equalled, the 1966 levels.

Nevertheless, by 1967 the gross national product in real terms, which had shown an increase of 2.4 % for 1966, declined for the first time since the war—by about 0.5 %. This development highlights both the loss of momentum of longer-term growth—so that from now on “growth” rates may be negative as well as positive—and also the extent of the recent downturn in economic activity.

The slackening of domestic demand considerably reduced the need for imports. Until the spring months imports of goods and services (apart from variations) actually decreased sharply. Subsequently merchandise imports rallied a little, but there was no definite recovery until the last few months of the year. In the first half of 1967 capital goods and consumer durables bore the brunt of the import slump. In addition, cuts in production and the running down of stocks affected purchases of raw materials. Lastly, the amount of food, beverages and tobacco imported in 1967 was also down. For the full year, merchandise imports (as shown by the foreign trade returns) should turn out to have fallen by about 2.5 % by volume, as compared with 1966. With expenditure on services, which is rather less sensitive to business fluctuations, taken into account, the drop in imports (national accounts definitions) works out at 0.2 % at constant prices.

Owing to the favourable trend in costs and the extreme slackness of demand, the overall price level was mostly very stable in 1967, for the first time for years—prices having previously risen steadily. At the producer level, there were even some very substantial price cuts. In the third quarter industrial producer's prices were 1.2 % lower than in the same period of 1966, having thus fallen almost to their mid-1965 level. Building work quotations, too, lost ground on a wide front. Moreover, in agriculture, the decline in farmgate prices became more pronounced; in the third quarter they were almost 8 % lower than a year earlier. If, in addition to this, there was a further slight rise in consumer prices, as measured by the cost-of-

living index, particularly in the first half of the year, this was mainly due to the very sharp upsurge in rents, which was partly due to autonomous factors. In November the cost-of-living index was only 0.6 % higher than a year earlier. Taking the average for the year, however, the increase may be estimated at 1.5 %.

With imports marking time and exports continuing to expand, the surpluses on external trade soared in 1967 to reach DM 16 200 million, compared with DM 6 500 million in 1966 (national accounts definitions).

According to foreign trade returns, the visible trade balance alone yielded a surplus of DM 15 400 million in the first eleven months of the year, as against DM 6 000 million in the same period of the previous year. In addition, the deficit on services between January and November 1967 was DM 400 million less than in the corresponding period of 1966. The deficit on transfers remained roughly the same as a year earlier. Consequently, by November 1967 there was a surplus of DM 9 000 million on the overall current account, following a deficit of almost DM 800 million in the first eleven months of 1966.

This placed hardly any strain on international liquidity, however, for, owing to the reversal of the trend in capital movements, the Federal Republic had again become a net exporter of capital. The outflow of capital, including the deficit on the balance-of-payments residual item (which is mainly accounted for by capital transactions not shown in statistical returns), amounted to DM 3 200 million in the first eleven months, whereas in the same period of 1966 sums totalling DM 4 000 million had accrued. Changes in the commercial banks' foreign exchange position meant a further outflow from this source amounting to DM 5 100 million. As a result, the Bundesbank's reserves of gold and foreign currency rose by only DM 780 million from the end of December 1966 to the end of November 1967.

The banks' margin of liquidity was again increased by transactions with abroad, although the effect on liquidity of foreign currency transactions was no longer as pronounced as in the second half of 1966. Moreover, the central authorities sometimes provided the banks with substantial funds, by borrowing from, or drawing on their balances with, the Bundesbank. The most powerful influences making

for an expansion of liquidity came, however, not from the development of the market but from the repeated cuts in the minimum reserves required by the Bundesbank. All these factors led to a vigorous increase in the liquid resources freely available to the credit institutions in 1967 and encouraged reductions in short-term interest rates. In January the interest rate for call money was still 4 1/2-5 3/4 %, but the level had dropped to 1 1/4-3 1/8 % by October; subsequently, however, interest rates hardened again slightly. Business demand for short-term advances declined until the middle of the year, but then tended to revive.

On the stock market, the decline in interest rates was on the whole more modest. In June it came to a halt, and in the following months interest rates in some branches of the bond market even tended to go up again. This development was partly connected with the rise in interest rates abroad, but partly also with the fact that savers preferred a liquid form of investment. At any rate the previously very permeable division between the money and capital markets proved fairly watertight in 1967. In addition, it should be borne in mind that the public authorities' demand for capital increased greatly in 1967 because of the fall in current receipts occasioned by the economic situation and the sharp increase in expenditure. In order that the forces making for lower interest rates might not be weakened by the overloading of the loan market, the public authorities therefore concentrated mainly on issuing shorter-term securities. At all events, the market in medium-term government paper—lying before the capital market proper—expanded very vigorously. Between January and September 1967 issues of such paper accounted by themselves for DM 2 300 million, i.e. half of the total yield on fixed-interest securities sold by the public authorities during this period. Clearest evidence of the generally rather unsatisfactory trend on the capital market was the fact that by the autumn of 1967 it had only been possible to reduce the rate of interest on capital—measured by the returns on all current fixed-interest securities—to 6.9 %, from its peak of 8.1 % reached in summer 1966. The prices of bonds tended to be rather weak in the second half of the year, but equities rallied vigorously from August onwards, wiping out the losses of 1966 and making further progress.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices (in DM '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume ⁵
Exports ⁴	91.1	+ 11.2	+ 13.0	+ 9.6	+ 7.6	+ 7
Gross fixed asset formation	118.7	+ 0.3	+ 2.7	- 9.5	- 11.2	+ 5.5
Public current expenditure on goods and services	69.6	+ 1.4	+ 8.6	+ 3.4	+ 6.3	+ 1.5
Private consumers' expenditure	255.1	+ 3.3	+ 7.0	+ 0.3	+ 2.1	+ 1.5
Gross national product	450.6	+ 2.4	+ 6.1	- 0.5	+ 0.3	+ 4
Imports ³	91.9	+ 2.9	+ 5.0	- 0.2	- 2.0	+ 10

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 9/1967.

² According to the first provisional figures given by the Federal Statistical Office, "Wirtschaft und Statistik", No. 1/1968.

³ Commission forecasts.

⁴ Goods, services and factor income.

⁵ 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.

2. Outlook for 1968

There is every indication that in the second half of 1967 the Federal Republic's economy entered upon the preliminary phase of a fresh upswing. Although, in respect of 1968, there may still be some uncertainty as to the strength of the forces making for expansion, and the underlying upward tendency might be temporarily masked by bad weather in the winter months, it is nevertheless likely that the economy will have achieved its breakthrough and be advancing along a broad front by the beginning of the spring, if not before.

The outlook for 1968 should not be much altered by the far-reaching modification of the

indirect taxation system (switch to the value-added tax system on 1 January), nor by the fact that the devaluation of sterling and certain other currencies and the measures announced by the US Government to reduce the US payments deficit are likely to have certain implications for the German Federal Republic's foreign trade and capital movements.

The switch to the value-added tax system will in all likelihood lead to very substantial changes in the structure of prices at home and will also affect the general price level. Externally, it will increase the sums refunded at the frontier on German exports to offset tax, and this may affect the level of exports: under the old

system, the equalization taxes paid at the frontier were not exactly equivalent to the taxes actually paid within the country, and the changeover to the value-added tax system may improve the relative position of German exports, whereas, conversely, an advantage that imports formerly had over home-produced goods will be eliminated.

At present no one can do more than guess what effects the currency devaluations will have. It should, however, affect the Federal Republic's external trade considerably less than was forecast in its latest annual report¹ by the Group of Experts set up to examine general economic development. In the Commission's studies on this subject, the international consistency of hypothetical calculations of this kind was checked and an attempt was made to see how much it would cost the devaluation countries' trading partners to adjust to the new situation; for the Federal Republic of Germany, the figures that emerged from these studies were less than half as high as those forecast by the Group of Experts. Be that as it may, the studies from both sources indicate that, in view of the present combination of internal factors making for expansion, the direct and indirect effects of devaluation should not significantly impede the economic recovery.

It is true that the structure of the Federal Republic's merchandise exports is much the same as the United Kingdom's: both countries are heavy exporters of capital goods and other finished industrial products. But a regional breakdown is enough to show that though the overall structure is the same the quantities going to specific areas are often very different. Thus, direct merchandise trade with the United Kingdom accounts for only 4 % of German exports. On the other markets, on which the pressure of supply due to devaluation will be felt no less strongly, the German export industry is in a very strong position in just those countries—such as the Community countries and the United States—where domestic demand can be expected to expand slightly faster and more vigorously than elsewhere in 1968. The other Community countries buy about 23 % of their industrial

imports from the Federal Republic and only just over 6 % from the United Kingdom. Furthermore, the price elasticity of a large proportion of German exports should be fairly low owing to their high degree of specialization and more extensive penetration of the markets—due, for example, to a wide range of after-sales services. Apart from this, the improvement in the tax rebate for exports, the probable persistence of the favourable trend in unit labour costs, and the continuing substantial margin of available capacity should, generally speaking, affect the structure of export prices accordingly.

The prospects for exports of services also remain good—even though they may well be somewhat hampered by the US Government's decision to reduce the number of troops stationed in the Federal Republic of Germany and to discourage foreign travel. There is therefore no doubt but that external demand will continue to provide fairly strong incentives for increasing production and employment in the Federal Republic of Germany. All in all, the year-to-year growth in exports of goods and services should hardly be very much less in 1968 than it was in 1967.

Expenditure on gross fixed asset formation, the underlying decline in which had badly hampered economic development well into 1967, will begin to show a pronounced upward tendency in 1968. This recovery should occur first and most definitely where investment in building and construction is concerned. Public expenditure on building and construction could well already become considerably more rapid in the first half of the year, merely on the basis of disbursements made in connection with the second programme to stimulate economic activity. In addition, to judge from mortgage figures and from the financial support made available by the public authorities, expenditure on residential construction is very likely to show an appreciable increase. Investment in plant and machinery, on the other hand, will very probably not regain all its old dynamism until somewhat later. Nevertheless, the impetus provided by the public authorities' investment programmes, certain tax privileges in respect of depreciation, and, in particular, the generally more optimistic expectations in industry, has already had a very marked effect on the trend in new orders in the capital goods industries. Furthermore, the propensity to invest will very probably be reinforced on an even more lasting

¹ For the first half of 1968, the Group of Experts forecasts a loss of exports amounting to DM 1 200 million and an increase in imports of DM 700 million (Annual Report for 1967, Section 371).

basis by a further improvement in the cost and profit situation, although the fact that firms are running well below capacity is bound to set certain limits. For the moment, the managements questioned about their investment plans by the IFO Institute are—as the latest survey in November 1967 shows—planning to raise their capital expenditure by at least 5 % above the previous year's level. Even this relatively low annual growth rate will depend on there being a very vigorous advance in business activity during the year.

Investment in stocks will make a fairly heavy contribution to economic development even in the first few months of the year. After the switch to the value-added tax system, and once the new price relationships are known, firms are likely to replenish stocks sharply depleted in 1967.

According to the budget information at present available, it would seem that public current expenditure will continue to rise in 1968, at a pace somewhat less rapid than before.

Where private consumption is concerned, brisker expansion can now be expected, although the trend of incomes is unlikely to respond rapidly to the upswing in economic activity. There should be a further increase in the number of hours worked by the existing labour force before there is any appreciable rise—later on in the year—in the number of wage- and salary-earners. At all events, the continuing improvement in the employment situation can then be expected to influence the trend in wages, too. In industry, particularly, actual wages might again go up more noticeably in the second half of 1968. For the full year 1968, the total wage- and salary-bill is likely to rise by at least 4 %. A slightly slower year-to-year growth rate for transfer incomes might again be offset by a rather more rapid advance in the amounts withdrawn from their businesses by self-employed persons. Although the growth of total disposable incomes will be slightly slowed down in 1968 by higher taxes and social security contributions, the savings ratio must be expected if anything to trend downwards.

The probable development of overall demand should ensure a fairly rapid rise in industrial production. There is much to suggest that the production losses will have been made good by

the end of 1968. Assuming that agricultural output follows a normal pattern, and allowing for a sustained advance in the value added in other sectors of the economy, particularly services, the real GNP growth rate for 1968 is estimated at about 4 %.

In view of the likelihood of an increase in overall demand and in domestic production, a vigorous revival in imports can be expected in 1968, simply because of the need to replenish stocks. As, moreover, the changeover to the value-added tax system on 1 January 1968 removed some of the uncertainty surrounding the plans that should be made in industry and trade, imports should be showing a clear tendency to rise more rapidly in the first few months of the year—particularly as purchases of consumer goods and capital goods will, because of the close interpenetration of the European markets, also respond fairly quickly to the recovery in domestic demand. Lastly, the currency devaluations might well lead to a certain “additional” increase in imports. Under the circumstances, it does not appear too much to expect that imports of goods will rise by 10 % in value in 1968. As a fairly vigorous advance in exports is likely during the same period, the surpluses on trade should not fall very substantially.

The price stability achieved on a broad front in 1967 should hardly be jeopardized in 1968—as long as the economic recovery follows the pattern indicated above. Supply is very elastic and costs are benefiting from the growing degree of capacity utilization, so that the price climate will remain relatively calm at first. For the later part of the year, however, the possibility cannot be completely ruled out that certain underlying tendencies that push prices up will re-emerge and that, together with the “structural” increases in the prices of services, these tendencies will exert a stronger upward pressure on the general price level. In addition, the adoption of the value-added tax system and the change in the price structure will be accompanied—especially in the first few months of the year—by a certain rise in the price level, if only because of the fact that the time it takes the market to react varies greatly from product to product; however, the present economic outlook suggests, rather, that price increases due to the switch to the value-added tax system should be kept within narrow limits.

In order to ensure more vigorous and lasting economic growth while maintaining the extensive cost and price stability achieved in 1967, the most important economic policy task must first of all be to support the forces making for recovery inherent in the economy. Of course, there has since been a fundamental improvement in the general economic climate, order books are filling up again, production is rising and unemployment falling. But all this is still largely due to the stimulating effects of the public authorities' programmes to boost economic activity. The full impact of spontaneous upward tendencies was certainly hardly brought to bear before the winter. Although it can be predicted with reasonable certainty that the new upswing will be well under way by the beginning of the spring, if not before, it nevertheless appears desirable, between now and then, that the economic trend should be reinforced by a particularly strong increase in investment on the part of all public bodies.

In particular, the Länder and communes should try to expand their investment further and devote the bulk of any increase in revenue to capital spending rather than to consumption. The second programme to stimulate economic activity had already envisaged that the additional investment projects involving some DM 5 300 million should mainly concern the Länder and communes, from whom a contribution of DM 2 500 million was expected. This programme, under which new orders worth about DM 4 800 million had been allocated by the beginning of January 1968, will have its full financial effects on the public budgets only in the subsequent course of the year.

The direct and multiplier effects of the additional investment expenditure on production and incomes will also not be felt until late in the year. In addition, the ordinary budgets of the public authorities will also stimulate general economic activity, which should be hardly any less brisk than in 1967. At all events, the increase in public net borrowing, which amounted to some DM 15 000 million in 1967, can be expected to reach an even higher sum in 1968. By far the greater part of this sum ought, however, to be accounted for once again by short-term borrowing on the credit market—which presents problems in view of the fact that the banks' liquidity potential is in any case already very large.

Meanwhile, in view of the probable trend in overall demand, the markets for goods and probably also the labour market are unlikely to come under much strain during the greater part of 1968. An important factor here is the high elasticity of supply, which is due not only to the present relatively low utilization of technical production capacities and potential manpower but also to the fairly substantial productivity reserves that are certainly available. In this connection, it should be pointed out that, even when economic activity was losing strength and investment was falling, a large amount was being spent on capital replacements, and this—in view of steady technical advances and the drive by industry to rationalize operations—further increased the scope for expanding supply.

Where the more distant future is concerned, it is however by no means impossible that too sharp an increase in overall demand might nevertheless bring the labour market—and not only the labour market—under strain once again, so that any chance of maintaining price and cost stability might be lost. For this reason, it would be wise to avoid any new measures that would boost demand over and above those being carried out under the second programme to stimulate economic activity. The case for new measures of this type would only be strong if, contrary to current expectations, the upward trend of the economy were to be slowed down once again because the currency devaluations and the steps taken by the American Government to reduce the balance of payments deficit were to have unforeseeable repercussions on the Federal Republic's external trade and on its capital market.

An economic policy which retains the objective of making the best use of existing opportunities for growth—i.e. of exploiting them in such a way that prices are not affected—would, moreover, create better conditions in which to resolve the structural difficulties that remained hidden during the years when the economy was overheated only to become all the more obvious once economic activity slowed down. The reorganization of certain branches of the economy that has been decided upon or is contemplated by the Federal Government would then raise fewer problems in connection with employment policy and incomes policy. Conversely, an efficient structure policy should help to produce a lasting recovery, to the extent that it would help to

remove the persisting very serious conflict between the underlying trends towards recovery and the tendencies towards structural contraction.

It is equally important that short-term economic policy and medium-term economic policy should supplement and support each other. In the first place, the introduction of medium-term budget planning, which was voted for the first time in 1967 and which so far concerns only the Federal finances, will depend to a very great extent on the effectiveness of short-term economic policy. Secondly, medium-term budget planning will help to make short-term strategy more effective. In this connection, the Central Government and the Länder ought in particular so to influence the scale of, and the methods of financing, their much increased short- and medium-term indebtedness that this instrument becomes fully effective even during a period when the economy is booming and can be used to support efforts to guide and channel the money and capital markets. Otherwise, the authorities responsible for monetary and credit policy might one day find themselves forced not only to improve the terms for a substantial consolidation of short-term Government paper but also to take strong measures to induce such consolidation.

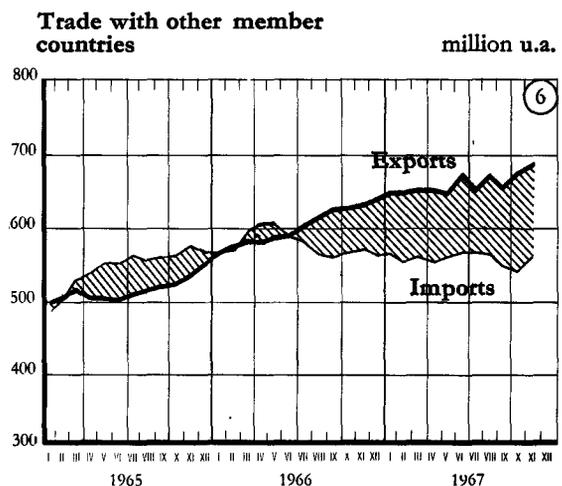
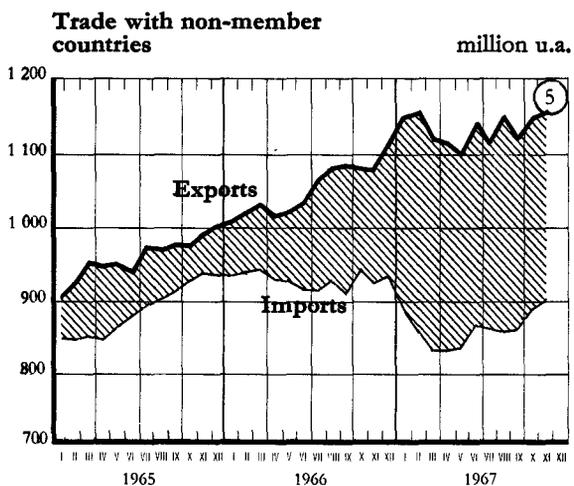
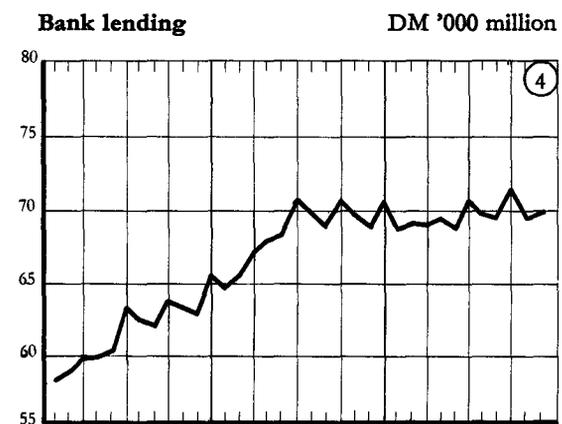
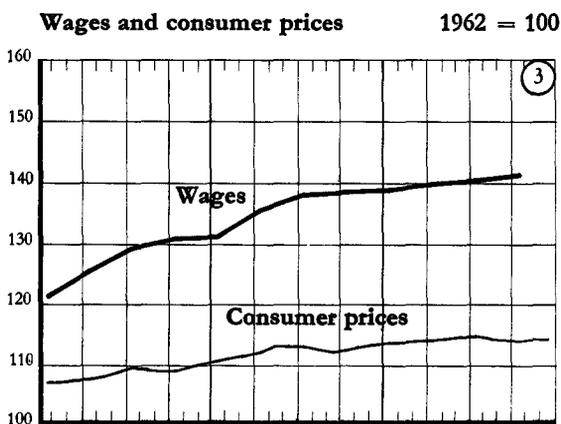
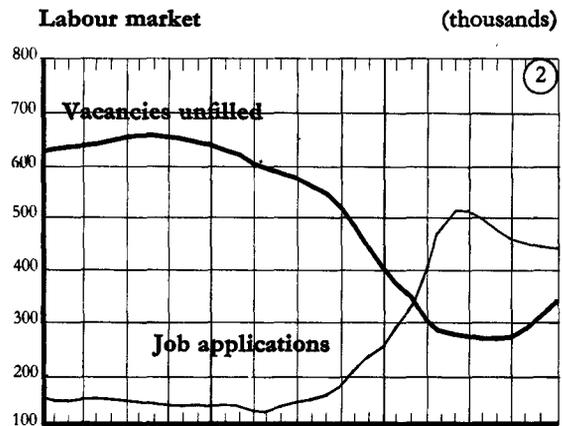
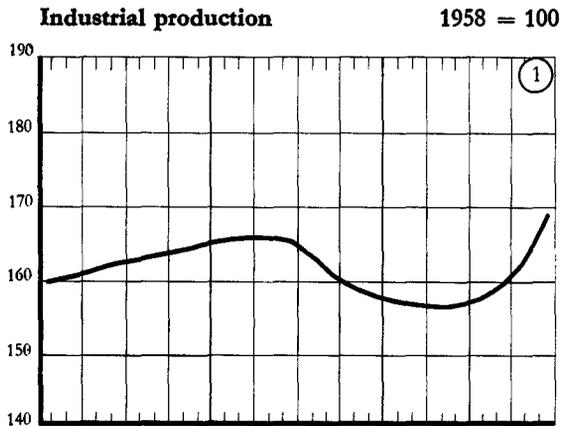
The policy designed to provide a brisk stimulus for demand in order to regain a satisfactory growth rate and bring about full employment has, without any doubt, produced very good results; its general orientation is, moreover, fully in line with the Council Recommendation of 11 July 1967 to the Member States on the guidelines to be followed in their economic policies during the second half of 1967 and in the first decisions to be taken for 1968.¹ Nevertheless the armoury of economic policy instruments—expanded by major legislation in 1967—

could usefully be further supplemented at the administrative level. In particular, the authorities should endeavour to shorten the time it takes before the various measures take effect. In view of the need to ensure that the increases in expenditure decided upon for economic-policy reasons might stimulate demand and production promptly, the procedure for awarding public contracts was already speeded up last year. But it would be even more important, from the point of view of the conception and execution of a financial policy geared to economic policy and covering all the public budgets, if the “Bill on the principles of budgetary law for the Federal Government and the Länder” were to be passed quickly.

