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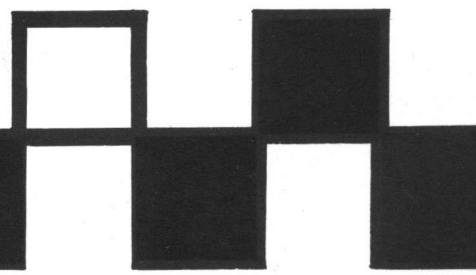
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**The economic situation
in the Community**

1

1969



Quarterly survey

**Commission of the European Communities
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends
23, Avenue de la Joyeuse Entrée, Brussels**

EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

MARCH 1969

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Note:

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

I. THE OVERALL SITUATION

The monetary crisis of November and the measures taken by some member countries to cope with it have so far not significantly affected overall economic growth in the Community. Very lively though it was already, economic expansion was indeed gathering additional pace at the end of 1968 and in the early months of 1969, with the main impetus coming from the expansion of internal demand, which gathered appreciable momentum. Gross fixed asset formation rose particularly vigorously, and the growth of private consumption, too, was rapid. Export demand was also still developing along fairly expansionary lines at the end of 1968. This was in part due to the fact that the restrictive measures taken in the United States and the United Kingdom have so far had no more than a comparatively modest influence on domestic demand and consequently on these countries' imports.

So far production has been easily adapted to rising demand. With productivity gains slowing down, employment has risen appreciably. Actual working time per person employed has lengthened and the demand for additional labour has increased vigorously. The result is that unemployment has declined in the member countries.

Despite the rapid expansion of internal supply in the Community, the faster growth of internal demand has boosted imports. However, as exports have also been rising vigorously, the turn of the year saw no major change in the Community's visible trade position.

Although the trend of wage costs is comparatively favourable, prices are tending to rise in the Community. This is in the main attributable to special factors such as the introduction of the tax on value added in the Netherlands, an increase in

TVA rates in France, and a general rise in food prices; in part, however, the tendency is also a reflection of strain due to the specifically economic trends.

Growth prospects have of late improved slightly. Export demand will probably slow down to a lesser extent than had been thought likely, particularly since expansion in the United States will hardly slacken in the first half of 1969 enough to affect Community exports to any appreciable extent. At the same time, the growth of internal demand in the Community will probably develop along more dynamic lines than had been assumed in the last Quarterly Survey (3/4-1968). The latest investment surveys among firms in the EEC and the trend of orders in the capital goods industries, for instance, suggest that investment activity will gather momentum; given the sharper rise in wage incomes and social transfer payments, private consumers' expenditure should also climb steeply.

In 1969, the real gross Community product will probably be some 6 % and industrial production some 9 % higher than in 1968. Imports will forge ahead.

Equilibrium will probably deteriorate as the year advances, and this will be reflected in a deterioration of the current account and a rise in prices which is all the more undesirable from the short-term policy point of view since those in charge of economic policy in the United States are currently concentrating on price stability in an effort to achieve better balance-of-payments equilibrium.

A. Recent developments

1. Demand

At the end of 1968 and in the early months of 1969 overall demand in the Community continued to expand rapidly. The key to this trend was internal demand, which in several member countries was rising at a faster rate; demand from the rest of the world also remained fairly dynamic.

Export demand (i.e. goods and services actually exported to non-member countries) continued to develop along fairly expansionary lines, particularly in the closing months of 1968, with German exports playing the leading role. The Community's visible exports (as reflected in the customs returns and adjusted for seasonal and fortuitous variations) were 4 % higher in the November-January period than in August-October.

Contrary to expectation, the slowdown in economic expansion in the United Kingdom and particularly in the United States was not sharp enough to have an appreciable impact on the expansion of trade between the major industrialized countries. This is mainly due to the fact that the restrictive measures taken in these two countries have so far done little to inhibit the rise in domestic demand.

In the United States, the inflationary expansion of domestic demand continued. As a result, the rise in the gross national product from the third to the fourth quarter was still 2 % in money terms and 0.9 % in real terms. Imports of finished goods also continued to expand vigorously, although in January and February the flow slowed to a trickle for a time because of the strike of American stevedores.

In the United Kingdom, expenditure on consumption continued to rise fairly vigorously in the period up to the end of the year. There was something of a time-lag till the restrictive measures taken in November (increase in a number of indirect taxes, credit squeeze) began to bite. The same applies to the increase in the cost of British imports as a result of the import deposit system, introduced in November,

under which importers are required to deposit with the customs authorities, interest-free and for a period of six months, sums equivalent to 50 % of the value of the imported goods.

The comparatively vigorous demand for foreign goods in the United States and the United Kingdom combined with a sharp increase in the Community's imports to promote economic growth in the other industrialized countries as well. As a consequence, Community sales to these countries, particularly to Sweden and Switzerland, showed a more favourable trend than had been generally expected.

The vigorously expanding deliveries by the Community to the developing countries, particularly the EEC associated overseas countries and territories, also made a major contribution to the Community's exports. Lastly, sales to the countries of the Eastern bloc have been growing sharply in the past few months.

In the same period, the rise in internal demand has been gathering momentum.

This applies in particular to gross fixed asset formation. The vigorous increase in orders for plant and machinery during the past year is increasingly influencing the trend of actual expenditure on investment, especially in Germany and, though to a lesser degree, the Netherlands. In Belgium, the level of investment is still comparatively low but—to judge by the results of the EEC business surveys—managements in several industries have shown a greater propensity to invest.

Investment in construction, adjusted for seasonal variations, probably continued to expand at the same—fairly rapid—rate as in the autumn of 1968. Moreover, as the weather has been fairly good, at least in January, actual expenditure on construction in the Community as a whole has been appreciably higher than at the end of 1967 and the beginning of 1968. The rise was particularly pronounced in industrial building, particularly in Germany, Italy and, to a lesser degree, Belgium. Residential construction has also probably made strong gains, with

Visible exports to non-member countries

(Values and % changes on preceding year)

	1967		1968				
	million u.a. 1	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
All non-member countries	31 627	+ 7.5	+ 12	+ 2	+ 18	+ 14	+ 11.5
of which :							
Industrial countries ²	20 473	+ 7	+ 13	+ 3.5	+ 16.5	+ 14	+ 11.5
including :							
United States	4 423	+ 8	+ 41.5	+ 28.5	+ 39.5	+ 16	+ 30.5
EFTA	10 425	+ 4.5	+ 8	- 0.5	+ 11	+ 11.5	+ 7.5
United Kingdom	2 847	+ 12	+ 20.5	+ 1.5	+ 12	+ 6.5	+ 10
Developing countries ³	8 296	+ 4.5	+ 10.5	+ 4	+ 23	+ 12.5	+ 12
including :							
Associated overseas countries and territories	1 789	+ 5	+ 14.5	- 3.5	+ 29.5	+ 22.5	+ 15.5
Other ⁴	2 858	+ 22.5	+ 11	- 13	+ 17	+ 22	+ 9

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

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

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

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

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

a special contribution from what is still a high level of building activity in Italy and from the distinct increase in residential building starts in France. On the other hand, the tendency for public expenditure on building to slow down appears to have continued in most Member States.

With final demand and production spurting in Germany and France, dealers' stocks of raw materials and finished products probably declined appreciably towards the end of 1968.

Private consumers' expenditure in the Community was for a while also increasing at a faster

pace in the closing months of 1968. In France, the buying spree following the sharp wage increases gained additional strength in the closing months of 1968 as a result of the monetary crisis in November and of fears that the increase in the TVA rate due on 1 January would mean higher prices. In the Netherlands, too, fears that the introduction of the TVA as from 1 January might have the same effect led households at the end of 1968 to buy a good deal more than they normally would have. In both countries the savings ratio declined appreciably for a time. The trend of consumption appears to have lost momentum once again in the meantime, both in France and in the Netherlands.

In Germany, the rise in disposable incomes and private consumers' expenditure became unmistakably faster.

In the other member countries, the trend of private consumers' expenditure has probably shown little if any change, although there is definite evidence of a general though moderate acceleration.

2. Production

Given the situation outlined above, internal supply was expanding very vigorously around the turn of the year. Firms were again running at or a near capacity, especially in industry in France, Germany and the Netherlands.

The seasonally adjusted industrial production index of the Statistical Office of the European Communities (which, however, includes neither construction nor food, beverages and tobacco) put Community production 6 % higher in the fourth quarter than in the third quarter and 12 % higher than in the fourth quarter of 1969. The increase was particularly vigorous in France, Germany and the Netherlands. Early in 1969, however, the expansion of production slowed down. The pattern of industrial supply has changed as manufacturing industry and particularly the consumer goods industry make an increasingly important contribution to expansion. This is not only the result of the dynamic trend of the corresponding components of demand but also because production elasticity in this sector is still relatively high.

In building and construction, the mild weather in most member countries and the improvement in the order situation, at least until the beginning of the year, enabled a fairly high level of production to be reached. To judge by the information available on building starts, the expansion of building gathered appreciable momentum in most member countries, not only in the industrial field but also in residential construction.

In the services sector the trend was similar to, if not quite as dynamic as, that in industry. At the end of 1968, activity was gathering pace, particularly in retail trade, transport and banking.

With the degree of utilization of technical plant capacity already very high, productivity gains steadily dwindled so that the rapid growth of production was in most member countries accompanied by an appreciable increase in employment. The number of actual working hours per person employed continued to increase. There was at the same time a tendency for demand for additional manpower to rise vigorously. The result was that the decline in unemployment was still very pronounced; in some member countries it even gained in strength at the beginning of the year. This trend has again highlighted some of the weaknesses of the Community's labour markets; in the present phase of the business cycle it may therefore well be that in some countries the labour shortage will re-emerge or even get worse while there is a comparatively high number of unemployed who either lack the right skills or live too far away from vacancy areas.

3. The balance of the markets

Despite the internal supply boom in the Community, accelerating internal demand has strengthened the propensity to import. Thus, the Community's imports from non-member countries have risen very sharply in the past few months. In the November-January period, seasonally adjusted visible imports were 5 % higher than in the August-October period. The upswing of investment and consumer demand was reflected in a particularly vigorous increase in imports of consumer goods and plant and machinery. With the growth of industrial production gathering momentum in the past few months, purchases of raw materials also climbed steeply. Lastly, food imports have, since the beginning of the autumn, been running at a very high level in all Community countries except Germany.

Almost all supplier countries benefited from this lively increase in demand in the Community. Sales by the United Kingdom to the Community, in particular, continued to forge ahead, and the growth of exports by the other EFTA countries to the Community even tended to gather momentum. Sales by the developing countries, particularly Latin America and the associated overseas countries and territories, have also climbed in the past few months.

The brisk expansion of demand in the Community contributed to a particularly lively expansion of visible trade within the Community, shared by all member countries. The rise in imports was particularly sharp in France, where it grew faster towards the end of the year. As for exports, rising demand in the partner countries benefited all Community countries with the exception of France, whose exports tended to level out in the closing months of 1968 under the influence of the rapid expansion of domestic demand.

Prices have risen in most member countries since November, especially in France and the Netherlands, where the system of indirect taxation has been changed. In the Netherlands, the cost-of-living index jumped by 3.5 %, from December to January. In February, too, it continued to rise. In France, the cost-of-living index rose by approximately 1.5 % from December to February.

The vigorous rise in the level of consumer prices, in most member countries, under way

Visible imports from non-member countries

(Values and % changes on preceding year)

	1967		1968				
	million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
All non-member countries	30 767	+ 0	+ 6.5	+ 5	+ 15	+ 10	+ 9
of which :							
Industrial countries ²	16 954	- 2	+ 6	+ 3	+ 18	+ 13	+ 10
including :							
United States	5 858	- 2.5	+ 7	- 1.5	+ 21.5	+ 13	+ 9
EFTA	7 093	- 2	+ 6.5	+ 4.5	+ 17	+ 14.5	+ 10.5
United Kingdom	2 701	- 3	+ 5.5	+ 2.5	+ 17	+ 20.5	+ 11
Developing countries ³	11 521	+ 1.5	+ 7	+ 8.5	+ 13	+ 6.5	+ 8.5
including :							
Associated overseas countries and territories	2 275	- 0.5	+ 12	+ 4	+ 12	+ 10.5	+ 9.5
Central and South America	2 743	+ 0.5	- 3.5	- 8	- 8	+ 13.5	- 2.5
Other ⁴	2 292	+ 8.5	+ 11.5	+ 3.5	+ 2.5	+ 3.5	+ 5

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

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

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

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

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

since last September, is due not only to the tax reforms but also to the considerable increase in food prices, which is attributable to poorer production in agriculture, particularly as regards vegetables, root crops and pigmeat.

In the services sector, too, prices rose distinctly in all countries except Italy.

Price increases for manufactures, by contrast, remained very modest (France being the only exception), for the trend of labour costs in industry was favourable throughout 1968. In the Netherlands, however, the situation changed at the beginning of 1969.

The tendency for the Community's balance of visible trade with non-member countries to deteriorate gave way for a while to a slight improvement towards the end of 1968, although this change was largely due to special factors. The Community's overall current account is also likely to have closed with a somewhat larger surplus in the fourth quarter than in the previous quarter. By contrast, there was a heavy deficit on the capital account. Net exports of long-term funds were still running at a high level, and there were also substantial exports of short-term funds. Although the November monetary crisis generated an inflow of short-term funds into the Community (mainly into Germany), these funds were for the most part repatriated in the subsequent months as currency speculation subsided; the rise in the level of interest rates in the USA and on the Euro-dollar market also led to an appreciable rise in net exports of funds from the Community. In the past few months, the commercial banks have also invested substantial sums abroad, particularly on the Eurodollar market.

In consequence, the official gross gold and foreign exchange reserves of the Community, which in November had been swollen as a result of the monetary crisis and the inflow of foreign exchange into Germany engendered by it, contracted again in December and January. At the end of January, they were some \$ 820 000 million below the level they had reached at the end of October, i.e. shortly before the wave of speculation began.

In the aggregate, transactions with abroad have therefore been tending to reduce internal liquidity in the Community.

Only in a few of the member countries did the cash transactions of the public authorities exert an expansionary influence on liquidity. In Germany, the Federal budget closed in the fourth quarter with a cash deficit, as is usual for the season, but this deficit was substantially lower than a year earlier. In Belgium, by contrast, the cash deficit appears to have been much heavier than in the corresponding period of the previous year. In the Netherlands budget, cash expenditure also exceeded receipts, although this was mainly due to loan redemption to the United States ahead of schedule. In Italy, the cash budget closed with a smaller surplus than a year earlier, despite a steep increase in tax revenue at the end of the year. In the closing months of 1968 the cash transactions of the French treasury showed an appreciable surplus, mainly because certain types of expenditure had been temporarily blocked.

Bank lending to business and private customers expanded very sharply in almost all member countries as a result of vigorous economic growth. In France, the Banque de France took steps in November to contain credit expansion. A month later, the central bank in the Netherlands switched to a restrictive credit policy, and the Banque de Belgique also took restrictive measures.

Given the strong expansion of demand and the heavy exports of funds, the money markets of various member countries showed distinct signs of strain towards the end of the year. With a view to reducing the country-to-country disparities in interest rates and thus checking the outflow of money, the central banks of France, the Netherlands and Belgium raised their respective discount rates. The measures are also helping to curb demand on the money market, an objective of domestic economic policy. In Germany and Italy, the central banks have maintained their stable interest rate policy.

Borrowing on the capital markets of the Community remained very heavy. Around the turn of the year, however, bond and debenture yields rose slightly in various member countries. Equities, which in the autumn had declined, though to varying degrees, almost everywhere as a result of the monetary crisis, climbed steeply in December and January in most member countries—mainly because of a more optimistic assessment of the business outlook.

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ^{2 4}		1969 ^{3 4}
	At current prices in '000 million u.a. ⁵	% changes on preceding year				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	73.4	+ 0.7	+ 1.6	+ 6.5	+ 9	+ 8.5
Public current expenditure on goods and services	47.1	+ 4.2	+ 7.4	+ 2.5	+ 8	+ 4
Private consumers' expenditure	197.0	+ 3.2	+ 6.0	+ 4	+ 7	+ 5.5
Gross Community product	323.6	+ 2.9	+ 5.3	+ 5.5	+ 8.5	+ 6
Balance exports ⁶ less imports ⁶ (at current prices, in '000 million units of account)	+ 3.5		+ 5.7		+ 6.9	+ 5.0

¹ General Statistical Bulletin, 1968, No. 7/8, Statistical Office of the European Communities.

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.

B. Outlook

The current outlook for export demand in 1969 differs slightly, in two respects, from the prospects outlined in the last Quarterly Survey (3/4-1968). Firstly, world economic growth and trade expansion will, seen for the year as a whole, probably be more vigorous than was originally assumed. Secondly, in the first half of the year the Community's exports will still be fairly dynamic, while in the second half of the year the growth of exports must be expected to slow down.

It is very unlikely that economic growth in the United States will come to a halt in the first half of 1969. Despite the restrictive character of the budget and in particular the collection of tax arrears falling due in the spring of 1969, the trend of corporate investment and residential construction is still distinctly upwards. Private consumers' expenditure, too, will probably continue to rise in the first half of 1969, particularly if the savings ratio of households, which in the fourth quarter of 1968 was back at a normal level, ceases to increase.

In the second half of the year, by contrast, anti-inflationary economic policy (tightening of the restrictive money and credit policy, additional cuts in the federal budget, extended application of the income tax increases introduced in July 1968) may increasingly curb the growth of domestic demand. As the wage agreements coming up for renewal later in the year will be fewer in number, mass incomes, too, must be expected to rise at a slower pace. Together with the endogenous factors, the economic policy measures may therefore lead to an appreciable slackening of the growth of fixed investment around the middle of the year; with disposable incomes of households rising only moderately, this may lead to a decline in stock-building, which, as experience has shown, can reach very substantial proportions in the United States. In the circumstances, a temporary stagnation and more stable prices (the latter is apparently very high on the list of the new administration's priorities) cannot be ruled out.

Imports by the United States, which will probably continue to mount in the first half of

the year, may therefore tend to decline later. None the less, it is safe to assume that the GNP growth rate year on year will better the 3 % predicted so far, and that imports of goods and services for the year as a whole will still be considerably up on the average level for 1968.

In the United Kingdom, the restrictive budget policy measures adopted in November and the tightening of credit restrictions, reflected in an increase in Bank rate to 8 % at the end of February, will doubtless curb the growth of imports. This does not mean, however, that the forecasts of Community deliveries to the United Kingdom would have to be revised to any substantial extent. The propensity to import in the UK will, for one thing, be probably higher than originally expected. Also, it is quite probable that the rise in incomes, particularly in wage incomes, will not be held within the limits set by the Government, so that real GNP growth of some 3 % is by no means impossible.

In the other EFTA countries economic activity, which became more lively as early as the middle of 1968, may still gather a little more momentum in the first half of 1969, mainly under the stimulating influence of expanding export demand, including in particular demand from the Community. In the second half of the year, domestic demand in these countries can also be expected to expand faster.

In the developing countries, the trend of imports may become somewhat firmer because of the favourable business outlook in some industrialized countries and because the prices of raw materials have of late been rising again. For 1969 as a whole, however, the level of imports by these countries will probably not be very appreciably up on that of 1968.

It is very probable that internal demand in the Community will expand rather more vigorously than was forecast at the end of 1968.

The latest EEC survey of managements' investment intentions and the trend of orders in plant

and machinery suggest, for instance, that 1969 investment plans will be revised upwards. Even in France, investment activity in 1969 can still be expected to be lively, despite the more restrictive course of budget and credit policy since November. The growth of investment in building and construction, by contrast, will probably be modest, being roughly the same as in 1968.

Private consumers' expenditure may rise somewhat more rapidly than has been assumed so far. Welfare payments, especially old age pensions, will be raised more substantially, particularly in Italy. The faster expansion of production is also likely to lead to a steeper increase in employment.

In the circumstances, the growth of the real gross Community product from 1968 to 1969 can now be put at roughly 6 %, i.e. half a percentage point more than had been assumed

in Quarterly Survey No. 3/4-1968. Industrial production will probably expand by about 9 %. These forecasts imply for the Community as a whole a fairly steady upward trend during the year with only a slight slowdown towards the end of 1969.

The faster expansion of demand and production calls for an upward revision of import forecasts; for the year as a whole, however, the effect of this change will be offset by the somewhat more dynamic trend of exports to non-member countries.

In 1969, consumer prices in some member countries will probably rise more steeply than in 1968: in the Netherlands, the introduction of the tax on value added already forced up prices sharply in the first quarter. In France, too, the higher rates of tax on value added led to a cost-of-living increase in January-February.

C. Short-term economic policy

The impact of the monetary crisis in November brought a change in policy emphasis. The main feature of the crisis was that it mainly affected two of the six countries, France and Germany. The measures taken to restore confidence in the French franc, ward off speculation on a revaluation of the German mark and ensure a foreign trade pattern such as would safeguard growth in Germany are set out in the second part of this report.

Shortly after the monetary crisis, the Commission set out its views in a Memorandum it submitted to the Council on 5 December 1968 on the policy which should be followed within the Community in order to deal with current economic and monetary problems. The Memorandum pinpoints three main needs: prevention of a revival of speculation, maintenance of rapid economic growth in the Community in 1969, and the safeguarding in the years ahead of the balanced development of prices and production costs in the Community to help attain the objectives of Article 104 of the Treaty of Rome.

For these needs to be met, the growth reserves still available in Germany, Italy and the Benelux countries should be put to optimum use without, however, jeopardizing stability.

In particular, the expansion of production should be facilitated by greater efforts to solve certain structural problems, particularly through measures of structural policy to assist individual industries and regions, and through an appropriate vocational training and retraining policy. To keep the trend of wages within the limits of what the economy will bear, an active incomes policy should be pursued through measures concerted with both sides of industry. Restrictive practices affecting price formation on the domestic markets should at the same time be combated energetically and competition from abroad encouraged. In the Memorandum, special emphasis was placed on budgetary policy, which should ensure, through creating a suitable "framework of conditions", that the expansion of demand does not outstrip the supply possibilities. It was also pointed out that Germany in particular should ensure substantial long-term capital exports, since such exports were making

an important contribution to the stabilization of the international capital markets. As regards France, the Commission emphasized the need for the measures which the French Government took in November in connection with the monetary crisis. The Commission advocated in particular stringent budgetary and financial policy and strict limits on lending. At the same time it stressed the importance attaching to moderation in wage increases in 1969 if overall equilibrium was to be restored. In this connection, efforts should be made to supervise the wage trend with particularly great care, promote competition systematically and give greater encouragement to saving.

Discussion of the Commission Memorandum in the Council on 12 December 1968 showed that the Member States were largely agreed on the short-term economic policy to be pursued. In this connection, the Council recognized the need for greater convergence of economic policies in the Community and for an investigation of the scope for intensifying monetary co-operation. Meanwhile, the economic upswing in the Community has gathered such momentum that care should be taken in any case to avoid any additional action that stimulates demand. This applies in particular to Italy, where the measures introduced in the autumn to promote private and public investment activity, together with the substantial increase in old age pensions proposed by the Government in February, can be expected to lead in the months ahead to an appreciable acceleration in the expansion of domestic demand.

The price climate has been deteriorating in most member countries, so that greater importance should be attached to the aim of balanced economic growth and, particularly price stability. This is all the more true as in the United States efforts are being intensified to stem the inflationary rise in prices of the past few years; for the longer term, this means that the member countries of the Community must concentrate more on stability if their economies are to remain competitive. It must be stressed in this context that the need for early action to combat inflation is all the greater in that it will help to avoid, at a later stage, sudden and large-scale

stabilizing measures which would be bound to entail growth losses.

Apart from France, where re-establishment of overall equilibrium has been the Government's chief aim for quite some time, the Netherlands and Belgium have recently adopted a more restrictive course of short-term economic policy. In France and the Netherlands, this involved not only measures in the field of public finance but also a limitation of the expansion of bank lending; in all three countries, Bank rate was put up.

Given the need to reduce domestic demand and prevent an unduly heavy outflow of capital, the limitations on, and the increase in the cost of, borrowing are in France entirely justified objectives.