Experience of this second case of a very marked slackening of business activity in one member country—the first having been that of Italy—shows that further efforts are needed with a view to the efficient co-ordination of economic policies within the Community. Regardless of whether the economic trends in all member countries follow the same pattern or run, as last year, along contrasting lines, it is important—in view of the degree of integration achieved—that when framing their short-term economic policies, the various States should pay still more attention to implications for the rest of the Community. The decline in production and employment in the Federal Republic of Germany during the months of recession was certainly mitigated by the steady increase in demand from the other Community countries, especially France and Italy. Thus, during the past year, the fact that trends in the six countries varied proved beneficial to the Federal Republic of Germany. On the other hand, the loss of momentum in this important market certainly slowed down the other member countries’ economic development, and therefore reduced the scope for growth in the Community as a whole.

¹ Quarterly Survey No. 3/1967, p. 30.

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 : Trends, based on series adjusted for seasonal variations.

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.

Federal Republic of Germany

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	248.5
Total population ('000)	59 638
Density of population per sq. km.	240
Numbers in employment ('000)	27 082
Numbers in employment, breakdown by main sector (%)	
— Agriculture	10.6
— Industry	48.4
of which : Construction	8.1
— Services	41.0
Percentage share of gross domestic product	
— Agriculture	5.1
— Industry	49.7
of which: Construction	7.7
— Services	45.2
Gross product per capita (DM)	8 020

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		
Gross national product	8.8	5.4	4.2	3.4	6.6	5.2	2.4	152	—
Industrial production	10.7	6.3	4.5	2.7	8.5	6.7	1.9	161	—
Total imports	16.9	8.1	11.4	8.0	10.7	14.3	2.9	232	20.2
Private consumers' expendi- ture	6.9	6.8	5.9	2.9	5.3	6.0	3.3	151	57.1
Public current expenditure on goods and services	7.6	7.8	11.5	7.5	-0.5	6.6	1.4	163	15.8
Gross fixed asset formation	11.3	9.4	5.9	2.9	12.0	6.3	0.3	179	25.5
Total exports	13.0	3.5	3.9	9.0	9.6	6.6	11.2	194	21.5
Gross national product per capita	7.7	4.0	2.8	2.2	5.3	3.8	1.3	138	—
Gross national product per person gainfully employed	7.0	4.0	3.4	3.0	6.2	4.8	2.4	143	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966	1966	1966	1966
Visible exports										
Total	16.4	11.1	4.5	10.2	10.9	10.3	12.5	229	20 134	100
Intra-EEC	23.3	19.6	20.9	20.8	8.4	6.7	16.0	304	7 318	36.3
To non-EEC countries	13.8	7.6	1.0	4.7	12.5	12.4	10.6	200	12 816	63.7
Exports of food, beverages and tobacco										
Total	9.3	4.3	7.3	16.0	20.5	25.0	- 2.0	233	426	2.1
Intra-EEC	10.2	1.0	8.1	23.9	22.1	22.6	6.6	270	177	0.9
To non-EEC countries	8.8	6.3	6.9	11.5	19.5	26.6	- 7.3	212	249	1.2
Exports of raw materials and manufactures										
Total	16.6	11.3	4.5	10.1	10.8	10.0	12.9	229	19 708	97.9
Intra-EEC	23.6	20.1	12.2	20.8	8.1	6.3	16.3	305	7 141	35.5
To non-EEC countries	13.9	7.6	0.9	4.6	12.3	12.1	11.0	200	12 567	62.4
Visible imports										
Total	19.2	8.3	12.2	6.0	12.2	19.6	3.2	245	18 024	100
Intra-EEC	22.9	13.3	16.6	8.7	17.4	30.7	4.2	366	6 939	38.5
From non-EEC countries	17.7	6.1	10.3	4.7	9.7	13.6	2.5	208	11 085	61.5
Imports of food, beverages and tobacco										
Total	4.1	7.9	20.1	- 8.3	8.3	21.6	2.4	192	3 741	20.7
Intra-EEC	13.9	15.8	15.9	- 0.0	9.3	23.0	6.8	236	1 441	8.0
From non-EEC countries	0.3	4.4	22.2	-12.2	7.8	18.1	- 0.1	160	2 299	12.7
Imports of raw materials and manufactures										
Total	24.6	8.4	9.9	10.7	13.3	19.0	3.3	264	14 283	79.3
Intra-EEC	26.0	12.5	16.8	11.5	19.7	31.3	3.5	395	5 498	30.5
From non-EEC countries	24.0	6.7	6.8	10.3	10.2	12.5	3.2	218	8 786	48.7

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	150	152	152	163	164	162	147	143	162	167	171	159
	1966	151	156	162	168	167	168	153	142	162	166	169	156
	1967	144	149	153	158	158	157	149	138	161	168	175	170
Unemployed (1000)	1965	236	291	201	127	107	95	89	86	85	92	119	178
	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
New orders received (1958 = 100)	1965	166	173	198	190	188	182	180	165	197	200	106	188
	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	197
of which:													
home orders	1965	161	167	193	188	185	178	176	164	196	193	192	177
	1966	163	170	208	186	185	178	169	161	184	181	169	150
	1967	144	145	171	163	165	171	160	153	182	206	192	175
foreign orders	1965	187	195	222	199	201	200	198	173	206	210	214	233
	1966	211	213	250	227	230	234	207	208	232	243	243	255
	1967	229	239	260	237	243	277	227	223	249	261	271	291
Construction : permits issued (DM '000 million)	1965	2.88	2.61	3.25	3.61	4.04	3.85	4.45	4.39	4.27	4.17	3.81	3.77
	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	3.38	3.13
Private consumers' expenditure: Retail turnover, value (1958 = 100)	1965	136	134	159	173	161	157	173	151	161	179	190	239
	1966	147	147	179	179	176	165	177	162	168	182	194	242
	1967	155	148	181	171	174	172	174	165	171	181	195	259
Total visible imports (million u.a.)	1965	1 331	1 247	1 492	1 396	1 479	1 484	1 509	1 375	1 542	1 566	1 584	1 606
	1966	1 446	1 397	1 635	1 476	1 541	1 544	1 478	1 449	1 482	1 607	1 530	1 533
	1967	1 392	1 276	1 442	1 406	1 403	1 557	1 401	1 409	1 414	1 579	1 613	1 653
Total visible exports (million u.a.)	1965	1 364	1 353	1 627	1 397	1 544	1 407	1 535	1 297	1 481	1 583	1 557	1 768
	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	1 655	1 791	1 988	1 906	2 025
Balance of trade (million u.a.)	1965	+ 33	+ 106	+ 135	+ 1	+ 65	- 77	+ 26	- 77	- 62	+ 17	- 27	+ 162
	1966	+ 46	+ 93	+ 72	+ 83	+ 160	+ 101	+ 230	+ 83	+ 246	+ 201	+ 139	+ 479
	1967	+ 357	+ 353	+ 374	+ 461	+ 321	+ 327	+ 325	+ 246	+ 377	+ 409	+ 293	+ 372
Official gold and foreign exchange reserves (million u.a.)	1965	6 604	6 702	6 860	6 825	6 436	6 393	6 295	6 211	6 303	6 335	6 354	6 352
	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	6 803	6 737	6 914	6 858
Money supply (DM '000 million)	1965	69.4	70.4	70.1	71.4	73.3	74.0	74.1	74.2	74.2	75.1	77.5	78.4
	1966	74.0	74.5	74.2	75.9	76.9	77.7	77.7	77.3	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	

Federal Republic of 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.
- Origin of gross domestic product at factor cost, by industries; industry including small businesses. Source: Statistisches Bundesamt.
- Gross national product at market prices.

Table 2

- Source: Statistisches Bundesamt, Wirtschaft und Statistik.
- GNP at 1958 prices.
- Industrial production: value added at market prices (incl. small businesses).
- 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

In 1967 the French economy passed through two clearly distinct stages. In the first six months business activity tended on balance to slacken, as demand from abroad weakened and households tended to be more cautious in their spending. In the second half of the year, exports having staged a recovery since the spring and the public authorities having switched to a more expansionary line in their budget operations, the economy as a whole experienced a gradual acceleration of growth that was due in no small measure to a rise in private consumers' expenditure, itself a reflection of the fairly steady increase in disposable incomes.

For the year as a whole, the increase in the real gross national product will probably have been no more than some 4%. The business climate was quiet and the rise in prices continued on the whole to be fairly modest; there was also some recovery in the external balance as the year advanced.

It is still very difficult to make a forecast concerning 1968, not only because important structural reforms (in particular the extension to commerce of the tax on value added) are coming into force at the beginning of the year, but also because it is far from easy to assess the direct and indirect effects which the devaluation of sterling and other currencies in the middle of November 1967 and the balance-of-payment measures decided by the United States Administration may have on the French economy. It can none the less reasonably be assumed that apart from temporary fluctuations, the increase in business activity will continue and gather momentum. The gross national product will probably be about 4.5% greater than in 1967.

These prospects—certain risks for price stability and the trend of production during the early months of 1968, together with a great likelihood that the positive factors will finally predominate—suggest a twofold task for those in charge of economic policy: the adoption, if need be, of measures which are rapidly effective but whose application is limited in time, and the pursuit of a basic line of action which, while continuing to back up general economic growth, no longer stimulates it further.

1. Balance sheet for 1967

As far as the French economy was concerned, 1967 was divided into two distinct phases of development: in the first half of the year the growth of production and employment was slowing down very markedly; in the second, there was a gradual recovery in the rate of expansion.

Demand from abroad was a decisive factor in the difference between the two halves of the year. The weaker trend in visible exports that

had been apparent since the middle of 1966 continued into the early months of 1967—mainly as a result of the sharply reduced purchases by important customers in the EEC. It was only with the progressive consolidation of the economic situation in the Federal Republic of Germany, which usually absorbs about 20% of total French exports, that from about the spring onwards visible exports began to rise again, assisted by the fact that deliveries to non-member countries in general were still making an appreciable contribution to demand.

To judge from the foreign trade returns, the increase in visible exports for the full year was no more than 4.3 % (in value), against 8.4 % in the previous year.

Since invisible exports—particularly expenditure by foreign tourists—were affected by the weak economic situation of a few European countries, the increase in the value of total exports of goods and services (as defined in the national accounts and including factor income from abroad) may have increased by no more than a bare 4 %, against 8.2 % in the previous year.

The effects on the general economic climate of the temporary decline in exports were enhanced by the behaviour of business circles and private individuals in face of the radical changes that have for years been taking place in market structures, behaviour which already betrayed a certain amount of caution; this was particularly evident in managements' attitude to stocks and in expenditure by households.

On the other hand, gross fixed asset formation by enterprises continued to rise comparatively vigorously. This was doubtless due to the fact that a large part of the orders for capital equipment, which were placed before the end of 1966 (as they then qualified for certain tax concessions) was not delivered till 1967. In addition, the expectation that foreign competition was likely to grow still sharper as a result of the Common Market and the Kennedy Round probably caused managements to press on with the rationalization of their production arrangements. Since, moreover, the investment programmes of public enterprises were further expanded during the year, aggregate gross fixed asset formation by enterprises in 1967 (excluding residential construction) will probably have risen about 10 % in value above the figure for 1966 (when it had been about 9 % higher than in the preceding year). Investment in housing, which had been practically stationary in 1966, showed the slight revival expected in 1967, especially because certain administrative difficulties that had been hampering publicly-assisted residential construction were eliminated and considerably more resources made available. Lastly, the State found that, in order to give support to business activity, it had even in the early months of the year to speed up implementation of its investment programmes and to begin work on items that had been planned for

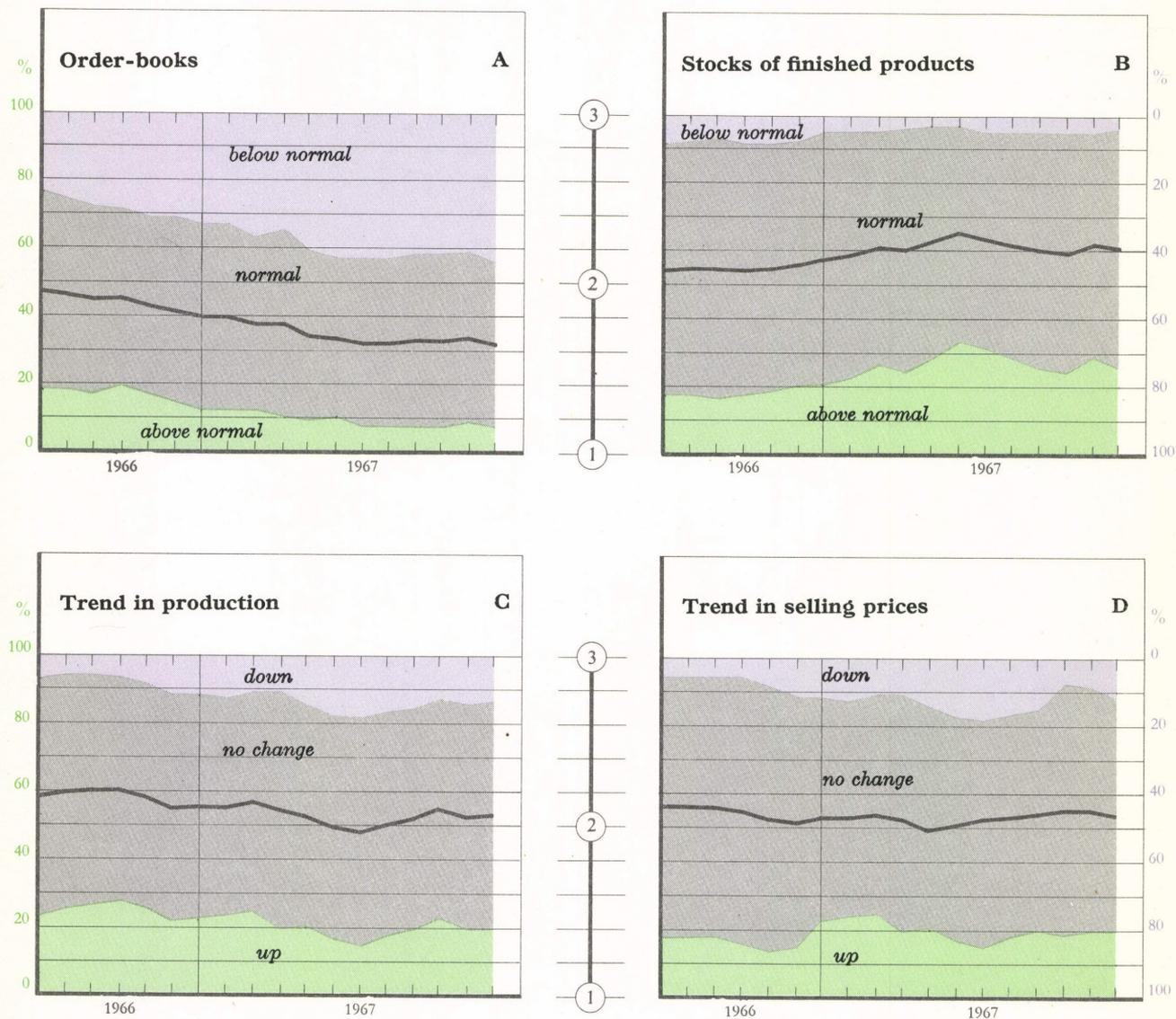
1968. All in all, then, gross fixed asset formation will probably have increased somewhat more in 1967 than in 1966; the rise at current prices will have been about 9.5 % (compared with 8.4 % for 1966).

The attitude of trade and industry to stocks tended if anything to inhibit production and employment during by far the greater part of the year. Traders in particular, finding it necessary to exercise very considerable caution owing to the extension from 1 January 1968 of the tax on value added, depleted their stocks as far as possible despite the fact that, at the end of April, the authorities decided on certain tax concessions that would apply to "old" stocks held on 1 January 1968. The fairly heavy increase in stocks which is none the less to be found in the national accounts for 1967 reflects the considerable growth in agricultural surpluses due to the extraordinarily good harvest.

Public current expenditure rose throughout the year at a distinctly faster pace than in 1966. The increase was mainly in purchases of goods and services (an item which in France does not include staff); but expenditure on staff also rose at a more appreciable rate, especially as wages and salaries in the public sector were put up rather more sharply. The overall increase in public current expenditure for 1967 will probably amount to approximately 8.5 % in value, compared with 6.8 % for 1966.

On the other hand, the rate of growth in private consumers' expenditure has proved to be distinctly smaller than in the previous year—i.e. not quite 7 % at current prices, compared with the 7.8 % of 1966. During the first six months of 1967, households showed some hesitations in increasing their consumption expenditure. One reason was that the rise in incomes—especially those from wages and salaries—slowed down somewhat. The increase in wage and salary rates was, it is true, practically unchanged, but the rise in the total number of hours worked was distinctly flatter—primarily owing to a slight reduction in the length of the working week and in the number of additional workers taken on by industry. Secondly, the propensity to save, in view of the less stable employment situation, was for a while quite strong. It was only after the middle of the year that households again brought their consumption expenditure more fully into line with

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".

the rising trend in their incomes, particularly as various social measures had been taken in the field of wages and transfer incomes. There had also been some delay in the assessment of income tax, in addition to which the Government allowed a non-recurrent tax relief. Lastly, there was some easing of the regulations governing hire-purchase credits.

The slowdown in the expansion of demand during the first half of 1967 exerted a very perceptible retarding effect on the growth of domestic production. In industry, particularly, turnover and the flow of new orders made, on the whole, only slow progress—although differences in the pull exerted by demand meant that there were wide differences between one sector and another. In the capital goods industries, production continued to rise at a very high rate; in the basic materials industries, output rose steeply in some sectors (chemicals) and was inclined to be sluggish in others (iron and steel), while in industries near the consumer stage (textiles) it even tended to decline. Although there was a perceptible revival in activity after the holiday season—especially in the consumer goods industries—the average net production of industry in real terms during 1967 is likely to have been just on 4 % greater than in 1966—as against an almost 6.5 % increase in 1966.

In contrast with this, real value added in the construction industry, stimulated mainly by the recovery of demand for housing, will perhaps have grown more than in 1966, i.e. by about 5 %, compared with 3.7 %.

In the services sectors, real value added was again considerably affected by the relatively poor progress in foreign trade and private consumption; despite the fact that farm production probably exceeded that of the previous year by no less than 6 %, the gross national product at constant prices will consequently have increased by only about 4 %, compared with the 4.9 % of 1966.

As the rise in productivity was still considerable, not least on account of the intensive rationalization drive made by enterprises, this slight slackening in the pace of economic growth led to near-stagnation in the employment situation. The length of the working week was probably a little less than in the preceding year, while the number of wage and salary earners in employ-

ment increased so little that it was only just sufficient to offset the continued decline in the number of self-employed persons. This meant that with the continued growth in the labour force and a further—though slow—decline in net immigration, the number of unemployed increased fairly quickly, especially during the first half of the year. The average for the year will probably have been some 365 000, compared with 291 000 in 1966.

Imports were affected even more than domestic production by the decline in the pace at which demand was expanding. The curve for visible imports, which had levelled off towards the end of 1966, was distinctly down in early spring and in the summer—raw materials and semi-manufactures being affected as well as finished products. It was not until early autumn that the revival of economic activity brought some recovery. For the full year, the growth rate of visible imports as a whole, calculated on the basis of the commodity trade returns, will have been little more than 5.5 %, against a figure of 13.9 % for the previous year. Although expenditure on services and factor income from abroad certainly did not decline to anything like the same extent, total imports of goods and services (as defined for the national accounts) will have risen only some 6 % by volume, against 11.1 % in 1966.

Despite the slowdown in the expansion of demand that was apparent until the summer, and despite a rather rapid increase in the elasticity of supply, prices continued to increase at a comparatively modest if practically undiminished rate. The temporary tendency for wholesale prices to fall was predominantly due to the drop in the prices paid for farm produce and for certain imported raw materials. In the retail trade, however, there was still a tendency for the prices of finished industrial goods and private services to rise, especially as the authorities were applying a more flexible prices policy (system of “programme agreements”) which enabled managements to pass on part of the earlier increases in costs and to widen their profit margins somewhat. During the year, the pace at which the consumer price level moved upward—at first slower than before, but then distinctly faster—was to a large extent determined by specific factors: during the first six months food prices remained practically unchanged, owing to the over-ample supply of

many items; towards the middle of the year the rates charged for various public services were increased appreciably and, in November, the reform of the social insurance scheme resulted in a marked increase in the cost to patients of medical attention and drugs. Taking the average for the year, the prices of private consumer goods will probably prove to be just on 3 % higher than in 1966.

France's external account, on which the surplus had already decreased considerably in 1966 and which may even have been in deficit at the beginning of 1967, showed signs of recovering later in the year, as imports registered a temporary decline and exports began to recover. Despite this, the external contribution (as defined for the national accounts) probably at-

tained only FF 100 million in 1967, whereas in 1966 it had still amounted to FF 1 700 million. The current account developed on similar lines: after a deficit in the second half of 1966 and in the first quarter of 1967, equilibrium was practically restored in the rest of the period. Since net imports of capital, especially during the final months of the year, will probably have increased as a result of the sterling crisis, the overall balance of payments for 1967 will have closed with a surplus, though a distinctly smaller one than in 1966. The gross gold and foreign exchange reserves of the monetary authorities contracted until the end of March but have, it is true, recovered quite considerably, especially in November, the net increase for the full year being FF 1 790 million, against FF 1 411 million in 1966. There was, however, a considerable

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices in FF '000 million	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	70.0	+ 6.9	+ 8.2	+ 4	+ 4	+ 7
Gross fixed asset formation	100.6	+ 6.2	+ 8.4	+ 7.5	+ 9.5	+ 6.5
Public current expenditure on goods and services	62.4	+ 3.4	+ 6.8	+ 5	+ 8.5	+ 5.5
Private consumer's expenditure	295.5	+ 4.9	+ 7.8	+ 4	+ 7	+ 4
Gross national product	464.7	+ 4.9	+ 7.7	+ 4	+ 7	+ 4.5
Imports ⁴	65.4	+ 11.1	+ 13.2	+ 6	+ 5.5	+ 9.5

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 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.

reduction in net claims on the International Monetary Fund, contrasting with the perceptible increase that had occurred in 1966. The net foreign exchange position of the commercial banks, which had still been improving during the early months, also deteriorated very sharply as a result of the international nervousness in connection with currency matters.

The cause of the slightly accelerated growth of internal liquidity during the year was therefore not to be found in the way the balance of payments developed, but in the way the public authorities handled their financial operations. Partly for reasons of economic policy and partly in order to cover the deficits in social insurance and certain public enterprises, the Government very appreciably increased its total expenditure, while the growth of revenue slackened as a result of the slowdown in general business activity and of certain tax concessions. The deficit on the Treasury's cash transactions (excluding redemption of debt) amounted to FF 8 600 million in the first nine months of the year, against FF 3 000 million in the corresponding period of 1966. For the full year 1967, a deficit of some FF 7 000 million to FF 8 000 million can be expected, whereas in 1966 the deficit had only amounted to FF 2 000 million. In order to finance this greatly increased excess expenditure, the Treasury was compelled to call heavily on the banking system, chiefly by inducing the banks to take up short-term securities. Furthermore, strongly expansionary effects were still exerted on internal liquidity through the banks' accelerated granting of advances to business and private customers: the volume of short-term and medium-term credits outstanding by the end of November was 16.7 % more than a year previously.

In the course of the year there was a marked tendency for the situation on the money market to ease; from time to time this was reinforced by action taken by the Banque de France. Call money rates, which at the end of 1966 were at a level that had not been reached for years, fell swiftly and markedly: their average was 4.76 % in December, compared with 5.70 % a year earlier.

On the capital market there was for a while a very slight tendency for the high level of interest rates to ease. At the beginning of August share prices began to recover sharply

on the Paris stock exchange, but towards the end of the year they moved down again. Issuing activity by business interests, especially issues of shares, continued to be slack. On the other hand, the public authorities and the savings institutions under public law made greater calls on the capital market than in 1966.