There is certainly also a case for a credit squeeze in the Netherlands and Belgium; in the Netherlands, this is because the rise in prices has been very vigorous in the past few months and the danger of a price-wage spiral is great, and in Belgium, because there is a great risk of undesirable outflows of capital, but also because the price climate has deteriorated and threatens to grow even worse in the second half of the year. It must, however, be realized that this means a departure from the stable interest rate policy pursued so far in the Community. To make sure that this does not engender a cumulative rise in interest rates in the Community and also in the non-member countries beset by payments difficulties, the emphasis of the efforts to safeguard price stability should be on more abundant supply, on incomes and competition policy, and above all to a still greater extent on public finance policy.¹

The experience of the past few months and the difficulties which may well arise for the economy of the Member States if the restrictive policy in the United States is maintained point emphatically to the need for better co-ordination of economic policy in the Community. In its Memorandum to the Council concerning the co-ordination of economic policies and monetary co-operation in the Community of 12 February 1969, the Commission made practical proposals

to this end. In the Commission's view, there is a need for greater convergence of the national medium-term policy lines on the rates of growth of production and employment, the trend of prices, the current balance of payments, and the overall balance of payments. Accordingly, the Commission proposes that at the beginning of autumn 1969 the Council should debate the options for the period 1970-75 on which the Member States can base their policies. The Council is also called upon to adopt, after consultation of the Medium-term Economic Policy Committee, the measures needed to improve the synchronization of the medium-term programmes of the individual Member States and to strengthen their mutual consistency. There is at the same time a need for greater co-ordination of current economic and financial policies as a means of forestalling, in good time and under the best conditions for all Member States, disequilibria due to the economic trend and, where necessary, combating them as effectively as possible. In a multi-national economic area in process of integration and with a comparatively moderate tariff policy towards non-member countries, the importance attaching to a prophylactic policy is even greater than in a national economy that is comparatively closed to the outside: it is in the common interest that any imbalance, even if confined at first to a single country, should be avoided or overcome as rapidly as possible, as there is a great risk of it contaminating the rest of the Community. The required measures should also be discussed jointly so as to make adequate allowance for economic interaction and ensure that the policies do not counteract each other or touch off chain reactions. This is why the Commission proposes that the procedure of prior consultation on important internal economic and financial policy measures which are liable to affect appreciably the economies of the other Member States should be extended and organized more systematically. In addition, a system of early warning signals should be created with a view to facilitating the co-ordination of the economic policies of the individual countries and the correction, in good time, of any deviation from the lines of medium-term policy already mapped out.

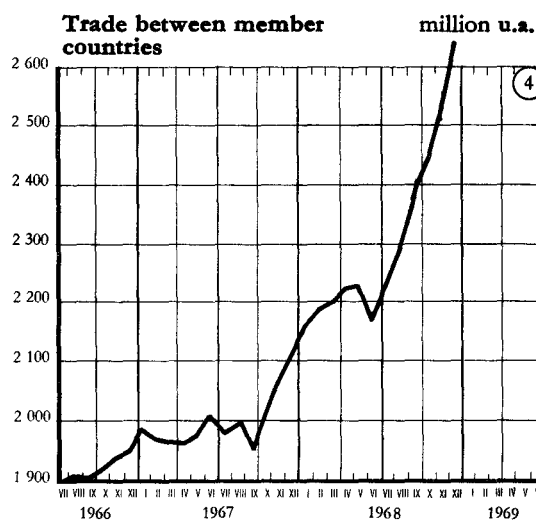
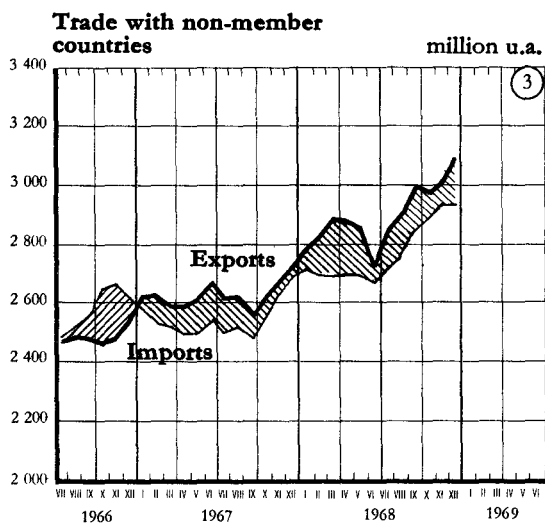
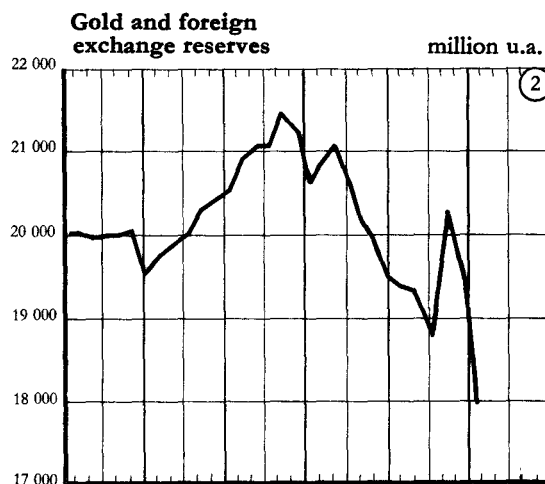
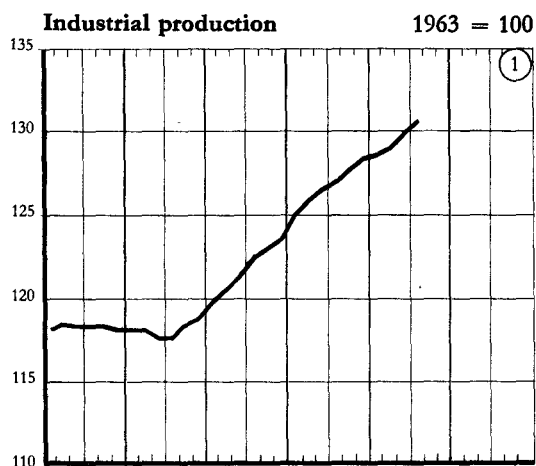
Even if the co-ordination of current economic and financial policies functions efficiently, it is impossible to rule out the possibility that

¹ See the remarks on policy in part 2 of the country chapters.

unforeseen events may lead in a member country to internal imbalances which can very rapidly affect its external payments position. As in such a situation the progress the Community has already made on the road to integration could well be endangered, the Commission also proposes the creation of a system of monetary co-operation functioning within the framework of the jointly fixed medium- and short-term economic policy aims and of the co-ordination of current economic and financial policy; the

system would be designed to forestall an aggravation of imbalances rather than remedy the effects of crises already present. The system, to be combined with the existing machinery of international monetary co-operation, consists in short-term support and medium-term assistance. It is the expression of true monetary solidarity in the Community and represents a necessary complement to the customs union and the co-ordination of economic and financial policies at Community level.

ECONOMIC INDICATORS



NOTES :

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

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 1967

Total area ('000 sq. km.)	1 167.5
Total population ('000)	184 550
Density of population per sq. km.	158
Numbers in employment ('000)	73 450
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
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross Community product	5.4	5.6	4.5	5.8	4.8	3.7	2.9	156	—
Industrial production	6.8	5.8	5.3	7.2	4.3	5.3	1.7	170	—
Visible imports	5.5	11.3	10.2	6.9	5.0	6.8	0.6	199	—
Private consumers' expenditure	6.2	6.3	5.8	4.5	4.7	4.3	3.2	155	61
Gross fixed asset formation	10.1	7.1	5.1	8.7	3.3	3.2	0.7	174	22
Visible exports	3.2	1.0	3.8	9.3	11.0	8.4	7.7	191	—
Intra-Community visible trade	14.5	13.9	16.0	13.2	12.2	10.9	6.1	344	—
Gross product per capita	4.4	4.2	3.3	4.6	3.7	2.7	2.2	142	—

TABLE 3: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1966	114	118	120	122	122	123	111	94	120	122	125	121
	1967	116	120	121	124	122	123	112	95	123	127	132	132
	1968	122	127	132	134	122	132	120	108	137	142	150	147
Imports from non-member countries (cif, million u.a.)	1966	2 522	2 375	2 789	2 524	2 566	2 626	2 418	2 295	2 605	2 687	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	2 784	2 837
	1968	2 696	2 606	2 811	3 709	5 408		2 850	2 608	2 790	2 991	3 061	3 008
Exports to non-member countries (fob, million u.a.)	1966	2 153	2 179	2 567	2 372	2 451	2 485	2 505	2 226	2 460	2 626	2 527	2 849
	1967	2 563	2 413	2 678	2 681	2 595	2 721	2 543	2 358	2 525	2 918	2 763	2 876
	1968	2 781	2 771	3 025	2 848	5 323		3 206	2 772	2 784	3 297	3 171	3 286
Balance of trade (million u.a.)	1966	- 369	- 196	- 222	- 152	- 115	- 141	+ 87	- 69	- 145	- 61	- 104	+ 174
	1967	- 44	+ 21	+ 68	+ 166	+ 31	+ 67	+ 177	- 18	+ 81	+ 298	- 21	+ 39
	1968	+ 85	+ 165	+ 214	+ 139	- 85		+ 356	+ 164	- 6	+ 306	+ 110	+ 278
Intra-Community trade (million u.a.)	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	2 245	2 182	2 126
	1968	2 123	2 162	2 371	2 287	4 248		2 479	2 085	2 409	2 773	2 658	2 724

NOTES

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

Table 1

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

Table 2

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

Table 3

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

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Germany

In the spring of 1969, the German economy has been expanding very vigorously, the main factors being persistently high investment activity and a rapid expansion of private consumers' expenditure. Industrial production has soared, and the expansionary trend of imports has also recovered momentum.

As the year advances, the pace of growth of export demand will probably slow down, primarily as a result of the special measures taken by the authorities to ensure external trade equilibrium, and domestic demand will tend to take over as the main growth factor. Investment will continue to expand swiftly. Indeed, the expansion of expenditure on consumption is likely to gather momentum. As more and more firms are running at or near capacity, particularly in respect of manpower, the trend of domestic production will probably decline in vigour, although heavy investment by firms should bring fairly substantial productivity gains. The growth of imports, by contrast, will probably gather speed, notably as a result of the tax relief. The foreign trade surpluses will therefore fall appreciably, and this will go far to help improve the conditions permitting the maintenance of appropriate economic equilibrium in the country.

1. Recent developments

The measures taken in the last two months of 1968 to cope with the monetary crisis and to safeguard the economic upswing through external trade equilibrium set some new policy targets and included the following:

For the trade surplus to be reduced, imported goods not covered by EEC market organizations will enjoy until 31 March 1970 a tax relief of 4 % (or 2 % for goods chargeable at the low TVA rate) while exports will be subject to a special turnover tax of the same rate. Exports which were covered by contracts concluded before 23 November and were shipped up to and including 23 December 1968 escaped the special turnover tax.

So that the inflow of short-term funds from abroad could be properly controlled, the constitution of non-residents' balances with German credit institutions and German bank borrowing abroad were made subject to authorization. Visible trade and service transactions and long-

term capital movements were not affected. With capital movements back to normal, this measure has since been withdrawn.

To attain the same objective, the Bundesbank fixed at 100 % the reserve ratio for an increase in credit institutions' foreign liabilities carrying the minimum reserve obligation.

To forestall a major decline of domestic economic activity and offset such structural difficulties as might arise from the turnover tax measures, the Financial Planning Council in December recommended some supporting measures. In the first place, the net increases in tax receipts resulting from the measures to ensure foreign trade equilibrium are to be used to provide temporary assistance to particularly hard hit industries and to step up the promotion of regions with a comparatively unfavourable economic structure. In the second place, arrangements have been made for an increase in investment expenditure by the local authorities. As a result of these measures, public expenditure for 1969 as a whole should rise by 7.5 %.

The tax measures relating to foreign trade began to achieve the desired results only gradually. Indeed, as regards visible exports, they prompted a very rapid expansion in November and December, since firms were trying to speed up the execution of current export contracts. The tendency for exports to decline in the subsequent months is in part a reaction to these anticipated export shipments but to some extent it may also reflect the first consequences of the increase in export prices.

The very buoyant trend of gross fixed asset formation was not affected by the measures to ensure foreign trade equilibrium. Investment in plant and machinery in particular continued to soar at the end of 1968 and in the early months of 1969. Building investment, which had been sluggish in 1968 for quite some time, was, by the beginning of the year, also back at the record (adjusted) level it had reached in 1966.

Since the end of last year, private consumers' expenditure in particular has also been making a vigorous contribution to overall economic activity. Although the rise in agreed wages has gathered little if any speed in recent months (in the fourth quarter of 1968 the level of agreed wages was only 4.7 % up on that of a year earlier) actual earnings increased very appreciably. In the fourth quarter of 1968 total wages and salaries were some 10 % up on the level of the corresponding period of the previous year. There was at the same time a vigorous increase in the amounts which self-employed persons withdrew from their businesses.

The tendency for shortages to occur on the labour market continued in the winter months. At the end of January, the number of unemployed, seasonally adjusted, was down to 240 000, while the number of unfilled vacancies was at the same time three times as large, although employment of foreign workers has again shown a distinct rise.

In general, domestic supply has adapted fairly flexibly so far to the rapid expansion of demand. Indeed, in November and December, industrial production showed an unusually sharp increase, probably in the main as a result of the drive by firms to speed up the execution of export orders. The rate of expansion shows in any

case that many industries still have scope for increases in production.

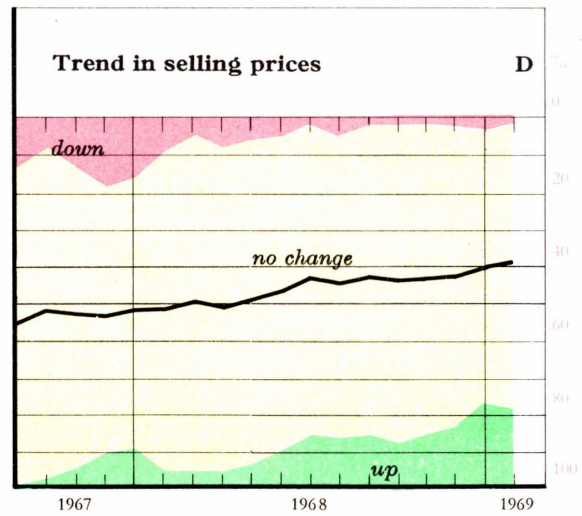
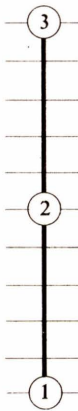
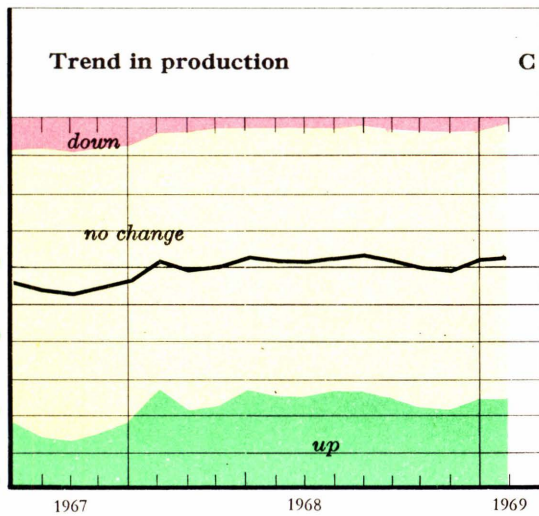
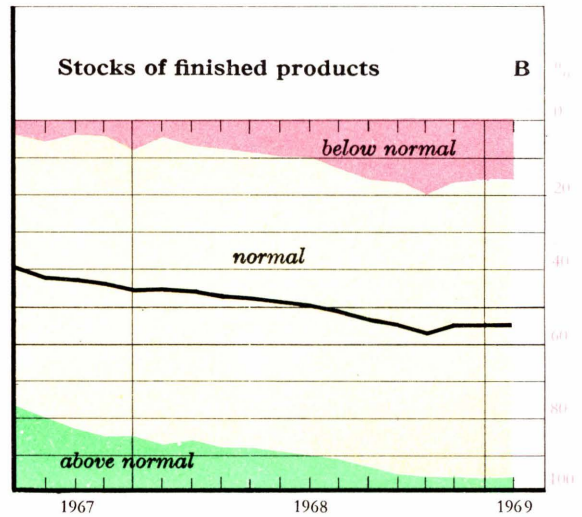
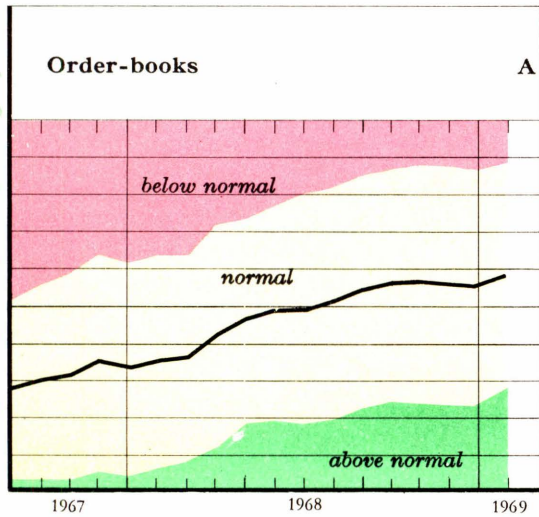
Imports have been rising very vigorously in recent months; this applies in particular to imports of finished goods, which have expanded under the influence of the tax relief on imports and the acceleration of consumer spending.

The price climate has deteriorated in recent months. From November to January, industrial producer prices rose by 0.7 %. The cost-of-living index has reverted to a more distinct upward tendency, although this is mainly attributable to a rise in food prices that are highly dependent on weather conditions and to higher rents partly due to the statutory increase in the interest rates charged on official loans for residential construction. If these two factors are left out of account, the cost-of-living index in February was in fact somewhat less than 1 % up on the level of a year earlier, while the overall index showed a rise of 2.3 %.

The trend of the balance of payments has in recent months reflected the effects of the measures to ensure external trade equilibrium and particularly to ward off speculative capital inflows from abroad. As a result of the efforts by exporters to beat the tax deadline, the foreign trade surpluses climbed steeply in November and December but have since been showing a distinct tendency to fall. In the field of short-term capital movements, substantial funds have been withdrawn since the settlement of the monetary crisis. Long-term capital exports at the same time remained at a very high level so that the overall balance of payments in December-January closed with a deficit of DM 2 400 million. In the same period, the official gold and foreign exchange reserves of the Bundesbank actually declined by DM 8 600 million as the commercial banks were investing substantial funds abroad, particularly on the Eurodollar market.

With the vigorous economic upswing, firms' demand for short- and long-term bank loans has gathered appreciable momentum. At the same time the capital markets and more particularly the bond market have proved very receptive. The distinct rise in interest rates abroad and particularly on the Euro-market has so far had little if any influence on the comparatively low level of German rates.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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



Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ¹		1969 ²
	At current prices (in DM '000 million)	% change on preceding year				
		Volume ₄	Value	Volume ₄	Value	Volume ₄
Exports ³	103.0	+ 9.5	+ 8.0	+ 15.6	+ 13.1	+ 7.5
Gross fixed asset formation	121.9	— 7.4	— 9.4	+ 7.8	+ 9.7	+ 9
Public current expenditure on goods and services	75.5	+ 3.4	+ 6.7	+ 0.2	+ 3.7	+ 6
Private consumers' expenditure	274.9	+ 0.6	+ 2.4	+ 3.4	+ 5.5	+ 6
Gross national product	480.8	0	+ 0.6	+ 6.9	+ 8.9	+ 5.5
Imports ³	96.5	— 0.4	— 1.3	+ 16.8	+ 13.2	+ 14

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

² Commission forecasts.

³ Goods, services and factor income.

⁴ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
 (b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook

After the spurt in the (adjusted) trend of demand and production in the fourth quarter of 1968—a development reinforced by the special factors outlined above—the pace of growth must now, apart from variations, be expected to slow for a while; the endogenous forces making for expansion will at all events be strong enough to ensure that supply potential is exploited to a high degree. Allowing for the effects of the measures to ensure foreign trade equilibrium, the Commission at present reckons that from 1968 to 1969 the real gross national product will rise by some 5.5%. In this con-

nection, on the demand side, the emphasis will probably shift increasingly from exports to domestic sales.

Despite the tax measures, however, exports will also go on rising—though at a rate that will be appreciably weaker than had been originally expected.

As many firms are, however, endeavouring to pass on the increased tax burden in higher export prices, the effect of the measures to ensure foreign trade equilibrium on the rise in exports will be distinctly greater in terms of volume than in terms of value.

In 1969, the general economic situation will depend on the trend of gross fixed asset formation. The EEC investment survey carried out shortly before the monetary crisis in November suggested that investment expenditure by industry would go up by some 20 % in 1969, while a year earlier the survey pointed to an expected rise of 8 %. The flow of domestic orders for key capital goods also reflects the very strong propensity to invest. The special tax hampering exports may no doubt induce some of the particularly export-oriented firms to exercise somewhat greater caution in their investment decisions, but this is not likely to affect the growth of investment in plant and machinery to any significant extent this year: the propensity to invest is likely to be stimulated appreciably by the healthy profit trend in 1968, the high degree of plant utilization currently being achieved in most industries and the favourable outlook for the expansion of domestic demand. The public authorities, too, will at the same time step up their investments vigorously, particularly if the December 1968 recommendation of the Financial Planning Council urging a considerable expansion of local authorities' infrastructure investment is implemented.

Expenditure on consumption will be the second main factor behind the shift, expected for 1969, in the pattern of overall demand to a more vigorous expansion of domestic demand. Here, it is fairly certain that the wage and salary increases which have been agreed upon and defence expenditure which will expand more vigorously again will provoke a spurt in the growth of public current expenditure on goods and services. Private consumers' expenditure, too, will probably expand considerably. The trend of incomes, at any rate, will allow of such expansion, since, with employment and wages developing as at present, the purchasing power of the public can be expected to rise vigorously.

Given the outlook for demand, there can be no doubt that employment will go up further and that the domestic supply potential will be utilized to a very high degree. As manpower reserves are practically fully deployed and the productivity gains resulting from rationalization investment by firms will make themselves felt only gradually, the growth of industrial production will probably lose momentum as the year advances. In the light of the seasonally adjusted

level of activity at the beginning of the year, the contribution of industry (as defined for the national accounts) can be expected to rise by about 7 %. The high level of domestic demand and the tax measures to bring down the prices of visible imports will probably lead to a distinct acceleration of imports. Apart from the fact that requirements in respect of raw materials and semi-manufactures are going up, there will now also be a stronger rise in imports of finished goods, for which some prices have already been lowered appreciably owing to the tax relief.

The foreign trade surpluses will accordingly fall very appreciably. Commission estimates suggest that in 1969 the external contributions as defined for the national accounts will be down by at least something between DM 4 000 and 5 000 million; in terms of volume this would correspond to an additional supply of goods on the domestic markets of the order of DM 6 000 to 7 000 million.

The supply increment will do much to help improve the conditions permitting the maintenance of domestic economic equilibrium. In this connection it is important to remember, however, that the price level will probably tend upwards, were it only for reasons not directly connected with the business upswing, particularly since farm prices, whose decline contributed substantially to the stabilization of consumer prices in 1967/68, will continue to rise for some time yet.

For this reason, attention must again be drawn to pages 48 and 49 of the last Quarterly Survey (3/4-1968), where emphasis was placed on the need for the authorities to persist in their efforts to win over both sides of industry, in the framework of concerted action, to stability-orientated policies and to widen the margin of supply by selective measures of structural policy. In this respect it is a source of satisfaction that the supporting measures decided upon as part of the efforts to ensure foreign trade equilibrium are to contribute to the mobilization of the resources available in the regions faced with structural difficulties, particularly where unemployment is still comparatively high. To grant aid to industries whose production volume is adversely affected by the tax measures applying to foreign trade would, by contrast, run counter

to the requirements of the current business situation, since this would mean retaining artificially factors of production, and particularly labour, in these industries and impeding their employment in industries with a higher level of productivity and a brighter future.

In view of the inhibiting effects of the foreign trade measures on the trend of demand and prices (the real impact of which is, of course, very difficult to assess), those responsible for economic policy should be very careful in applying their instruments of overall guidance and should for the time being remain neutral in their action. This means that for the moment restrictive measures should be avoided, particularly in the field of monetary and credit policy, a field in which restrictive measures, given the banks' wide liquidity margin, would in any case not take effect without a very considerable lapse of time, and this probably only at the price of fresh obstacles to international payments.

To ensure that the forces tending to stimulate demand do not assume undue proportions, it is also vital that all general action over and above the action already decided upon at the beginning of the year should be avoided. Care should in particular be taken to ensure, through strict fiscal policy, that the overall rise in public expenditure of 7.5 %, for which provision was made in December, is not exceeded further, although the level of expenditure in 1968 was lower than had been forecast originally. Tax revenue exceeding the estimate should be used for anticipated debt redemption or the building up of an anticyclical "buffer" reserve. As against this, the expansion of investment by the local authorities provided for in December is entirely justified in view of the capacity reserves that still exist in building and construction. Expansion is called for particularly because to defer these investments would entail a serious risk that the trend of public expenditure in 1970 will be running with, not against, the business cycle and will boost the expansion of demand. The budgetary measures should in any case be so designed as not to lead to an additional

increase in expenditure in 1970. In fact both the Federal Government and the Länder should budget for a substantially slower rise in expenditure in 1970.

3. The economic situation in West Berlin

In 1968, Berlin's economy, too, was increasingly affected by the upswing of business activity in the federal area, although a certain disparity in the strength of the expansionary forces still persists.

Visible exports, however, did not start to expand more rapidly until the closing months of 1968. Deliveries to West Germany, by contrast, showed a decidedly lively trend throughout the year.

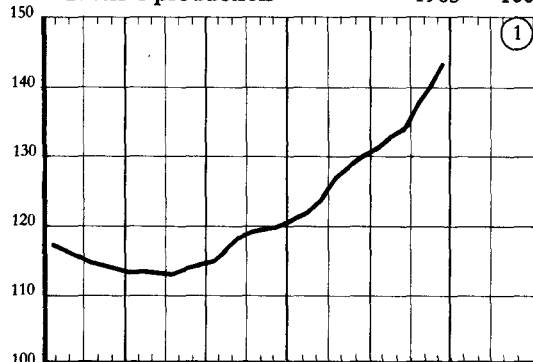
Gross fixed asset formation made a very considerable contribution to activity. Indeed, investment appears to have gathered additional momentum in the past few months. This applies to both expenditure on plant and machinery and building investment. Private consumers' expenditure is also tending to rise.

There was an aggravation of strain on the labour market. In January, the unemployment rate was down to 0.8 % of the number of persons in paid employment. The number of persons employed in Berlin industry in the fourth quarter was 2.5 % up on the level of the corresponding period of the previous year.

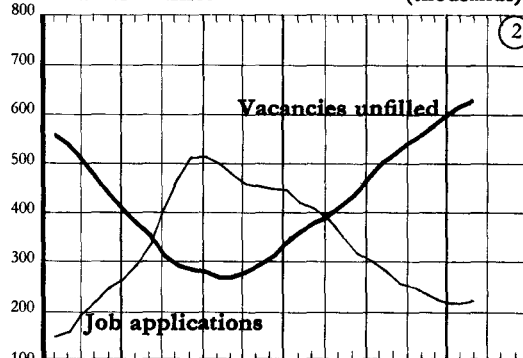
Industrial production has been expanding vigorously, with the growth of production in the electrical engineering and chemical industries being particularly rapid. Given the comparatively favourable trend of incoming orders, particularly to these industries, the outlook is one of rapid growth in the months ahead. Whether the scope for expansion offered by demand will be actually exploited will, however, largely depend on investment policy and particularly on moves to step up investment expenditure in the growth industries.

ECONOMIC INDICATORS

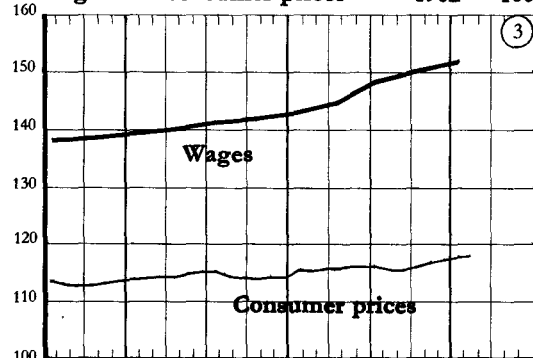
Industrial production 1963 = 100



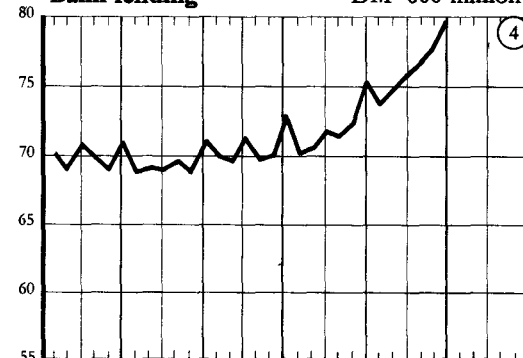
Labour market (thousands)



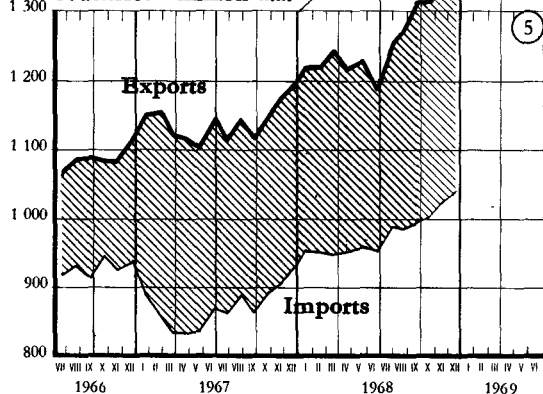
Wages and consumer prices 1962 = 100



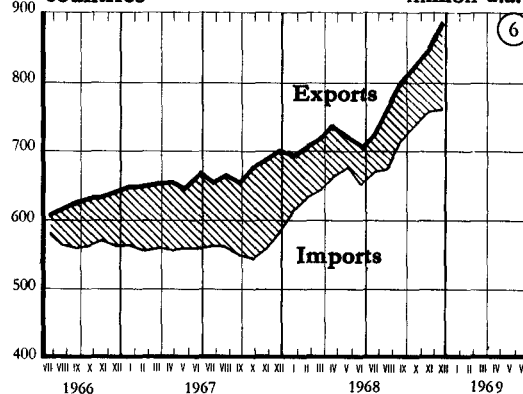
Bank lending DM '000 million



Trade with non-member countries million u.a.



Trade with other member countries million u.a.



NOTES :

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

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

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

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

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

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

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

Germany

TABLE 1 : Basic data 1968

Total area ('000 sq. km.)	248.5
Total population ('000)	60 150
Density of population per sq. km.	242
Numbers in employment ('000)	26 320
Numbers in employment, breakdown by main sector (%)	
— Agriculture	10.4
— Industry	47.1
of which : Construction	7.7
— Services	42.5
Percentage share of gross domestic product	
— Agriculture	4.9
— Industry	47.2
of which: Construction	7.5
— Services	47.9
Gross product per capita (DM)	8 765

TABLE 2 : Key indicators

	% change by volume on preceding year								Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1968		
Gross national product	5.4	4.2	3.4	6.6	5.6	2.3	0	6.9	162	—
Industrial production	6.3	4.5	2.7	8.5	6.7	1.9	— 2.3	8.9	172	—
Total imports	8.1	11.4	8.0	10.7	15.0	2.8	— 0.4	16.8	271	20.4
Private consumers' expenditure	6.8	5.9	2.9	5.3	6.3	3.5	0.6	3.4	158	56.3
Public current expenditure on goods and services	7.8	11.5	7.5	— 0.5	6.9	1.1	3.4	0.2	168	15.9
Gross fixed asset formation	9.4	5.9	2.9	12.0	6.5	0.2	— 7.4	7.8	178	23.0
Total exports	3.5	3.9	9.0	9.6	7.2	11.0	9.5	15.6	245	23.9
Gross national product per capita	4.0	2.8	2.2	5.3	4.3	1.2	— 0.4	6.4	147	—
Gross national product per person gainfully employed	4.0	3.4	3.0	6.2	4.9	2.6	2.9	6.8	158	—

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	11.1	4.5	10.2	10.9	10.3	12.5	8.0	247	21 736	100
Intra-EEC	19.6	20.9	20.3	8.4	6.7	16.0	9.4	333	8 002	36.8
To non-EEC countries	7.6	1.0	4.7	12.5	12.4	10.6	7.2	215	13 734	63.2
Exports of food, beverages and tobacco										
Total	4.3	7.3	16.0	20.5	25.0	- 2.0	27.0	296	541	2.5
Intra-EEC	1.0	8.1	23.9	22.1	22.6	6.6	61.2	436	285	1.3
To non-EEC countries	6.3	6.9	11.5	19.5	26.6	- 7.3	2.7	218	255	1.2
Exports of raw materials and manufactures										
Total	11.3	4.5	10.1	10.8	10.0	12.9	7.5	246	21 195	97.5
Intra-EEC	20.1	12.2	20.8	8.1	6.3	16.3	8.1	330	7 717	35.5
To non-EEC countries	7.6	0.9	4.6	12.3	12.1	11.0	7.2	214	13 478	62.0
Visible imports										
Total	8.3	12.2	6.0	12.2	19.6	3.2	- 3.7	236	17 352	100
Intra-EEC	13.3	16.6	8.7	17.4	30.7	4.2	- 1.1	362	6 864	39.6
From non-EEC countries	6.1	10.3	4.7	9.7	13.6	2.5	- 5.4	192	10 488	60.4
Imports of food, beverages and tobacco										
Total	7.9	20.1	- 8.3	8.3	21.6	2.4	- 4.2	184	3 582	20.6
Intra-EEC	15.8	15.9	- 0.0	9.3	28.0	6.8	0.1	286	1 442	8.3
From non-EEC countries	4.4	22.2	-12.2	7.8	18.1	- 0.1	- 6.9	149	2 140	12.3
Imports of raw materials and manufactures										
Total	8.4	9.9	10.7	13.3	19.0	3.3	- 3.6	254	13 769	79.4
Intra-EEC	12.5	16.8	11.5	19.7	31.3	3.5	- 1.4	359	5 422	31.3
From non-EEC countries	6.7	6.8	10.3	10.2	12.5	3.2	- 5.0	207	8 347	48.1

TABLE 4 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1962 = 100)	1967	106	111	114	119	119	117	112	104	122	126	131	130
	1968	111	118	125	131	132	142	120	123	138	140	154	144
	1969	130											
Unemployed (1000)	1967	621	674	576	501	458	401	377	359	341	361	395	526
	1968	673	590	460	331	265	227	203	188	174	180	196	266
	1969	369	374										
New orders received (1958 = 100)	1967	160	162	187	176	179	190	171	170	194	216	207	195
	1968	184	189	203	210	219	186	207	192	221	251	233	219
	1969	227											
of which:													
home orders	1967	144	145	171	163	165	171	160	158	182	206	192	173
	1968	163	171	188	193	201	170	188	182	207	233	212	196
	1969	207											
foreign orders	1967	229	239	260	237	243	277	227	223	249	261	271	291
	1968	274	269	273	288	297	260	296	255	290	334	330	318
	1969	318											
Construction : permits issued (DM '000 million)	1967	2.76	2.68	3.11	3.50	3.32	3.60	3.78	3.60	3.70	4.35	3.88	3.13
	1968	2.34	2.99	3.63	3.88	3.72	3.63	4.16	3.89	3.97	3.98	3.63	
	1969												
Private consumers' expenditure: Retail turnover, value (1962 = 100)	1967	115	109	134	127	129	128	129	122	127	134	144	192
	1968	113	112	132	140	137	126	136	131	129	149	161	194
	1969	126											
Total visible imports (million u.a.)	1967	1 393	1 276	1 442	1 406	1 403	1 556	1 401	1 408	1 414	1 579	1 613	1 653
	1968	1 553	1 533	1 658	1 651	1 690	1 513	1 835	1 617	1 677	1 959	1 799	1 804
	1969	1 941											
Total visible exports (million u.a.)	1967	1 750	1 629	1 816	1 867	1 724	1 884	1 726	1 654	1 791	1 989	1 906	2 025
	1968	1 869	1 862	2 102	1 926	2 016	1 767	2 184	1 928	2 056	2 309	2 309	2 476
	1969	1 970											
Balance of trade (million u.a.)	1967	+ 357	+ 352	+ 373	+ 461	+ 321	+ 327	+ 325	+ 246	+ 377	+ 410	+ 292	+ 372
	1968	+ 316	+ 324	+ 444	+ 275	+ 325	+ 254	+ 349	+ 312	+ 379	+ 430	+ 509	+ 672
	1969	+ 29											
Official gold and foreign exchange reserves (million u.a.)	1967	6 490	6 684	6 759	6 723	6 759	6 702	6 639	6 690	6 808	6 737	6 914	6 853
	1968	6 486	6 749	7 030	6 842	6 732	6 733	6 709	6 695	6 962	6 665	8 544	7 497
	1969	6 228											
Money supply (DM '000 million)	1967	74.4	76.3	75.6	77.0	77.6	78.7	79.3	79.7	80.2	80.5	84.2	87.8
	1968	81.5	81.3	81.0	81.8	83.8	85.3	84.8	85.7	86.8	86.8	91.3	
	1969												

Germany

NOTES

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

Table 1

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

Table 2

- Gross national product at market prices.
- Industrial production: value added at market prices (incl. small workshops).
- 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 this country domestic demand was definitely expanding too fast at the end of 1968 and the economy was still under heavy strain in the early months of 1969. Demand by households appears to have continued to exert particularly strong pressure on available resources, but fixed investment expenditure by firms has also climbed sharply once again. The expansion of production is being increasingly hampered by bottlenecks: the shortage of skilled labour is particularly acute. Since the buoyancy of domestic demand not only meant heavier imports but had also inhibited exports, particularly towards the end of 1968, the foreign trade balance is still heavily in deficit. The cost of living went up once more at the beginning of 1969, mainly as a result of an increase in TVA rates.

As the year advances, the trend of demand in money terms will in all probability be increasingly affected by the restrictive economic policy adopted in mid-November 1968, in connection with the monetary crisis, to restore domestic and trade equilibrium. Demand from the public authorities will probably rise only a little. Demand from households may develop along distinctly more subdued lines, provided the wage trend reverts to normal. On the other hand, it is all the more unlikely that managements will revise their—very expansionary—investment plans for 1969 since the world business trend, which is in general favourable, should enable the effects on sales of a slowdown in the expansion of domestic demand to be offset by more exports. As a result of the expected slackening of import demand, trade will gradually tend to balance out in the second half of the year. The upward pressure on prices due to actual business developments is likely to weaken.

1. Recent developments

Following the monetary crisis in November 1968, the Government switched to a more restrictive economic policy with a view to re-establishing the external equilibrium of the French economy and restoring confidence in the stability of the currency; the measures it took to curb domestic demand mainly concerned credit and budget policy.

In the field of monetary and credit policy, Bank rate was raised from 5 % to 6 %; the minimum reserves which the commercial banks are required to hold with the central bank were increased from 4.5 % to 5.5 % and compulsory holdings of medium-term bills from 13 % to 14 % of customers' deposits; a limit was

placed on the expansion of short-term lending and of non-mobilizable medium-term credit, at first to apply until 31 January 1969 but subsequently extended until 30 June 1969; the volume of credit outstanding at the critical dates must not exceed the level reached on 30 September 1968 by more than certain narrow margins (on 30 June 1969 by only 4 %): this is tantamount to a ban on any increase in lending in the first half of 1969.

In the field of budget policy, expenditure on the creation of new public-service posts and on the implementation of new investment projects was frozen from the end of November 1968 to mid-January 1969; it was decided to spread spending of the funds for building investment still available from the 1968 budget over the

whole of 1969; the expenditure originally provided for in the Finance Law for 1969 was scaled down by a total of FF 2 900 million, with the main cuts being in subsidies to nationalized industries, current administrative expenditure and certain types of investment expenditure; tax revenue was increased by some FF 2 500 million, mainly by means of major changes in the tax system: reduction of the tax burden borne by firms through the elimination of the payroll tax (shortfall in receipts FF 8 100 million) but heavier taxation of households through an appreciable raising of the TVA bracket—from 6-20 % to 7-25 % (this will bring in a further FF 10 200 million). The budget deficit, originally put at FF 11 700 million, was thus reduced to FF 6 350 million.

Although these measures are very much in line with policy requirements, it would have been a mistake to have expected them to produce notable results as early as in the past few months. At all events, there is every indication that the expansion of demand, which had gathered unusual speed at the end of 1968, continued in the early months of 1969 at only a slightly slower pace. Stimulated, in particular, by the psychological factors connected with the monetary crisis, the buoyancy of domestic demand was such that at times export deliveries fell well behind schedule.

The trend of visible exports, which had been very satisfactory until October despite the appreciable rise in wage costs following the events of May and June, slackened in the last two months of the year; the improvement at the beginning of 1969 was probably partly due to a drive to squeeze in as many consignments as possible before the direct export grants lapsed on 31 January, but may also reflect rising import demand from major trading partners.

Demand from households bore particularly heavily on the available resources. The incomes of almost all categories had once more gone up appreciably (on 1 October, the second round of wage increases agreed after the strikes of May and June entered into force; on 1 December, the statutory minimum wage was raised; at the end of 1968 and the beginning of 1969, welfare payments were substantially improved; the total number of hours worked increased and the incomes of the self-employed also

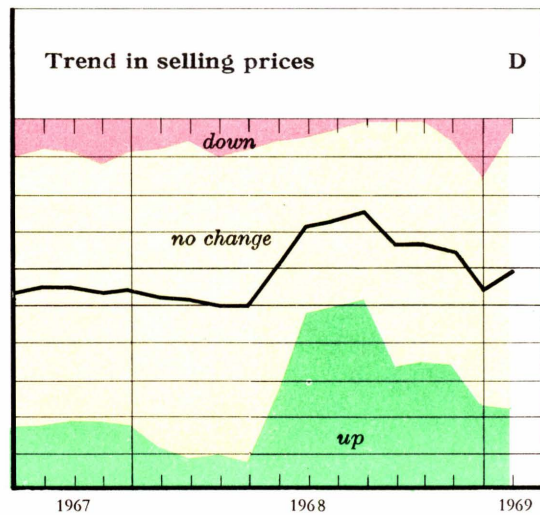
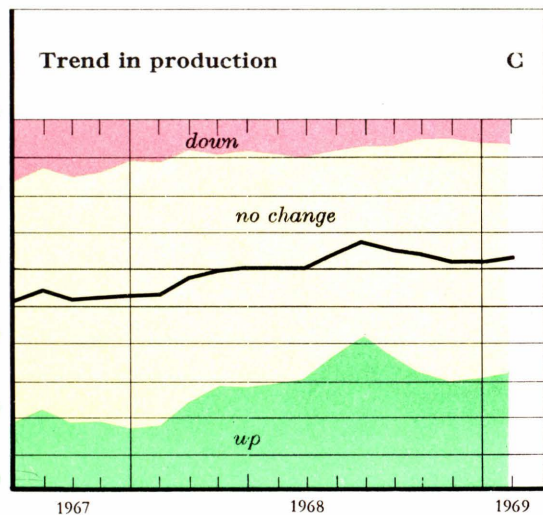
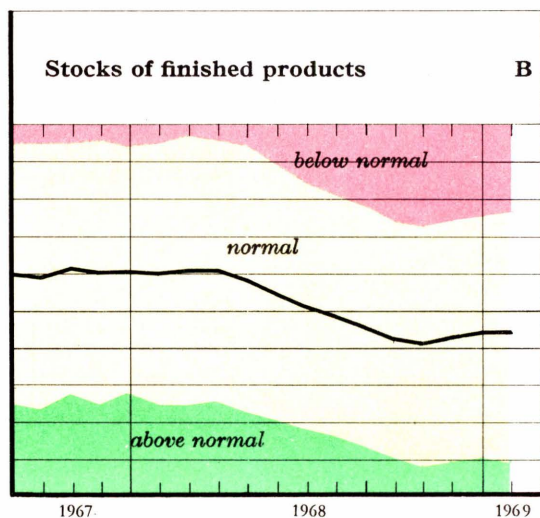
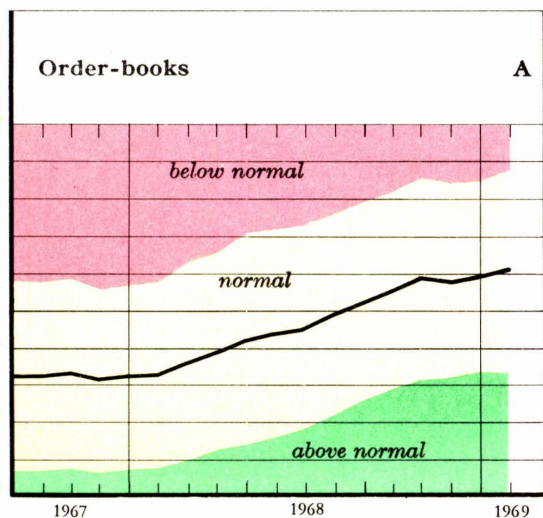
showed an improvement). In addition, there was for a time a very substantial fall in the savings ratio, as a result of the uncertainty created by the monetary crisis in November and of fears that the increase in TVA rates on 1 December might entail very heavy price increases. At all events, the results of the INSEE surveys of retail trade, the trend of sales of department stores and new passenger car registrations show that a wave of buying definitely got under way in November 1968, from which consumer durables benefited most, and that in the early months of 1969, too, demand from households was still very brisk.

At the same time companies stepped up sharply their expenditure on gross fixed asset formation. The heavy propensity to invest was doubtless in the main due to the increasing shortage of technical production capacities and skilled labour, and to a confident assessment of sales prospects for the longer term as well as for the immediate future. There were no financing difficulties to impede the implementation of the investment plans: the considerable improvement in the profit situation since the autumn of 1968, the elimination of the payroll tax (which had only partly been incorporated in sales prices), and the tax reliefs on purchases of capital goods largely offset the effects of the ceiling placed in mid-November 1968 on credit expansion, quite apart from the fact that medium-term credits available for mobilization for finance exports, residential construction and industrial investment were in any case not included in the ceiling. In recent months, investment in residential construction—both publicly-assisted and purely private—has been rising vigorously.

Investment in stocks was on only a small scale since the trend of final demand entailed full absorption of supplies, at least until the beginning of 1969. In particular, the stocks of finished products maintained by manufacturers and dealers remained abnormally low.

The expansion of public demand for goods and services, which had gathered very great momentum after the events of May and June, appears to have slowed down towards the end of 1968 and the beginning of 1969: since October, there has been a more cautious note in government spending policy.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

Domestic supply adapted to the—excessive—upswing of overall demand in money terms only after a time-lag, although the elasticity of industrial production in particular was still relatively high. The seasonally adjusted INSEE index shows that industrial production expanded by more than 6 % in the fourth quarter of 1968; at the end of the year it was running some 10 % ahead of the corresponding 1967 figure. The heavier pressure of demand affected almost all industries. At the beginning of 1969 most managements in both the consumer goods and the capital goods industries were still reporting that the volume of orders on hand was rising, that they were having to quote late delivery dates and that bottlenecks were causing increasing difficulties.

With firms running much nearer capacity, employment also rose: while until well into the autumn of 1968 considerable productivity gains had been sufficient for economic growth to be ensured, in the last few months more and more firms have been compelled to take on more workers. On the labour market the first signs of strain have been discerned; this goes to show that while the total manpower potential still available is in itself fairly substantial, it does not sufficiently meet actual requirements since the persons concerned are not equipped with the right skills or do not live in the areas where they are needed: the number of unfilled vacancies, which, seasonally adjusted, had amounted to 29 000 at the end of August 1968, reached 64 500 by the end of January 1969, a record even for the upswing phase of the business cycle. At the same time the seasonally adjusted number of persons seeking employment fell from 285 200 to 227 900.

The vigour of demand boosted imports. Despite quota restrictions on certain items until 31 December 1968, the seasonally adjusted volume of imports topped the record level registered immediately after the events of May and June. At the beginning of 1969, the year-to-year increase was some 25 %.

Although the expansion of imports did much to mitigate pressure on prices, an unmistakable disequilibrium between supply and demand nevertheless persisted for a time; but this disequilibrium has not been the only factor affecting the price trend since the events of

May and June. In the main, the very active, and, after the monetary crisis, even stricter price policy was the essential reason why the rise in the INSEE index of consumer prices stayed roughly within what were—particularly from the point of view of social policy—the desired limits. The INSEE index of 259 items was in January 1969 nevertheless 5.4 % higher than a year earlier, but the increase in TVA rates in December accounted for part of this increment.

The main consequence of the unsatisfactory relationship between domestic supply and demand was a sharp deterioration in the external balance. In the four months from November 1968 to February 1969, the deficit on visible trade (as shown in the foreign trade returns) exceeded FF 4 100 million, compared with only FF 1 400 million a year earlier. Speculative capital movements added so heavily for a time to the burden thus placed on external payments that at the height of the monetary crisis in the second half of November the Banque de France was granted credit facilities totalling \$2 000 million, of which \$1 000 million were made available by the central banks of the Member States of the Community. Following the re-introduction of rigorous exchange control, which involved some transfers of private foreign exchange balances to the Banque de France, the official gold and foreign exchange reserves, which, according to the return of the Banque de France, had dropped by almost \$600 million in November, were up again by more than \$500 million by the beginning of February. There have, however, been fresh outflows of foreign exchange since, though not on the same scale.

In the past few months, the trend of domestic liquidity has been mainly determined by internal factors. It would appear that towards the end of 1968 the vigorous expansion of the money supply, which in the autumn months had been accompanied by a sharp increase in the velocity of money circulation, was curbed by the credit restrictions and a cautious government spending policy. The expansion of bank lending to business and private customers remained roughly within the limits fixed; with tax receipts in the fourth quarter of 1968 well above estimates, the cash transactions of the

Treasury closed with such a large surplus that the deficit on the 1968 budget, originally estimated at FF 14 000 million, was reduced to some FF 10 000 million. A slight easing of strain on the money markets at the beginning of

1969 was mainly seasonal; interest rates were still unusually high. On the stock exchange, non-index-linked bonds and debentures have declined and equities and gold have risen sharply.