2. Outlook for 1968

The revival in overall economic growth which began during the second half of 1967 will probably continue during 1968 and gain in vigour, principally because of less disparity in the growth of the individual components of domestic demand. Demand from abroad, too, will almost certainly make a quite lively contribution to production and employment, even if sales of French products in countries which have devalued or in other foreign markets should be directly or indirectly affected by the devaluation of sterling and other currencies which took place in the middle of November 1967 and by the measures to reduce the deficit in the balance of payments which have been announced by the United States Administration. Of course it is not possible to eliminate all risk that the economic trend may momentarily, and chiefly at the beginning of the year, deviate from the underlying tendency to expand, for important structural reforms are being made in 1968, and their effect on the economic process is difficult to predict.

This applies in particular to the application from 1 January 1968 to retailers of the tax on value added, and to the modification of individual value-added tax rates which was made at the same time. Although, in the somewhat longer term, there is no doubt that the advantages which these measures will bring major advantages to the French economy certain risks cannot be ruled out in the short term, as the price structure will be substantially affected. Purely from an accounting point of view, the effect of this reform will be an appreciable rise in prices to the private consumer, concentrated in the early months of the year, while for intermediate products, capital goods and, to a smaller extent, exports prices will fall. The scale of these price movements can hardly be assessed, however, because psychological factors, i.e. the behaviour of buyers and sellers, may outweigh the

“mechanical” effects of the changes in turnover tax. The price policy of managements, the reaction of households to an appreciable rise in the level of prices to the consumer, and the extent to which incomes react constitute factors of uncertainty for the scale of expansion in real terms and for the maintenance of a relative overall balance over the economy as a whole in 1968.

Furthermore, neither the effects stemming from the changes which took place in the rates of exchange in the middle of November 1967 and from the restrictive measures taken in this connection by various countries, particularly the United Kingdom, nor the consequences of the programme to reduce the balance-of-payments deficit announced by the United States Administration can for the time being be assessed with sufficient accuracy. Many items, especially those concerning the probable development of the world economic situation and international capital movements, are still very hypothetical. Preliminary investigations suggest, however, that the direct effects on the French economy are still limited.

The main evidence of this is the relatively small proportion of France's total export trade which goes to those countries which devalued (only about 10 %). Even assuming that sales of French products to the countries which have devalued decline by about 10 %, this would represent merely 1 % of total visible exports. In addition, the indirect effects due to the stiffening of competition on world markets will probably not be very appreciable, as the commodity structure of French exports to countries which have not devalued is quite different from the commodity structure of exports from the countries which have devalued, including the United Kingdom.

Somewhat more appreciable effects, however, could occur in France's net exports of services. For instance, the devaluation of the peseta will perhaps cause displacement in the tourist trade by attracting French people and others to Spain, while the restriction on foreign travel envisaged by the United States Administration will, if they are actually introduced, probably also have a not inconsiderable effect on French earnings from overseas travel. There may consequently be a quite sizeable deficit under this head in the French balance of payments.

All in all, the positive factors in the trend of French export activity, will undoubtedly predominate in 1968. They are to be found primarily in the expected acceleration in the expansion of demand in the Federal Republic of Germany and in the likelihood that economic activity will continue to develop favourably in the other countries of the European Community. These countries absorb over 40 % of France's visible exports. There are other circumstances, too, which support the assumption that the recovery in exports already noted in the second half of 1967 will continue: the complete abolition of the internal customs duties in the Common Market, the start made in the reduction of tariff rates under the Geneva Agreement (Kennedy Round), the progress being made towards achievement of a Community agricultural policy, the increased surpluses of farm produce available for export as a result of the exceptionally good harvests, and a slight decline in certain export prices due to fiscal measures. Altogether, it now seems that commodity exports in 1968 should be some 8 % higher in real terms than they were in 1967.

Gross fixed asset formation, too, will in all probability make a fairly substantial contribution to economic growth in the coming year. For one thing, there will, as a start, be further considerable expansion in investment by the public authorities, amounting probably to a good 13 % compared with 1967 and so exceeding by far the target written into the Fifth Plan; the rise in capital expenditure by public enterprises, with a year-to-year growth rate of some 9-10 %, will also be hardly less marked than hitherto; and finally, the revival of investment in housing may, mainly as a result of the improved financing conditions, become more vigorous; after having in 1967 been confined more or less to the publicly assisted sector, it should spread increasingly to the private sector too. It is still difficult, on the other hand, to judge how far productive investment by private enterprises will grow in 1968. Incentives to invest exist in the shape of improved sales opportunities and the better facilities for financing provided by certain tax reliefs; besides this, increasing competition still calls for great efforts to promote rationalization. On the other hand, the fact that unused capacities are available in wide sectors may restrict the propensity to invest, especially as the indebtedness of enterprises is in any case

fairly high. To judge from the information provided by entrepreneurs through the INSEE investment survey of November 1967, outlays by private industry on buildings and equipment will in 1968 probably be 4.5 % higher than in 1967. These on the whole quite favourable prospects should be only slightly affected by the measures taken by the United States Administration in order to restrict investment abroad. In this connection it should be pointed out that the proportion of American direct investments in total gross fixed asset formation in France is of the order of 1 to 2 % only.

In the first months of the coming year investment in stocks will constitute a very expansionary component of demand, as dealers will certainly return to normal stock levels after the change-over to the TVA system on 1 January 1968 and manufacturers will probably also increase their stocks as production rises.

In 1968 expenditure on consumption will be notably heavier than in 1967. On the assumption that the budget estimates are not appreciably exceeded, public current expenditure (including salaries) should rise at about the same high rate as in 1967, while private consumers' expenditure can be expected to rise faster than before.

Here the decisive factor may well be that, as a consequence of the general revival of business activity, household incomes are expanding again a little more vigorously than hitherto. It is not only the rise in the total number of hours worked that will contribute to the rise in incomes from paid employment, but also perhaps a steeper climb in hourly wage rates—especially if the higher prices to be expected were to bring wage increases in their train. At the same time, more rapidly rising income from entrepreneurial activity and property could result from rising turnover figures and a reduction in the tax burden on businesses. The gross incomes of households will, it is true, suffer from the rise in social insurance contributions, but the rise in incomes available for consumer spending is none the less likely to be greater than in 1967. Furthermore, there is much to substantiate the belief that households will again cut their savings ratio, which in 1967 was at times very high.

In practically all sectors of domestic production the reserves of technical capacity and of man-

power are such that supply should have no difficulty in following the expansion of aggregate demand, which is itself likely to speed up. Industrial production may therefore grow considerably faster and average a good 5 % more than in 1967, and output in construction may also rise more rapidly than from 1966 to 1967. Since at constant prices value added in the services sector will also rise faster, real gross national product should be approximately 4.5 % up on 1967 although, under normal weather conditions, agriculture will probably do only a little better than in the unusually good year 1967.

This growth will certainly be to a very large extent the result of advances in productivity, but employment should also pick up again; here the main factor will at first be some increase in the length of the working week and later on in the year more and more through an increase in the number of persons employed. In view of current trends in the labour force, the situation on the labour market is likely to remain fairly slack, even though the present tendency for unemployment to increase may be reversed later in the year.

The buoyancy forecast for final demand and the need to replenish stocks of raw materials and finished goods, coupled with the likelihood that the pressure of competition from foreign suppliers will increase as a result of factors such as further reductions in tariffs and the lower prices made possible by devaluation, together justify the assumption that in the coming year imports will rise distinctly faster than before. The yearly average growth rate in the volume of visible imports may well be 9 % higher than in 1967; the increase in imports from the other Community countries may be especially vigorous.

Although exports are also expected to rise appreciably, there will still be a deterioration in the balance of visible trade in 1968; the deficit may be even somewhat heavier than in 1967. The overall account for visible and invisible trade with the rest of the world (as defined for the national accounts), which in 1967 still showed only a slight surplus, will probably close with an adverse balance.

The great elasticity both of domestic supply and of imports makes it unlikely that the tendency for prices to move upwards for reasons inherent in the business situation will gain very appre-

ciably in vigour during the coming year. Although the general price level is likely to rise in 1968 somewhat more steeply than in 1967 (i.e. by about 3.5 %), it seems that much of this will be due to repercussions of the reform in the value-added tax, which will considerably change the price structure. The prices paid by the private consumer will, as already mentioned, rise decidedly faster than before. Against this, investment and export prices may be unchanged or even tend to decline. Furthermore, it should be noted that most of the rise that occurs in the level of consumer prices is likely to be in the early months of 1968 and that, as the year wears on, a calmer trend should develop.

Besides the reform of indirect taxation, various measures of a structural nature will also come into force or begin to have their full effect: these include increases in the rates of public services, reorganization of the social insurance system, certain tax concessions to trade and industry in connection, for instance, with investment or mergers, arrangements to improve the employment situation and combat unemployment, admission of foreign capital to the mortgage loan market, promotion of saving and modernization of credit channels and lending arrangements.¹

For this reason, and also because the direct and indirect consequences of devaluation and the American balance-of-payments measures cannot yet be assessed with accuracy, the outlook for the French economy in 1968 depicted here is, as mentioned at the outset, somewhat uncertain, especially with regard to the evolution of prices, incomes, consumption and production during the early months of the year. Those responsible for economic policy must therefore keep open every possibility of adapting it smoothly to any changes that occur in the situation, and they must keep in mind that in the long run the forces making for growth will no doubt prevail; any measures they adopt ought therefore, in the interest of maintaining internal and external equilibrium, to be cautiously mixed, selectively applied and temporary in nature. It may be advisable to concentrate in 1968 on backing up the recovery in general economic activity rather than on sti-

mulating it, as was done in 1967 in accordance with the recommendation made by the Council of the European Communities on 11 July 1967.

In view of the high degree of liquidity, especially in private hands, there will have to be still greater vigilance and caution in the credit field. It is by no means impossible that, as a result of appreciable movements in prices or for psychological reasons, these liquid funds may be thrown on to the goods and services markets with detrimental effect. The monetary authorities ought therefore to pursue unwaveringly the monetary and credit policy which they have been following for some years, and which has had a strong bias toward the improvement of the monetary system; they should, in particular, further modernize and increase the efficiency of the mechanisms for converting short-term savings into long-term capital.

The question of pursuing a policy which merely backs up overall economic growth depends largely on the public authorities and their budget operations. A comparison of the finance acts for 1967 and 1968 suggests that the 1968 budget lays distinctly more emphasis on expansion than that of 1967. In practice, however, France's budget operations in 1967 were, for reasons connected with the current economic situation (sharp acceleration in the growth of expenditure and appreciable slackening in the growth of revenue), so different from what had been estimated that the deficit may have amounted to FF 7 000-8 000 million (exclusive of debt redemption). Although it is even now not very likely that in 1968 the estimated deficit of only FF 2 000 million will not be exceeded, efforts should be made to prevent expenditure exceeding the estimates as heavily as in 1967. Inevitably, the financing of too heavy a deficit on the part of the public authorities will entail risks, either because it would be a drain on the savings of private individuals and enterprises which are required for productive investment, or because it would be effected by monetary means, and this would further raise the already rather high level of liquidity in the economy.

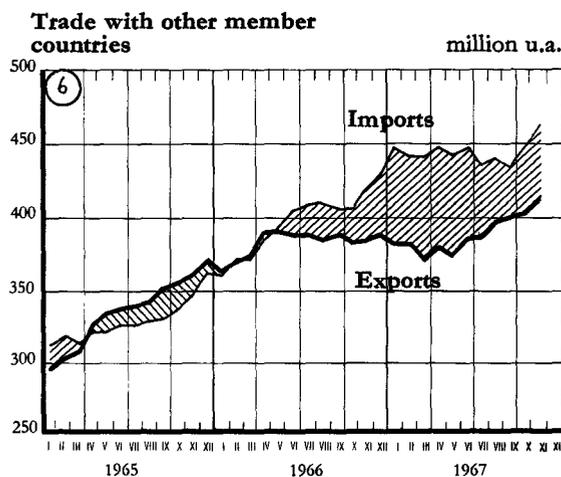
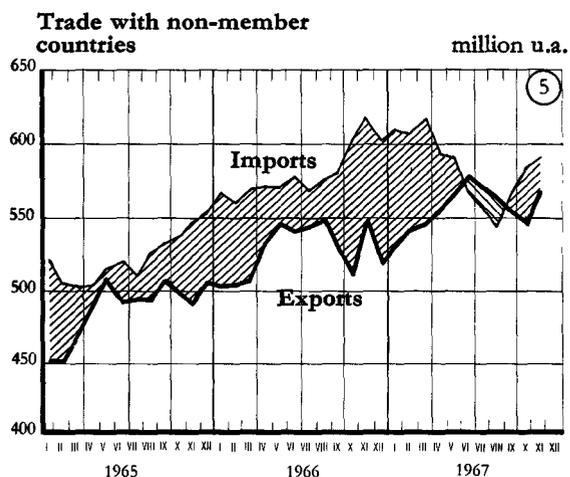
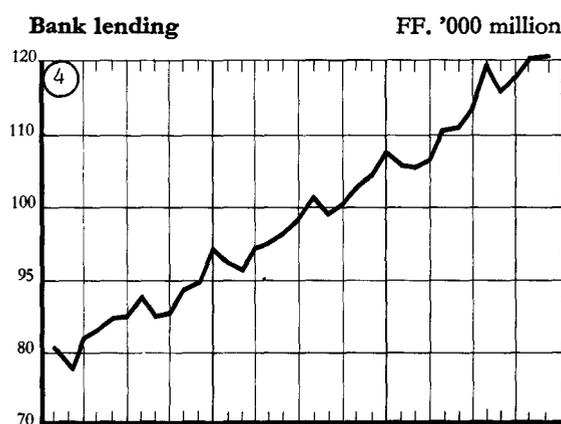
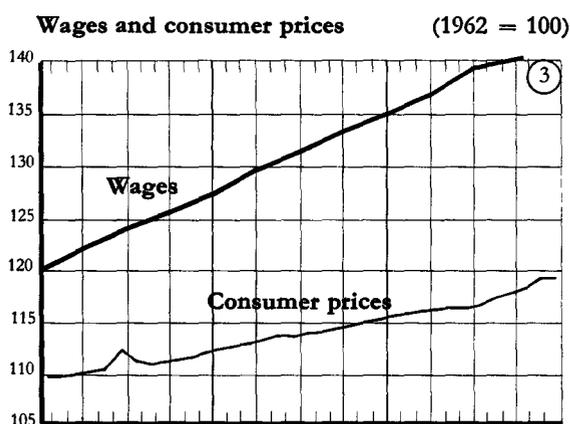
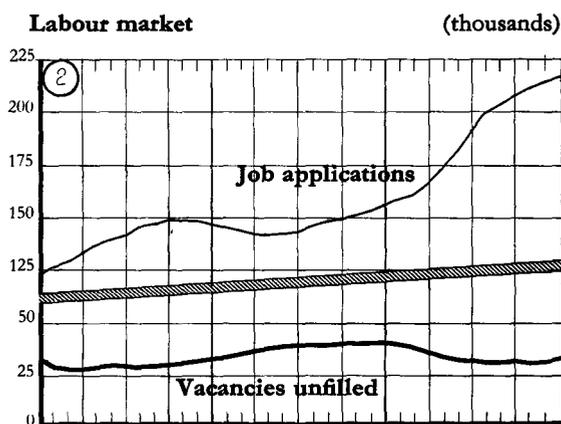
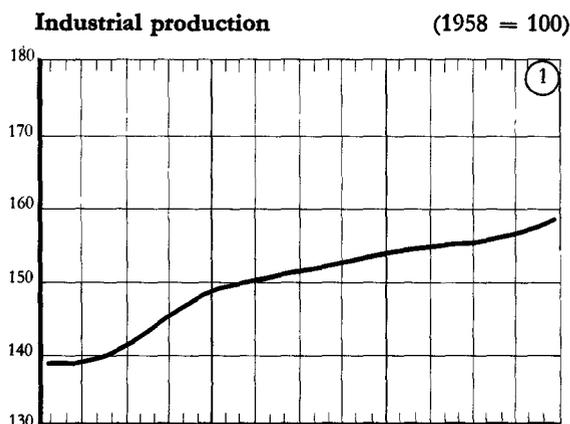
While it seems that cautious handling of budget operations is in principle called for in 1968, this in no way means that there can be no flexibility in the spread of budget operations over the year. If the danger that the economic

¹ These measures have been discussed in detail in Quarterly Survey No. 3/1967.

trend might temporarily diverge from its basic upward tendency were to become a reality at the beginning of 1968, it might be perfectly justified to apply measures which would temporarily stimulate the growth of the disposable incomes of households. In this way it would be possible to prevent marked autonomous increases in the level of consumer prices from perhaps limiting the rise in the volume of private consumers' expenditure to an extent that could be regarded as undesirable from the point of view of growth and of employment. Measures of this kind, no matter how they are dealt with for budgetary purposes, would have to be immediately effective yet limited in time in such a way that later in the year, when growth in the economy is once again more harmonious, the budget would revert to support without stimulation.

The authorities responsible for prices policy have already taken steps to ensure that the increases which it has been proposed to make in state-controlled prices and tariffs at the beginning of the year do not coincide with the price adjustments that stem from reform of the added value tax. The charges for public services and the rents of certain types of dwelling will not be increased. Arrangements of this sort do appear to be called for to check the rise in the cost-of-living index within a given period; they will, however, exert only a delaying effect since, in the field of public services and housing, the gradual approximation of controlled prices to the level required by price and market conditions forms an important part of the general economic policy; this is, in fact, one of the objectives included in the Fifth Plan under the "true prices policy".

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 crédit. 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.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966	1966	1966	1966
Visible exports										
Total	+22.5	+ 5.2	+ 2.0	+ 9.8	+11.3	+11.8	+ 8.4	212	10 897	100
Intra-EEC	+33.9	+18.8	+11.9	+14.2	+12.8	+18.0	+12.0	406	4 608	42.3
To non-EEC countries	+18.2	- 0.5	- 3.0	+ 7.2	+10.3	+ 7.8	+ 6.0	158	6 289	57.7
Exports of food, beverages and tobacco										
Total	+36.2	+17.4	- 2.9	+22.0	+14.4	+11.5	- 7.6	259	1 721	15.8
Intra-EEC	+54.6	+26.2	+ 1.4	+34.5	+16.6	+26.5	+19.5	688	840	7.7
To non-EEC countries	+29.3	+18.6	- 5.1	+15.4	+13.0	+ 2.0	- 1.7	162	881	8.1
Exports of raw materials and manufactures										
Total	+20.2	+ 3.3	+ 3.0	+ 7.8	+10.7	+11.8	+ 8.6	206	9 176	84.2
Intra-EEC	+31.1	+17.5	+13.9	+10.9	+12.1	+16.4	+10.4	372	3 768	34.6
To non-EEC countries	+16.2	- 2.7	- 2.6	+ 6.0	+ 9.8	+ 8.9	+ 7.4	157	5 408	49.6
Visible imports										
Total	+23.3	+ 6.3	+12.8	+15.9	+15.4	+ 2.7	+14.9	212	11 875	100
Intra-EEC	+36.3	+13.6	+20.0	+24.3	+20.3	+ 6.7	+20.9	395	4 853	40.9
From non-EEC countries	+19.0	+ 3.3	+ 9.2	+12.3	+12.4	+ 0.3	+11.1	160	7 022	59.1
Imports of food, beverages and tobacco										
Total	+ 6.2	- 2.3	+19.8	+ 5.1	+14.9	- 0.6	+ 8.4	136	1 920	16.2
Intra-EEC	+16.7	-12.3	+37.6	+37.4	+26.2	+ 8.9	+ 1.3	415	382	3.2
From non-EEC countries	+ 4.7	- 0.8	+17.4	0	+12.5	- 2.8	+10.3	116	1 538	13.0
Imports of raw materials and manufactures										
Total	+28.7	+ 8.5	+10.9	+18.8	+15.5	+ 3.4	+16.2	237	9 955	83.8
Intra-EEC	+37.9	+16.3	+18.7	+22.7	+19.8	+ 6.5	+22.9	394	4 471	37.7
From non-EEC countries	+24.5	+ 4.5	+ 6.6	+16.3	+12.6	+ 1.2	+11.3	179	5 484	46.1

TABLE 4 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	141	145	145	148	148	151	129	91	142	153	157	160
	1966	151	157	158	158	158	162	142	95	154	161	166	167
	1967	160	161	163	161	159	165	143	98	158	166		
Unemployed ('000)	1965	156.3	158.5	153.0	141.8	133.4	122.3	118.8	122.6	136.2	147.3	155.7	159.5
	1966	171.3	167.3	155.7	145.6	134.0	122.7	121.1	124.4	138.2	153.7	165.7	173.5
	1967	193.8	194.4	189.2	188.7	179.0	168.3	168.2	174.4	193.4	216.9	238.2	248.2
Construction : permits issued ('000)	1965	38.8	44.7	45.9	43.8	44.6	50.5	41.8	44.4	49.6	53.2	57.6	83.0
	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	36.9			
Private consumers' expenditure : turnover of department stores (1962 = 100)	1965	119	103	115	127	122	125	127	106	142	135	135	209
	1966	121	107	126	127	124	135	129	114	141	140	143	222
	1967	127	110	137	129	133	139	131	119	157	139	148	
Total visible imports (million u.a.)	1965	816	799	934	900	872	866	827	679	813	890	926	1 021
	1966	897	935	1 098	994	1 002	1 061	929	779	993	1 030	1 054	1 104
	1967	1 067	1 039	1 172	1 047	1 067	1 018	927	773	1 011	1 058	(1 074)	(1 130)
Total visible exports (million u.a.)	1965	688	782	896	839	853	823	857	671	826	916	896	1 006
	1966	774	874	1 023	947	916	960	952	729	843	950	920	1 014
	1967	883	904	992	970	921	1 024	956	702	917	1 040	(1 023)	(1 035)
Balance of trade (million u.a.)	1965	- 128	- 17	- 38	- 61	- 19	- 43	+ 30	- 8	+ 13	+ 26	- 30	- 15
	1966	- 123	- 61	- 75	- 47	- 86	- 101	+ 23	- 50	- 150	- 80	- 134	- 90
	1967	- 184	- 135	- 180	- 77	- 146	+ 6	+ 29	- 71	- 94	- 18	(- 51)	(- 95)
Official gold and foreign exchange reserves (gross, million u.a.)	1965	5 172	5 254	5 316	5 367	5 341	5 350	5 336	5 346	5 381	5 381	5 449	5 459
	1966	5 468	5 503	5 571	5 649	5 724	5 821	5 967	5 963	5 893	5 856	5 793	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
Money supply (FF '000 million)	1965	159.3	157.9	159.9	161.9	162.6	166.1	170.1	169.2	170.2	171.6	169.9	177.2
	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	194.6	197.6	193.7	195.2	193.9		

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

In 1967—as in 1966—the expansion of the economy was on the whole vigorous and at the same time remarkably balanced, but domestic demand resumed the leading role as a stimulant to growth, a role played by export demand in 1966. Indeed, towards the middle of the year exports were exceptionally sluggish and this inhibited economic activity. Later in the year, however, with business recovering steadily in the Federal Republic of Germany, exports probably regained strength.

In 1968 Italy's economy will doubtless continue to expand vigorously, especially as export demand will probably gain increasingly in momentum, despite the recent currency devaluations and the balance-of-payments measures announced since by the US Government, and as at the same time domestic demand will probably grow fast once again. Accordingly, prices are hardly likely to rise any less rapidly than in 1967, although it is to be expected that the elasticity of production will remain relatively high. The current account will no doubt deteriorate further, but should yield a surplus on the full year.

In view of the outlook (which is however considerably more uncertain than usual), the authorities should, in the interests of balanced and therefore lasting growth, continue to avoid additional general support measures. Budgetary measures to achieve a more balanced trend of the public authorities' budgets should be intensified further. It looks as if an increasingly cautious credit policy will have to be maintained to match a probable stronger trend in the cyclical forces making for expansion. There is another factor suggesting a need for cost and price stabilization along these lines: the keener foreign competition to be expected following the currency devaluations and the US payments measures.