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ²		1969 ³
	At current prices in FF '000 million	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	—	—	—	+ 8	+ 9.5	+ 10.5
Gross fixed asset formation	—	—	—	+ 4.5	+ 8	+ 7.5
Public current expenditure on goods and services	—	—	—	+ 5	+ 12.5	+ 2.5
Private consumers' expenditure	—	—	—	+ 5	+ 10	+ 5.5
Gross national product	—	—	—	+ 3.5	+ 9	+ 6.5
Imports ⁴	—	—	—	+ 11	+ 11	+ 12

¹ Owing to a change in the calculating methods and the adoption of a new reference year for the initial series, the figures for 1966 and 1967 are not yet available.

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.

2. Outlook

It is extremely difficult to forecast the future trend of the French economy with any degree of certainty. This is mainly because at the time of drafting this report there are still considerable differences of opinion between the trade unions, employers and the Government over

the margin for wage increases, and because the real and psychological impact of the restrictive measures adopted in mid-November 1968 in connection with the monetary crisis cannot yet be assessed.

Early in 1969 the economic trend was still showing considerable inherent vigour, and the

policy of curbing demand will therefore probably not begin to have any appreciable effect on production and employment before the second half of the year. And the sooner the resources set free by a slackening in the expansion of domestic demand are used to step up exports, the less the economy as a whole will suffer.

World demand allows of such a policy: at the beginning of 1969 the reports of French industry on the flow of new export orders and on the state of export order-books were better than they had been for several years. There are good prospects that export demand, particularly from the other EEC countries, will remain lively. The tax measures and particularly the elimination of the payroll tax have probably meant an appreciable strengthening of the competitive position of the French export industry.

A more favourable export trend could well also dissuade managements from revising what have so far been very expansionary investment plans. In the months ahead the level of investment expenditure will in any case still be determined by orders placed before the official policy change. It must, moreover, be borne in mind that the funds available to firms for self-financing are fairly substantial. In Quarterly Survey No. 3/4-1968 it was noted that tax reliefs for firms may well release more than FF 5 000 million in 1969; the resulting optimistic forecast of investment by firms made at that time has been confirmed, if anything, by further tax concessions granted since. As against this, the measures to make money dearer and curb lending have—where in fact they actually apply to investment loans—at best a marginal effect; the only exception is investment in stocks, which is, however, likely to increase vigorously in the months ahead, if only because of the need to bring stocks back to a level bearing a normal relationship to sales.

With regard to the prospects for a further expansion of private consumption, it has already been stated that the future trend of wages is still difficult to predict: the “rendezvous” of March revealed considerable divergences between the views of the trade unions, the employers’ organizations and the Government. Efforts will probably be made now to agree

wage increase for 1969 through direct negotiations between managements and unions within individual industries and firms. For employees of the nationalized industries, the Government has since decided to increase wages by 2 % as from 1 April, with an additional 2 % rise to follow in the autumn. If it is assumed that in the private sector, too, the wage increases will keep within the limits compatible with a rapid return to internal and external equilibrium, and if due allowance is made for the probable trend of employment and the possible consumer saving trends, the expansion of private consumption will probably lose momentum in the months ahead, but there will be no danger of actual stagnation.

As pointed out above, the measures to curb domestic demand will probably begin to affect the growth of industrial production only after a time-lag, since for the time being the order situation is such that most firms are running at or near capacity. But even so a very appreciable slowdown in the pace of expansion in the very near future cannot be ruled out, were it only because of the emergence of bottlenecks in major sectors. Given the very high level reached at the end of 1968, the performance for the year as a whole may nevertheless still be very considerable: the growth of the real GNP in 1969 may still reach almost 6.5 % and thus fall only a little short of the forecast made in Quarterly Survey No. 3/4-1968.

What with domestic demand slackening and the export trend gaining in vigour the foreign trade situation could well improve rapidly. The pressure of import demand can be expected to ease appreciably, so that in the second half of the year the balance of trade may increasingly tend towards equilibrium.

The aim of short-term economic policy is to re-establish the external equilibrium of the French economy as rapidly as possible and ensure a lasting restoration of confidence in the stability of the currency. If the curtailment of domestic demand is not to exceed the narrow limits set by considerations of social and employment policy, this aim cannot be achieved unless all those concerned in the economic process exercise strict discipline, particularly with regard to wages and prices. It must,

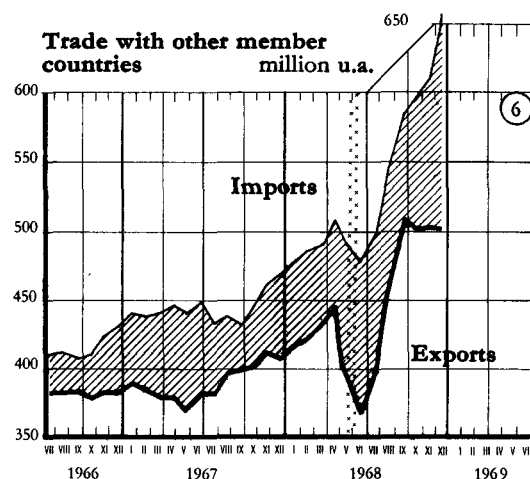
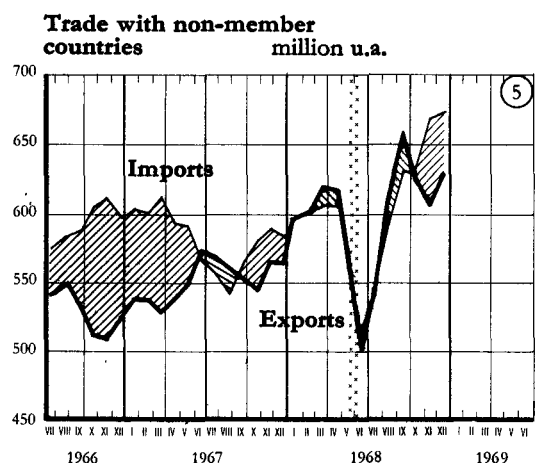
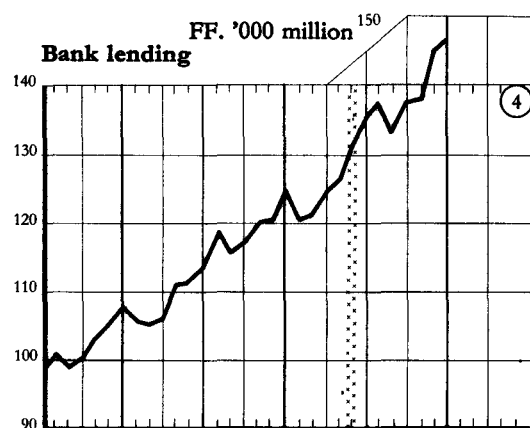
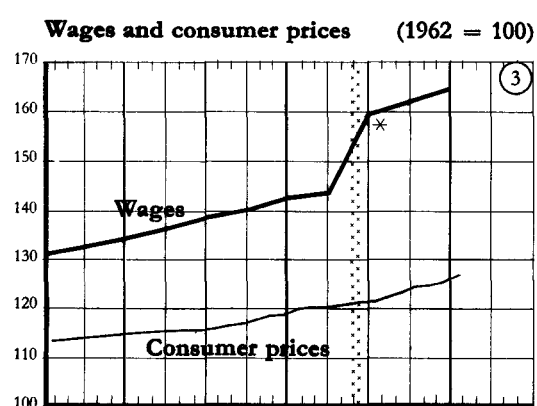
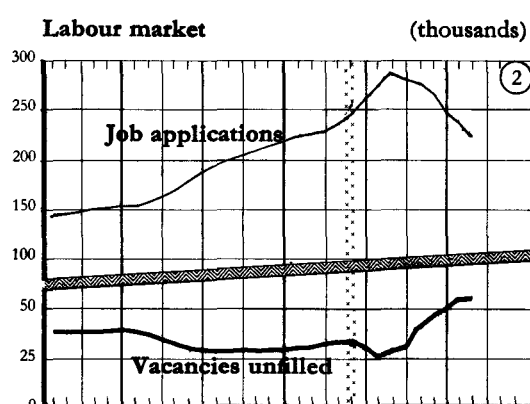
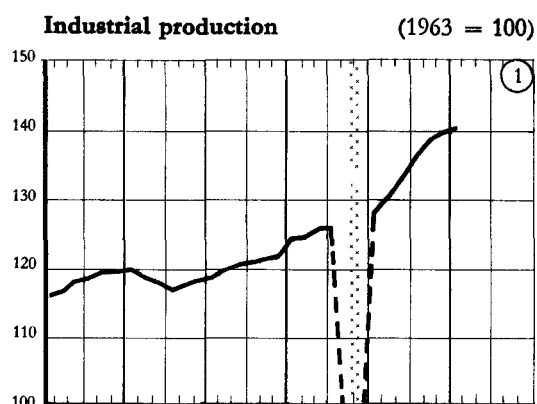
however, also be pointed out that there would be more scope for future wage increases if saving by households were at the same time encouraged by measures like those that have long proved their worth in other countries, notably Germany.

The extent to which the savings activity of households, like wage formation, is influenced by price expectations should, however, not be underestimated. Concerted action in the framework of the Government's price policy has so far helped to keep the rise in prices within comparatively narrow limits, despite certain tax increases and rises in charges for public services. For the price level to be stabilized rapidly, any further autonomous price increases should be avoided and action should be taken to achieve a lasting alleviation of those factors in the upward pressure on prices which are essentially due to inherent economic factors.

The new direction given to short-term economic policy in November of last year will make a decisive contribution towards this objective, particularly if the public authorities handle budgetary expenditure in such a way that the curtailment of demand is concentrated on the first half of the year. There may, moreover, very well be a case for extending beyond 1 July the period of validity of the ceiling set to credit expansion.

For the longer term, however, attention should also be given to measures that are likely to increase the elasticity of domestic supply. In particular, the situation on the labour market, which is showing distinct signs of strain despite what is still a comparatively high level of overall unemployment, calls for energetic action to improve vocational training and retraining and to encourage workers to move to areas where they are needed.

ECONOMIC INDICATORS



⋯ strikes

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.

* This level overestimates somewhat actual increases in wages between April and July, since various bonuses have been included in the hourly wage.

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 1967

Total area ('000 sq. km.)	551.2
Total population ('000)	49 756
Density of population per sq. km.	90
Numbers in employment ('000)	19 733
Numbers in employment, breakdown by main sector (%):	
— Agriculture	15.8
— Industry	39.9
of which : Construction	9.6
— Services	44.3
Percentage share of gross domestic product :	
— Agriculture	8
— Industry	41
of which: Construction	8
— Services	52
Gross product per capita (FF)	10 771

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967		
Gross national product	+ 4.4	+ 6.6	+ 5.2	+ 5.9	+ 4.2	+ 4.9	+ 4.4	156	—
Industrial production	+ 5.5	+ 6.7	+ 7.3	+ 8.5	+ 4.4	+ 6.4	+ 4.1	168	—
Total imports	+ 7.0	+ 8.7	+12.2	+12.4	+ 3.6	+11.1	+ 4.9	203	14.5
Private consumers' expendi- ture	+ 5.9	+ 6.4	+ 6.8	+ 4.8	+ 4.0	+ 4.7	+ 4.1	154	63.7
Public current expenditure on goods and services	+ 3.4	+ 4.3	+ 1.2	+ 4.8	+ 3.7	+ 3.5	+ 6.0	142	13.5
Gross fixed asset formation	+10.5	+ 7.9	+ 7.5	+10.1	+ 6.8	+ 5.8	+ 6.3	185	21.9
Total exports	+ 5.5	+ 3.1	+ 7.9	+ 7.7	+11.4	+ 6.9	+ 4.4	206	14.7
Gross national product per capita	+ 3.3	+ 4.6	+ 3.2	+ 4.6	+ 3.1	+ 3.9	+ 3.4	140	—
Gross national product per person gainfully employed	+ 4.4	+ 6.3	+ 3.9	+ 4.6	+ 4.2	+ 4.5	+ 4.1	152	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967			
Visible exports										
Total	+ 5.1	+ 2.1	+ 9.8	+11.3	+11.8	+ 8.3	+ 4.5	222	11 377	100
Intra-EEC	+18.7	+12.0	+14.0	+12.8	+18.0	+12.0	+ 2.0	414	4 701	41.3
To non-EEC countries	- 0.6	- 2.9	+ 7.3	+10.3	+ 7.8	+ 5.8	+ 6.3	168	6 676	58.7
Exports of food, beverages and tobacco										
Total	+17.4	- 2.9	+22.0	+11.4	+11.4	+ 7.4	+ 3.0	266	1 769	15.5
Intra-EEC	+26.1	+ 1.4	+34.5	+16.6	+26.3	+19.4	+ 6.0	730	890	7.8
To non-EEC countries	+13.6	- 5.1	+15.4	+13.0	+ 2.0	- 2.0	0	162	879	7.7
Exports of raw materials and manufactures										
Total	+ 3.3	+ 3.0	+ 7.8	+10.7	+11.8	+ 8.5	+ 4.8	216	9 608	84.5
Intra-EEC	+17.5	+13.9	+10.9	+12.1	+16.4	+10.5	+ 1.1	376	3 811	33.5
To non-EEC countries	- 2.7	- 2.6	+ 6.0	+ 9.8	+ 8.9	+ 7.2	+ 7.4	168	5 797	51.0
Visible imports										
Total	+ 6.3	+12.6	+16.1	+15.4	+ 2.7	+14.5	+ 4.5	221	12 377	100
Intra-EEC	+13.8	+20.0	+23.9	+20.4	+ 6.7	+20.8	+10.7	438	5 373	43.4
From non-EEC countries	+ 3.2	+ 9.1	+12.2	+12.6	+ 0.3	+10.5	+ 0.2	160	7 004	56.6
Imports of food, beverages and tobacco										
Total	- 2.3	+19.8	+ 5.1	+14.9	- 0.5	+ 8.4	- 2.6	132	1 870	15.1
Intra-EEC	-12.3	+37.6	+37.4	+26.2	+ 8.9	+ 1.3	+16.6	484	446	3.6
From non-EEC countries	- 0.8	+17.4	.	+12.5	- 2.8	+10.3	- 7.4	108	1 424	11.5
Imports of raw materials and manufactures										
Total	+ 8.5	+10.9	+18.8	+15.5	+ 3.4	+15.8	+ 5.9	250	10 507	84.9
Intra-EEC	+16.3	+18.7	+22.7	+19.8	+ 6.5	+22.9	+10.5	434	4 927	39.8
From non-EEC countries	+ 4.5	+ 6.6	+16.3	+12.6	+ 1.2	+10.6	+ 2.4	182	5 580	45.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	123,3	124,3	125,8	124,3	123,2	127,4	109,8	75,3	121,9	127,6	131,7	132,3
	1968	127,2	130,6	133,9	135,6	93,6	108,6	116,6	81,9	129,3	142,1	147,8	149,1
	1969	143											
Unemployed ('000)	1967	193.8	194.3	189.2	188.7	179.0	168.3	168.3	174.4	193.4	216.9	238.2	248.2
	1968	271.7	273.7	264.0	250.6	237.5	243.0	232.3	237.8	251.1	260.8	262.3	258.3
	1969	271.9	263.9										
Construction: permits issued ('000)	1967	31.6	36.2	41.1	37.7	42.2	40.3	41.3	35.7	36.7	37.2	39.8	46.5
	1968	34.6	31.0	42.4	36.0	36.9	44.5	46.4	47.1	41.0	54.4	57.2	88.2
	1969												
Private consumers' expenditure: turnover of department stores (1962 = 100)	1967	127	110	137	129	133	139	131	119	157	139	149	226
	1968	134	121	140	137	121	137	143	134	157	154	174	243
	1969												
Total visible imports (million u.a.)	1967	1 067	1 039	1 172	1 047	1 066	1 018	926	772	1 011	1 058	1 064	1 150
	1968	1 088	1 104	1 223	1 165	953	953	1 242	934	1 173	1 317	1 350	1 447
	1969	1 367	1 341										
Total visible exports (million u.a.)	1967	883	903	992	970	921	1 024	956	702	917	1 039	1 020	1 056
	1968	985	1 066	1 165	1 087	789	798	1 293	917	1 000	1 253	1 134	1 204
	1969	1 149	1 179				789						
Balance of trade (million u.a.)	1967	- 184	- 136	- 180	- 77	- 145	+ 6	+ 20	- 70	- 94	- 19	- 44	- 94
	1968	- 103	- 33	- 58	- 78	- 10	- 164	+ 51	- 17	- 173	- 64	- 215	- 243
	1969	- 218	- 162			- 164							
Official gold and foreign exchange reserves (gross, million u.a.)	1967	5 710	5 716	5 705	5 722	5 748	5 772	5 814	5 824	5 835	5 848	6 182	6 108
	1968	6 053	6 014	6 023	6 027	5 721	5 517	4 850	4 601	4 374	4 265	3 985	4 200
	1969	4 215	4 125										
Money supply (FF '000 million)	1967	187.8	185.6	188.3	191.7	189.6	194.8	197.6	193.7	195.4	193.3	190.3	199.6
	1968	192.5	189.8	190.9	192.2	—	207.8	209.3	205.6	208.8	208.3	206.8	216.7
	1969				191.6								

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.
- Substantial changes have been made in the national accounts series for France with the change in the base year from 1959 to 1962. However, the new series, converted to international national accounts definitions, is not yet available.

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

As was expected, economic expansion picked up again towards the end of 1968, and the trend probably continued in the early months of 1969. Both exports and domestic demand showed a distinct upward movement. Building activity was still forging ahead and both investment in plant and machinery and private consumption probably expanded more appreciably. Prices remained remarkably stable. As a result of a particularly heavy outflow of capital, the balance of payments showed a considerable deficit. The decline in gold and foreign exchange reserves was much sharper than the payments deficit because the commercial banks invested substantial short-term funds abroad.

The current trend of domestic and export demand can be expected to speed up expansion in 1969. Growth will be stimulated more particularly by investment and private consumers' expenditure; the latter should be encouraged by the substantial increase in pensions recently proposed by the Government and by wage rises. The surplus on current account is likely to show a downward trend but will still be running at a high level.

1. Recent developments

According to information currently available, the recovery of economic activity that came, as expected, at the end of last year probably persisted into the early months of 1969.

Despite the measures introduced to improve the balance-of-payments situation in France and the United Kingdom in November (about 17 % of Italy's visible exports goes to these two countries), export demand expanded very swiftly. Deliveries to other member countries mounted at a particularly high rate, exports to Germany being presumably helped by the steps the German authorities took in November to stimulate imports. The total value of merchandise exported between November and January was a good 25 % up on the year before.

The trend of domestic demand too moved more clearly upwards at the turn of the year, it seems. In particular, there are many signs that investment was more vigorous. According to the new ISTAT index of building output and the statistics on building starts and completions

(both residential and industrial) construction, which accounts for over 60 % of total fixed investment, is still expanding at a fast rate. On the other hand, building activity by government and public utilities appears to have been rather sluggish again. Not only production and foreign trade statistics but also a number of qualitative indicators (particularly the results of the EEC's monthly business survey) point to a modest recovery in investment in plant and machinery. Investment in stocks, however, has shown no clear signs of revival, at any rate not before the end of 1968.

The trend of private consumers' expenditure too was probably steadier towards the turn of the year, partly perhaps because incomes were higher and the propensity to consume had regained strength.

On the supply side, the underlying trend of industrial production showed a faster rate of increase towards the end of the year, and this probably continued into the early months of 1969. The poor figures for November were due to fortuitous factors (floods, strikes, etc.).

On a year-to-year basis, the seasonally adjusted growth rate of industrial production has probably been about 10 % in recent months.

Imports were climbing particularly rapidly at the turn of the year. The value of visible imports for the November/January period was no less than 20 % up on the year before. Deliveries from other member countries grew fastest.

The number of persons in paid employment moved up towards the end of last year and probably continued to do so in subsequent months, so that the adjusted unemployment figures may well show a more marked decline again at the turn of the year.

The price situation was on the whole remarkably steady, though the seasonal increase in prices at the end of 1968 was considerably sharper than in late 1967. In the trades ancillary to building there were even very sharp increases in some prices. On average, however, the difference between the two years was quite slight: consumer prices in January 1969 were only 1 % up on January and wholesale prices as little as 0.2 %.

The balance of payments closed with a substantial deficit at the end of 1968. Although the visible trade account improved, contrary to normal seasonal tendencies (almost balancing

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ¹		1969 ²
	At current prices (in Lit. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ³	7 394	+ 6.2	+ 7.7	+ 15.4	+ 14.7	+ 12
Gross fixed asset formation	7 283	+ 10.5	+ 13.0	+ 7.4	+ 9.9	+ 9.5
Public current expenditure on goods and services	5 521	+ 2.8	+ 4.7	+ 4.1	+ 9.2	+ 4
Private consumers' expenditure	25 561	+ 7.3	+ 10.4	+ 4.3	+ 5.4	+ 6.5
Gross national product	39 829	+ 6.4	+ 9.3	+ 5.7	+ 7.3	+ 6.5
Imports ³	6 317	+ 12.6	+ 13.9	+ 7.3	+ 6.7	+ 17.5

¹ "Relazione generale sulla situazione economica del Paese (1968)".

² Commission forecasts.

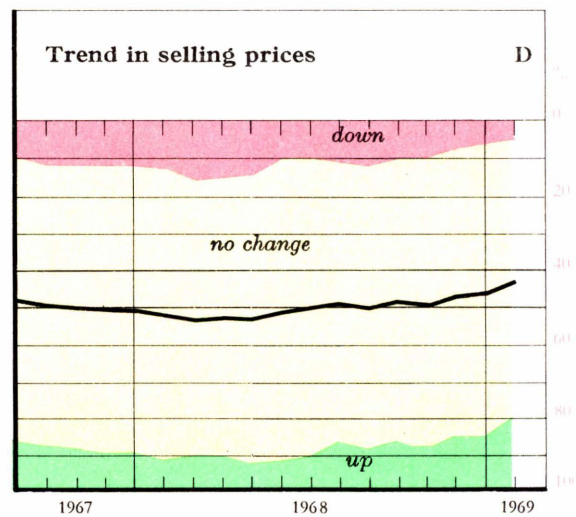
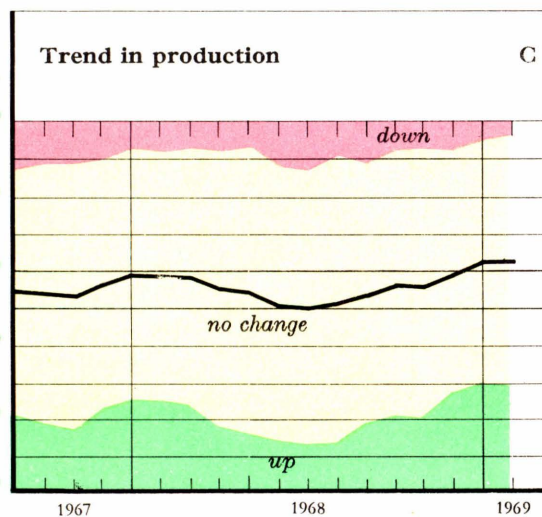
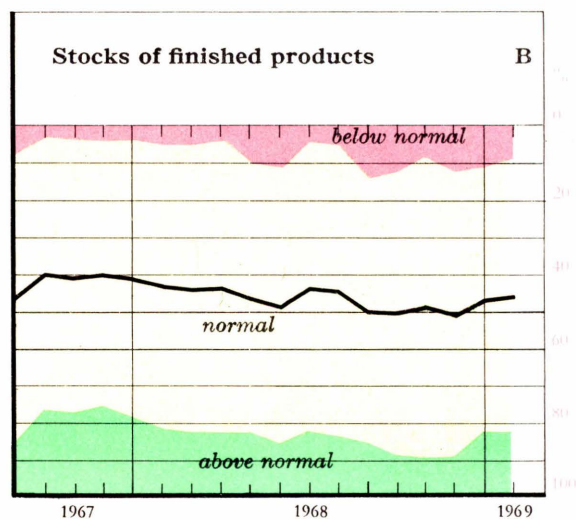
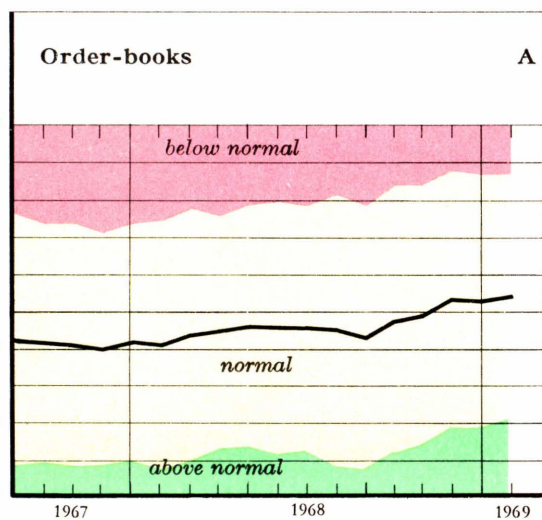
³ Goods, services and factor income.