1. Balance sheet for 1967

In 1967 the economy as a whole expanded sharply once again. In this year, however, the key to expansion, which remained remarkably free of strain, was domestic demand. Towards the middle of the year the contribution of export demand slackened quite distinctly though probably only for a time.

The trend of exports of goods and services was less dynamic than a year previously, both in the year-to-year comparison and in the course of 1967.

Visible exports grew distinctly more slowly, and, for a time, the curve actually dipped down-

wards, though solely as a result of the slack business trend in some member countries, in particular the Federal Republic of Germany, and a slowdown of the trend in major non-member countries. Italy's international competitive position remained strong. The country's share in the imports of the other member countries rose further and sales of Italian products on the markets of non-member countries were also comparatively good. Mechanical engineering products and products of the food industry scored the highest export growth rates, while farm produce and textiles grew least.

The estimate is that visible exports (as defined in the foreign trade returns) rose for 1967 as

compared with 1966 by about 8 % in value and some 9 % by volume, compared with 11.6 % and 13.8 % respectively from 1965 to 1966.

The trend of exports of services—which had also been healthy in 1966—was rather sluggish: the hesitant growth of income from tourism and from wage transfers by Italians employed abroad temporarily accounted for most of the change.

As defined for the national accounts, exports of goods and services as a whole grew an estimated 7 % in value for 1967, as against 12 % for 1966.

Domestic demand expanded faster than export demand, in the main because of the growth of expenditure on gross fixed asset formation.

Investment in plant and machinery increased particularly fast but the absolute decline recorded in 1964 and 1965 has not yet been made up fully. The probable growth rate (a good 20 % in value and about 19 % by volume by comparison with 1966) is the highest to have been reached since 1961; an examination of the trend in the course of the year shows that the figures are based on a curve which was rising sharply only in the second half of 1966 and in the early months of 1967. About the middle of 1967, the growth of investment in plant and machinery definitely slackened (and may even have slowed down very sharply) and it was probably only towards the end of the year that this demand component revived.

Apart from seasonal and fortuitous variations, investment in building and construction also continued growing in 1967. The expansion was greatest in public works and works of public utility: at any rate in the first nine months of 1967 there was a 16 % advance on the same 1966 figure (the comparison excludes government residential construction). At the same time industrial building probably grew vigorously and residential construction also seems, for the first time for many months, to have been rising, though only slightly.

As a whole expenditure on gross fixed asset formation grew in 1967 by an estimated 12.13 % after an increase of only 5.3 % for 1966.

Investment in stocks probably expanded appreciably in 1967 too, mainly because of the lively expansion of production.

Consumer expenditure likewise made a further distinct advance. Data in the Government's latest Forecasts and Planning Report¹ suggest that the growth rate for public current expenditure for 1967 was much the same as for 1966, in volume at any rate, and probably in value as well.

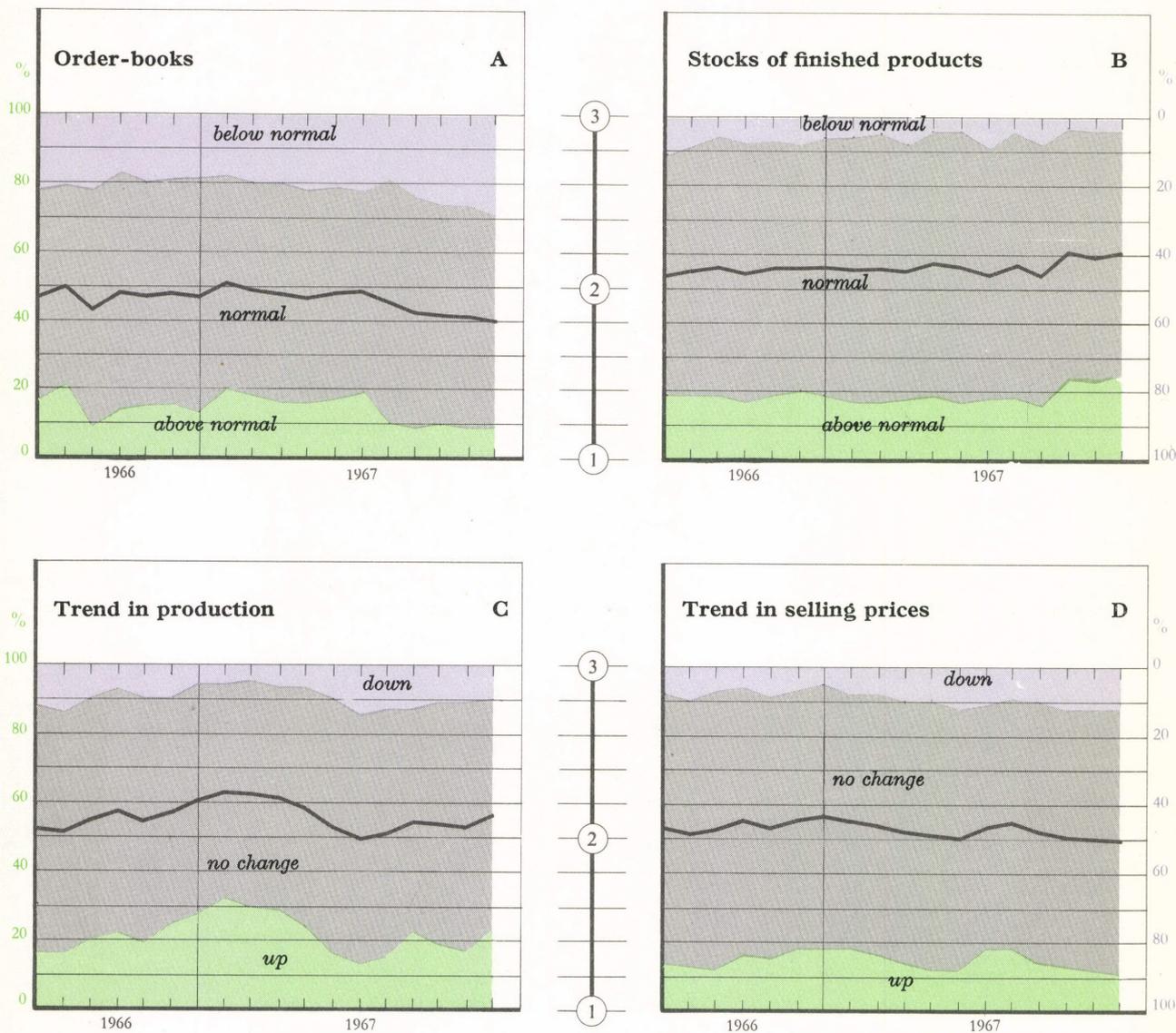
Private consumers' expenditure, too, again increased vigorously in 1967. The trend of the production of industrial consumer goods and of trade in the same items suggested, in the first half of 1967 at any rate, a sharp expansion of domestic demand for such goods. The tendency towards increased consumption of the more expensive goods and services persisted. According to advance reports, for example, the number of registrations of new motor cars in 1967 exceeded the previous year's figure by a good 14 %. Seasonal variations apart, however, private consumers' expenditure, at least on purchases of goods, seems to have lost considerable impetus for a time towards the middle of the year.

As in the previous year, the fast growth of private consumers' expenditure in 1967 was due to a rapid expansion of disposable income—despite a sharp increase in taxation last year—and apparently also to a further increase in the propensity to consume. This increase is doubtless due to the trend of employment, which for a long time has been rising again, and the relative stability of prices. The key to the expansion of disposable income was the fact that total wages and salaries increased more rapidly, as had been expected (by 8.9 % for 1967 compared with an increase of 7.5 % for 1966). This in its turn was due to a faster underlying increase in the number of employed persons than the year before and a further considerable rise in *per capita* wages and salaries. In addition, the transfer income of households doubtless also increased rapidly again and, lastly, other income too (taken as a whole) probably grew appreciably.

On the supply side, agriculture's contribution to real gross domestic product is likely to have increased quite considerably for 1967, despite early misgivings: by about 3 % as against a 0.5 % increase for 1966. Although production, particularly of fruit and wheat, was restricted by

¹ Relazione previsionale e programmatica.

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".

the serious autumn flooding and the subsequent bad weather in the spring as was expected, considerable progress was made in the second half of the year, especially in the production of olives, vegetables, wine, some cereals and livestock.

Once again industrial production expanded at a lively tempo, but the actual rate was somewhat lower than for 1966 both in the course of the year (adjusted) and for the two full years compared. Indeed, in the summer months of 1967 the trend was rather sluggish, probably in part because of the Middle East crisis, but as the year went on industrial production probably picked up again. For 1967, this supply component, as defined for the ISTAT index, probably rose by about 8.5 %, as against 11.7 % for 1966. The sharpest increase was in motor vehicles and iron and steel. The output of textiles on the other hand was very weak and may actually have drifted below the 1966 level.

Building and construction (value added at constant prices), which in 1966 only just matched the 1965 level, is estimated to have advanced by about 6 % in 1967.

Real value added in the services sector is put at about 4.5 %, i.e. about the same as for 1966.

These data suggest for the whole of 1967 a slightly higher GNP growth rate than for 1966, when the figure was 5.8 %.

For the first time since 1963, the number of wage- and salary-earners exceeded the previous year's level, by about 2.2 % after a 1.1 % decline for 1966 (basis: ISTAT). In the course of 1967 the number of persons employed, after adjustment for seasonal variations, increased faster than a year before. In the first place the margins for further gains in productivity per man-hour worked became narrower; secondly the average number of hours worked per worker reverted to near normal and therefore can no longer be raised as easily as in recent year. At all events the number of workers on short time (ISTAT figures) decreased at a considerably slower pace—a bare 17 %—than for 1966 (44 %).

The number of unemployed went down appreciably—by 10 % according to ISTAT, compared with an increase of nearly 7 % a year before. This result is all the more remarkable as the working population, which had been steadily

contracting, increased in 1967. Apparently, certain structural shifts that had been taking place in the population pattern became weaker, in particular the increase in the average school-leaving age and the relatively sharp increase in the number of old-age pensioners. Consequently the unemployment rate, which had been steadily rising since 1963, eased back from 3.9 % in 1966 to 3.5 % in 1967.

Imports of goods and services made further very vigorous progress, both in the course of the year and on a year-to-year comparison. They were also expanding once again considerably faster than domestic supply. Visible imports (as defined for foreign trade returns) exceeded the 1966 level by an estimated 11 % in terms of volume and 12 % in terms of value (1966: 14.8 % and 16.2 %). Their growth in the course of 1967, after adjustment for seasonal variations, was much the same as in the previous year. The sharpest 1966-1967 increase was in imports of machinery and equipment and iron and steel, which meant that the growth of visible imports from the member countries, in particular the Belgo-Luxembourg Economic Union and the Federal Republic of Germany, was particularly lively. There was also a sharp increase in imports from eastern Europe.

Imports of services probably expanded somewhat faster than visible imports, though the opposite was the case in 1966.

As defined for the national accounts, imports of goods and services as a whole probably grew by about 11 % by volume as against 13.5 % from 1965 to 1966.

Despite the lively expansion of total demand in monetary terms, the price trend remained remarkably steady in 1967 because of the pressure of competition from abroad and, above all, because the elasticity of production as a whole remained high, though the upward movement of prices did accelerate a little, as had been expected. The implicit price index of the gross national product may well have risen for 1967 by a good 2.5 % compared with a 2.3 % increase a year previously.

The fact that prices rose relatively little and with relatively little acceleration is remarkable if one considers the quite large number of factors, in particular on the costs side, which in 1967

tended to push up prices: the impact on production of the autumn floods; the tax increases introduced as a result of this disaster; the reversion to the employers as from 1 January 1967 of the social contributions defrayed for a time by the State; higher transport costs due to the Middle East crisis; the consequent increases in some controlled prices and public service charges in August 1967; and last but not least a somewhat faster rise in unit labour costs independent of the increase in social charges. According to the Government's latest Forecasts and Planning Report, unit labour costs in industry and in the private sector as a whole rose again in 1967 after a two-year decline.

The gap between wholesale and consumer prices widened further: the former tended to ease down slightly until the summer months, while

consumer prices, especially for food and services, actually moved up a little faster. On account of the introduction of new indices an exact comparison with 1966 is not possible; nevertheless, in the first eleven months of 1967 wholesale prices may well have been running about 0.2% below and consumer prices a good 3.5% above those of the same period of 1966.

The trend of foreign trade led to a further sharp increase in the trade deficit from Lit. 337 000 million in 1966 to about Lit. 600 000 million in 1967 according to customs returns. In addition net receipts from services decreased distinctly in the course of 1967 (apart from variations). For these reasons the current-account surplus, which in 1966 had already diminished somewhat to Lit. 1 366 000 million, shrank considerably in 1967.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ²
	At current prices (in Lit. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ³	6 602	+ 12.5	+ 12.0	+ 7	+ 7	+ 7
Gross fixed asset formation	6 714	+ 3.8	+ 5.3	+ 10.5	+ 12.5	+ 9
Public current expenditure on goods and services	5 197	+ 3.5	+ 6.9	+ 3.5	+ 7.5	+ 4
Private consumers' expenditure	22 234	+ 6.0	+ 8.9	+ 5.5	+ 9	+ 5.5
Gross national product	35 575	+ 5.8	+ 7.9	+ 5.5	+ 8.5	+ 5.5
Imports ³	5 435	+ 13.5	+ 16.0	+ 11	+ 12.5	+ 11.5

¹ Statistical Office of the European Communities, National Accounts.

² Commission estimates or 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 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.

The surplus on the overall balance of payments—Lit. 434 000 million in 1966—certainly decreased even more sharply than the current-account surplus, for the persistence of a wide gap between interest rates in Italy and those abroad contributed to an increase in net exports of capital. In the first eleven months of 1967 they amounted to Lit. 578 000 million as compared with Lit. 399 000 million in the same period of 1966 (according to the returns of the Italian Exchange Office). Since, however, the commercial banks' net transactions with abroad engendered net imports of funds—against net exports in 1966—the increase in official gold and foreign exchange reserves (net) was considerably larger than the payments surplus. Indeed, in the first eleven months of 1967 the increase (Lit. 410 000 million) exceeded considerably that of a year before.

Transactions with abroad, then, tended to expand the domestic liquidity of the banking system in 1967 too, and indeed far more than in 1966. Treasury transactions may also have continued to increase liquidity, though only to a limited extent. Despite these inflows of liquidity and although the banks now extended their admittedly very large security portfolios more slowly, the banks' liquidity margins shrank both absolutely and, in particular, in relation to customers' ordinary deposits. For one thing, demand for credit increased faster: bank advances (excluding those to agricultural storage agencies) showed in the first ten months of 1967 an increase of 16.3 % by comparison with the same period of 1966, as against a 10.8 % increase a year previously. In the second place, bank indebtedness to the monetary authorities decreased considerably.

Trends on the securities market also diverged widely in 1967; while the stock market remained active, partly because the regulations on dividend taxation were tightened up further in mid-February 1967—a measure which led to a sharp decline in prices, from which they did not fully recover until October—net issues of fixed-interest securities reached a very high level again (an estimated Lit. 2 600 000 million, i.e. almost as much as in 1966, when net issues increased by almost 50 %). Once again bonds were issued, directly or indirectly, mainly by the public sector, but the ratio of issues from this source to the total volume of issues was apparently no longer so high as in 1966. The

share of this class of security subscribed to by private investors continued to grow. The net yield on bonds rose again slightly. In November the market disturbance due to the currency devaluations led to a general price decline throughout the securities market.

2. Outlook for 1968

In the case of Italy too a forecast of the economic trend in 1968 will this time be more difficult than usual because of imponderable external factors: the effects of the currency devaluations of November 1967 and, in particular, the balance-of-payments measures announced in the United States on 1 January 1968 can, of their nature, be estimated only very approximately, if at all. There is no doubt, however, that economic growth will continue in 1968. By comparison with the trend in the second half of 1967, it may well even gradually gather momentum once again.

It is to be expected that export demand taken as a whole will grow somewhat more rapidly. Though exports are likely to suffer from the recent currency devaluations, the geographical pattern of Italy's exports and, in particular, her very strong competitive position on the international market are such that export losses will be kept within bounds. The prospects for world production and trade, with business reviving vigorously in the Federal Republic of Germany, Italy's most important customer, have improved, and one effect of this, given Italy's competitive capacity, will doubtless be heavier foreign demand for Italian goods and services. The complete disappearance of customs duties on manufactures in the EEC as from 1 July 1968, the progress being made in establishing a common agricultural market, and the first tariff reductions resulting from the Kennedy Round should all help to spur on exports.

Domestic demand should also expand vigorously; this applies chiefly to gross fixed asset formation and in particular to investment in plant and machinery. Experience suggests that the latter will doubtless be given a fillip by the improved outlook for exports, though after a certain time-lag of course. In particular, rationalization needs will also stimulate investment in plant and machinery; costs climbed again in

1967 and the pressure of competition from abroad will remain appreciable, were it only because of the devaluations and the US balance-of-payments measures. Furthermore, pressure to undertake capital expenditure on plant extension is also gaining strength, for despite a year's vigorous growth of production, investment in plant and machinery is not likely to be back to its 1963 pre-recession level until 1968. Firms have therefore probably been running considerably nearer capacity; for industry this can be observed quite distinctly from the results of the EEC Business Surveys. Lastly, there is no doubt that the Government and monetary authorities will continue to pursue a policy of encouraging investment.

Building and construction may also make further distinct progress. The Government's Forecasts and Planning Report suggests a particularly fast, accelerated expansion of public works. Furthermore, a rapid growth of industrial building is to be expected, partly in view of the prospects of heavier investment in plant and machinery. The number of industrial building permits has already been tending upwards for a long time. Residential construction will also continue to grow no doubt; here, too, the trend of the number of permits has for some time been rising again.

Investment in stocks is unlikely to make any substantial contribution to growth.

Consumers' expenditure on the other hand will doubtless continue to expand at a lively pace. The growth of public current expenditure on goods and services should be much the same as for 1967 in terms of both value and volume; a similar forecast may be made for private consumers' expenditure.

Many factors will contribute to the expansion of private consumers' expenditure: total wages and salaries will rise sharply; the trend of farm incomes will be favourable; the growth of transfer incomes will certainly be faster; there will be a further appreciable increase in other incomes; there will probably be a smaller increase in direct taxes than in 1967, when they rose exceptionally fast, partly because of government aid to flood victims; and the propensity to consume will certainly remain strong.

On these assumptions regarding the trend of demand, production, which as a whole will prob-

ably remain relatively elastic, may well expand rapidly once again despite some increase in competition from imports because of the currency devaluations. The 1968 growth rate for industrial production can be estimated at nearly 8%. Building and construction will probably show an increase of about 6%, while production in the services sector may well expand by about as much for 1967, i.e. by 4.5%. Lastly, if the normal growth of a good 2% is assumed for agricultural production, the real gross national product should grow in 1968 by a shade less than 5.5%. This would mean that overall economic growth will have been distinctly higher in three consecutive years than the 5% per annum taken as the basis for the Italian 1966-1970 five-year plan.

This trend of production should lead to a further appreciable drop in the number of unemployed. As the labour force is also expected to grow again, the unemployment rate will probably fall once more.

Imports of goods and services will probably grow at about the same fast pace as a year before both in the course of 1968 (apart from variations) and on a year-to-year comparison. The main effect of the currency devaluations is likely to be a change in the geographical pattern of imports and the new exchange rates will probably influence the growth rate of total imports only very slightly.

Prices as a whole may well continue to rise appreciably, though at a relatively modest rate. It is true that in comparison with 1967 trends, there are a considerable number of forces discernible which will tend to militate against rising prices, in particular the progressive absorption of two elements tending to force up costs: exceptional tax increases and the reversion to industry of social payment liabilities discharged for a time by the Government. Some pressure on prices is also to be expected from the currency devaluations. None the less, for 1968 the fourth year with an upward business trend since the recession of 1964 there are signs of price-raising tendencies which in 1967 were weak or non-existent: export demand will grow faster with domestic demand continuing to rise sharply, and indeed gaining momentum in the course of the year; on the supply side, production could perhaps, despite everything, become a little less elastic. The gradual release of

controlled rents from 1 January 1968 will also help, though to a lesser extent, to force up prices.

The trade deficit will doubtless increase substantially once again, but on current transactions with abroad there will still be a considerable surplus, though it will be once again a good deal smaller than before.

In view of the outlook, the guidelines (dealing mainly with initial arrangements for 1968) set out in the recommendation of July 1967 of the Council of the European Communities¹ will probably still fit Italy's requirements, at any rate at first.

By and large Italian policy seems to be in harmony with these requirements.

In accordance with the recommendation, no further expansionary measures have been taken which would aim at an overall stimulation of economic growth.

As regards budget policy, the Government's latest Forecasts and Planning Report shows that in the public sector the structure of expenditure improved (with a heavier emphasis on investment) and the cash deficit shrank by about a third (to Lit. 835 000 million), which is also in line with the recommendation. One qualification, however, is that the growth rate of current expenditure—at least on a year-to-year comparison between 1966 and 1967—if anything increased a little and that the deficit would probably have grown if in particular the cash expenditure of the local and regional authorities

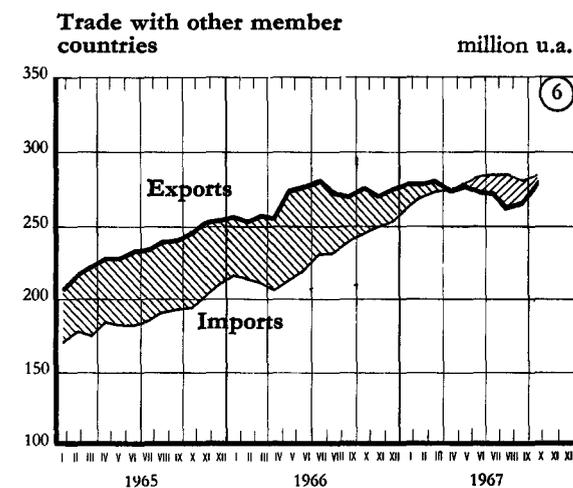
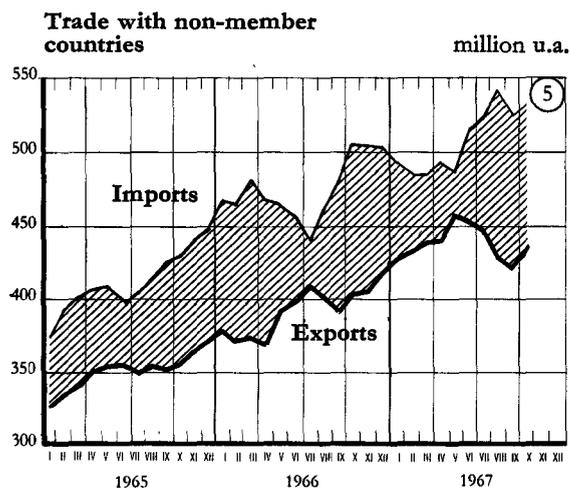
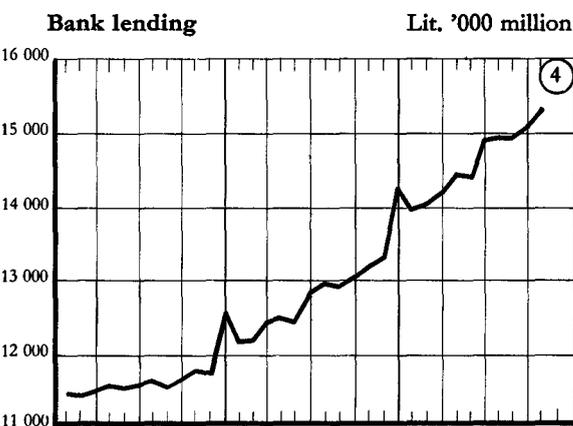
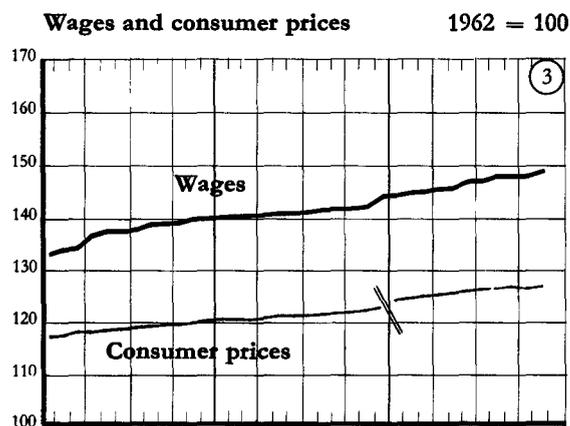
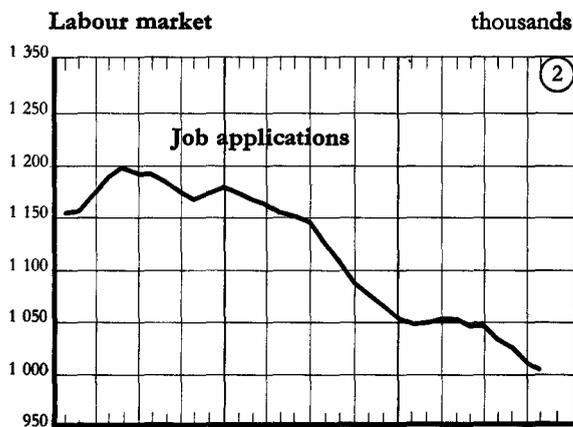
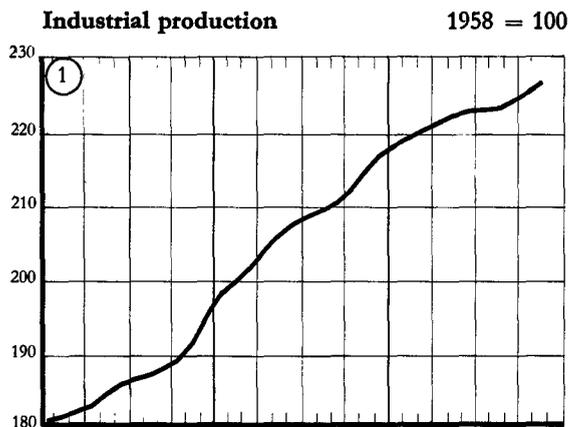
had not happened to fall far below the amounts budgeted for. In any case, this underspending has led to a sharp increase in the residues of expenditure expropriations carried over and has therefore increased for a later date the danger of heavy cash spending to work off the backlog, which would be undesirable from the angle of economic policy and very difficult to control.

For 1968 the Forecasts and Planning Report predicts a further considerable increase in the public cash deficit, bringing it up to Lit. 1 150 000 million. It is clear, were it only because of the size of the deficit, that such an increase harbours the seeds of danger for the balance of the economy, at least in the matter of financing. Welcome, on the other hand, are the prospects of a rather lower growth rate for current expenditure, a further improvement in the structure of overall public expenditure, and a further (though slow) increase in public saving.

Consequently, calls on the capital market by the public authorities will probably increase sharply in 1968, especially as the share of the public cash deficit financed by short-term borrowing should be reduced. The monetary authorities should, initially, continue to apply an increasingly cautious policy because of these prospects, because of the probably fast growing need for finance for private and, in particular, publicly-controlled enterprises, and in view of the steady and rapid growth of expenditure by the public sector. Otherwise there would be too great a risk that expansion, which for some years has remained vigorous but balanced, might get out of hand, although—what with the currency devaluations and the US payments measures—this danger has receded.

¹ See Quarterly Survey 3/1967, p. 30.

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

Graph 3. Source : ISTAT. Agreed minimum wages in industry. Consumer prices : new index as of January 1967 not fully comparable with preceding series.

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 1966

Total area ('000 sq. km.)	301.2
Total population ('000)	51 927
Density of population per sq. km.	172
Numbers in employment ('000)	18 884
Numbers in employment, breakdown by main sector (%):	
— Agriculture	24.7
— Industry	40.3
of which: Construction	10.0
— Services	35.0
Percentage share of gross domestic product:	
— Agriculture	12.5
of which: Construction	40.1
— Industry	8.0
— Services	47.4
Gross product per capita (Lit.)	740 000

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	6.3	8.2	6.3	5.8	3.0	3.5	5.5	153.5	—
Industrial production	11.1	9.3	8.8	7.9	2.0	3.1	8.0	174.8	—
Total imports	37.8	14.8	16.4	22.6	- 5.4	1.9	13.4	274.9	16
Private consumers' expenditure	6.2	7.3	6.7	10.0	2.0	2.2	5.7	151.8	63
Public current expenditure on goods and services	4.0	4.8	5.4	5.1	4.1	3.6	3.6	139.8	14
Gross fixed asset formation	13.4	11.8	10.0	9.2	- 7.3	- 8.4	3.7	144.9	18
Total exports	18.2	16.5	12.2	7.0	12.0	20.8	12.5	298.2	19
Gross national product per capita	5.7	7.7	5.6	5.0	2.1	3.0	4.8	144.5	—
Gross national product per person gainfully employed	6.5	8.0	7.5	7.6	3.3	3.8	7.0	162.9	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1953 = 100)	Million u.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966			
Visible exports										
Total	26.1	14.7	11.4	8.2	18.0	20.7	11.7	316.7	8 031.9	100
Intra-EEC	36.0	21.8	23.7	10.3	26.4	27.6	12.8	537.9	3 261.7	40.6
To non-EEC countries	22.3	11.8	5.8	7.0	13.4	16.4	11.0	247.2	4 770.2	59.4
Exports of food, beverages and tobacco										
Total	5.6	10.6	14.5	- 3.4	2.4	20.5	1.5	168.9	862.1	10.7
Intra-EEC	12.5	14.7	23.4	- 8.7	8.8	31.4	0.4	246.5	467.2	5.8
To non-EEC countries	0.4	7.4	6.5	2.1	- 3.3	9.5	2.8	123.1	394.9	4.9
Exports of raw materials and manufactures										
Total	30.7	15.5	10.9	10.2	20.5	20.7	13.1	353.9	7 169.8	89.3
Intra-EEC	45.4	23.9	23.9	15.6	30.4	26.9	15.2	670.3	2 794.5	34.8
To non-EEC countries	26.0	13.7	4.5	7.7	15.5	17.2	11.8	271.9	4 375.3	54.5
Visible imports										
Total	41.0	10.6	15.9	24.5	- 4.1	1.6	16.7	271.7	8 571.3	100
Intra-EEC	45.7	17.2	22.9	31.1	- 4.5	- 3.1	21.6	407.7	2 787.2	32.5
From non-EEC countries	38.4	8.1	13.0	21.5	- 3.9	3.9	14.4	234.1	5 784.1	67.5
Imports of food, beverages and tobacco										
Total	33.5	5.3	7.3	57.5	2.4	18.9	9.7	323.4	1 766.4	20.6
Intra-EEC	42.6	- 1.3	10.0	73.1	15.7	20.6	13.5	439.3	380.7	4.4
From non-EEC countries	31.8	6.6	6.8	54.4	- 0.6	18.4	8.7	295.8	1 385.7	16.2
Imports of raw materials and manufactures										
Total	42.4	11.6	17.5	19.2	- 5.5	- 2.4	18.6	260.9	6 804.9	79.4
Intra-EEC	46.0	19.2	24.1	27.8	- 6.6	- 6.3	23.0	397.2	2 406.5	28.1
From non-EEC countries	41.0	8.4	14.4	14.8	- 4.8	- 0.2	16.3	219.7	4 398.4	51.3

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	103.8	105.4
	1967	103.1	103.1	114.6	109.9	112.9	111.1	113.6	79.5	114.1	117.2	(112.8)	
Unemployed ('000)	1966	1 012	.	.	665	.	.	719	.	.	681	.	.
	1967	878	.	.	623	.	.	584	.	.	669	.	.
Building: domestic turnover of building materials (1964 = 100)	1965	88.0	74.9	95.2	88.0	91.3	107.5	105.6	100.4	101.1	101.6	101.6	98.7
	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		
Private consumers' expenditure: turnover of department stores (1958 = 100)	1965	270	215	249	303	284	318	296	241	330	354	319	542
	1966	313	231	275	313	319	338	306	267	330	377	355	586
	1967	302	245	329	303	352	363	348	284				
Total visible imports (million u.a.)	1965	546	592	631	595	615	573	629	562	615	641	680	672
	1966	716	665	729	665	717	706	707	561	815	802	754	734
	1967	827	760	796	809	785	810	851	689	791	(872)	(879)	
Total visible exports (million u.a.)	1965	461	560	643	589	571	612	627	552	613	637	650	620
	1966	572	598	712	612	722	690	723	592	681	758	678	685
	1967	661	690	771	715	768	708	745	615	715	(816)	(754)	
Balance of trade (million u.a.)	1965	- 84	- 32	+ 13	- 6	- 44	+ 39	- 2	- 9	- 2	- 4	- 30	- 51
	1966	- 144	- 66	- 17	- 53	+ 5	- 7	+ 16	+ 31	- 134	- 44	- 76	- 48
	1967	- 166	- 70	- 23	- 95	- 17	- 102	- 106	- 74	- 77	(- 56)	(- 125)	
Official gold and foreign exchange reserves (net, million u.a.)	1965	3 797.8	3 873.9	3 755.8	3 811.5	3 895.5	4 032.3	4 250.4	4 390.7	4 323.0	4 270.2	4 303.4	4 566.2
	1966	4 425.9	4 386.4	4 337.6	4 404.2	4 433.8	4 537.3	4 772.8	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)	
Money supply (Lit. '000 million)	1965	11 984	11 861	12 077	12 225	12 522	12 687	12 885	12 808	13 108	13 227	13 420	14 495
	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			

() Provisional figures.

Italy

NOTES

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

Table 1

- Present-in-area population (resident population less persons temporarily abroad). Average for year. Source: Istituto Centrale di Statistica.
- Numbers in employment. Average for year. Source: Istituto Centrale di Statistica, "Rilevazione nazionale delle forze di lavoro—5 ottobre 1966".
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

- 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 5 department stores and 2 "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 *asogni*) issued by the Central Bank and other banks and credit institutions.

D. The Netherlands

The slackening of economic activity observed since the middle of 1966 became slightly more pronounced in the early months of 1967. As the year advanced, however, demand from abroad began to expand again rather more briskly, and this, combined with the selective measures taken to deal with unemployment, led to gradual improvement in the economic climate. The tendency to deplete stocks was halted, and with private consumption showing a rather more pronounced increase, industrial production revived and the position on the labour market was distinctly more stable in the second half of the year.

The improvement in the economic trend may well continue in 1968. As, however, certain special factors are no longer having so strong an impact, economic growth will be slower than in 1967 and unemployment will remain relatively high. The expansion of final demand at home is likely to be distinctly weaker as the growth of building investment, in particular, may decline sharply. On the other hand, investment in stocks may well rise more rapidly than before, and exports may increase at about the same rate as in 1967. The tendency for equilibrium to be restored, which in 1967 was apparent in the somewhat slower rise of prices and an improvement in the current balance of payments may continue in 1968. With a further decline in the rise of labour costs, the level of consumer prices will rise somewhat less than in 1967, while the current balance of payments will close with a somewhat higher surplus.

To ensure that in the long run the growth of the economy is balanced and satisfactory and that employment is maintained at a high level, policy for 1968 must still be based for some time on the maintenance of selective support measures and a continued improvement in the structure of private and even more of public demand.

1. Balance sheet for 1968

The growth of the economy was somewhat more balanced and vigorous than in 1966. This improvement was largely due to an increase in the net external contribution.

Exports of goods and services, which in the early months of 1967 had slackened slightly further, rose during the remaining months at a more lively rate. This means that the growth rate for the full year was even somewhat greater than in 1966, and that, at a time when the international economic climate was cooling off, the Netherlands was increasing its share of aggregate world exports. Decisive factors for this increase were an expansion of the capacity

available to production of goods for export and a great rise in the supply of agricultural produce.

According to the foreign trade statistics, visible exports rose by 8 % in value, against 5.6 % the year before. Despite the hesitance that at times marked the trend of business in the countries of the Community, sales to these countries may have risen rather more than in 1966. In addition, the growth rate of deliveries to non-member countries was distinctly greater than in the previous year. As in addition the very marked rise in earnings from factor income offset the marked slackening in exports of services, the total value of goods and services exported (as defined for the national accounts), may have increased by 7 % compared with 6.2 % the year before.

The expansion of nominal domestic demand, on the other hand, was somewhat slacker, largely owing to a slower rise in investment outlays.

Towards the end of 1966, there was even a drop in gross fixed asset formation by enterprises, which probably continued in 1967. This is largely to be explained by the impact on self-financing possibilities of the considerable rise in production costs, the completion of large-scale capital projects undertaken by public enterprises and the emergence of a certain reaction to the great expansion of investment during the preceding years. It was, in particular, the trend towards investment in plant and machinery that was affected by these inhibiting factors, whereas expenditure by firms on building and construction was assisted not only by the unusually mild weather at the beginning of the year, but also by a certain backlog of demand which had accumulated while restrictive measures in this field had been imposed by the authorities. Total average fixed asset formation of enterprises may have been only some 6.5 % higher in value than in 1966, when it had been 13.2 % higher than in the preceding year.

In distinct contrast, public expenditure on investment rose a great deal more steeply than in 1966—17.5 %, against 6.5 %; decisive among the factors leading to this sharp rise was the vigorous increase of investment expenditure by the central government in connection with measures taken during the year to limit regional unemployment. The expansion of investment by local authorities, on the other hand, slackened, mainly because of the continued difficulty of financing it. Investment in housing also expanded markedly, owing in no small degree to the measures adopted in support of subsidized housing. The total of completed dwellings reached about 127 500 and thus appreciably exceeded the level of a year earlier. All in all, the value of gross fixed asset formation may have increased by some 10.5 %, compared with a rise of 12.2 % in 1966.

The impetus given to production and business activity by investment in stocks was also distinctly weaker than in 1966. Especially in the first six months of the year, industry and dealers were still being very cautious. It was not until the third quarter that replenishment of stocks seems to have made some headway not only in

raw materials and semi-finished goods but in finished items also.

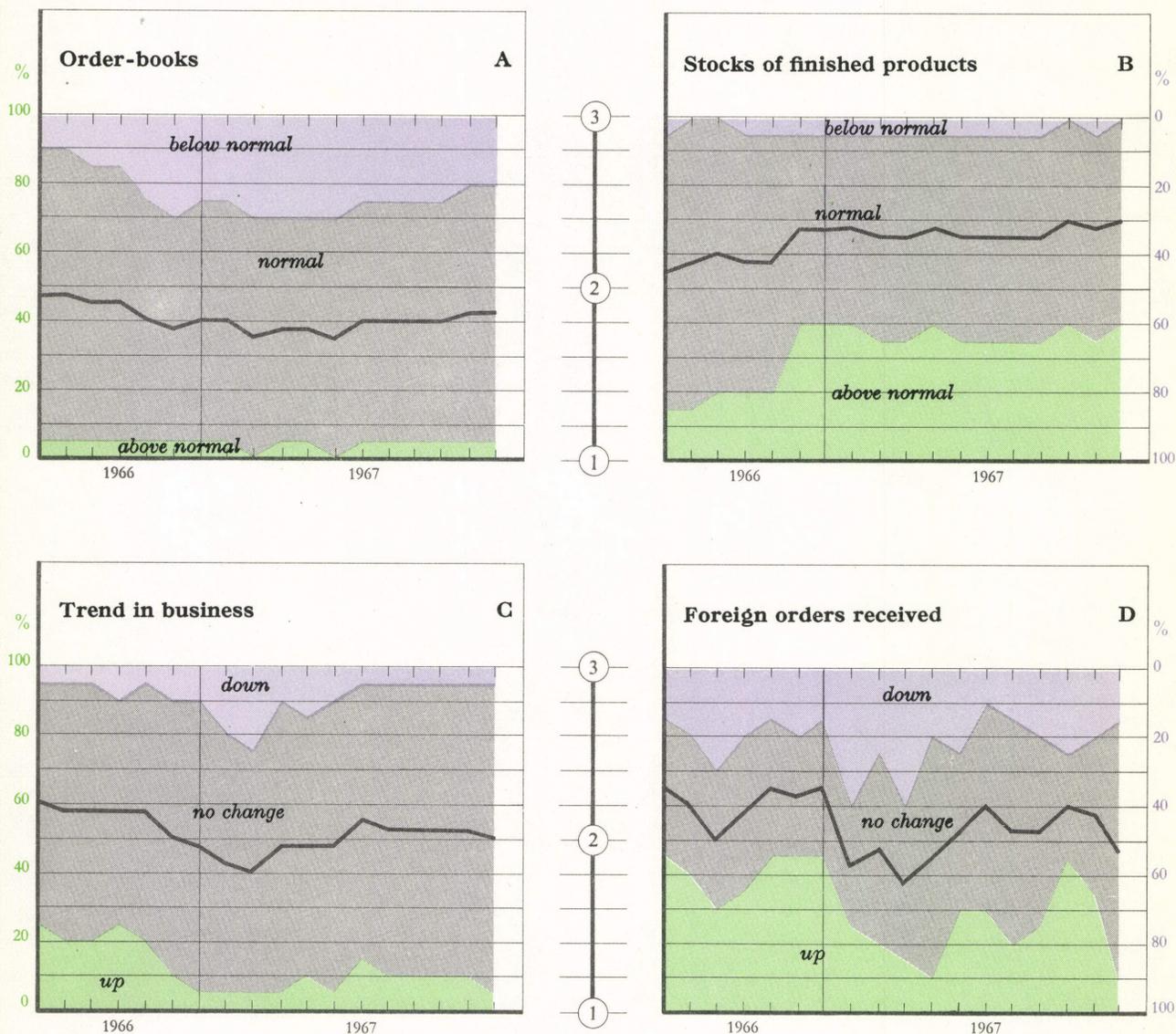
Consumption expenditure, on the other hand, continued to expand practically as fast as before. The rise in public expenditure on goods and services, at some 13.5 %, appears to have been even higher than in 1966, when it was on 12.1 %; the pace at which expenditure on wages and salaries was rising slackened, but this was more than offset by the more rapid expansion of defence expenditure.

The expansion of private consumers' expenditure, too, was only a little less than in 1966. Most affected by the reduction were traditional consumer goods and certain services, while demand for consumer durables increased again at a somewhat more lively rate following the slackening caused by special factors in 1966. Overall, private consumers' expenditure will have risen by perhaps 8 %, compared with the 9 % of a year earlier. As however the consumer price level rose distinctly less, the volume of private consumption will have risen considerably more from 1966 to 1967 than from 1965 to 1966.

Although a certain increase in the propensity to save of households will have played a part, the main reason for this slackening in the expansion of private consumers' expenditure can be traced back to a perceptible weakening in the rise of incomes and salaries, for the total wage and salary bill probably rose by only 7 %, against the 12 % of 1966. Decisive factors here were the reduction of some 1 % in the total number of hours worked and the slower rise in the rates of pay laid down in short-term collective agreements (4 % at the beginning of the year and 1.5 % towards the middle of the year compared with an average of 8 % in 1966). There was, however, the great increase in wages fixed by long-term agreements. Transfer incomes and incomes from self-employment and property continued to expand at more or less the same rate. The second reduction in wage and income tax in mid-year represented an increase of more than 1 % in a full year in the disposable incomes of households.

Taking the year as a whole, the slight weakening of the expansion in aggregate demand fell entirely on supplies from abroad, while the domestic production as a whole grew even a little faster than before.

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".

One of the reasons behind this development is to be found in the very great increase in agricultural production brought about by the good weather. Another is that building and construction, also benefiting from the good weather, from a more liberal policy on the issue of building permits and an exceptional advance in labour productivity, expanded considerably. In manufacturing industry, on the other hand, the growth of net value added at constant prices was down to 4.5 %, and so was after all somewhat below the 5.5 % of 1966.

Bearing in mind that the real value added of the services sector will have risen by about the same amount as in 1966, the gross national product at constant prices may have grown by about 5 % against an increase of no more than 2.8 % the year before.

In contrast to 1966, increased output was entirely due to higher productivity. The number of workers in paid employment fell for the first time since 1958. In the earlier part of the year the numbers unemployed were still rising, and it was only after mid-year that this tendency gradually faded, influenced no doubt in some measure by the slackening in the natural growth of the labour force and the end of net immigration, which had previously been rising with unflinching regularity. The number of unemployed, seasonally adjusted, which by October had risen to some 100 000, had by December fallen back to some 79 500. The unemployment rate (percentage of unemployed in the total civilian labour force, seasonally adjusted) was 1.8 at the end of the year, compared with 1.4 at the end of 1966. The rise in unemployment was particularly perceptible in the border provinces, where in addition to some weakness in building activity there was a decline in the number of frontier workers employed in the Federal Republic of Germany and a return home of workers previously employed in the west of the country. From the spring onward, however, the rise in unemployment in these areas eased off somewhat as a result of selective support measures.

As already mentioned, imports suffered very appreciably from the inclination for aggregate demand to slacken—and it was not only raw materials and semi-manufactures which suffered, but also finished industrial products, especially investment goods. On the basis of the Nether-

lands foreign trade statistics, visible imports in 1967 may have risen by only about 5 % in volume, compared with 6.5 % in 1966. Overall imports of goods and services, as defined for the national accounts, may have grown by some 4 % in volume, compared with 7.8 % in 1966. The general level of prices rose more slowly than in 1966. For one thing, the easing of the rise in labour costs helped to stabilize producer prices, especially as imported raw materials were becoming cheaper and the pressure of demand eased somewhat. In addition, the rise in consumer prices was less than in 1966, despite the raising of the rates for various public services, as the trend of food prices was much more helpful than in 1966. The advance in the cost-of-living index will be down to a good 3 %, after a rise of 5.8 % the year before.

The weak trend of imports and the lively increase in exports led to a distinct improvement in the balance of trade and consequently the current balance of payments. There was probably a moderate surplus on current account (on a transactions basis, including unrequited items), following a deficit of Fl. 630 million in 1966. With fairly heavy net capital exports—made up mainly of long-term private capital transactions and a heavy deficit on public capital movements—there was a deficit on overall payments for the first nine months. Overall net gold and currency reserves were about Fl. 80 million down in the first nine months of the year, compared with a drop of Fl. 600 million in the corresponding period of 1966. It was almost exclusively the net foreign exchange position of the commercial banks which deteriorated, whereas the reserves of the banks of the Netherlands rose considerably.

In the first nine months of the year payments transactions abroad might have led to a reduction in domestic liquidity, but their effect was more than offset by the transactions of the private and still more of the public sector. Though there was a distinct slowdown in the expansion of long-term credit, there was at least until the autumn a more rapid increase in short-term advances to business and private customers. The acceleration was certainly connected with the cancellation in June of limits on credit, a measure which may have caused enterprises to raise the level of their liquid resources. In addition, the public authorities continued to be exceptionally short of liquid funds—but the

situation in 1967 differed somewhat from that which prevailed in 1966, Treasury transactions now contributing more to the deficit and the local authorities less.

On the bond market the sales of securities in 1967 may have been much the same as in 1966. The demand for capital emanating from the public authorities, particularly from the Bank for Netherlands Municipalities, increased steeply. On the other hand, the private sector was more inclined to borrow through non-bonded notes

(onderhandse markt). Temporary excess demand on the market, and even more the renewed tendency for interest rates to rise in certain major foreign financial centres, stopped the decline of interest rates in April. On the stock market the recovery which occurred early in 1967 was maintained vigorously throughout the year. Decisive factors for this improvement were the upward trend discernible on certain leading stock exchanges abroad and the better business prospects.