Note:

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

(b) The 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 Italy by ISCO-Mondo Economico.

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

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

out in the closing months of the year), there was a sharp increase in the deficit on capital account for a variety of reasons (including the persistence of the interest-rate gap between Italy and abroad, the tightness of the Italian equity market and tax considerations). At the same time exports of funds by the banks increased substantially. The net gold and foreign exchange reserves fell appreciably as a result (by Lit. 214 000 million between the end of November and the end of January).

Despite these developments in payments transactions with abroad, the banks' domestic liquidity remained ample, mainly because the cash transactions of the Treasury and, far more, the financing operations of the monetary authorities helped to expand liquidity. Advances by all banks—including the specialized credit institutions' mainly long-term lending—increased appreciably. Capital market rates remained stable up to the end of the year, partly thanks to action by the monetary authorities.

2. Outlook

Business activity over the rest of the year should be considerably more vigorous than in 1968. The balance-of-payments measures introduced last November in Germany, France and the United Kingdom may on balance tend to slow down the Italian economy, but domestic demand is likely to provide a fillip.¹

Nevertheless, export demand can be expected to expand quite appreciably. Here, confirmatory evidence is provided—at least for the first six months of the year—by the results of a number of business surveys.

The EEC's investment survey for 1969, carried out at the end of November by ISCO-Mondo Economico in a number of major industries, including iron and steel, food manufacturing and mechanical engineering, showed that firms are planning a major increase in the volume of investment. For the industries covered by the survey the average rate of increase in the value of planned investment is about 23 %. The

¹ More detailed information is given in the last Quarterly Survey, pp. 79 et seq.; only a few new points are added here.

strain already discernible in some parts of the construction industry as a result of the rapid growth of demand may gradually become more pronounced, especially since the Government is trying to speed up public works.

The growth of private consumers' expenditure is also likely to be appreciably faster. Possible changes in the existing system of geographic wage differentials, for instance, may lead to a further rise in per capita wages. Another factor is that in mid-February the Government proposed increases in pensions which are sure to be well above what was expected a few months ago. The bill embodying these proposals provides in the main for an old-age pension for all citizens of 65 and over who have no claims to other pensions or maintenance; a sharp increase in minimum pensions and a 10 % rise in other pensions; automatic adjustment to increases in the cost-of-living index; a gradual increase in the ceilings on individual pensions between now and the end of 1975—to 80% of earned income (from 65%), with a particularly favourable reference period; and some relaxation of the ban on earnings to supplement pensions. The extra Lit. 517 000 million required to pay for this further reform of pension arrangements in 1969 is to be found as follows—Lit. 354 000 million from security issues, Lit. 95 000 million from an increase in petrol duty that has already been implemented and Lit. 68 000 million from the pension equalization fund.

On the supply side, production in manufacturing industry and construction will probably go up more quickly than was assumed in the last Quarterly Survey. The annual growth rate in real GNP of about 6.5 % is therefore the hypothesis most likely to prove correct. The forecast increase in imports should also be adjusted upwards.

Prices should remain at much their present level, at least in the first six months of the year, but there is the risk that towards the end of 1969 they will again move up more sharply. For one thing, costs may climb again: there are a large number of wage agreements about to run out (about 60 agreements involving 3 million workers, including mechanical engineering and construction workers), efforts are being made to abolish area-to-area wage disparities,

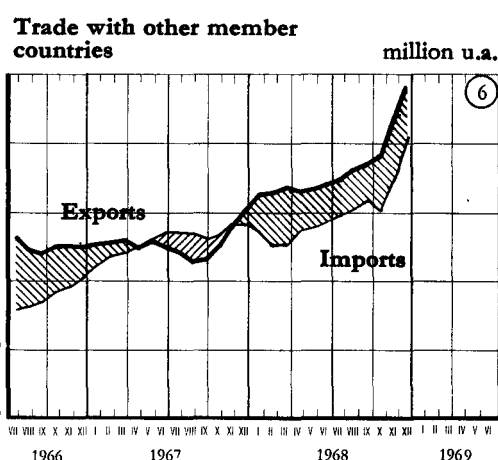
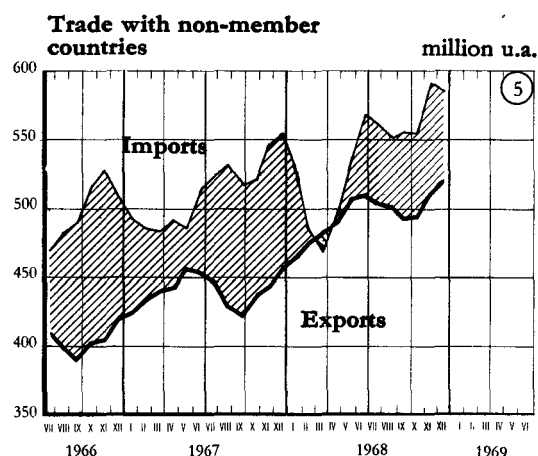
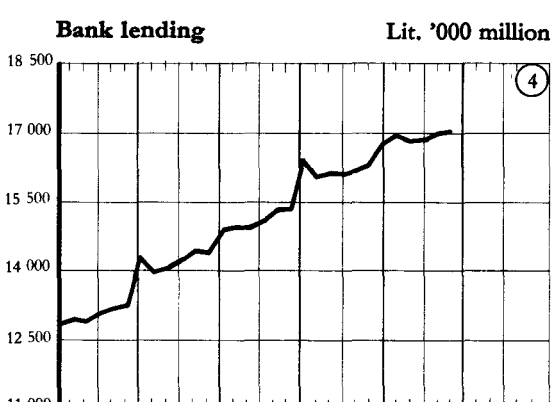
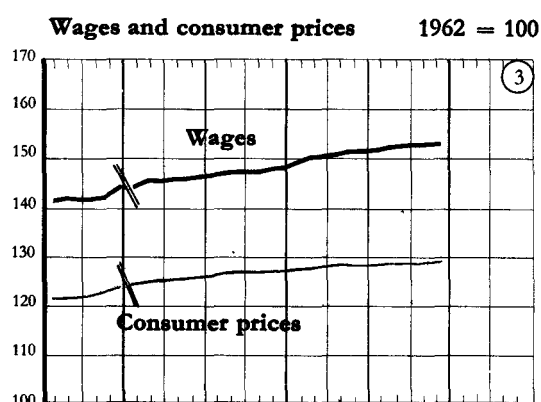
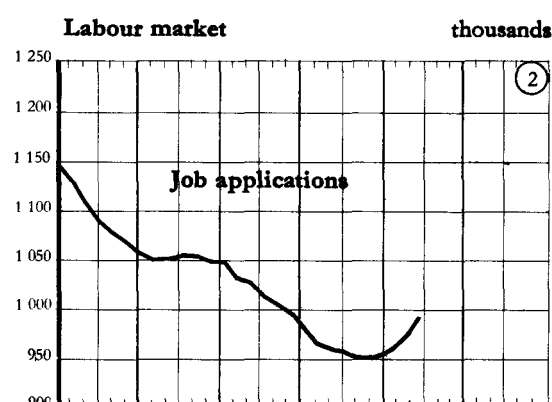
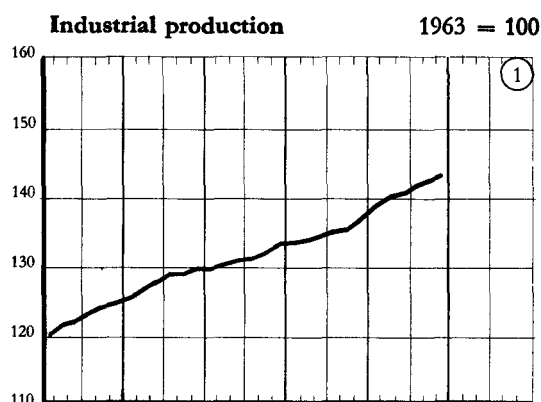
and indirect taxes are to be raised in order to pay for the new pension arrangements. For another, the expected acceleration of growth of demand in money terms may tend to make it easier for cost increases to be passed on to the consumer. In construction, where the expansion of demand may already be too strong for the elasticity of production, at least in some places, there will naturally be little opportunity to offset rising price tendencies by increasing imports.

Nevertheless, the prospects of growth at a considerably faster rate and at the same time free of strain remain good, particularly as Italy has large reserves of foreign exchange and a large surplus on current account. Short-term policy should be directed towards ensuring that full advantage is taken of growth opportunities, partly for reasons of social policy and with a view to the co-ordination of short-term economic policies in the EEC. Progress towards the attainment of this target, which will undoubtedly make especially heavy demands on the flexibility and vigilance of the agencies concerned, should be rapid but fairly smooth as well. For if demand were to grow by fits

and starts, the danger of inflationary disequilibria, with their ill effects on the stability of economic growth, would be too great.

As was explained in detail in the last Quarterly Survey, official policy aims and measures since July 1968 have been geared mainly to providing tax incentives to attract investment and to accelerating investment in infrastructure projects. The expectation, also voiced in the last Survey, that these incentives would lead to an increase in the propensity to invest seems to be proving correct now that a number of factors that adversely affected the business climate in 1968 have worked themselves out or disappeared. Obviously, if the "gearing" of firms were lower (it has probably been increasing for some time), this would provide considerable support for the propensity to invest. It is therefore to be welcomed that the plan to authorize Italian unit trusts will perhaps soon be put into effect, since this will mean better opportunities for share issues. A speed-up in public investment in infrastructure may also have become more likely in that plans for decentralized execution of these investments have probably taken shape meanwhile.

ECONOMIC INDICATORS



NOTES :

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

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

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

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

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

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

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

Italy

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	301.2
Total population ('000)	52 409
Density of population per sq. km.	174
Numbers in employment ('000)	19 107
Numbers in employment, breakdown by main sector (%):	
— Agriculture	23.9
— Industry	40.7
of which : Construction	10.1
— Services	35.4
Percentage share of gross domestic product :	
— Agriculture	13,3
of which: Construction	41,9
— Industry	7,0
— Services	44,8
Gross product per capita (Lit.)	799 000

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	8.2	6.3	5.5	2.8	3.6	5.7	5.9	166	—
Industrial production	9.3	8.8	7.9	2.0	3.1	8.0	7.9	189	—
Total imports	14.8	16.4	22.4	- 5.1	1.9	13.7	10.5	306	17
Private consumers' expendi- ture	7.3	6.7	8.9	2.5	2.7	5,9	6.1	184	64
Public current expenditure on goods and services	4.8	5.4	5.1	3.4	3.7	3.5	2.7	145	14
Gross fixed asset formation	11.8	10.0	8.5	- 6.5	- 8.4	3.4	10.1	161	19
Total exports	16.5	12.2	6.9	11.6	20.1	13.2	6.0	320	19
Gross national product per capita	7.7	5.6	4.7	1.8	2.7	4.5	5.0	155	—
Gross national product per person gainfully employed	8.0	7.4	7.6	3.1	5.8	7.5	4.6	174	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	14.7	11.4	8.2	18.0	20.7	11.7	8.3	337.7	8 701.7	100
Intra-EEC	21.8	23.7	10.3	26.4	27.6	12.8	3.3	554.5	3 373.0	38.8
To non-EEC countries	11.8	5.8	7.0	13.4	16.4	11.0	11.6	270.7	5 328.7	61.2
Exports of food, beverages and tobacco										
Total	10.6	14.5	- 3.4	2.4	20.5	1.5	4.7	176.9	903.0	10.4
Intra-EEC	14.7	23.4	- 8.7	8.8	31.4	0.4	- 1.7	242.3	459.1	5.3
To non-EEC countries	7.4	6.5	2.1	- 3.3	9.5	2.8	12.4	138.3	443.9	5.1
Exports of raw materials and manufactures										
Total	15.5	10.9	10.2	20.5	20.7	13.1	8.7	377.4	7 798.7	89.6
Intra-EEC	23.9	23.9	15.6	30.4	26.9	15.2	4.2	695.8	2 913.9	33.5
To non-EEC countries	13.7	4.5	7.7	15.5	17.2	11.8	11.5	296.4	4 884.8	56.1
Visible imports										
Total	10.6	15.9	24.5	- 4.1	1.6	16.7	12.9	301.6	9 697.1	100
Intra-EEC	17.2	22.9	31.1	- 4.5	- 3.1	21.6	21.5	493.1	3 389.9	35.0
From non-EEC countries	8.1	13.0	21.5	- 3.9	3.9	14.4	8.8	249.5	6 307.2	65.0
Imports of food, beverages and tobacco										
Total	5.3	7.3	57.5	2.4	18.9	9.7	0.7	325.7	1 778.9	18.3
Intra-EEC	- 1.3	10.0	79.1	15.7	20.6	13.5	26.6	619.7	482.1	5.0
From non-EEC countries	6.6	6.8	54.4	- 0.6	18.4	8.7	- 6.4	276.9	1 296.8	13.3
Imports of raw materials and manufactures										
Total	11.6	17.5	19.2	- 5.5	- 2.4	18.6	16.1	296.6	7 918.2	81.7
Intra-EEC	19.2	24.1	27.8	- 6.6	- 6.3	23.0	20.7	477.0	2 907.8	30.1
From non-EEC countries	8.4	14.4	14.8	- 4.8	- 0.2	16.3	13.5	243.2	5 010.4	51.6

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	103.4	103.2	114.8	109.9	112.9	111.6	113.2	80.3	114.1	117.2	112.7	105.7
	1968	108.4	111.8	117.0	114.7	121.0	113.0	121.6	84.8	120.2	129.1	116.8	116.4
Unemployed ('000)	1966	1 012	.	.	665	.	.	719	.	.	681	.	.
	1967	878	.	.	628	.	.	584	.	.	669	.	.
	1968	812	.	.	640	.	.	658	.	.	665	.	.
Building: domestic turnover of building materials (1964 = 100)	1966	78.2	70.8	97.2	100.2	106.8	103.3	110.5	111.1	94.2	111.6	105.4	103.7
	1967	98.7	86.9	109.6	103.0	121.3	131.7	122.0	125.0	101.1	127.7	130.9	113.8
	1968	106.6	92.0	99.7	122.2	142.1	128.9	151.9	131.8	118.0	174.5	127.4	
Private consumers' expenditure: turnover of department stores (1963 = 100)	1966	119	88	106	121	123	130	118	103	127	146	137	227
	1967	116	94	130	117	136	140	134	110	148	149	143	248
	1968	123	110	126	149	144	150	154	129	153	175		
Total visible imports (million u.a.)	1966	716	665	729	665	717	706	707	561	815	802	754	734
	1967	827	760	796	810	785	810	851	689	791	871	879	839
	1968	756	736	828	846	878	852	862	765	912	821	1 053	948
Total visible exports (million u.a.)	1966	572	598	712	612	722	699	723	592	681	753	678	655
	1967	661	690	771	715	768	708	745	615	715	818	754	745
	1968	739	773	858	821	844	830	880	776	824	902	1 004	909
Balance of trade (million u.a.)	1966	- 144	- 66	- 17	- 53	+ 5	- 7	+ 16	+ 31	- 134	- 44	- 76	- 48
	1967	- 166	- 70	- 25	- 95	- 17	- 102	- 106	- 74	- 77	- 52	- 125	- 94
	1968	- 17	+ 37	+ 30	- 25	- 34	- 22	+ 18	+ 10	- 88	+ 81	- 50	- 39
Official gold and foreign exchange reserves (net, million u.a.)	1966	4 422.6	4 382.7	4 329.5	4 395.9	4 424.2	4 534.1	4 769.9	4 992.8	4 755.0	4 670.4	4 639.7	4 679.3
	1967	4 514.0	4 472.8	4 535.5	4 646.8	4 708.2	4 721.0	4 876.2	5 135.2	5 232.6	5 359.5	5 335.3	5 238.1
	1968	5 138.7	5 149.6	5 104.5	5 081.9	5 042.4	5 086.4	5 140.9	5 269.7	5 188.3	5 194.9	5 069.1	4 878.3
Money supply (Lit. '000 million)	1966	14 029	13 933	14 046	14 118	14 321	14 598	14 850	14 744	15 003	15 182	15 274	16 373
	1967	15 840	15 662	15 981	16 157	16 417	16 576	16 778	16 623	16 964	16 956	17 075	18 877
	1968	17 863	17 652	17 976	18 235	18 463	18 795	18 993	18 975	19 379	19 373	19 695	(21 098)

() Provisional figures.

Italy

NOTES

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

Table 1

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

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

Table 2

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

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

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

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

D. The Netherlands

The expansion in demand was especially dynamic during the final months of 1968, and export demand, investment and private consumption increased very vigorously. However, demand slackened for a time at the beginning of the new year in reaction to the previous, very strong growth. The elasticity of production weakened—all the more as the shortage of labour is becoming more and more severe. Although the current account improved slightly, the overall balance of payments showed a deficit.

The outlook for further development in 1969 is impaired by the spurt in prices and costs at the beginning of the year. There is a good deal of evidence to suggest that, even if exports slow down a little, overall demand at current prices will increase quickly, were it only because consumer expenditure will make a major contribution to growth. Since at present there is a very great danger of a cumulative rise in prices and costs, which would certainly erode the competitiveness of the Dutch economy in the longer term, those in charge of economic policy should give top priority to price stabilization.

1. Recent developments

The conditions ensuring equilibrium weakened towards the end of 1968, owing to a spurt in overall demand, resulting, in particular, in further strain on the labour market and a distinct upward trend in wage costs. In view of this deterioration, and of the risk of a rather steep rise in prices owing to introduction of TVA on 1 January 1969, the authorities adopted a series of restrictive measures in the spheres of monetary and credit policy, price policy and budgetary policy.

As regards monetary and credit policies, the Central Bank increased Bank rate from 4.5 % to 5 % with effect from 20 December 1968. On 24 December, it announced that, in agreement with the commercial banks and the agricultural credit institutions, it had decided to

reimpose the restriction on the expansion of short-term bank credits for firms which it had lifted about eighteen months before. For the period from January to April 1969, short-term credits to firms were not to increase by more than 6 % of the average level reached between September and December 1968. Any credit granted above this ceiling had to be linked with interest-free deposits in the Central Bank. Moreover, long-term bank credits were not to expand more than long-term bank liabilities. The limitation of bank credits to local authorities was maintained according to the system applying at the end of 1966, but with an increase in the ceiling by 5 % for 1969. In addition, in January the Government decided to tighten up conditions for hire-purchase sales by raising the minimum down payment from 20 % to 25 % and by shortening the period allowed for payment, generally to eighteen months. Moreover, the increase in the personal credits granted by

the credit institutions in 1969 was restricted to 12 %.

In the field of budgetary policy, the Government proposed to the Parliament that the tax rules on depreciation in connection with firms' investments should be tightened up. The extra revenue to accrue to the Treasury from this was estimated at Fl. 90 million for 1969 and Fl. 260 million for 1970. Furthermore, the budgets of the public authorities were to be more strictly administered. Excess expenditure was to be offset at once by retrenchment under other headings, and no recourse to the money market to finance the deficit was to be allowed. The additional defence expenditure decided on in November 1968, and the loss of expected revenue resulting from rejection by the Parliament of the Government's proposed tax on rents, were to be partly offset by an increase in certain indirect taxes which was planned for the middle of 1969.

Furthermore, under their price policy the authorities fixed upper limits for price increases in various industries and made agreements with other industries in order to limit such increases.

Overall demand in monetary terms, which slowed down sharply at the beginning of 1969 after the spurt in the fourth quarter of 1968, appears since then to have started developing again at a fairly brisk tempo. Thus, the growth in exports of goods and services, which suffered a temporary loss of momentum early in 1969, may well have rallied later. In January and February, visible exports, according to customs returns, were running 11.5 % ahead of the corresponding 1968 figure (value).

After slackening off at the beginning of 1969, domestic demand revived strongly, apparently owing to the sudden expansion in investment demand. Firms' expenditure on fixed assets, and more particularly on stockbuilding, might well grow rather rapidly. Following a modest decline in January and February, public investment and expenditure on residential construction are again tending to rise, though here it should be borne in mind that prices in these sectors mounted at the beginning of the year with the advent of TVA.

On the other hand, private consumers' expenditure shows, as yet, no signs of reviving after slackening at the beginning of the year, when the speculative purchases noted in autumn 1968 ceased and when limitations were imposed on hire-purchase credits. However, this should be only temporary, especially since wages and salaries are rising faster owing to the gradual renewal of the wage agreements for 1969. Furthermore, income from property and entrepreneurship presumably continued to grow relatively rapidly, though slightly more slowly than in 1968.

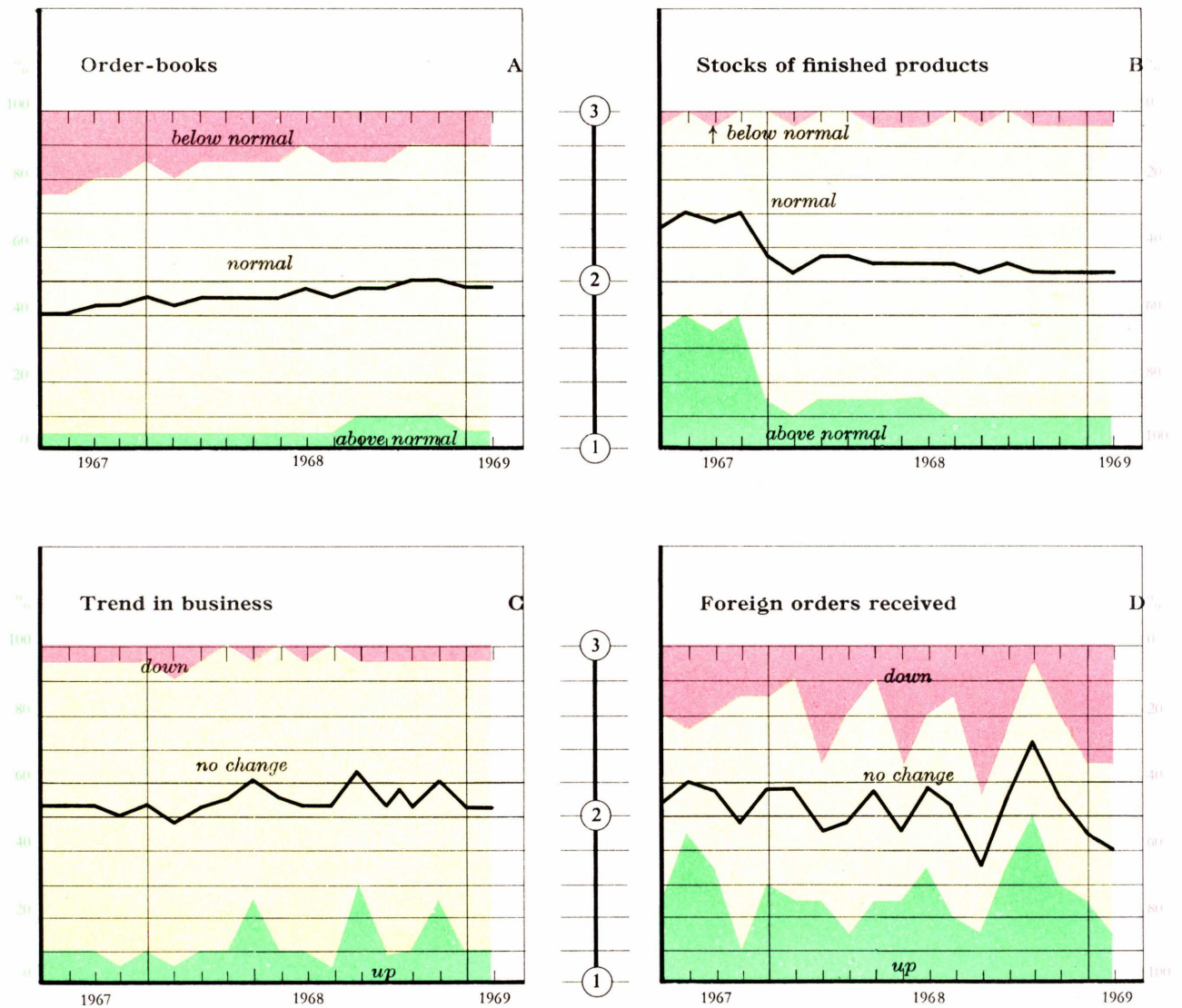
The demand trend indicates that domestic supply has regained momentum, after easing off at the beginning of 1969. Nevertheless, industrial production does not seem to have caught up again with the rate of growth it achieved at the end of 1968.

The manpower requirements of the economy, and the increase in the number of frontier workers going to Germany, caused a distinct decline in unemployment up to January. Despite a slight increase in February, the unemployment rate (seasonally adjusted percentage of unemployed in the total civilian labour force) was only 1.3 %, whereas it was over 2 % in the middle of 1968. At the same time, in spite of an influx of foreign workers, the number of vacancies considerably exceeded the number of persons seeking employment.

The expansion of visible imports, which gathered a little momentum in the second half of 1968 but temporarily ceased altogether for a time at the beginning of the year, may well have become quite considerable again since then, mainly because of increased purchases of capital goods and raw materials. In January and February, visible imports were 6 % by volume up on the year before, when the level was already very high.

After a relatively moderate increase throughout 1968, domestic prices rose very considerably at the beginning of 1969. The cost-of-living index rose by 4.7 % between December and February, and exceeded the average for 1968 by 6.2 %.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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



One of the main causes of this sudden increase was the introduction of TVA and the accompanying change in price patterns though the increment was considerably larger than was justified merely by the tax. No doubt the upward pressure on wage costs, coupled with the vigorous expansion of demand, substantially contributed to the deterioration in the price climate.

The import and export trend led to a slight improvement in the current account. The overall balance of payments, on the other hand, showed a deficit, owing to repayment by the

Government of an American loan of Fl. 237 million and also owing to further heavy outflows of long-term private capital in the fourth quarter of 1968 and the beginning of 1969. In the period from November to January, the official gold and foreign exchange reserves fell by Fl. 480 million. At the same time, however, the commercial banks improved their foreign exchange position by Fl. 140 million.

In respect of short-term funds, there has been a very vigorous expansion of bank lending to firms. At the end of the year, they were some 20 % higher than a year previously. Consumer

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ²		1969 ³
	At current prices (in Fl '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	35.14	+ 6.6	+ 6.8	+ 12	+ 11.5	+ 10
Gross fixed asset formation	18.95	+ 7.2	+ 10.8	+ 9	+ 11.5	+ 6
Public current expenditure on goods and services	12.09	+ 3.9	+ 10.4	+ 2.5	+ 9	+ 2.5
Private consumers' expenditure	43.39	+ 5.1	+ 8.4	+ 5	+ 8	+ 4
Gross national product	74.81	+ 5.6	+ 10.0	+ 6	+ 10	+ 4.5
Imports ⁴	35.66	+ 6.7	+ 5.9	+ 11	+ 10	+ 10

¹ Statistical Office of the European Communities, General Statistical Bulletin No. 7-8 1968.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note :

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

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

credits (hire purchase and personal loans) rose even more steeply. Interest rates, which had hardly risen at all until the autumn, increased perceptibly thereafter; in February the interest rates on the money and capital markets were comparable to those in earlier periods when the economy was under strain.

2. Outlook

Uncertainty as to the reactions of businessmen, consumers, etc., to the distinctly accelerated rise in prices and costs makes it particularly difficult to assess the prospects of development of the Dutch economy.

In the coming months, exports of goods and services will probably make further gains. Admittedly, the expected slackening-off in demand from the US and UK might slow down expansion of exports to those non-member countries, but demand from most of the other EEC Member States will forge ahead as a result of the vigorous economic upswing. However, Dutch exports might grow less quickly than those of other member countries because of a slower increase in the supply of certain products, in particular farm products, and through the effects of price increases on exports of services.

The development of domestic demand in monetary terms should be swift, with consumption expenditure making a heavy contribution. Private consumers' expenditure will be stimulated, in particular, by the steep rise in the wage- and salary-bill, especially since certain wage adjustments on the basis of existing long-term agreements can be expected towards the middle of the year. Furthermore, pensions have been substantially increased, and incomes from property and entrepreneurship should go on growing fairly vigorously.

Even if it is assumed that the restrictive policy and the faster rise in production costs will not affect the propensity to invest in the short term, the development of gross fixed asset formation

could well be a little less lively than in the second half of 1968—because of the authorities' efforts to curb public expenditure and now that some job-creating schemes designed to erode regional unemployment are complete, public investment might well lose impetus. Investment in residential construction is hardly likely to make any additional contribution.

Prospects for the development of demand in monetary terms, which, on the whole, are expansionary, are less promising than they otherwise would be, because the elasticity of supply is suffering now that many firms are working at or near capacity and the shortage of manpower is increasing. In view of the effects of the wave of "beat-the-tax" buying towards the end of 1968, the forecasts of gross national product at constant prices given in the last Quarterly Survey must now be regarded as maximum estimates. It is probably wiser to assume a rate of increase of 4.5 % (instead of 5 %).

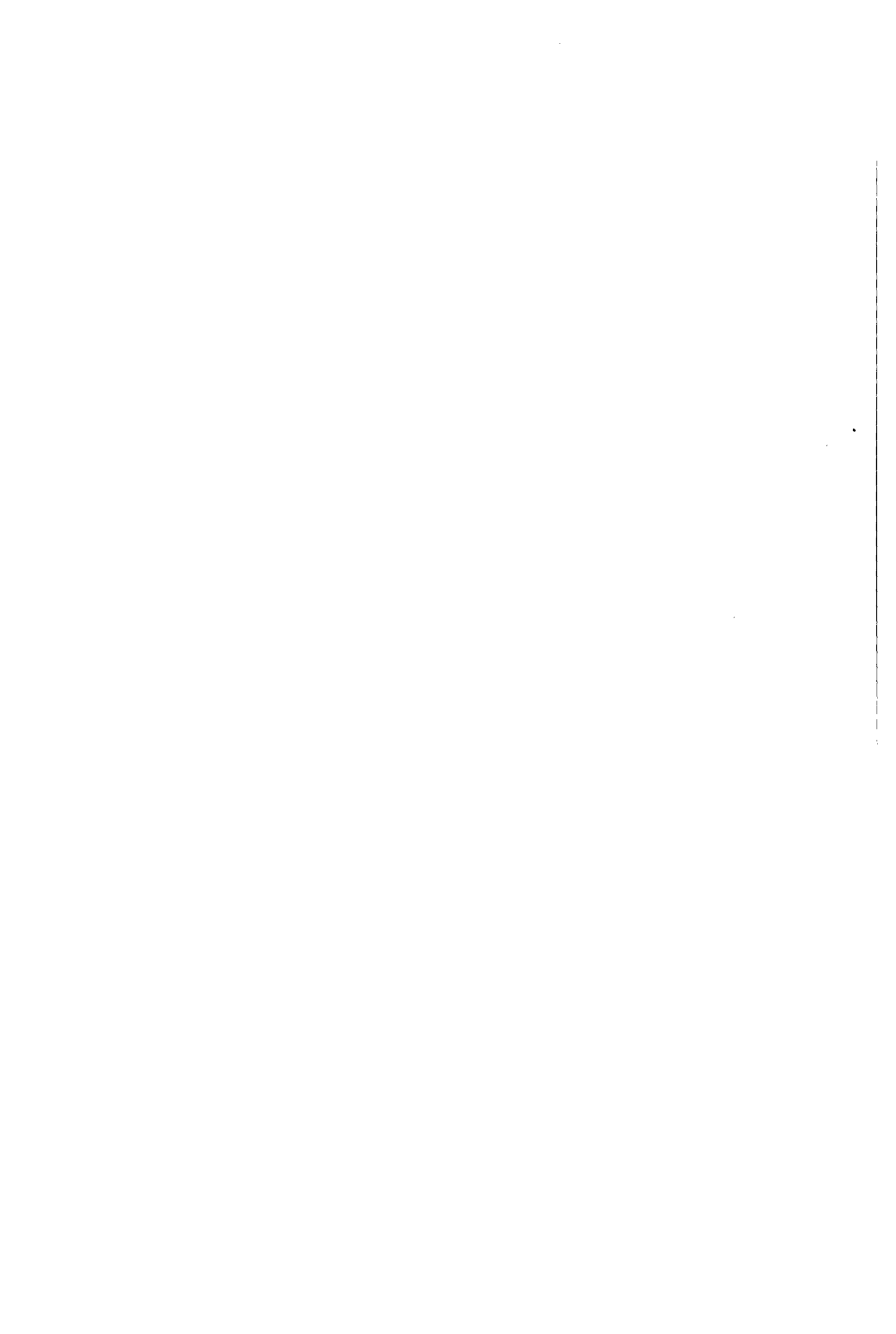
Imports of goods and services will undoubtedly climb sharply in view of the ever-increasing pressure on production potential. Hence, the improvement in the current account which has been achieved in the last few months may not continue.

The economic policy measures of which details are given above are aimed at curbing inflationary expansion of domestic demand by a new "policy mix" and also at preventing any excessive deterioration of the overall balance of payments.

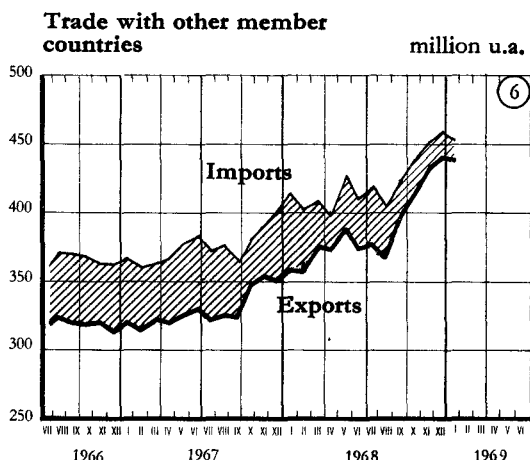
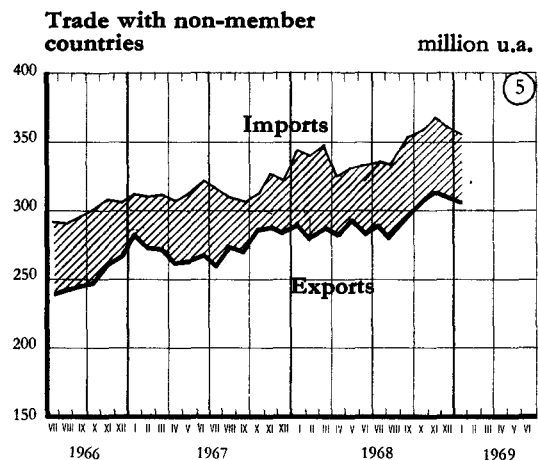
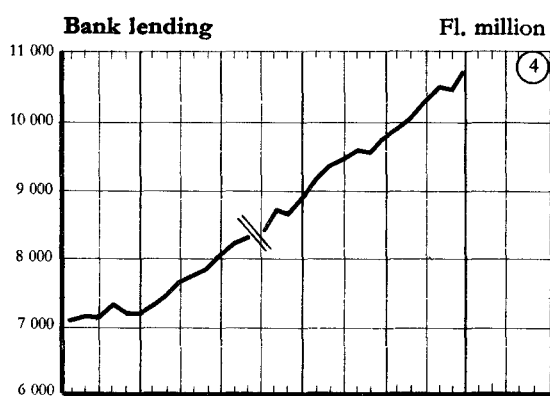
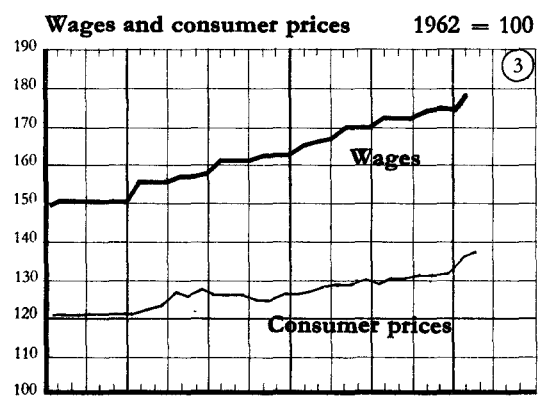
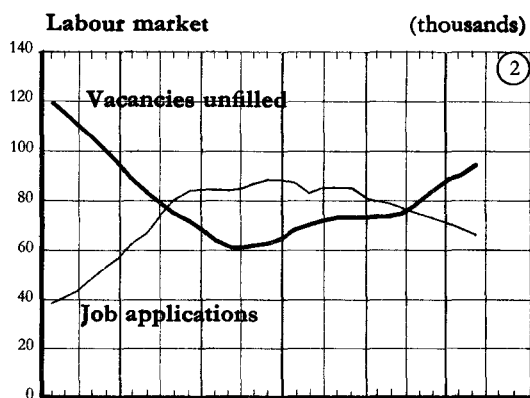
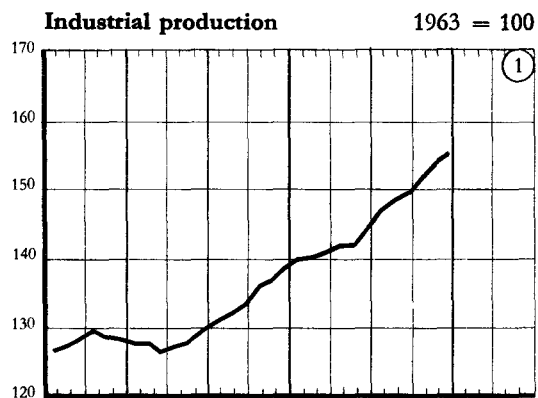
In view of the transition to free wage fixing and the great risk of a persisting rise in prices and wages, this general orientation of economic policy is extremely important. Care should be taken not to repeat the pattern of the past, when the task of restoring equilibrium was treated as mainly a matter of monetary and credit policy. Instead, greater use should be made of budgetary policy as an instrument for combating inflationary tendencies; in this connection, the possibility of increasing direct taxes should not be dismissed out of hand. It would be advisable, in any case, to re-examine closely

before the end of the year the question of whether the reduction in taxes provided for in the 1970 budget, which is entirely justifiable from the structural point of view, can be reconciled with the requirements of economic policy and, in particular, with those of a price stabilization policy.

Furthermore, every effort should be made to increase the supply of goods and services on the home market. In doing this efforts should be undertaken, within the framework of an active employment policy, to stimulate the occupational and regional mobility of manpower and encourage more women to go out to work.



ECONOMIC INDICATORS



NOTES :

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

Graph 1. Serie adjusted for seasonal and irregular (trend) variations. Exl. building, food, beverages and tobacco.

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

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

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

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

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

Netherlands

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	33.5
Total population ('000)	12 597
Density of population per sq. km.	376
Numbers in employment ('000)	4 533
Numbers in employment, breakdown by main sector (%):	
— Agriculture	8.1
— Industry	40.8
of which : Construction	10.3
— Services	51.1
Percentage share of gross domestic product :	
— Agriculture	7.2
— Industry	41.2
of which: Construction	(7)
— Services	51.6
Gross product per capita (Fl.)	6 531

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	+ 3.4	+ 3.8	+ 3.7	+ 8.9	+ 5.0	+ 1.9	+ 5.6	156	—
Industrial production	+ 4.7	+ 4.3	+ 4.1	+11.0	+ 6.3	+ 5.1	+ 6.5	181	—
Total imports	+ 6.3	+ 7.3	+ 9.3	+14.9	+ 6.6	+ 7.4	+ 6.7	233	45.9
Private consumers' expendi- ture	+ 5.4	+6.2	+ 7.1	+ 6.0	+ 7.0	+ 2.9	+ 5.1	163	57.2
Public current expenditure on goods and services	+ 3.4	+ 4.3	+ 6.6	+ 1.7	+ 1.6	+ 2.2	+ 3.9	131	16.2
Gross fixed asset formation	+ 6.6	+ 4.3	+ 1.9	+18.0	+ 4.9	+ 6.0	+ 7.2	198	25.5
Total exports	+ 3.3	+ 6.0	+ 6.3	+11.6	+ 7.4	+ 5.4	+ 6.6	198	45.6
Gross national product per capita	+ 2.0	+ 2.3	+ 2.3	+ 7.5	+ 3.6	+ 0.5	+ 4.4	138	—
Gross national product per person gainfully employed	+ 1.9	+ 1.7	+ 2.4	+ 7.0	+ 3.9	+ 0.9	+ 6.2	140	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967			
Visible exports										
Total	+ 6.9	+ 6.5	+ 8.2	+17.0	+10.1	+ 5.6	+ 7.9	226	7 288	100
Intra-EEC	+10.9	+10.0	+17.3	+22.1	+10.2	+ 5.3	+ 6.7	299	4 003	54.9
To non-EEC countries	+ 3.6	+ 3.2	- 0.6	+11.2	+10.0	+ 6.0	+ 9.4	175	3 285	45.1
Exports of food, beverages and tobacco										
Total	+ 0.8	+ 6.9	+ 9.3	+ 9.5	+13.0	+ 0.3	+ 9.9	193	1 728	23.7
Intra-EEC	+ 3.1	+10.0	+12.1	+12.8	+19.7	- 0.2	+ 9.6	252	1 061	14.6
To non-EEC countries	- 1.8	+ 3.3	+ 5.8	+ 5.1	+ 3.6	+ 1.0	+10.5	141	667	9.1
Exports of raw materials and manufactures										
Total	+ 9.2	+ 6.3	+ 7.9	+19.6	+ 9.2	+ 7.3	+ 7.3	239	5 560	76.3
Intra-EEC	+14.3	+10.0	+19.4	+25.6	+ 7.1	+ 7.4	+ 5.8	321	2 942	40.4
To non-EEC countries	+ 5.2	+ 3.2	- 2.4	+13.1	+11.9	+ 7.3	+ 9.1	186	2 618	35.9
Visible imports										
Total	+12.8	+ 4.6	+11.6	+18.2	+ 5.9	+ 7.5	+ 4.0	230	8 340	100
Intra-EEC	+21.1	+ 6.7	+14.9	+19.0	+ 8.7	+ 8.7	+ 5.0	300	4 547	54.5
From non-EEC countries	+ 5.8	+ 2.5	+ 8.3	+17.4	+ 2.9	+ 6.0	+ 2.9	180	3 793	45.5
Imports of food, beverages and tobacco										
Total	+ 5.9	+ 6.3	+15.5	+16.2	+ 3.5	+ 3.9	+11.3	204	1 142	13.7
Intra-EEC	+41.5	- 7.0	+11.8	+22.0	+13.1	+ 8.8	+22.7	378	302	3.6
From non-EEC countries	- 1.0	+10.0	+16.3	+14.9	- 1.2	+ 2.5	+ 7.6	175	840	10.1
Imports of raw materials and manufactures										
Total	+14.0	+ 4.3	+11.0	+18.6	+ 6.3	+ 8.0	+ 2.9	235	7 198	86.3
Intra-EEC	+20.0	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	+ 3.9	295	4 245	50.9
From non-EEC countries	+ 7.7	+ 0.7	+ 6.1	+18.0	+ 4.2	+ 7.0	+ 1.6	181	2 953	35.4

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	122	125	126	130	125	129	108	122	131	139	143	143
	1968	134	139	141	141	142	145	118	136	144	154	161	163
	1969												
Construction (Fl. million)	1967			2 036			2 362			2 503			2 383
	1968			2 314			2 637			2 798			2 896
	1969												
Unemployed ('000)	1967	108.5	105.9	91.4	81.7	69.9	67.2	77.0	73.9	74.6	80.4	91.3	113.6
	1968	123.1	113.1	96.2	80.7	68.6	64.9	71.4	66.1	64.6	66.9	70.3	82.1
	1969	86.8	85.0										
Investment (Fl. million)	1967			4 640			5 388			5 307			5 652
	1968			5 294			5 973			5 949			
	1969												
Private consumers' expenditure (1963 = 100)	1967	142	125	146	144	149	151	152	144	152	149	161	172
	1968	152	141	155	156	165	155	167	157	155	168	180	
	1969												
Total visible imports (million u.a.)	1967	680	639	719	690	694	787	650	652	653	733	746	713
	1968	823	693	788	704	815	697	776	742	775	859	816	811
	1969	816											
Total visible exports (million u.a.)	1967	601	532	606	582	592	642	536	605	641	686	665	601
	1968	681	615	670	663	725	598	686	653	742	821	751	736
	1969	746											
Balance of trade (million u.a.)	1967	- 80	- 107	- 113	- 108	- 102	- 95	- 114	- 46	- 42	- 47	- 81	- 117
	1968	- 142	- 78	- 118	- 41	- 90	- 99	- 90	- 89	- 33	- 38	- 65	- 75
	1969	- 70											
Official gold and foreign exchange reserves (million u.a.)	1967	1 970	1 995	1 998	1 995	2 065	2 094	2 104	2 064	2 104	2 229	2 271	2 268
	1968	2 194	2 164	2 082	2 028	2 008	1 988	2 000	2 030	2 001	1 972	1 968	1 967
	1969	1 892											
Money supply (Fl. '000 million)	1967	17.89	17.97	18.27	18.74	19.31	19.98	19.67	19.33	19.55	19.19	19.44	19.51
	1968	19.59	19.31	19.71	20.16	20.92	21.70	21.36	21.23	21.14	20.93	21.31	
	1969												

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

In the early months of 1969 the Belgian economy has been growing fast. Export demand, which has been making marked progress, has been the key to expansion, but the trend of domestic demand, especially of industrial investment, has also become rather more dynamic. The trend of domestic production is unmistakably upward. On the labour market the slow decline in unemployment has continued. External trade is still balancing out, but the upward movement of domestic prices has become stronger.

Despite some loss of momentum in world demand, the outlook for the coming months points to continued growth, since domestic demand should gather still further momentum. Production will rise appreciably and the labour market situation should improve further. In these circumstances, the objective of internal stability should receive greater attention from those responsible for economic policy, especially since the switch to the tax on value added at the beginning of 1970 is likely to entail price increases.

1. Recent developments

In recent months the economic upswing has continued, but this has not led to any undue pressure on the factors of production.

Exports of goods and services have continued to climb rapidly and to make a vigorous contribution to economic activity. The spurt in demand from the other member countries has easily offset the tendency for sales to non-member countries to mark time, although the BLEU has been harder hit than the other four member countries by this development because of the pattern of its exports. The customs returns show that merchandise exports in December-January were running 26 % ahead of the corresponding figure for a year previously (value).

Soaring export demand and a vigorous increase in public investment has improved the investment climate in the private sector: with output growing rapidly, firms are working at or near capacity, and this has compelled managements,

particularly in industry, to invest more. Purchases of plant and equipment have risen once again, and firms' building plans have also tended to expand. At the same time, expenditure on residential construction has also been rising again fairly briskly.

As a result of an increase in employment, the impact of which on incomes has been reinforced by the fact that hourly rates have been rising a little faster, and that an increase has occurred in the propensity to consume of households linked with the general improvement in the business climate, the trend of private consumers' expenditure has probably gathered momentum.

The vigorous increase in demand has been reflected in a rapid development of domestic production. The expansion of industrial production was running at a rate of about 8 % in the last months of 1968 and early in 1969. According to the results of the EEC business survey, orders on hand have continued to increase, while stocks of finished goods have contracted.

Imports of goods and services have continued to climb rapidly. Indeed imports of consumer goods and of plant and machinery have actually been growing faster. According to customs returns, merchandise imports in December/January were running 16 % (value) ahead of the corresponding figure for 1967/68.

There are substantial productivity reserves and the unemployed workers are either not equipped with the right skills or are not available where needed: this has meant that the rapid increase in production has so far entailed only a moderate decline in the number of unemployed, although the number of vacancies has risen appreciably.

The unemployment rate¹ was, after seasonal adjustment, still 2.6 % in January-February, i.e. only slightly below the highest point reached by the curve in the spring of 1968.

The upward pressure on prices has gained a little strength. The prices of imported products have probably hardened in recent months. In the same way domestic producers' prices for industrial products have been tending to climb fairly rapidly. In January-February the con-

¹ Number (seasonally adjusted) of fully unemployed persons drawing unemployment benefit, expressed as a percentage of the civilian labour force.

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ²		1969 ³
	At current prices (in Bfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	350.1	+ 6.4	+ 7.3	+ 11.5	+ 12.5	+ 10.5
Gross fixed asset formation	196.6	+ 4.0	+ 8.0	+ 2	+ 4.5	+ 5.5
Public current expenditure on goods and services	119.7	+ 7.0	+ 11.2	+ 4.5	+ 10	+ 4
Private consumers' expenditure	595.9	+ 2.8	+ 5.4	+ 4	+ 7	+ 5.5
Gross national product	916.3	+ 3.5	+ 6.6	+ 4.5	+ 7.5	+ 4.5
Imports ⁴	353.5	+ 3.7	+ 4.3	+ 12	+ 13.5	+ 11

¹ Statistical Office of the European Communities, General Statistical Bulletin, 1968, No. 7-8.

² Commission estimates.

³ Commission forecasts.