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	+ 7	+ 7.5
Gross fixed asset formation	17.03	+ 6.2	+ 12.2	+ 6.5	+ 10.5	+ 1
Public current expenditure on goods and services	10.74	+ 2.9	+ 11.8	+ 5	+ 13.5	+ 2
Private consumers' expenditure	39.87	+ 2.6	+ 9.0	+ 4.5	+ 8	+ 3.5
Gross national product	68.99	+ 2.8	+ 8.9	+ 5	+ 9.5	+ 3.5
Imports ⁴	33.11	+ 7.8	+ 8.4	+ 4	+ 4.5	+ 7

¹ General Statistical Bulletin, 1967, No. 7-8, National Accounts, 1957-1966.

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.

2. Outlook for 1968

The expansion of aggregate demand is likely to be less lively in 1968 than in 1967, since the

rise in domestic demand may grow weaker as the year advances. In view of the anticipated development of the world situation, on the

other hand, external demand may remain quite lively.

Exports should continue to expand rapidly, mainly owing to the improvement which may be brought about in the market position of Netherlands enterprises, by a further slackening in the rise of production costs and the boosting of productive capacity in industry, particularly in natural gas. The elimination of customs duties inside the Common Market and the start being made with the removal of customs barriers in accordance with the Kennedy Round will also help. However, certain negative factors still need to be taken into account: most important among these are the effects which devaluation of the pound and other currencies in the middle of November 1967, together with the numerous restrictive measures in the monetary field which accompanied devaluation, may exert on exports of goods and services from the Netherlands. A relatively large proportion of Netherlands exports goes to the devaluating countries—some 12.5 % of merchandise exports alone; what is more, increased competition by the devaluating countries on the markets of the non-devaluating countries is to be anticipated. The measures announced by the United States as part of the drive to reduce that country's balance-of-payments deficit will affect exports, especially exports of services. The reduction in the external customs tariffs of France and Italy could be a further retarding influence on the expansion of exports from the Netherlands, inasmuch as the ability of non-member states to compete in these markets will be increased. In addition, the effects produced by changes in the system of indirect taxation in certain Member States also need to be taken into account, though measures to offset the indirect tax burden on exports have been introduced with effect from 1 January 1968. Lastly, if harvests are normal, a reduction in the growth of agricultural exports is also to be anticipated. All in all, total exports (as defined for national accounting purposes) may be broadly the same in value as in 1967. Assuming a slight easing of export prices, the increase by volume may even turn out to be somewhat greater than in 1967.

The slowdown in the expansion of domestic demand will probably extend to all its components except investment in stocks. In particular, a sharp fall can be expected in the already

diminished growth rate of gross fixed asset formation. Investment by enterprises will probably increase only a little, as the backlog of demand for industrial buildings that had accumulated during the "squeeze" years may gradually have been worked off, while the recovery of investment in plant and machinery that is expected to take place in the second half of 1968 as a result of the better outlook for sales and profits and of the reflationary measures taken in 1967 will probably only do little more than offset the decline in the year's expenditure on construction. A decline in residential building is also to be anticipated as a reaction to the very considerable expansion that occurred in 1967, although the state scheme of subsidies was widened at the beginning of 1968. Finally, it cannot be expected that total public investment in 1968 will speed up further, despite the likelihood that the investment expenditure of regional and local authorities will regain something of its previous momentum.

The boost given to business activity by investment in stocks may be greater in 1968 than in 1967, though the fiscal measures for the transition to the tax on value added, which come into force on 1 January 1969, may have certain retarding effects.

To judge from information on the national budget for 1968, public expenditure on consumption may rise less steeply than in 1967.

The same should apply to private consumers' expenditure. While the incomes of households will benefit from some recovery in the total number of hours worked, the rise in short-term agreed rates may decline somewhat. It is particularly difficult to predict the outcome of wage negotiations, since this time the negotiations between the two sides of industry will be free; but in view of the general economic situation the increases agreed on should be more moderate than in 1967. In addition, wage drift may no longer have the effect of raising incomes. Even if the long-term wage rates are increased to approximately the same extent as in 1967, this should not mean an increase in total wages and salaries of much more than 6 % in 1968. The expansion of transfer incomes will doubtless also decline. On the other hand, incomes from entrepreneurship and property may enjoy a sudden upswing. Although the burden on the gross income of households may, as a result of

the reduction made in wage and income tax on 1 July 1967, be less heavy in 1968 than the previous year, the expansion of disposable incomes will also slow down perceptibly. No significant change in the savings ratio of households can be expected.

The growth in domestic supply, which may be considerably less than in 1967, will be the result of widely varying trends in the various sectors. Industrial production, for instance, may even expand somewhat more markedly and be 5.5 % higher than in 1967; the rise in building output and the increase in agricultural production will probably be down; and real net value added in the services sector may advance at much the same pace as before. All in all, a rise in the real gross national product of some 3.5 % is to be expected in 1968.

The possibilities of higher productivity that have come into being while economic activity was slowing down should suffice to cover almost the entire growth in production in 1968, so that demand on the labour market can be expected to increase only slightly. In the course of the year, however, there may be a tendency for unemployment to fall slowly, for not only will the domestic labour force again register only a modest increase, but a further reduction of the length of the agreed working week in industry should mean that the numbers in employment do not fall further, while in the services sector the steady rise in the number employed will continue.

Imports of goods and services may well expand more rapidly again, in which case their rate of growth will be appreciably higher than in 1967. In particular, as a result of some restocking of raw materials and semi-finished goods and a larger demand for vehicles, a steep rise is to be expected in visible imports.

The foregoing outline of import and export trends indicates that there may well be a further, though very much less pronounced improvement in the balance of current transactions with foreign countries.

It could be important for the trend of prices in 1968 that, of the forces inherent in the business situation which tend to push prices up, the rise in production costs is exerting distinctly less pressure than previously. Since, however, among the autonomous forces liable to push

prices up, account must be taken of a further increase in indirect taxes and a further adjustment of rents, consumer prices may rise further—by some 3 %, assuming normal weather conditions and therefore a normal supply of agricultural products.

This picture of what can be expected in 1968 shows that there has been unmistakable progress towards the restoration of the country's internal and external balance, but that those responsible for economic policy will still have to promote these tendencies energetically. In their efforts to support economic growth and to combat regional unemployment the Netherlands authorities should therefore continue to avoid overall measures and apply selective measures only.

The economic measures introduced in the early months of 1967 as steps towards the double goal of balance and growth have already been discussed in previous Quarterly Surveys, especially No. 3/1967, on the economic situation in the Community. Since then the Netherlands authorities have introduced further measures. Most important of these were the provision of an additional Fl. 200 million for public investment in the provinces especially affected by unemployment (half of this sum, it is true, was derived from savings in similar expenditure elsewhere in the country), and the earlier award of certain public contracts from the 1968 budget. Facilities for the more rapid depreciation of buildings have been re-introduced, though only in areas with heavy unemployment, and certain public administrative offices are to be transferred to these areas. Finally, it was decided that part of the 1968 programme of subsidies for residential construction would be carried out earlier than originally proposed, with differences in the urgency accorded to the various regions, and that the possibilities of qualifying for a subsidy would be extended with effect from 1 January 1968.

A policy of the kind, which does not depend on general stimulation measures and provides selective benefits only for those provinces where unemployment has reached a certain level, appears to be the more appropriate because in the west of the country the labour market is still under strain, with the number of vacancies distinctly higher than the number of applicants. In view of the close connection between the labour market situation and the trend of wages,

labour costs and prices that has in the last few years been apparent in the Netherlands, measures to ensure rapid growth and high employment call for an extremely delicate mix if the desired stabilization of costs and prices is not to be endangered and the revival of inflationary tendencies encouraged. In particular, it should be remembered that, where wage formation is concerned, incomes policy will in 1968 be more liberal than before and that consequently, despite the somewhat cooler economic climate, the wage increases granted under long-term agreements may have certain repercussions on short-term wage agreements.

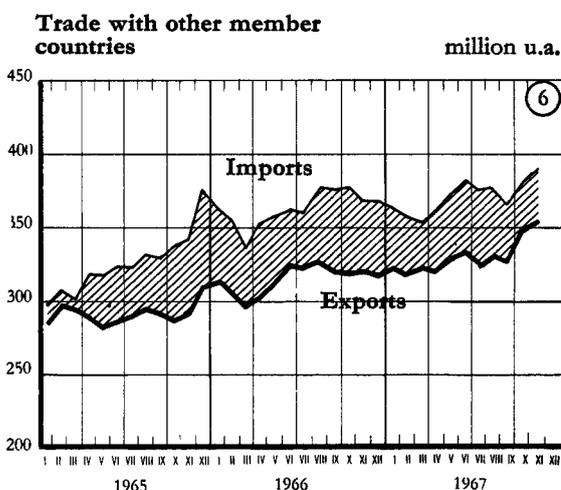
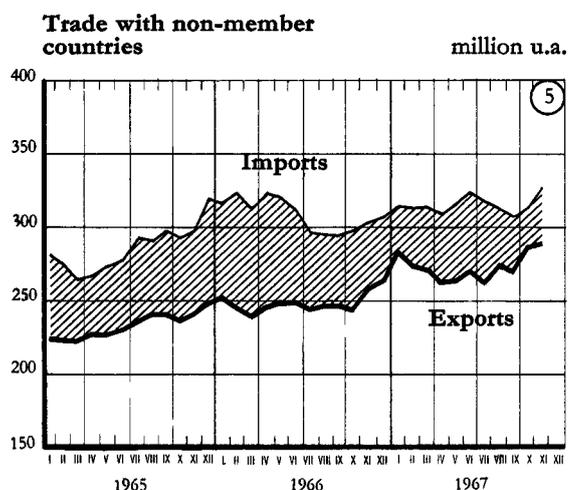
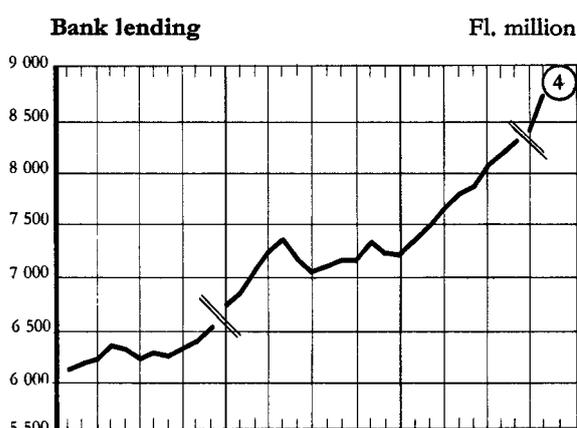
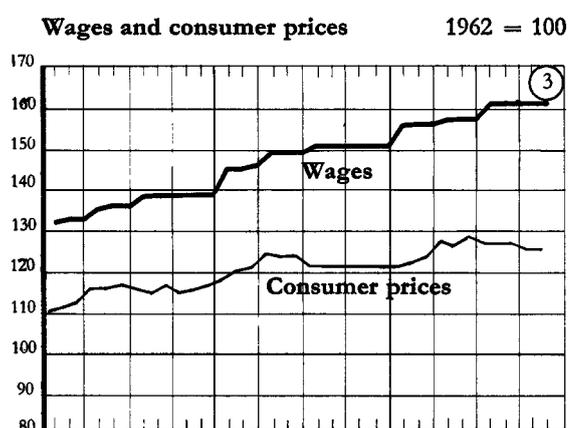
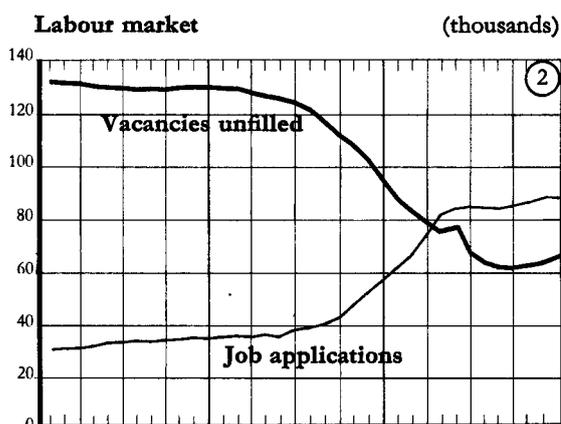
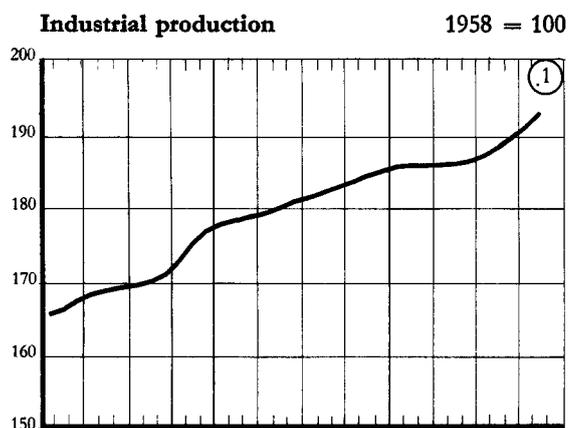
In the public finances, too, a suitable policy mix is a matter of some urgency. The measures taken so far to combat the economic recession have in fact aggravated the problem of high deficits. The Government has, it is true, sought to offset part of the additional anticyclical expenditure by savings, but the latest estimates of the deficit that will ensue from execution of the 1968 budget (put at Fl. 2 800 million last September) may prove to be too low. If these estimates are exceeded, however, serious financial difficulties might result. The Council of the European Communities pointed out in its recommendation of 11 July 1967 to the Member States concerning the guidelines to be followed in short-term economic policy during the second half of 1967 and the first measures to be taken for 1968,¹ that budget deficits linked with the economic situation could if necessary be met by

monetary means, but at the same time it stressed, particularly for the Netherlands, the need for putting the public finances on a permanently sound footing by reducing structural deficits. In Quarterly Survey No. 3/1967 the problems arising from this recommendation, especially for the implementation of the 1968 budget, have already been described in detail. Here it is only necessary to add that the position on the money and capital markets of the Netherlands has in no way improved since that time, and in particular that the results of consolidating the short-term indebtedness of the local authorities are still unsatisfactory, while signs are now apparent of a progressive improvement in the economic situation. The Government has in addition announced that by 1969 it should be possible to reduce the structural deficit in the budget to some Fl. 1 500-1 750 million.

If this reduction in the structural deficit is to be achieved, it is essential that, from 1968 inclusive, expenditure affecting consumption shall not exceed the level stipulated in the current budget. A stricter limitation of this expenditure would contribute to increasing the margin of resources available for supporting the level of investment; such a development would be welcome for a number of reasons, including the considerable influence on growth that is exerted in the longer run by investment expenditure. In any case the handling of national and local government expenditure should be flexibly adapted to the progressive improvement which can be expected to occur in the business situation.

¹ See Quarterly Survey No. 3/1967, p. 30.

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. Index of consumer prices—general index. 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)	12 456
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	+ 7.0	+ 3.9	+ 1.6	134	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966			
Visible exports										
Total	+11.7	+ 6.9	+ 6.5	+ 8.2	+17.0	+10.1	+ 5.6	210	6 751	100
Intra-EEC	+15.8	+10.9	+10.0	+17.3	+22.1	+10.2	+ 5.3	280	3 750	55.5
To non-EEC countries	+ 8.4	+ 3.6	+ 3.2	- 0.6	+11.2	+10.0	+ 6.0	160	3 001	44.5
Exports of food, beverages and tobacco										
Total	+ 5.3	+ 0.8	+ 6.9	+ 9.3	+ 9.5	+13.0	+ 0.3	176	1 572	23.3
Intra-EEC	+ 6.1	+ 3.1	+10.0	+12.1	+12.8	+19.7	- 0.2	280	969	14.4
To non-EEC countries	+ 4.4	- 1.8	+ 3.3	+ 5.8	+ 5.1	+ 3.6	+ 1.0	127	608	8.9
Exports of raw materials and manufactures										
Total	+14.2	+ 9.2	+ 6.3	+ 7.9	+19.6	+ 9.2	+ 7.3	223	5 179	76.7
Intra-EEC	+20.7	+14.3	+10.0	+19.4	+25.6	+ 7.1	+ 7.4	304	2 782	41.2
To non-EEC countries	+ 9.6	+ 5.2	+ 3.2	- 2.4	+18.1	+11.9	+ 7.3	170	2 398	35.5
Visible imports										
Total	+15.0	+12.8	+ 4.6	+11.6	+18.2	+ 5.9	+ 7.5	221	8 018	100
Intra-EEC	+18.6	+21.1	+ 6.7	+14.9	+19.0	+ 8.7	+ 8.7	285	4 332	54.0
From non-EEC countries	+12.2	+ 5.3	+ 2.5	+ 8.3	+17.4	+ 2.9	+ 6.0	175	3 686	46.0
Imports of food, beverages and tobacco										
Total	+ 3.4	+ 5.9	+ 6.3	+15.5	+16.2	+ 3.5	+ 3.9	184	1 027	12.8
Intra-EEC	+16.4	+41.5	- 7.0	+11.8	+22.0	+13.1	+ 8.8	308	246	3.1
From non-EEC countries	+ 1.2	- 1.0	+10.0	+16.3	+14.9	- 1.2	+ 2.5	163	781	9.7
Imports of raw materials and manufactures										
Total	+17.2	+14.0	+ 4.3	+11.0	+18.6	+ 6.3	+ 8.0	228	6 991	87.2
Intra-EEC	+18.8	+20.0	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	284	4 086	51.0
From non-EEC countries	+15.6	+ 7.7	+ 0.7	+ 6.1	+18.0	+ 4.2	+ 7.0	178	2 905	36.2

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	156	159	158	162	166	164	145	147	165	177	178	174
	1966	164	167	173	177	175	175	148	163	176	187	189	185
	1967	173	177	179	184	177	183	153	171	184	195		
Construction (Fl. million)	1965			1 488			1 744			1 928			1 806
	1966			1 554			2 029			2 204			2 122
	1967			2 036			2 364			2 503			
Unemployed ('000)	1965	47.4	43.8	33.8	27.9	24.0	21.9	28.1	26.7	26.6	27.9	35.3	48.1
	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
Investment (Fl. million)	1965			3 756			4 345			4 297			4 631
	1966			4 128			4 937			4 924			5 108
	1967			4 745			5 522						
Private consumers' expenditure (1963 = 100)	1965	118	106	117	124	127	121	138	118	125	133	135	155
	1966	129	114	130	141	138	136	148	132	136	142	147	159
	1967	142	125	146	144	149	151	152	144	152	150		
Total visible imports (million u.a.)	1965	554	564	630	614	577	617	665	537	620	676	625	793
	1966	625	626	759	701	630	684	652	620	696	670	663	638
	1967	680	639	719	690	694	737	650	652	683	733	746	
Total visible exports (million u.a.)	1965	477	489	532	506	501	554	543	433	506	594	557	611
	1966	500	470	572	570	544	612	549	498	632	597	615	593
	1967	601	532	606	532	592	642	536	605	641	686	665	
Balance of trade (million u.a.)	1965	- 77	- 75	- 99	- 108	- 76	- 63	- 121	- 98	- 24	- 83	- 68	- 181
	1966	- 125	- 156	- 188	- 131	- 86	- 71	- 103	- 122	- 64	- 47	- 53	- 95
	1967	- 80	- 107	- 113	- 103	- 102	- 95	- 114	- 46	- 42	- 47	- 81	
Official gold and foreign exchange reserves (million u.a.)	1965	2 075	2 094	2 069	2 083	2 036	2 010	2 042	2 053	2 065	2 088	2 120	2 058
	1966	1 970	1 972	1 997	1 943	1 953	1 918	2 012	2 010	1 996	2 006	2 038	2 036
	1967	1 970	1 995	1 998	1 995	2 065	2 094	2 104	2 064	2 104	2 235	2 230	
Money supply (Fl. '000 million)	1965	15.53	15.56	15.67	16.05	16.62	16.81	17.01	17.04	16.89	16.89	16.97	17.15
	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	17.89	17.97	18.27	18.74	19.31	19.98	19.67	19.33	19.55			

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

The growth of the economy slackened slightly further in 1967. Not only did the expansion of demand from abroad weaken, but the investment activities of enterprises contributed less to production and employment than in 1966. With the trend of incomes far from dynamic, the expansion of private consumers' expenditure also lost something of its momentum. As against this, there was another quite vigorous increase in public authorities' expenditure, particularly investment expenditure.

Though the upward movement of unit costs and prices eased somewhat, it was still quite marked. The balance of payments situation nevertheless showed a very distinct improvement.

A return to a slightly faster growth rate is to be expected in 1968, largely because of increased investment in stocks and of a somewhat more favourable trend in exports—despite the possible dampening effects that will be entailed by devaluation of sterling and other currencies and by the measures through which the United States intends to reduce its payments deficit. The propensity to consume of households may again increase slightly, although the labour market situation is as yet hardly likely to improve very appreciably. Prices are unlikely to increase much less than in 1967.

The efficient implementation, and possibly intensification, of the numerous measures adopted during 1967 to promote economic expansion, to improve regional structures and to place public finances on a sounder footing seem to be among the most important conditions that will have to be met if growth is in the long run to be more rapid and free from strain.

1. Balance sheet for 1967

The trend of business activity in Belgium during 1967 was rather hesitant. One of the factors contributing to this was the slackening of demand from abroad, which at times was very appreciable.

Exports of goods and services expanded less between 1966 and 1967 than between 1965 and 1966. As the year advanced—or until the autumn months at any rate—there was even a distinct tendency for them to decline. This was particularly noticeable in the case of exports to non-member countries. It looks as if there

has been a distinct deterioration in the ability of Belgian products to compete on the markets of non-member countries, particularly in the United Kingdom and the United States. Evidently, however, increased competition from abroad did not affect exports to Community countries quite so strongly; from the middle of the year onwards these again showed a distinct upward trend—due no doubt to the progressive recovery in economic activity in the Federal Republic of Germany.

In 1967, the value of visible exports as defined for foreign trade statistics rose by only 3.1 %, compared with a 6.8 % increase for 1966.

Total exports of goods and services, as defined for the national accounts, may have increased in terms of value by 5.5 %, compared with 7.2 % in 1966.

There was also a rather distinct slackening in the expansion of domestic demand in 1967, due in the main to a slowdown in the growth rate of investment expenditure.

The sharp increase in outlay on gross fixed asset formation recorded between 1965 and 1966 was not repeated between 1966 and 1967, although the seasonally adjusted trend varied considerably from sector to sector during the year. The strongest stimulus came from public investment, for not only the Central Government and the Road Fund but also the regional authorities stepped up their investments vigorously during the year. Investment by enterprises on the other hand increased at an extremely reduced pace, despite the fact that the Government had adopted certain measures to promote investment, particularly in development areas. The relatively low level of capacity utilization evidently had a dampening effect on the propensity to invest. In addition, foreign investment was down on 1966.

There was probably a tendency for investment in residential construction to decline slightly during most of the year, mainly because of the high level of interest rates and building costs, but also owing to the fact that the restrictions on loans for housing were not removed until the middle of the year.

All in all, the growth rate of gross fixed asset formation in 1967 is likely to have been in the region of 5.5 % in terms of value, compared with 9.2 % in 1966.

In contrast to 1966, investment in stocks exercised a braking effect on economic activity in 1967. As a reaction to the slowdown in the expansion of final demand, businessmen were being very cautious in their attitude, particularly where stocks of raw materials and semi-manufactures were concerned; on the other hand—to judge from replies to the EEC business survey—stocks of finished goods do not seem to have been run down to any great extent.