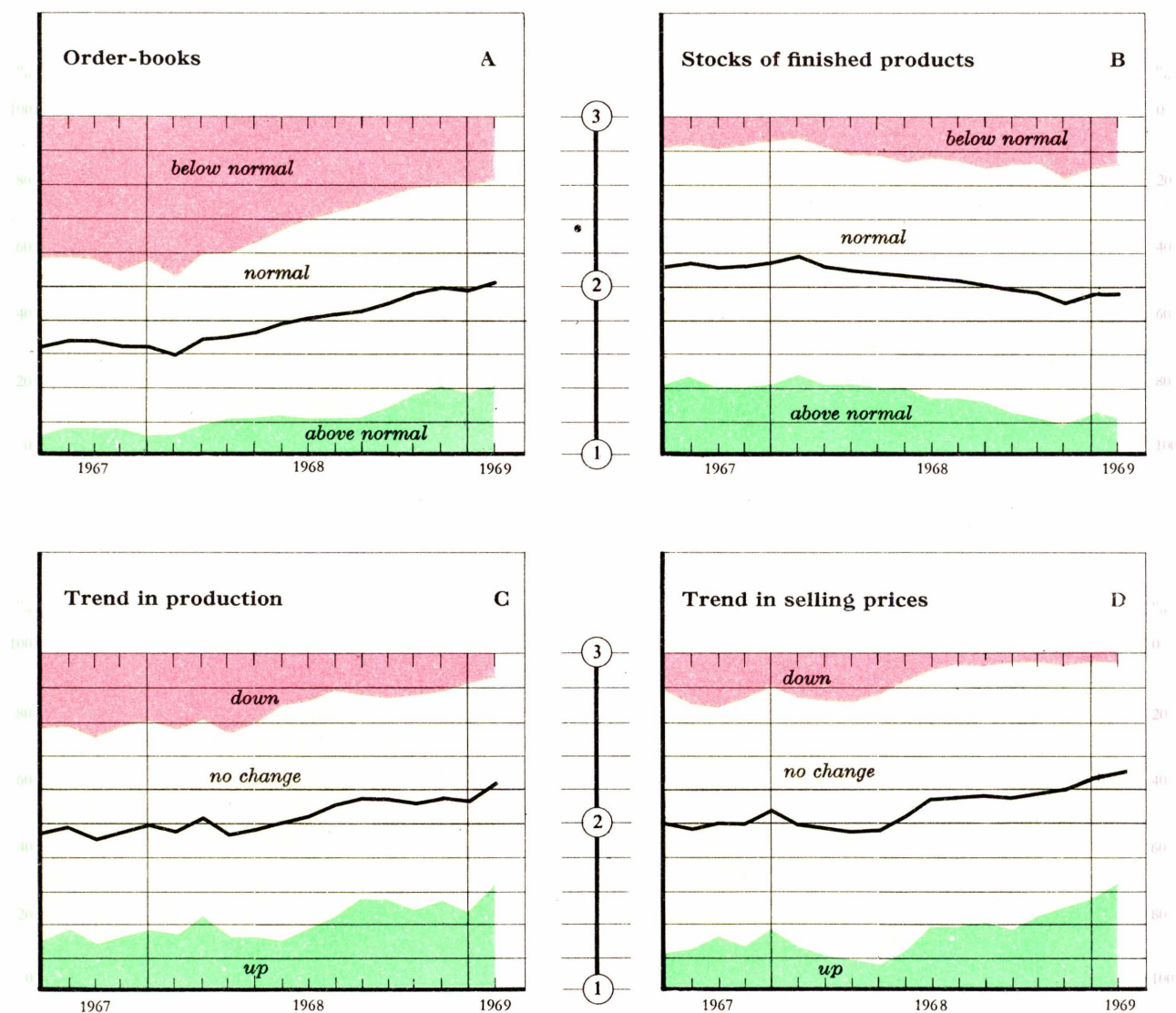
⁴ Goods, services and factor income.

Note:

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

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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

sumer price index was 2.9 % above the same figure for a year previously, but it should be remembered that the unfavourable trend of agricultural prices has counted for much in this rise.

In view of the way Belgium's trade has developed, the trade balance, which until the autumn was showing a slight tendency to deteriorate, has shown a mild improvement in recent months, and since September there has been a small surplus on current account. On the other hand, the capital balance, despite a recovery of capital imports in the shape of investments by foreign companies in Belgium, seems to have closed with an appreciable deficit. The credit institutions have been fairly strongly attracted by higher interest rates abroad, particularly on the Euro-market. The gold and foreign exchange reserves of the Banque de Belgique, which shrank in the fourth quarter of 1968 by Bfr. 7 000 million, seem to have continued to decline, at least until February. Bank rate, which had already been raised from 3.7 % to 4.5 % on 19 December 1968, was raised to 5 % on 6 March. The main reasons for this were the heavy exports of private capital and the spurt in the expansion of bank lending. Measures were also taken to restrict the calls made on the money market by the commercial banks.

2. Outlook

The latest trends abroad and in Belgium necessitate no substantial adjustments to the forecasts for 1969 made in the last Quarterly Survey (No. 3/4-1968).

However, the restrictive measures adopted in France and in the United Kingdom in the autumn should curb a little the expansion of Belgian exports to these countries. In view of the stabilization drive in the United States and the voluntary limitation of steel deliveries, it is also unlikely that exports to that country will grow further. However, current sales opportunities in the other Member States, especially Germany, seem very favourable. The relative trend of production costs also suggests that the underlying expansion of exports will remain brisk. All in all, and taking into account the extraordinarily high (adjusted) level at the end

of 1968, the export growth rate for 1969 should, as an annual average, fall only a little short of that for 1968.

In the period up to the end of the year, the development of domestic demand should, apart from seasonal variations, remain fairly dynamic and indeed a little brisker than in 1968. The most vigorous incremental contribution will probably come from fixed investment by firms, provided that the predicted improvement in the propensity to invest is not inhibited by monetary factors or uncertainties as to the action governments will be taking to modernize the production apparatus. The revival in residential construction should also continue in coming months.

The more rapid expansion of private consumers' expenditure noted in the last few months should continue. The relevant factors here—higher wages and salaries, increased incomes from property and entrepreneurship, continuing growth of transfer incomes, a stronger propensity to consume of households—were discussed in the previous Quarterly Survey: their influence might indeed prove even more substantial than was then assumed.

The spontaneous market forces affecting the development of demand could well, however, be disturbed by the emergence of a certain speculative mood in connection with the introduction of the tax on value added on 1 January 1970. For one thing, fears that the switch to the new tax system could mean higher consumer prices might generate a "beat-the-tax" buying spree towards the end of 1969; however, a considerable proportion of this expenditure could be met from dealers' stocks of finished merchandise. Secondly, uncertainty as to the transitional arrangements for firms' investments could induce some managements to hold back decisions on new investment programmes. In residential construction, on the other hand, expectations with regard to the introduction of the tax on value added could well strengthen the present upswing.

These factors do not affect fundamentally the forecasts concerning the development of the main macro-economic aggregates in 1969. GNP growth at constant prices should reach at least 4.5 %.

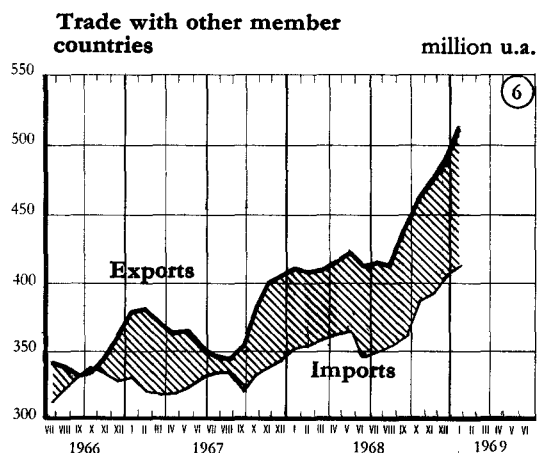
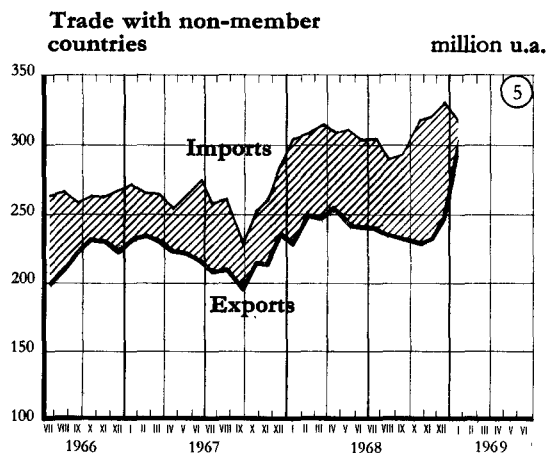
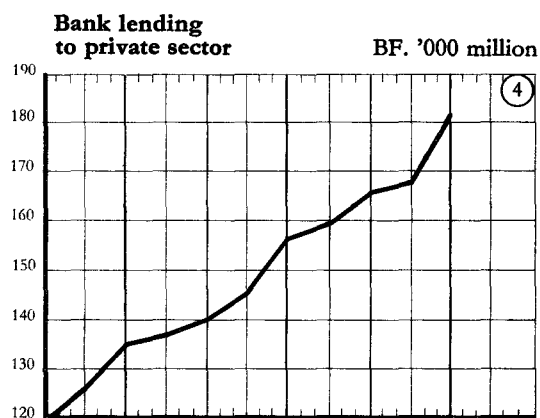
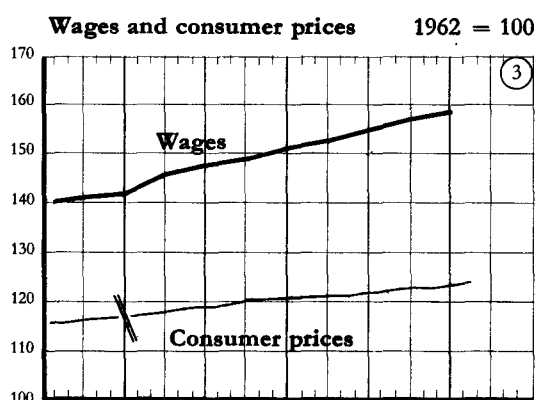
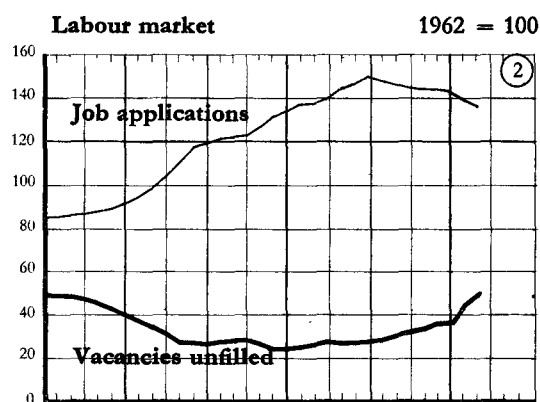
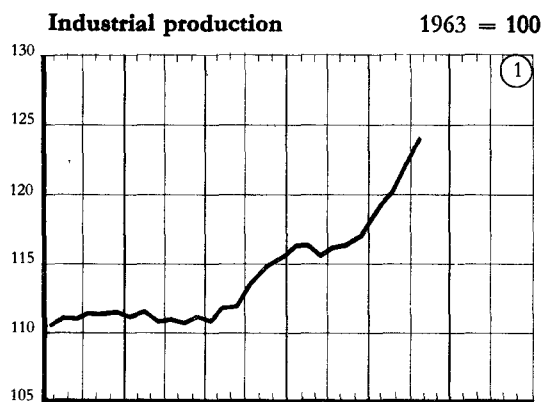
However, this may well not lead to a sufficiently rapid fall in unemployment. The annual average unemployment rate may be 2.3 %, compared with 2.8 % in 1968. Because of the strength of regional and structural factors, however, the unemployment problem cannot be solved through overall measures to stimulate aggregate demand: the main effect of such measures would be an excessive strengthening of the upward price trend and a deterioration of the competitiveness of the Belgian economy, developments which would generate further employment problems. In fact, those responsible for economic policy should, in view of the tendencies towards disequilibrium now emerging, take care to avoid any inflationary financing of the economic upswing. This is all the more important since, as experience in other member countries shows, the autonomous price increases to be expected when TVA is introduced will in themselves be relatively sharp, given the rates being considered by the Belgian authorities, and

this will further aggravate the threat of a price and wage spiral.

The greatest caution will therefore be required in the administration of the budget. In particular there will be no need to make use of the special appropriation in the 1969 budget for stimulating the economy ("*tranche conjoncturelle*"): spontaneous expansionary forces are already strong enough to keep firms working at or near capacity. The authorities must also ensure that the expansion of firms' expenditure on directly productive investment is not slowed down because the central authorities are calling too heavily on the money and capital markets—this is of the greatest relevance to the problem of creating new permanent jobs.

At the same time, the drive to equip workers more adequately with the trades and skills needed by the economy and to effect a regional diversification of industry should be pressed forward energetically.

ECONOMIC INDICATORS



NOTES :

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

Graph 1. Serie adjusted for seasonal and irregular (trend) variations. Exl. building, food, beverages and tobacco.

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

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

Graph 4. Loans made by monetary institutions.

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

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

Belgium

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	30.5
Total population ('000)	9 581
Density of population per sq. km.	318
Numbers in employment ('000)	3 651
Numbers in employment, breakdown by main sector (%):	
— Agriculture	5.8
— Industry	44.3
of which : Construction	8.4
— Services	49.9
Percentage share of gross domestic product:	
— Agriculture	5.6
— Industry	40.9
of which : Construction	7.2
— Services	53.5
Gross product per capita (Bfrs)	102 000

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	+ 4.9	+ 5.6	+ 4.7	+ 6.9	+ 3.9	+ 2.8	+ 3.5	148	—
Industrial production	+ 4.9	+ 7.2	+ 6.3	+10.4	+ 3.0	+ 4.2	+ 2.1	162	—
Total imports	+ 6.7	+ 4.6	+ 7.8	+10.7	+ 6.6	+ 8.4	+ 3.7	201	37.7
Private consumers' expenditure	+ 2.1	+ 4.3	+ 5.5	+ 3.6	+ 4.6	+ 3.2	+ 2.8	139	64.3
Public current expenditure on goods and services	+ 1.6	+ 9.0	+11.5	+ 4.0	+ 5.6	+ 4.3	+ 7.0	168	13.6
Gross fixed asset formation	+10.8	+ 5.3	— 0.1	+12.5	+ 3.7	+ 6.6	+ 4.0	186	21.7
Total exports	+ 8.8	+ 7.7	+ 7.0	+11.1	+ 7.7	+ 3.8	+ 6.4	194	38.5
Gross national product per capita	+ 4.3	+ 5.0	+ 3.9	+ 5.9	+ 3.0	+ 2.1	+ 2.9	139	—
Gross national product per person gainfully employed	+ 3.8	+ 3.9	+ 3.8	+ 5.7	+ 3.0	+ 2.2	+ 4.0	140	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	+ 3.9	+10.2	+11.9	+15.5	+14.2	+ 5.2	+ 3.0	230	7 031	100
Intra-EEC	+ 9.7	+17.7	+19.6	+19.0	+12.8	+ 6.1	+ 3.2	322	4 429	63
To non-EEC countries	- 1.7	+ 1.9	+ 1.6	+10.3	+16.5	+ 3.9	+ 2.5	155	2 602	37
Exports of food, beverages and tobacco										
Total	+15.6	+29.6	+29.6	+ 3.2	+31.5	+ 8.4	+18.4	361	553	7.9
Intra-EEC	+18.7	+31.2	+30.7	+ 5.2	+31.6	+ 5.4	+25.6	479	420	6.0
To non-EEC countries	+ 8.7	+25.7	+26.8	- 2.1	+31.3	+17.1	+ 1.1	204	133	1.9
Exports of raw materials and manufactures										
Total	+ 3.4	+ 9.2	+10.9	+16.4	+13.1	+ 5.0	+ 1.8	223	6 478	92.1
Intra-EEC	+ 8.9	+16.7	+18.8	+20.1	+11.4	+ 6.2	+ 1.4	311	4 009	57.0
To non-EEC countries	- 2.0	+ 0.9	+ 0.7	+10.8	+15.8	+ 3.2	+ 2.5	153	2 469	35.1
Visible imports										
Total	+ 6.6	+ 8.0	+12.2	+15.9	+ 7.6	+12.6	- 0.1	229	7 167	100
Intra-EEC	+12.7	+ 8.9	+15.5	+17.5	+10.1	+15.4	- 0.6	272	3 983	55.6
From non-EEC countries	+ 1.0	+ 7.1	+ 3.8	+14.0	+ 4.8	+ 9.1	+ 0.6	190	3 184	44.4
Imports of food, beverages and tobacco										
Total	+ 0.1	+11.0	+ 9.0	+16.8	+15.2	+ 8.1	+ 9.9	210	981	13.7
Intra-EEC	+ 7.4	+ 3.2	+17.2	+16.3	+22.5	+10.6	+11.8	270	419	5.9
From non-EEC countries	- 4.0	+15.9	+ 4.3	+17.2	+10.6	+ 6.4	+ 8.5	180	562	7.8
Imports of raw materials and manufactures										
Total	+ 7.6	+ 7.6	+12.7	+15.7	+ 6.6	+13.2	- 1.5	232	6 186	86.3
Intra-EEC	+13.3	+ 9.4	+15.4	+17.6	+ 8.9	+16.0	- 1.9	273	3 564	49.7
From non-EEC countries	+ 1.9	+ 5.6	+ 9.6	+13.4	+ 3.7	+ 9.7	- 0.9	193	2 622	36.6

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1967	150	147	160	151	149	159	119	148	162	167	162	156
	1968	155	155	164	163	164	160	132	154	172	187	168	168
	1969												
Construction (1962 = 100)	1967	84.6	94.1	117.0	110.3	113.7	121.1	71.4	115.7	118.0	121.5	116.4	78.5
	1968	76.6	85.4	100.9	99.3	93.4	103.7	78.2	107.4	114.3	121.2	104.9	84.8
	1969												
Unemployed ('000)	1967	82.5	85.7	84.4	83.8	81.9	77.9	79.1	78.1	80.3	87.5	96.0	106.7
	1968	114.5	113.7	110.3	106.4	101.5	95.3	96.5	93.5	93.9	97.1	101.4	108.8
	1969	109.4	106.5										
Investment (1961 = 100)	1967	134.6	151.1	167.0	167.7	170.4	176.8	122.1	159.1	160.2	175.9	176.9	141.8
	1968	127.3	146.2	165.2	166.3	160.4	168.7	133.3	157.6	176.5	177.2		
	1969												
Private consumers' expenditure (1961 = 100)	1967	147.3	148.7	151.8	153.7	155.3	159.3	155.7	152.8	154.7	153.3	156.3	163.2
	1968	159.6	164.3	160.7	170.2	168.7	169.6	168.7	165.3	165.7	165.5	167.9	176.7
	1969												
Total visible imports (million u.a.)	1967	590	545	628	574	607	655	465	598	514	640	689	649
	1968	624	704	708	644	706	612	625	638	669	817	706	742
	1969	740											
Total visible exports (million u.a.)	1967	608	570	607	599	536	597	525	480	530	697	618	649
	1968	621	675	705	705	666	631	694	547	676	796	705	757
	1969	843											
Balance of trade (million u.a.)	1967	+ 18	+ 25	- 20	+ 25	- 20	- 58	+ 60	- 138	+ 16	+ 57	- 71	0
	1968	- 2	- 29	- 3	+ 60	- 40	+ 19	+ 69	- 91	+ 7	- 21	- 1	+ 15
	1969	+ 103											
Official gold and foreign exchange reserves (million u.a.)	1967	1 970	1 939	1 951	1 972	2 044	2 118	2 152	2 196	2 212	2 220	2 244	2 202
	1968	2 168	2 116	2 150	2 116	2 090	1 996	1 972	1 964	1 888	1 896	1 902	1 886
	1969	1 898	(1 890)										
Money supply	1967	324.9	320.4	326.4	333.8	335.1	347.5	339.4	337.2	343.2	338.5	341.1	350.5
	1968	341.0	337.9	350.0	355.6	362.3	372.7	361.4	361.8	361.8	359.7	363.2	376.5
	1969												

() 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

In the early months of 1969 economic growth was still lively, mainly because of a further improvement in the demand for iron and steel products and because the propensity to invest was strong.

Even if exports were to slacken a little in the coming months, the very high level of production and the expected vigour of domestic demand suggest that in terms of volume the GNP growth rate for 1969 will be at least as high as for 1968.

1. Recent developments

Exports of goods and services were climbing rapidly in the autumn of 1968 and this trend probably continued into the first months of 1969: the demand for iron and steel products from the other member countries, particularly Germany, has remained very dynamic. For the first time in many years, export prices for iron and steel products have hardened appreciably. The upswing in other export items has probably maintained its momentum.

In addition to the vigorous contribution to activity made by export demand, the trend of domestic demand has been fairly lively. The upswing in gross fixed asset formation which had got under way in 1968 has gathered further momentum. Investment expenditure by firms has been expanding even more briskly since the turn of the year, owing to the rising capital disbursements by foreign companies and to heavier investment in the iron and steel industry. In addition, the rate of growth of residential construction was also vigorous. Under the impact of an appreciable increase in the disposal of income of households, private consumers' expenditure again expanded; recently, however, the propensity to consume seems to have weakened slightly.

The contribution to activity made by the rapid growth of demand has led to an appreciable expansion of domestic supply and of imports. Industrial production in the last months of 1968 and early in 1969 was soaring. The index of industrial production for January-February was 11 % above the corresponding figure for January-February 1967, the highest year-to-year growth rate since 1964.

The more vigorous expansion of production was accompanied by an increase in the actual number of hours worked in industry; but it also led to a slight increase in the number of persons in paid employment. In general, there is a shortage of skilled labour, particularly in the building industry.

In the last months of 1968 and early in 1969 consumer prices tended to rise rather more markedly. This was, however, mainly due to the rising cost of food; increases for other goods and services remained moderate.

2. Outlook

In the months ahead economic growth will certainly remain fairly lively although, given the probable weakening of world economic activity and a slackening in the growth of private con-

Demand for and supply of goods and services

	1966 ¹	1967 ¹		1968 ²		1969 ³
	At current prices (in Lfrs. million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	27 994	+ 2.5	+ 3.0	+ 8	+ 7.5	+ 7
Gross fixed asset formation	9 805	- 17.9	- 15.8	+ 4	+ 7	+ 14
Public current expenditure on goods and services	4 013	+ 1.5	+ 6.2	+ 2	+ 7	+ 2
Private consumers' expenditure	21 174	0	+ 2.2	+ 5.5	+ 8	+ 4
Gross national product	34 665	+ 2.0	+ 4.0	+ 4.5	+ 6.5	+ 4.5
Imports ⁴	28 441	- 4.2 ²	- 3.1	+ 8.5	+ 9	+ 8

¹ Service central de la Statistique et des Etudes économiques (STATEC), Luxembourg.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
 (b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

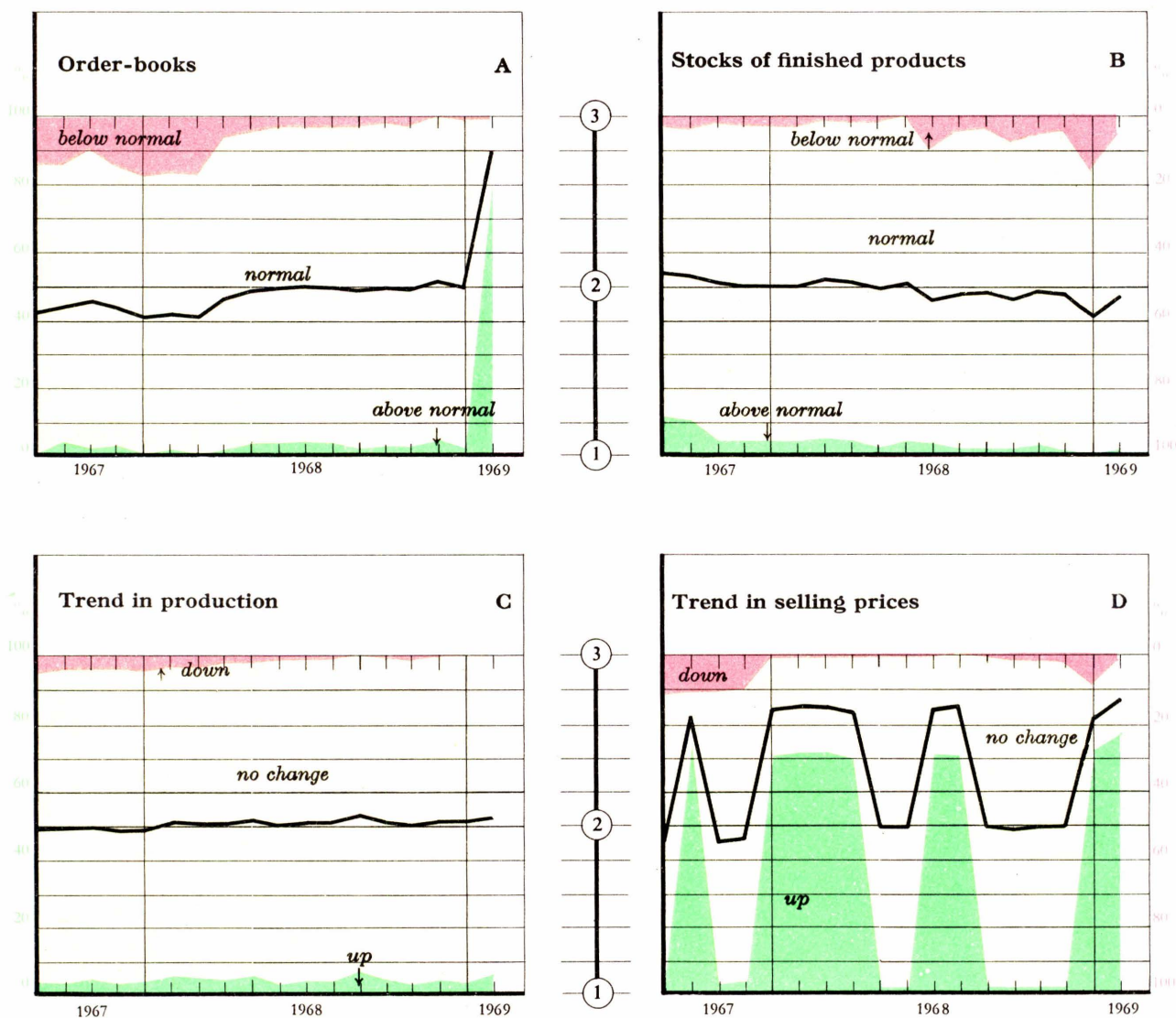
sumption, the rate of growth is likely to decline gradually.