Public current expenditure on goods and services continued to rise vigorously, particularly in the first half of the year, though it seems

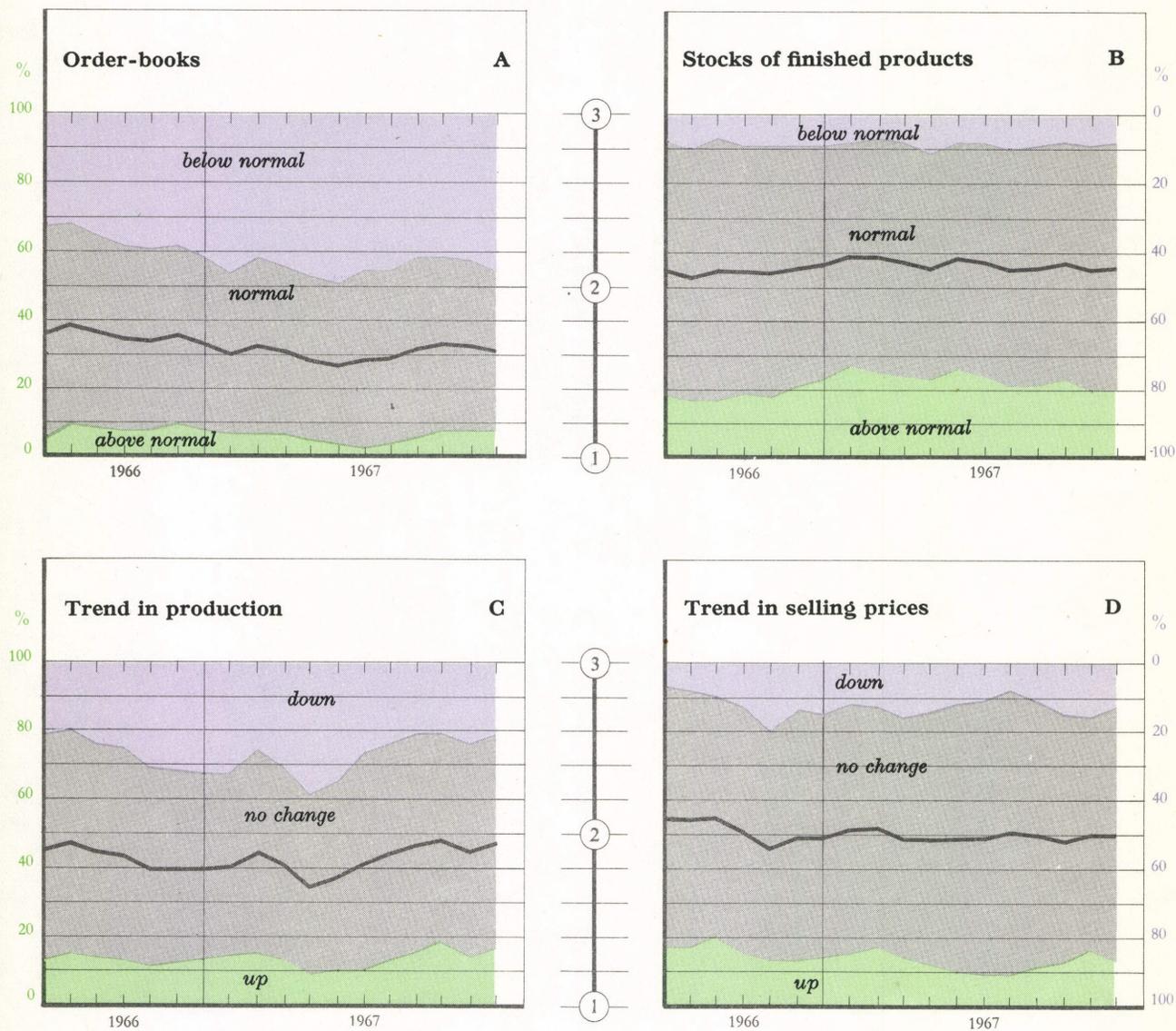
subsequently to have lost some of its momentum. The growth rate for 1967 should be slightly lower than that for 1966.

Private consumers' expenditure expanded rather slowly during the greater part of the year. This meant that for the full year 1967 the increase was only some 5.5 %, compared with 7.1 % a year earlier. This is largely explained by a slackening in the growth of wages and salaries; although wage rates in the economy as a whole rose by almost 9 % between 1965 and 1966, the increase between 1966 and 1967 may well have been only in the region of 7 %. This reduction in growth rate was due partly to the fact that the sliding wage scale did not come into play as often as previously and partly to the slower rise in agreed wages. Since the total number of hours worked probably fell slightly, the increase in the total wages and salaries bill between 1966 and 1967 is likely to have been in the region of 6.5 %, compared with an increase of approximately 9 % a year earlier. Transfer incomes and incomes from entrepreneurship and property are also likely to have risen more slowly. In addition the slackening in the rate of expansion of available incomes may have been even stronger than that of gross incomes, one reason being that the arrangement by which income tax is indexed on the cost of living remained suspended. Lastly, the propensity to save of households clearly increased; the fact that the labour market showed a definite tendency to ease may have had some bearing on this.

Such a trend in demand in money terms meant that domestic supply grew at a very slow pace and that there was a reduction in the degree of utilization of productive capacity.

There was little if any advance in industrial production in the first eleven months of 1967. According to the INS Index, production was only 1 % higher than in the corresponding period of the previous year. In actual fact however—especially since new enterprises which are not yet covered by the Index went into production during this period—industry's contribution to the national product at constant prices may have risen by 2 % in 1967 (3 % a year earlier). Output in the building industry on the other hand rose somewhat more distinctly, mainly because of the vigorous upturn in public

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".



works and the exceptionally favourable weather conditions; most of the increase occurred in the first half of the year. Agricultural production also benefited from the good weather and rose sharply.

The services sector presumably increased its contribution to real gross domestic product less than in 1966 mainly because of the weaker expansion of foreign trade and the less rapid growth of consumption expenditure.

In the circumstances, the real gross national product will probably have risen by no more than 2.5 % in 1967 (2.8 % in 1966).

The tendency for the situation on the labour market to ease, already evident in 1966, became even more marked during the first half of 1967. Unemployment rose sharply and the number of unfilled vacancies continued to drop. From early summer onward, however, the rate at which unemployment had been growing slackened, although there was still a tendency for the seasonally adjusted number of unfilled vacancies to fall. This can be explained in part by the somewhat more optimistic production expectations of entrepreneurs, borne out, *inter alia*, by the replies which industrial firms have been making to the business surveys. It may also reflect the end of the process of adjusting numbers employed to the pace of production, which for more than two years now has been slowed down. A further factor may have been the appreciable decline in net immigration of foreign labour. In December 1967, the unemployment rate¹ was 2.5 %, against 1.6 % a year earlier.

Imports of goods and services showed a distinct tendency to decline until the autumn or even later. In the case of visible imports, the considerable drop in imports of producer goods was only partly offset by an appreciable increase in imports of agricultural and food products. The volume of visible imports calculated from the foreign trade statistics is likely to have been only slightly higher than in the previous year. Total imports of goods and services (as defined for the national accounts) are likely to have risen by some 2 % in terms of volume (7.8 % in 1966).

¹ The number of fully or partially employable persons in receipt of unemployment benefit expressed as a percentage of the civilian labour force.

Prices continued to rise during 1967, if at a slightly reduced pace. With the elasticity of production sufficient to meet the growth of demand and the prices of imported goods falling, the continued rise in prices is all the more remarkable. The main reason for it was the trend of costs. Wage costs per unit of output in particular were up once more—though here too the pace was somewhat slower. The cancellation towards the end of the year of measures freezing prices for goods and services also helped to push prices up further. Lastly, the adjustments in charges for various public services, coupled with the increase in certain indirect taxes, meant that the increase in consumer prices for 1966 to 1967 was still considerable. The reduction in the rate at which retail prices were increasing (2.8 %, against 4.2 % a year earlier) is largely explained by the slower pace at which prices for certain foodstuffs were rising.

It looks as if the trade balance may be distinctly better in 1967, this being due to a more favourable development in the terms of trade. Although the deficit for 1966 was more than Bfrs. 17 000 million, the deficit for the full year 1967 may be only some Bfrs. 6 000 million. There was a marked improvement in the current balance too—particularly for the first six months of the year; for the period January to November the surplus was Bfrs. 12 100 million against a deficit of some Bfrs. 2 400 million in the corresponding period of 1966. Since the substantial net outflows of public capital were offset by the net inflows of private capital—mainly in the form of direct foreign investment—the overall balance of payments for the first eleven months of 1967 showed a surplus of Bfrs. 12 600 million. The net gold and foreign exchange reserves of the National Bank increased by Bfrs. 6 200 million over this period, and the net foreign exchange position of the commercial banks and the other financing institutions also improved.

Internal liquidity (including secondary liquidity) expanded further, and indeed at a slightly more rapid pace, during 1967. From the end of October 1966 to the end of October 1967, the increase was of the order of 9 %. It is true that the additions to liquidity due to the short-term financing of the deficits of the public authorities were smaller than before; but in contrast with the trend of 1966, transactions with abroad made a heavy contribution to the increase

in liquidity, and, in addition, the expansion of bank lending was brisker (at the end of June, the National Bank withdrew the quantitative restrictions on the expansion of bank lending).

These developments, coupled with the slowdown in economic activity, led to an appreciable easing of pressure on the money market as 1967 advanced. Noting the downward trend of interest rates on the money market, the monetary

authorities lowered the official discount rate five times, from 5.25 % in February to 4 % in October. On the bond market, on the other hand, interest rates were only very slightly reduced. There was a very distinct increase in prices on the stock market, this being due in part to technical reasons but in part also to the prospect of improved profits for enterprises.

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	+ 4.5	+ 5.5	+ 5.5
Gross fixed asset formation	177.8	+ 5.9	+ 9.2	+ 2.5	+ 5.5	+ 2
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	+ 2.5	+ 5.5	+ 2.5
Gross national product	847.4	+ 2.8	+ 7	+ 2.5	+ 6.5	+ 3
Imports ⁴	320.0	+ 7.8	+ 11	+ 2	+ 1.5	+ 6.5

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.

2. Outlook for 1968

There may well be a further slight acceleration in the pace of economic growth in 1968.

This assumption is based largely on the maintenance during 1968 of the recovery in exports

of goods and services which became evident during the final months of 1967. An appreciable increase in intra-Community trade is now being forecast and this would, in the light of their geographical breakdown, give Belgian exports a considerable fillip. Demand from non-

member countries for Belgian exports, which in 1967 dipped sharply for a time, should revive in 1968 even though sales of Belgian products, already suffering from the quite marked deterioration that has occurred during the last two years in the competitive position of Belgium's export industry, may be directly or indirectly affected by the devaluation of sterling and other currencies which took place in November 1967 and the balance-of-payments measures foreshadowed by the United States Administration. All in all, then, it looks as if in 1968 exports of goods and services could expand—in volume at least—at a slightly higher rate than that recorded in 1967.

Movements of stocks apart, no essential change in the rate of expansion of domestic demand is to be expected.

Nevertheless, the growth of expenditure on gross fixed asset formation in 1968 could be somewhat slacker than in 1967; in particular, the rate at which productive investment by enterprises expands can once again be expected to slacken somewhat. The effects of the measures adopted by the Government in 1967 to promote productive investment should in 1968 become increasingly marked as turnover and the return on investment rise and the outlook for profits improves. But since a considerable amount of unused productive capacity was still available at the end of 1967 and since if anything a further contraction of investment activity by foreign enterprises must be expected, the overall trend of gross fixed asset formation in the enterprises sector—particularly in industry—may none the less act as something of a brake.

Investment in residential construction will in all probability develop more favourably in 1968 than in 1967. Demand for residential construction, which fell in 1967, should recover slightly in 1968, largely because of the measures adopted to promote publicly assisted housing.

Public investment expenditure, on the other hand, is likely, despite measures adopted to facilitate the financing of investments by the Road Fund and the regional and local authorities, to increase only at a slightly reduced pace in 1968. It can be assumed, it is true, from the appropriations for public works contained in the draft budget for 1968 that the expansion of central government expenditure will be somewhat more rapid than a year earlier, but the investment

activity of local authorities is unlikely to expand in 1968 as much as in 1967.

In contrast to 1967, investment in stocks in 1968 should make a considerable contribution to the expansion of aggregate demand. The livelier expansion of domestic production will in particular make it necessary to replenish stocks of raw materials and semi-manufactures.

Overall consumption expenditure may well increase less rapidly in 1968 than a year earlier because efforts to improve the structure of public spending will probably slow down the rate at which public current expenditure on goods and services has been expanding.

Private consumers' expenditure on the other hand is likely to expand at much the same pace as in 1967. The rate at which incomes from wages and salaries are growing may if anything slacken slightly as the progress of agreed wages may well be somewhat below the 7 % of 1967 and the total number of hours worked will probably settle at the level reached last year. Transfer incomes however should be stimulated by the substantial increases in pensions which come into effect early in 1968 and also by the various social measures adopted by the Government during 1967. In addition, personal incomes from entrepreneurship and property could again show a somewhat more marked upward movement. Lastly, the expectation of more stable conditions on the labour market could increase the propensity to consume of households.

This outlook for demand makes a certain acceleration of the growth rate of domestic supply seem likely. Industrial production (net value added by industry) could increase by some 3 %, one major reason being the large processing plants brought into production for the first time in 1967. The increase in the building industry's output should be only slightly less than in 1967, since the possible slackening in the rate of expansion of public works will be in large measure offset by a more vigorous increase in private residential construction. As a slight increase of pace is to be expected in the services sector too, the increase in real gross national product for 1968, is likely to be somewhere near 3 %.

It should be possible to achieve the expansion of production now forecast without any remarkable increase in the number employed. The

average length of the working week has been reduced in the last two years, so that there is an ample margin within which to increase production merely by extending the length of the working week once more. Output per man hour is likely to increase too. All this means that the average unemployment rate for 1968 will be slightly higher than the average rate for 1967, although as the year advances there could be some slight tendency for unemployment to contract.

The livelier expansion of industrial production combined with the tendency to replenish stocks justifies the assumption that visible imports will increase considerably more in 1968 than they did in 1967. With expenditure on services also growing further, the increase in overall imports of goods and services is therefore likely to be appreciably higher than in 1967.

Because of this quickening in the pace at which imports are expanding, the current balance of payments is likely to close with a considerably smaller surplus than in 1967—especially as the terms of trade can hardly be expected to improve further.

The slowdown in the pace at which prices are rising may well be only very slight in 1968. Wage costs will certainly increase less rapidly than in 1967 and it is likely that the upward pressure on prices exerted by higher charges for public services will also be more limited. It must be borne in mind however that the prices of imported goods are sure not to fall further in 1968 and that certain autonomous factors will increase the prices of certain foods. All in all, then, prices to the private consumer could increase by a further 3 %.

In view of the availability of unused productive capacity, these prospects for demand in 1968 justify a policy aimed at supporting economic growth and, above all, at giving strong incentives to investment. The numerous measures adopted during 1967 under the special powers granted to the Government on 31 March 1967 and already reported in earlier Quarterly Surveys were supplemented by two further series of Royal Decrees on 27 October and 13 November.

A great many of these measures are designed to improve the financing machinery. The National Bank can now provide anticipatory finance for work carried out for the Road Fund by

discounting bills, which can now be accepted by the Fund. It can also grant advance payment to holders of public securities issued or guaranteed by the Crédit communal or by the regional and local authorities. In addition, the rules under which the Caisse générale d'épargne et de retraite (a savings bank and pensions organization) and the Société nationale d'investissement (a national investment institution) may lend to the private sector have been eased. Measures have also been adopted to increase the supply of capital, particularly by measures aimed at improving the efficacy of the stock exchange, facilitating dealings in securities and promoting cashless payments transactions. Finally, changes have been made in the law to promote savings and in the statutes of some credit institutions; these would have the effect of stepping up saving and would facilitate the conversion of short-term savings into long-term portfolio or fixed investment.

The most important developments in the drive to promote economic expansion are that from now on holding companies will be covered by economic planning and that the State's contribution to research expenditure in agriculture and in industry is to be increased. Furthermore, the growth of larger company units will be encouraged by a reduction in the registration tax charged in connection with mergers and increases in capital. In addition, the export credit system for sales of capital goods has been widened.

Various measures have been adopted in connection with the reform of public finances. Several semi-official institutions have been merged or disbanded and some of them will from now on be subject to more stringent control. In the taxation field, the Government has decided that for the budget year 1968 the 10 % surcharge on company tax will not be levied, nor will tax on personal incomes be indexed on the cost of living.

In the social sector steps have been taken to improve social security arrangements for the self-employed and to raise pensions and unemployment assistance considerably from 1 January 1968.

All these measures are broadly in line with the recommendation issued by the Council of the European Communities on 11 July 1967 concerning the guidelines for economic policy in the second half of 1967 and the first decisions to

be taken in 1968.¹ The steps taken to improve the financing machinery should mean in particular that public investment will be more easily financed during periods of slackening economic activity and that a larger margin will be available from which enterprises will be able to finance their investment. It must at the same time be pointed out that these new measures make it more difficult for the National Bank to perform its regulatory functions in the monetary field. This is a problem which merits special attention, particularly at times when inflationary tendencies are dominant; it brings out clearly the need to ensure that in future the balance established between monetary and budget policy in each phase of the economic cycle is more harmonious than it has been in the past.

The probable trend of economic activity cannot be considered entirely satisfactory as regards either the pace of growth or the level of employment, so it is essential that the measures

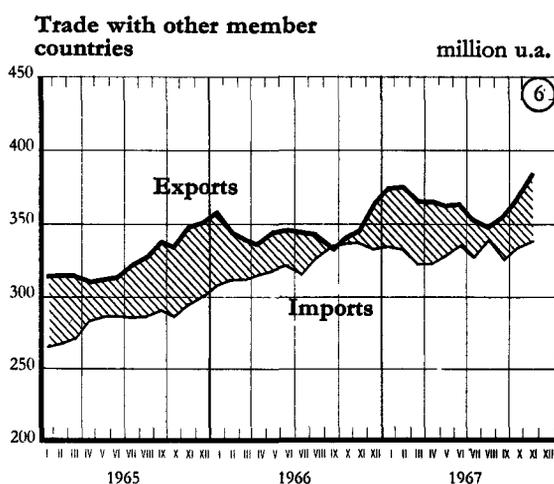
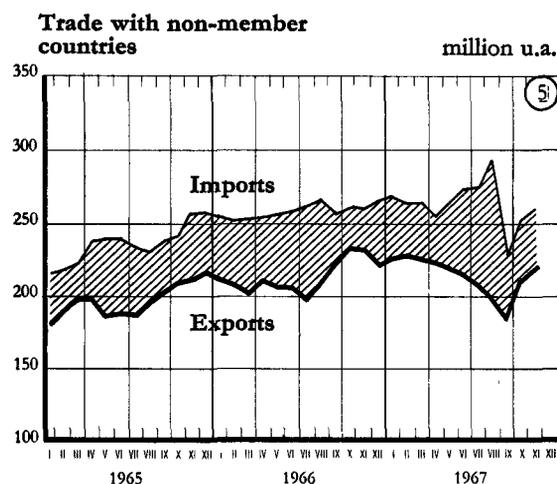
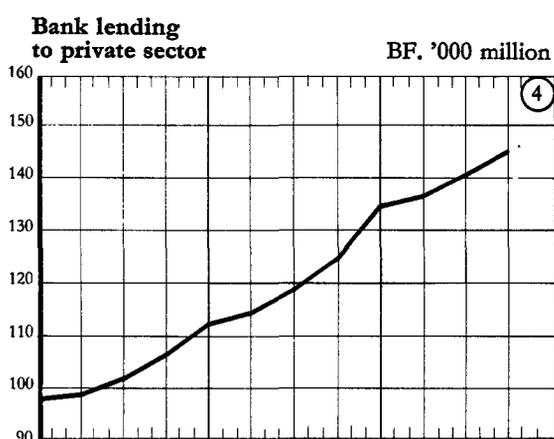
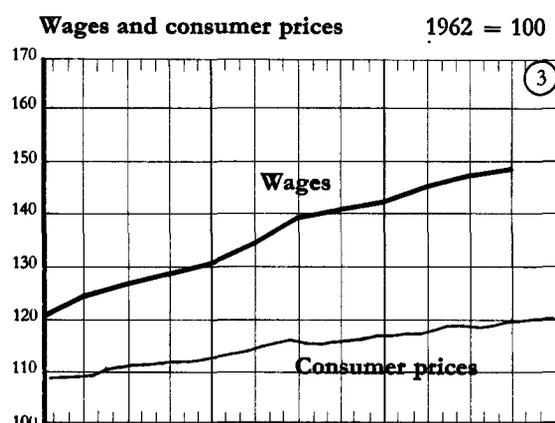
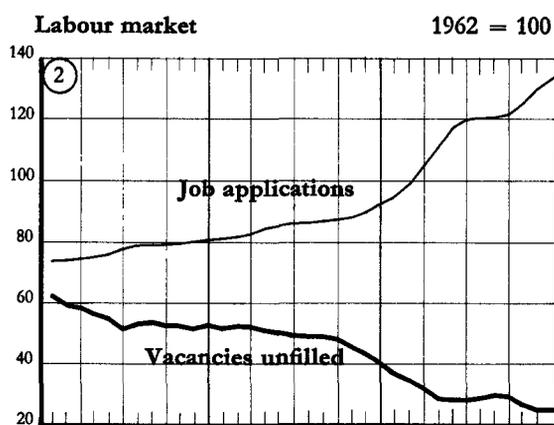
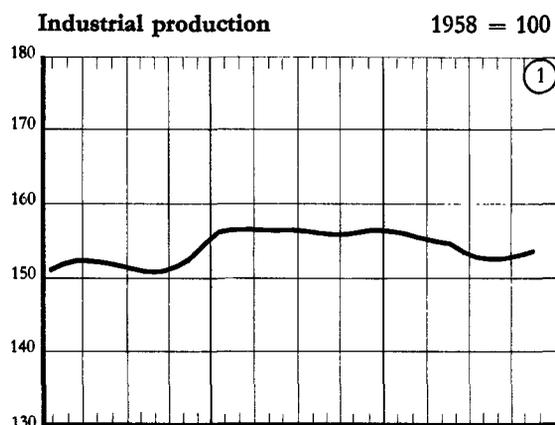
adopted under the Government's special powers be put through with the utmost vigour—they might even be intensified—and that budget policy be used not only, to place the public finances on a sounder footing, but also to promote economic growth. In their efforts to reach this goal, the authorities should see to it that rapid and flexible adjustment to every economic situation is assured.

In view of the still rather rapid rise of consumer prices it would also be desirable if measures could be taken to increase productivity, particularly at dealers' level.

For the rest, the Government seems to be aware of the need to improve the institutional framework of its short-term economic policy. Work on medium-term planning is to be intensified, and it would be well if a similar decision were taken with regard to short-term forecasting. In this connection particular attention should be given to the problem of improving statistics on the economic situation, a problem which was dealt with by the Council in its recommendation of 28 July 1966.

See Quarterly Survey No. 3/1967, p. 30.

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. General index of retail prices. Source: Ministère des Affaires Economiques. Agreed wages for operatives, all branches. Source: Ministère du Travail et de l'Emploi.

Graph 4. Short-term 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)	9 528
Density of population per sq. km.	312
Numbers in employment ('000)	3 705
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		
Gross national product	+ 5.4	+ 4.7	+ 5.9	+ 4.5	+ 6.9	+ 3.6	+ 2.8	143	—
Industrial production	+ 8.5	+ 4.7	+ 7.5	+ 4.9	+10.5	+ 3	+ 3	156	—
Total imports	+12.2	+ 7.2	+ 4.8	+ 7.7	+10.7	+ 7.6	+ 7.8	196	39.2
Private consumers' expenditure	+ 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	+ 5.1	+ 4.2	+ 4.8	+ 3.7	+ 5.8	+ 2.7	+ 2.1	135	—
Gross national product per person gainfully employed	+ 5.1	+ 3.5	+ 3.7	+ 3.6	+ 5.7	+ 2.6	(+2.5)	(134)	—

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1960	1961	1962	1963	1964	1965	1966	1966	1966	1966
Visible exports										
Total	+14.7	+ 3.9	+10.2	+11.9	+15.5	+14.2	+ 5.2	220	6 717	100
Intra-EEC	+25.2	+ 9.7	+17.7	+19.6	+19.0	+12.8	+ 6.1	304	4 188	62.3
To non-EEC countries	+ 5.3	- 1.7	+ 1.9	+ 1.6	+10.3	+16.5	+ 3.9	151	2 529	37.7
Exports of food, beverages and tobacco										
Total	+ 6.3	+15.6	+29.6	+29.6	+ 3.2	+31.5	+ 8.4	305	466	6.9
Intra-EEC	+11.8	+18.7	+31.2	+30.7	+ 5.2	+31.6	+ 5.4	381	335	5.0
To non-EEC countries	- 4.4	+ 8.7	+25.7	+26.8	- 2.1	+31.3	+17.1	203	132	1.9
Exports of raw materials and manufactures										
Total	+14.9	+ 3.4	+ 9.2	+10.9	+16.4	+13.1	+ 5.0	216	6 251	93.1
Intra-EEC	+26.1	+ 8.9	+16.7	+18.8	+20.1	+11.4	+ 6.2	299	3 853	57.4
To non-EEC countries	+ 5.6	- 2.0	+ 0.9	+ 0.7	+10.8	+15.8	+ 3.2	149	2 397	35.7
Visible imports										
Total	+15.0	+ 6.6	+ 8.0	+12.2	+15.9	+ 7.6	+12.6	229	7 174	100
Intra-EEC	+16.8	+12.7	+ 8.9	+15.5	+17.5	+10.1	+15.4	274	4 009	55.9
From non-EEC countries	+13.3	+ 1.0	+ 7.1	+ 8.8	+14.0	+ 4.8	+ 9.1	189	3 165	44.1
Imports of food, beverages and tobacco										
Total	+ 1.6	+ 0.1	+11.0	+ 9.0	+16.8	+15.2	+ 8.1	191	892.7	12.4
Intra-EEC	+ 4.2	+ 7.4	+ 3.2	+17.2	+16.3	+22.5	+10.6	240	375.1	5.2
From non-EEC countries	+ 0.1	- 4.0	+15.9	+ 4.3	+17.2	+10.6	+ 6.4	166	517.6	7.2
Imports of raw materials and manufactures										
Total	+17.1	+ 7.6	+ 7.6	+12.7	+15.7	+ 6.6	+13.2	235	6 281	87.6
Intra-EEC	+18.4	+13.3	+ 9.4	+15.4	+17.6	+ 8.9	+16.0	278	3 634	50.7
From non-EEC countries	+15.9	+ 1.9	+ 5.6	+ 9.6	+13.4	+ 3.7	+ 9.7	194	2 648	36.9

TABLE 4 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	141	140	156	151	145	149	124	140	156	160	154	158
	1966	144	145	164	153	147	159	121	147	162	156	152	159
	1967	150	147	160	155	146	161	113	146	162	165		
Construction (1962 = 100)	1965	86.3	82.1	107.0	117.5	111.4	121.4	79.9	116.8	121.4	120.5	96.9	102.3
	1966	88.1	97.3	117.6	108.8	106.9	118.9	71.1	117.8	122.6	112.7	109.8	100.7
	1967	84.6	94.1	117.0	110.3	113.7	121.1	71.4	115.7	118.0			
Unemployed ('000)	1965	62.9	62.1	57.4	54.2	52.1	50.0	51.1	49.7	50.7	52.7	57.2	64.5
	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
Investment (1961 = 100)	1965	116.7	121.4	135.9	156.6	155.0	159.7	113.2	144.6	146.7	152.1	139.6	154.9
	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					
Private consumers' expenditure (1961 = 100)	1965	126.5	127.2	131.7	135.1	135.7	136.4	136.1	134.3	134.5	134.1	138.0	143.0
	1966	135.8	137.5	140.9	146.9	143.4	147.4	144.4	145.7	144.0	135.6	142.9	147.6
	1967	143.3	144.3	147.0	148.1	150.6	155.1	153.8	148.6	150.8	146.5		
Total visible imports (million u.a.)	1965	455	477	547	552	514	518	505	454	553	561	578	614
	1966	519	554	618	556	587	611	520	592	594	609	616	641
	1967	581	550	630	574	610	655	465	598	514	640	688	
Total visible exports (million u.a.)	1965	482	519	571	507	484	551	513	432	586	552	576	612
	1966	493	528	620	560	534	604	514	471	603	575	594	621
	1967	574	594	609	604	581	597	525	460	529	697	618	
Balance of trade (million u.a.)	1965	+ 27	+ 43	+ 24	- 45	- 31	+ 34	+ 8	- 21	+ 33	- 9	+ 5	+ 3
	1966	- 26	- 27	+ 7	+ 3	- 53	- 6	- 9	- 121	+ 9	- 34	- 22	- 20
	1967	- 7	+ 44	- 2	+ 30	- 29	- 58	+ 60	- 138	+ 15	+ 57	- 70	
Official gold and foreign exchange reserves (million u.a.)	1965	2 000	2 006	2 002	2 026	2 010	2 000	2 010	2 028	2 018	2 010	2 010	1 996
	1966	1 968	1 946	1 956	1 954	1 950	1 950	1 964	1 956	1 926	1 960	1 956	1 952
	1967	1 970	1 939	1 951	1 972	2 044	2 118	2 152	2 196	2 212	2 220	2 250	2 200
Money supply	1965	289.2	289.3	292.9	299.0	301.1	309.5	304.9	301.9	306.4	307.4	308.8	318.6
	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	325.0	320.5	326.5	333.9	335.2	347.6	339.5	337.5	343.5	333.8	341.9	

() 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

Economic growth was somewhat more vigorous in 1967 than in 1966. This can be attributed to a distinct revival in demand from abroad, while the trend of final domestic demand had, if anything, a braking effect. There was again a considerable contraction of outlay on gross fixed asset formation, coupled with a pronounced decline in the rate at which public and private consumption expenditure was expanding. The situation on the labour market tended to ease further, and the upward movement of prices slackened somewhat because of a more favourable trend of costs. The current balance of payments may have closed with a considerable surplus.

The outlook for 1968 suggests that the business situation will continue to improve, though only a little more rapidly than hitherto. Industry's contribution to the increase in the real gross domestic product could none the less advance somewhat more distinctly, thanks in the main to a further slight increase in the rate at which exports are expanding. Furthermore, enterprises are likely to increase their investments for the time since 1964, and the stimulus provided by private consumption may well be somewhat stronger too. The situation on the labour market will, however, remain relatively free from strain. With the persistent slowdown in the expansion of wage costs, the underlying upward pressure on prices could weaken somewhat.

Nevertheless, the most important task to be tackled by those responsible for short-term economic policy must be to seek a better adjustment of two aims—the fastest possible rate of economic growth and stabilization of price and unit costs. One of the principal ways of doing this would be to slant budget policy in the direction of promoting and encouraging investment.

1. Balance sheet for 1967

The slight acceleration of overall growth which occurred in 1967 was due mainly to the greater contribution made to the economy by demand from abroad.

Exports of goods and services, which had scarcely risen at all between 1965 and 1966, increased more briskly once again. In the visible trade account there was, in addition to the slight improvement in demand for iron and steel products (mainly from member countries), an increase in foreign sales by newly established firms. Although earnings from services, particularly tourism, apparently rose somewhat more slowly than in the previous year, the increase in the value of total exports, as defined for the

national accounts, can be estimated at 4.5 % in 1967, while in 1966 the increase was a mere 1 %.

Since, however, investment contracted even more sharply than in 1966 and the growth of consumers' expenditure declined, the expansion of domestic demand fell back appreciably.

It looks as if gross fixed asset formation, which had dropped somewhat in 1966, fell steeply in 1967. To judge from the incomplete information now available, capital investment by enterprises was considerably lower in 1967 than in 1966, since not only the iron and steel industry but also the newly established firms showed comparatively little propensity to invest. Investment in housing, too, will probably show a

quite appreciable decline, even though some improvement in financing conditions was brought about by a relaxation of the restrictive measures applied by the national savings bank. There was probably, on the other hand, no more than a slight reduction in public investment expenditure.

Public current expenditure on goods and services did not increase as vigorously as in 1966, principally because of the efforts the Government was making to place the budget on a sounder footing. Private consumers' expenditure, which has been particularly affected by a certain slackening of the pace at which disposable incomes have been expanding, may also increase at a considerably slower pace than in 1966—about 4 % instead of 6.5 %. The upward

movement of wages and salaries weakened distinctly as the upward movement in hourly wages levelled off and, in addition, the total number of hours worked may even have dropped slightly. This was only partly offset by a considerable increase in transfer incomes, due principally to improved family allowances and pensions. In addition, the propensity to save of households may have increased.

These developments in aggregate demand meant that domestic supply was able to grow somewhat more vigorously than in 1966. According to the official index, industrial production in the first ten months of 1967 was no higher than in the corresponding period of the previous year, but the index gives incomplete coverage of production in sectors other than the iron and steel

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	+ 4	+ 4.5	+ 4.5
Gross fixed asset formation	9 710	— 2.5	— 1.5	— 15	— 13	+ 3
Public current expenditure on goods and services	3 657	+ 6	+ 12	+ 2	+ 6	+ 11
Private consumers' expenditure	20 141	+ 3	+ 6.5	+ 2	+ 4	+ 2.5
Gross national product	33 868	+ 1	+ 4	+ 2	+ 4	+ 2.5
Imports ⁴	27 807	+ 1	+ 1.5	— 1.5	0	+ 4

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

² Commission estimates.

³ Commission forecasts.

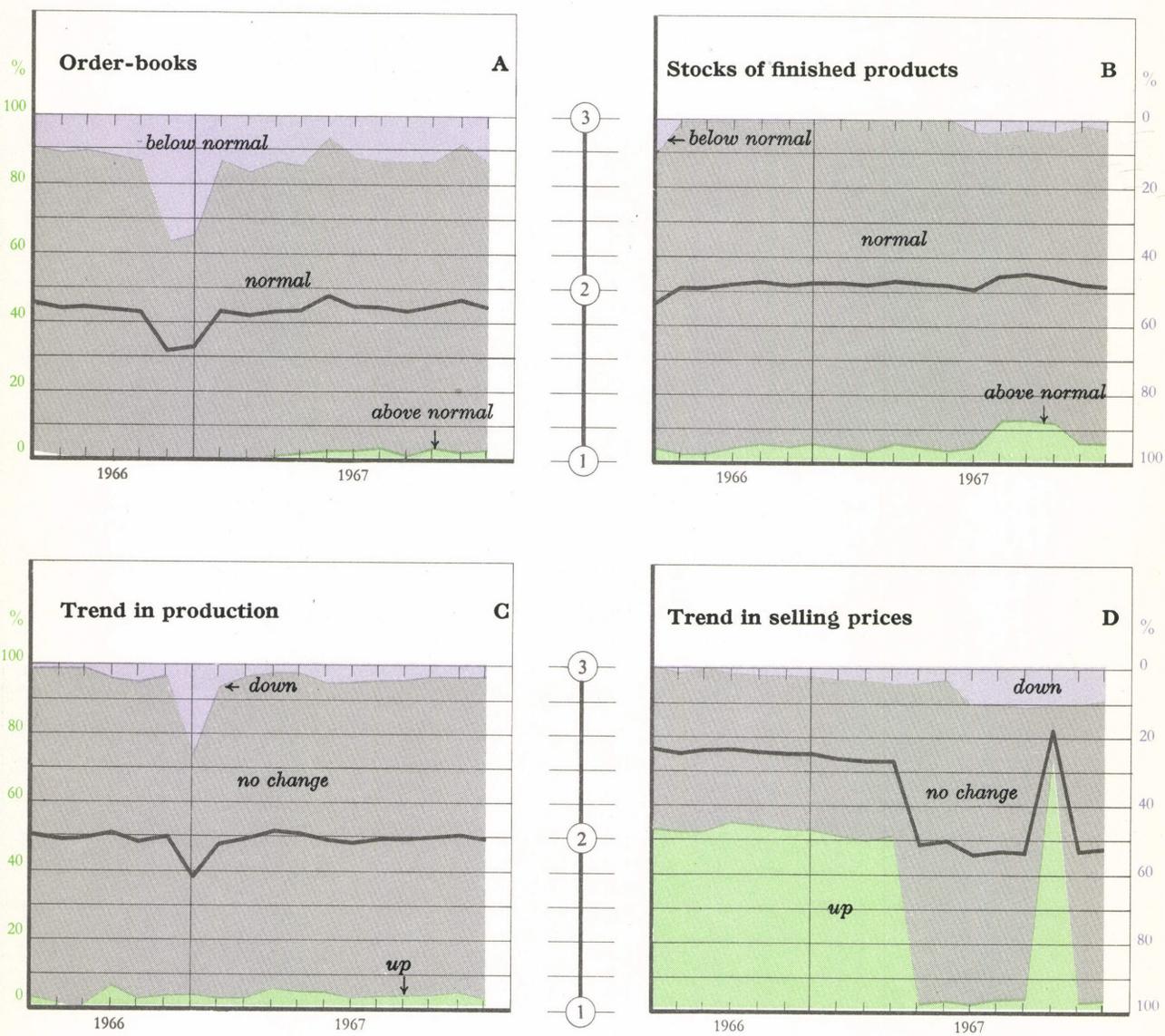
⁴ Goods, services and factor income.

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.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

GRAPHS A, B, C and D : The three colours (green, 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".

industry. In fact, the real value added by industry as a whole increased by 2 %, against a drop of some 0.5 % in 1966, though output in the building industry was distinctly down. If the considerable increase in agricultural production and the rather modest increase in the growing contribution made by services are taken into account, the gross national product at constant prices may have risen by some 2 %, compared with 1 % in 1966.

There was a decided tendency in 1967 for the situation on the labour market to ease. To begin with, the numbers in paid employment within industry dropped slightly in connection with the rationalization of iron and steel. The construction industry also reduced its personnel. Finally, the abolition of compulsory military service added to the available supply of manpower. This explains why in autumn 1967 the numbers seeking employment reached a figure appreciably higher than that recorded at the same period of the previous year.

Imports of goods and services, as defined for the national accounts, may have been 1.5 % lower in terms of volume than in 1966. Visible imports in particular fell as, in addition to a sharp drop in demand for capital goods, the demand for certain consumer durables was relatively poor. Despite the further deterioration in the terms of trade, the current balance of payments probably closed with a considerable surplus.

A quite distinct slackening in the rate of increase of unit labour costs and a harvest which was on the whole satisfactory did much to check the tendency for consumer prices to rise, although at the same time certain autonomous factors, such as the abolition of certain agricultural subsidies, the increase in some indirect taxes and the raising of charges for certain public services, tended to push prices up. According to the new consumer price index the cost of living increased by 2.2 %, as compared with 3.3 % a year earlier.

2. Outlook for 1968

Because of the expected trend of demand from important importing countries, particularly from the other Community countries, and in the light of the productive capacity still available, it is

to be expected that there will be a certain acceleration in the rate of expansion of exports of goods and services during 1968. This is likely to be so even when allowance is made for the possible direct and indirect effects of devaluing the pound and of the measures to reduce the US balance of payments deficit. In contrast to the tendency observed in 1967, this should benefit more than previously sectors other than iron and steel, particularly the newly established industries. At the same time there could also be a further hardening of demand for iron and steel products, which incidentally would no doubt lead to higher export prices as a result of higher world market quotations.

Domestic demand may well provide additional stimulus too, since outlay on gross fixed asset formation should tend to recover after the sharp drop registered in 1967. It seems fairly certain that investment by enterprises will for the first time since 1964 show a slight increase. This assumption is largely based on figures for planned extension by certain foreign enterprises, while investment in the iron and steel sector may well maintain its earlier level. To judge from the draft budget, public investment is likely to be hardly any higher than in 1967. Even if the national savings bank relaxes the limits it puts on lending, the best that can be expected from investment in residential construction in 1968 is that it will continue at about the same level as in 1967.

Consumption expenditure will move upwards at much the same pace as in 1967. To judge by the estimates for current expenditure contained in the budget, public current expenditure on goods and services could once again contribute rather less to business activity, but the expansion of private consumers' expenditure will presumably accelerate somewhat. It is likely that the available income of households will show a more definitely upward trend—despite the fact that the still modest advances made by wage rates, coupled with continued stagnation in the total number of hours worked, will mean that incomes from paid employment will rise little more than in 1967. In addition there may, as the economic climate continues to improve, be some reduction in the propensity to save of households.

This trend of aggregate demand suggests that in 1968 there will be a further slight accelera-

tion in the growth of industrial production. The real value added by industry could increase by some 2.5 % on 1967. Under these circumstances, when the production forecasts for other sectors of the economy are taken into account, the gross national product at constant prices would then also show an increase of some 2.5 %.

While the pace of production is expected to accelerate slightly, the labour market situation should on balance be easier, as the numbers employed—especially in industry—are unlikely to increase and the abolition of compulsory military service is still influencing the supply of labour.

Imports of goods and services may expand more briskly again. In particular, the increased propensity to invest of enterprises may well find concrete expression in heavier imports of plant and machinery.

As for the trend of prices in 1968, it is at this stage difficult to assess the influence that will be exerted by certain autonomous factors on the level of consumer prices. The underlying pressure on prices could, however, weaken somewhat. In any event, it is likely that the new price index will make it possible to assess actual price movements more accurately in future, particularly since fluctuations in food prices are reflected to a lesser extent in this index.

The main purpose of the short-term economic policy measures adopted by the Luxembourg Government during 1967 was to improve structural and financial conditions for the fastest possible rate of economic growth.

The validity of the outline law on economic expansion of 2 June 1962 was extended—with minor amendments—for a further period of five years. A Road Fund was established with the object of facilitating the construction of a comprehensive network of roads, and provision was made for the expenditure of Lfrs 5 to 6 000 million from this Fund over a period of approximately ten years. Lastly, the Economic and Social Council submitted a memorandum on the

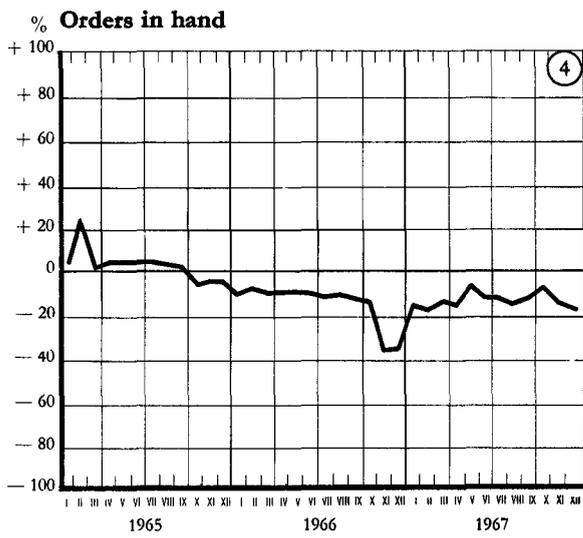
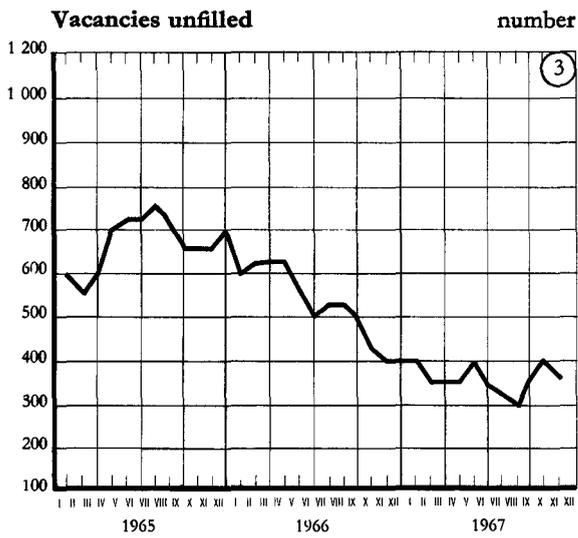
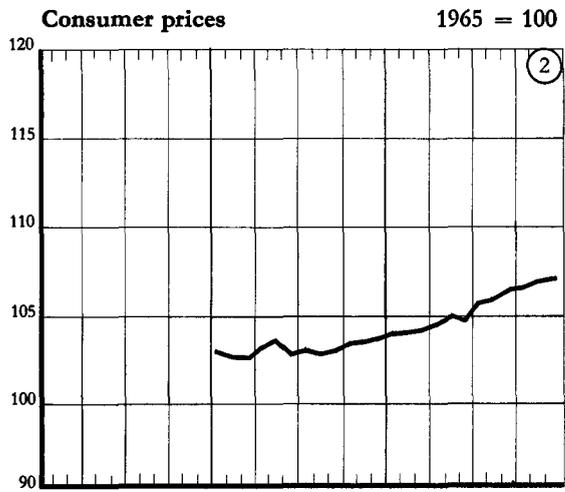
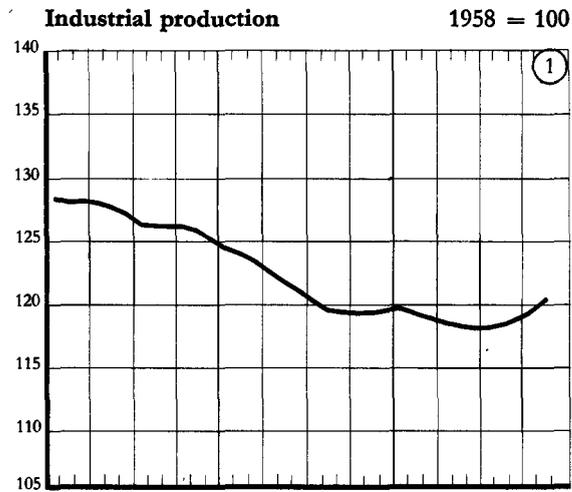
establishment of a national investment and guarantee institute.

The budget for 1968 was introduced by the Government in September 1967. Its main features are a greatly reduced surplus on the ordinary budget (the increase in expenditure being 5.4 % higher than the estimates in the revised budget for 1967), a 0.6 % increase in expenditure on the extraordinary budget, and a sharp increase in the overall cash deficit. Finally, in October last, the Belgian Government adopted measures which increase the re-discount facilities available at the Belgian National Bank to the Government of the Grand Duchy and to industry itself in Luxembourg.

The economic policy pursued by the Luxembourg authorities can on the whole be considered sound. The special structure of the Luxembourg economy justifies giving a certain amount of priority to medium-term objectives, but it should be possible to give more weight to the requirements of short-term economic policy that has been done in the 1968 budget. In itself, the increased stimulus that the budget can be expected to provide is, it is true, in line with these requirements, but from the short-term economic policy point of view it would be desirable if this increased stimulus were due to an increase in investment-biased rather than current expenditure. On this last point, the further criticism must be advanced that under the 1968 budget, current expenditure will not only rise more rapidly than current receipts, but also more rapidly than investment expenditure. There is, furthermore, a danger that the expected reduction in the surplus on the ordinary budget may turn out to be even larger than allowed for in the estimates.

To sum up then, it may be said that co-ordination between medium-term and short-term economic objectives could be improved if efforts to increase the proportion of total Government expenditure channelled towards investment were intensified—and that this would also be in the interest of a more apposite policy mix.

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.

Grand Duchy of 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	7.0
— Industry	53.0
— Services	40.0

TABLE 2 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1965	125	129	121	130	132	129	124	116	125	125	127	121
	1966	120	121	119	122	125	124	119	111	119	121	121	117
	1967	120	121	121	123	124	122	121	111	120	119	122	
Crude steel production ('000 m.t.)	1965	383	379	388	392	391	377	397	353	395	392	377	372
	1966	369	354	380	367	353	369	368	346	377	333	365	360
	1967	371	360	389	379	372	377	376	356	382	375	376	368
Construction (1958 = 100)	1965	48	55	82	103	110	102	105	100	96	93	76	58
	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	
Workers employed in the iron and steel producing industry and in mining ('000)	1965	24.2	24.1	24.0	24.0	24.0	24.0	24.0	24.0	24.1	24.1	24.1	24.1
	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
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

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.