The key to the expansion of exports of goods and services will be intra-Community trade. Export growth could well, however, lose momentum in the course of the year, since sales opportunities on the markets of non-member countries are expected to deteriorate.

The growth of domestic demand is also likely to slacken. Despite the favourable impact of the increase in employment on the total wages bill, the disposable incomes of households will probably not increase as rapidly as in 1968: not only will agreed wage increases probably prove

rather smaller, but the sharply expansionary impact of the income tax reform of 1968 will be felt less and less. Lastly, it seems unlikely that pensions will be increased before the autumn. Consequently the growth of private consumption in the coming months should, apart from seasonal variations, level off. In that case, however, it might towards the end of the year spurt for a time as households advance many of their purchases to beat the price increases expected to occur in connection with the introduction of TVA on 1 January 1970. On the other hand, the upswing in fixed investment will remain very pronounced. For example, investment programmes in iron and steel and the fairly appreciable growth of the investment of

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

foreign companies will lead to a substantial increase of investment in plant and equipment. One indicator which confirms this is the EEC business survey carried out at the end of 1968. In residential construction, the upward trend first discerned in autumn 1968 should continue. But in view of the budget priorities fixed by the new Government, the trend of public investment is unlikely to be very dynamic.

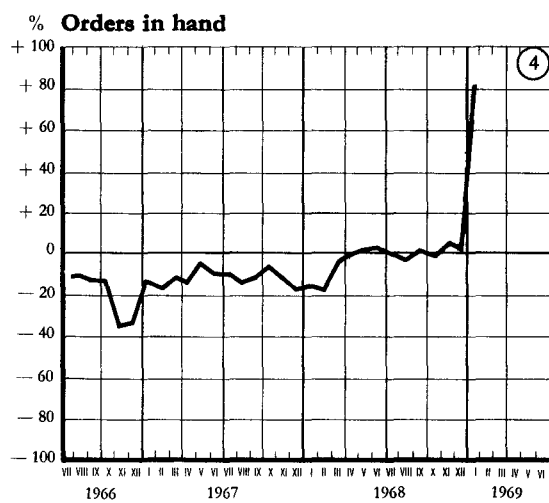
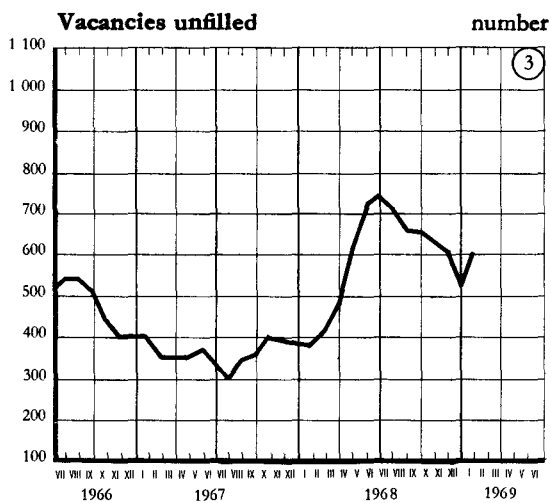
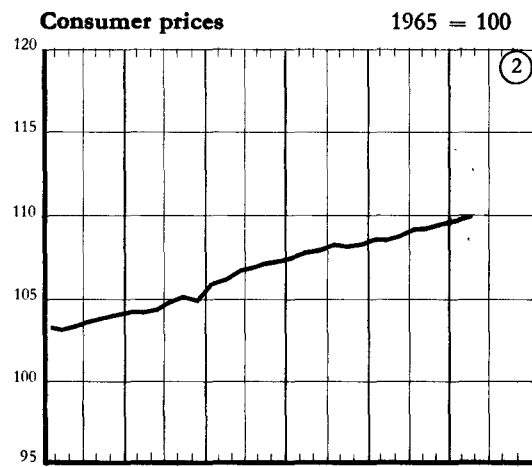
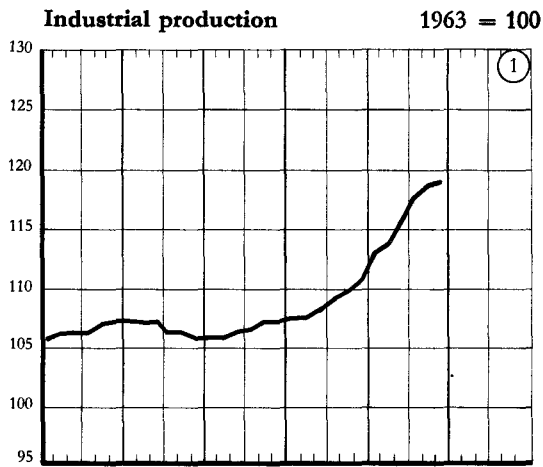
In view of the development of demand indicated above, the expansion of production could weaken a little during the year, particularly in the second six months. However, in view of the high level reached by domestic supply by the beginning of the year, it may be expected that the growth of real GNP will at least match the 4.5 % achieved in 1968.

On the labour market a shortage of skilled labour must be expected in the coming months. Prices will probably edge up slightly, with imports in particular costing more because of price increases in some foreign countries.

In 1968 and 1969 the Luxembourg economy has resumed a rapid growth rate, distinctly higher than the rates shown in the medium-term projections. Most of the proposed growth and employment objectives will therefore be achieved. On the other hand, the price outlook is a little less favourable, mainly because of the introduction of TVA, fixed for the beginning of 1970. Since an important policy goal must be to maintain the competitive capacity of Luxembourg firms, the authorities responsible for economic policy should exercise vigilance to ensure that the entry into force of the new system does not encourage, despite the relatively low rate planned, a cumulative upward price and wage spiral.

In this connection, the heavy increases in tax revenue in 1968 and those expected in 1969 should be allocated mainly to improving the structure of the central government budget and to reducing the budget deficit. More stringent control of the increase in the current expenditure of the public authorities will also favour the maintenance of balanced growth.

ECONOMIC INDICATORS



NOTES:

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

Graph 1. Serie adjusted for seasonal and irregular (trend) variations. Exl. building, food, beverages and tobacco.

Graph 2. Source: STATEC. New index.

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

Graph 4. Source: EEC business survey.

Luxembourg

TABLE 1 : Basic data 1967

Total area ('000 sq. km.)	2.6
Total population ('000)	(335)
Density of population per sq. km.	129
Numbers in employment ('000)	138.4
Numbers in employment, breakdown by main sector (%) :	
— Agriculture	12.6
— Industry	45.3
— Services	42.1
Percentage share of gross domestic product in 1965 :	
— Agriculture	6.3
— Industry	52.5
— Services	41.2

TABLE 2 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1967	105	107	107	110	111	108	105	98	106	105	108	104
	1968	108	106	108	112	116	116	110	108	117	118	118	116
	1969												
Crude steel production ('000 m.t.)	1967	371	360	389	379	372	377	376	356	382	375	376	368
	1968	375	377	398	393	408	380	410	407	412	445	422	406
	1969	456	423										
Construction (1958 = 100)	1967	39	46	69	72	81	78	78	69	70	70	65	55
	1968	40	49	66	75	75	66	76	70	69	73	62	54
	1969	41											
Workers employed in the iron and steel producing industry and in mining ('000)	1967	23.5	23.4	23.4	23.3	23.3	23.2	23.1	23.0	23.0	22.9	22.9	22.8
	1968	22.7	22.6	22.6	22.6	22.5	22.5	22.5	22.4	22.5	22.5	22.5	22.5
	1969	22.4	22.4										
Retail prices (1965 = 100)	1967	104.29	104.25	104.37	104.73	105.02	104.80	105.93	105.96	106.65	106.75	106.97	107.12
	1968	107.23	107.79	107.90	108.13	108.03	108.13	108.33	108.32	108.50	109.00	109.16	109.58
	1969	109.79	109.90										

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. (Excl. building).
- 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.

Opinion of the Short-term Economic Policy Committee on the Economic Budgets for 1969

At a meeting held on 9 and 10 January 1969 the Short-term Economic Policy Committee examined the outlook for 1969 and related policy problems. Since the economic outlook had altered considerably following measures introduced in the member countries after the preparation of the economic budgets, the Committee's examination was based in the main on Commission forecasts, to which the national experts had by and large given their approval.

1. For the Community as a whole, 1968 was a year of vigorous expansion. The gross product increased by about 5.5 % despite the production losses suffered by France during the strikes in May and June. Appreciable divergences, however, appeared in the trend of prices and costs, causing some apprehension that fundamental disequilibrium might occur; these were accompanied by speculative movements of capital, both inside and outside the Community, in anticipation of a change in the parities of two of the Member States' currencies.

2. The immediate aim of short-term economic policies in 1969 should be a return to fundamental equilibrium in all the member countries; this is a necessary condition if rapid growth is to be maintained in the Community. The Committee considers that the measures adopted, particularly in Germany and France, are steps in the right direction that will help to restore payments balances to equilibrium and gradually iron out the disparities in the price trend. It is essential that these two objectives be actively pursued.

3. The Committee believes that the Community's economic expansion in 1969 could match that achieved in 1968, though the policies

pursued in the United States and the United Kingdom, for instance, may slow down the tempo of world business. Commission estimates put the growth rate of GNP (at constant prices) at approximately 5 % in Germany, 6.5 % in France, 6 % in Italy, 5 % in the Netherlands, 4.5 % in Belgium and 3.5 % in Luxembourg.

The policies referred to above should not be pursued in such a way as to prevent a change of direction should world business slacken off more sharply than is forecast at present. The Committee considers that, in such an event, certain member countries—Germany and Italy in particular—should endeavour to counteract its effects by stimulating domestic demand so that the Community may continue to function as a growth centre.

4. Apart from this eventuality, complex problems remain as to how much and at what time the various instruments of economic policy should be used.

In France the important thing is to contain the rise in prices and to bring wage increases back to a normal rate. For the expansion of exports that the country needs will only be achieved if French products remain competitive on foreign markets. Given the relative weakness of world demand, there can be no substantial improvement in France's trade balance without a marked expansion of intra-Community trade and, consequently, of French business in other member countries.

The measures adopted in Germany have provided additional scope for the expansion of domestic demand. The opportunities thus made available should be used to ensure that overall

growth continues at a high enough rate and that the trade surplus is gradually reduced.

In Italy the existence of very large surpluses on current account, large reserves of production capacity and stable prices call for a policy directed towards vigorous expansion, so that unused capacity can be absorbed in the near future; such a policy implies a growth rate of GNP faster than the 6 % estimated by the Commission.

In the Netherlands the rapid expansion of household incomes forecast for 1969 justifies the restrictions recently imposed in short-term monetary and budgetary policies; a cautious attitude should be adopted in the months ahead in order to avoid a deterioration in the price situation, which has already been adversely affected by the introduction of the tax on value added.

In Belgium continued expansion at the present rate seems possible and desirable in 1969—particularly as a means of reducing unemployment further. As resources are more fully utilized and the moment of the changeover to TVA approaches, greater attention will doubtless have to be paid to keeping prices stable. And special care will have to be taken to ensure that expansion is properly financed.

In Luxembourg it would be wise to take advantage of the favourable business trend to make further improvements in industrial structure. The maintenance of domestic stability seems to depend largely on the careful management of the public finances.

5. Apart from immediate action to establish satisfactory conditions of equilibrium, the Member States' economic policies should be co-ordinated more closely. More concerted effort is needed if, when circumstances are difficult, the progress already achieved in integration is not to be jeopardized. This should go hand in hand with efforts now being made to improve joint action in monetary matters.

6. In the same context, the Committee, in conformity with the wishes voiced by the Ministers of Finance and Economic Affairs at the Council session of 12 March 1968, has embarked on a systematic study of the possible consequences of integration on the business trend in the Community countries.

It also proposes to seek ways and means of improving consultation and the flow of information on economic policy measures planned by the Member States and to review the conditions in which short-term policy instruments are employed.

Trends in industrial wages, productivity and labour costs in industry

A. *Introduction: methods*

Every year since 1962 the Commission's Quarterly Surveys on the economic situation in the Community have included an Annex showing the trends of compensation of employees per head, labour productivity, labour costs per unit of gross value added at constant prices, and the implicit price index for gross value added in industry (including construction), not only in the member countries but also in the United States and the United Kingdom.

The aggregates in this survey have been defined and calculated as follows:

Compensation of employees is defined as wages, salaries and social insurance contributions. For Belgium, however, separate figures corresponding to this definition are still not available for compensation of employees broken down by industry; the index given by the Banque Nationale de Belgique for the wage bill has therefore been used in this case, and the average figure for employers' social insurance contributions has been added.

Since, in respect of gross value added at constant prices, no market-price figures are published by industry in Italy and the United Kingdom, factor-cost data have been used for these countries. In conformity with the series published by the Statistical Office of the European Communities, the prices taken as basis for calculating gross value added at constant prices are now those of 1963, and no longer those of 1958, for all the member countries except France.

It would have been better to use the trend of compensation and gross value added at constant

prices per hour worked, but this could not be done because the statistics on the number of hours worked in the Community countries are incomplete. Consequently, these two items could only be calculated per employee. This makes it more difficult to interpret the graphs, especially the results for the last few years, during which the number of hours actually worked has changed considerably in most of the countries.

Labour costs per unit of gross value added are calculated from two factors, the trend in compensation of employees and the trend in gross value added at constant prices. These figures can also be obtained by dividing compensation of employees per head by gross value added per employee.

In view of the fact that four of the countries concerned (France, Germany, Netherlands and UK) altered their exchange rates during the period under review, it seemed advisable to amplify the survey with information on the trend in labour costs corrected by changes in rates of exchange. These calculations are based on the rate of exchange of the national currencies concerned in relation to the US dollar, as given by the SOEC in its publication on external trade.

The implicit price index shows the extent to which the trend in value added at current prices differs from the trend at constant prices.

It has not been possible to take the change in French national accounting methods into consideration because the calculations for the survey were finalized before any figures became available corresponding to the definitions in the standardized national accounts system.

The following should be said about the significance of the series used in this survey:

As far as possible the data have been taken from national accounts, in order to ensure a sufficient degree of international comparability. In this connection, however, it should be remembered that, while *trends* in the indices are internationally comparable, the absolute figures are not. This qualification is all the more important in that even the relationship between the various levels in the base year 1958 is not necessarily "correct".

Use of the national accounts meant that only annual figures could be used. Changes in the course of the year are only partly reflected in the annual figures concerned and also affect the results for the following year. This makes it more difficult to judge short-term trends, in particular.

The concept of value added differs from that of industrial production as generally applied in calculating the monthly indices of industrial production.

This difference between value added and industrial production (as used for production indices) appears most clearly in the implicit price index for gross value added. In this index, two essential factors affecting actual market prices are left out of account, namely, firm-to-firm supplies within industry and supplies from other sectors, including abroad. The trend of the implicit price index therefore differs from the trend of market prices, to an extent which varies from country to country, since the proportion of value added in industrial output also varies.

Compensation of employees in industry does not include all wages contained in the market prices, i.e. it excludes wages paid in respect of goods and services supplied to industry by other domestic sectors.

These remarks should show that the series which follow must be used cautiously. They are not internationally comparable as they stand, and their development in time is different from that of series whose data are based not on value added but on gross production.

B. *Developments in 1968*¹

Labour costs per unit of gross value added continued to evolve relatively favourably in all the Member States except France. Indeed, in Germany and the Netherlands they continued to drift slowly downwards; in Belgium they were still rising very slowly. In Italy, the rise was considerably less substantial than it was from 1966 to 1967.

The decrease in labour costs in Germany is mainly the result of sharp labour productivity gains by 8.5 % (2.4 % from 1966 to 1967). However, the wage bill per employee also rose considerably more—by 7.5 %—than a year previously. Consequently, on balance the decrease in labour costs per unit of gross value added was virtually the same as at the same time last year. Moreover, in assessing the influence of the labour costs trend in international competitiveness, it must be borne in mind that at the end of 1968 exports were hampered and imports encouraged by special tax measures.

In the Netherlands, the further decline in labour costs must be attributed to the fact that a smaller rise in value added per employee went hand in hand with a smaller increase in compensation per employee.

In Belgium, labour costs per unit of gross value added continued to rise slightly. The trend in this country was the reverse of that in the Netherlands: the greater increase in labour productivity (6 %) due to a growth spurt was accompanied by a sharper rise in compensation per employee.

In Italy, labour costs rose much less steeply than before entirely because of the smaller increase (6.5 %) in compensation per employee. Here it should be borne in mind that the pronounced increase in compensation per employee from 1966 to 1967 was partly due to the fact that the part of the employer's social insurance responsibility that had been discharged by the State from August 1964 onwards reverted to the employer with effect from 1 January 1967.

¹ The calculation of the figures on which the graphs are based was completed on 11 March.

In contrast to the situation in the other member countries, labour costs in France developed very unfavourably in 1968. In the preceding years the rise had been moderate, but the events of May and June forced them sharply upwards. The index of agreed wages rose by a good 10 % between 1 April and 1 July, and by a further 2 % on 1 October. The guaranteed minimum hourly wage (SMIG), which was FF 2.22 in industry in May, was increased to FF 3 in June, i.e. by about 35 %.

For the year as a whole, the increase for France in compensation per employee in industry is estimated at 12 %, whereas the increase in production per employee is estimated at only 5.5 %. The consequent rise in labour costs is approximately 6.5 %.

The 1968 figures for France must be viewed even more cautiously than those for the other member countries. The estimate of compensation per employee, in particular, contains more elements of uncertainty than usual. Besides this, the annual figures give only an incomplete picture of the trend. Since the major wage increases did not take place until the middle of the year and the strikes entailed considerable wage losses, the labour cost trend is only partly reflected in the figure for 1968 and will further affect the results for 1969. The losses of production owing to the strikes, and the singularly sharp rise towards the end of the year, also make it exceptionally difficult to judge the production trend from the results for 1968.

In addition, it must be remembered that the 5 % payroll tax—not included in compensation—was abolished with effect from 1 December 1968, and this means lower labour costs for French industry.

In the non-member countries covered—the United States and United Kingdom—there was a distinct increase in labour costs per unit of gross value added in industry from 1967 to 1968. However, when international comparisons are made, the November 1967 devaluation

in the United Kingdom must be taken into account.

In the United States labour costs rose sharply, as they had in the two preceding years. Although productivity, with a 3 % increase, developed more favourably for 1968 than for the previous year, when it fell by 0.2 %, labour costs per unit of output continued to rise, since the increase in compensation per employee was likewise higher (6.5 %) than a year before (4.3 %).

In the United Kingdom, value added in industry rose by 4.5 %. Gross value added per employee rose even more (by 6 %), since the number of employees declined (by 1.5 %). Compensation per employee also increased more (8 %); as a result labour costs per unit of output, expressed in sterling, rose appreciably from 1967 to 1968 (2 %). When adjusted to take the devaluation of sterling into account, the figures show a decline of about 11 % for 1968 compared with 1967.

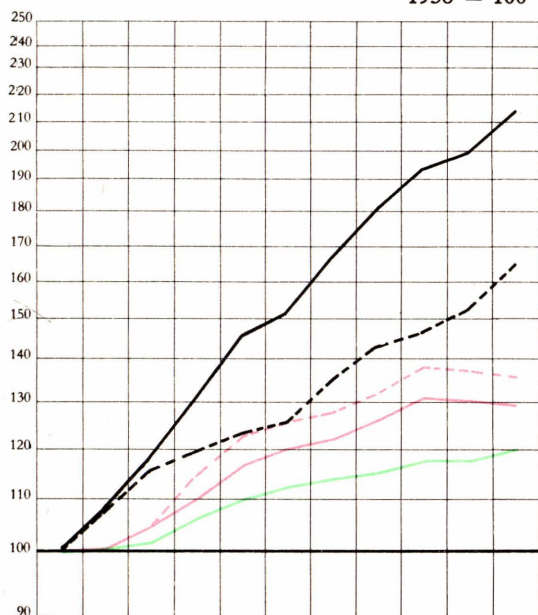
C. The trend in labour cost, adjusted for changes in official exchange rates

These data show that between 1958 and 1968 the rise in labour costs per unit of gross value added was weakest in Belgium and the UK. The sharpest increase took place in Italy and the Netherlands. In Germany and France, the costs rose to much the same extent in those years. However, the trend in the two countries *during* the period was very different. At first France enjoyed a relative advantage, owing to the 1958 devaluation, but this was whittled away by the more rapid increase in French labour costs after 1965. However, when France and Germany are compared at international level it is necessary to bear in mind the tax measures mentioned under B, which were taken at the end of 1968. As a result of these, German industry is shown in a less favourable, and French industry in a more favourable, light.

LABOUR COSTS IN INDUSTRY

Germany

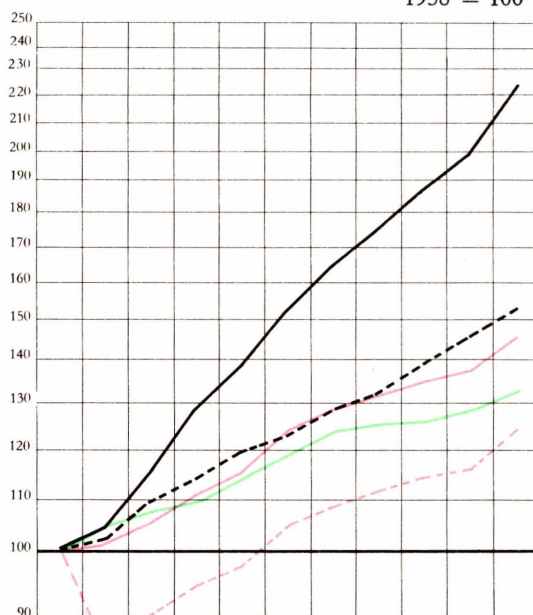
1958 = 100



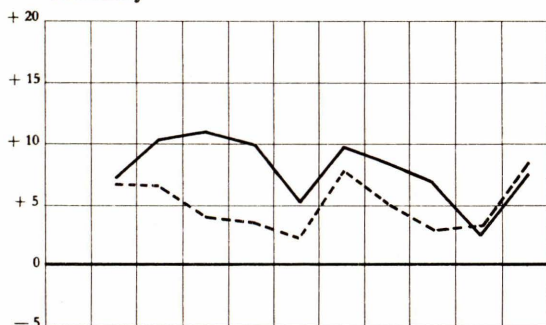
% change on preceding year

France

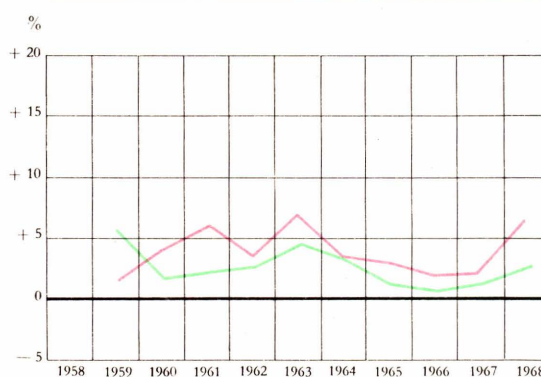
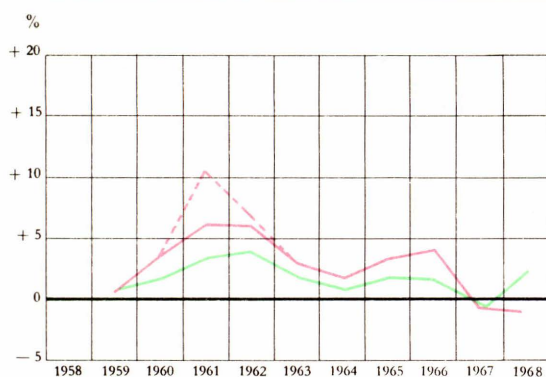
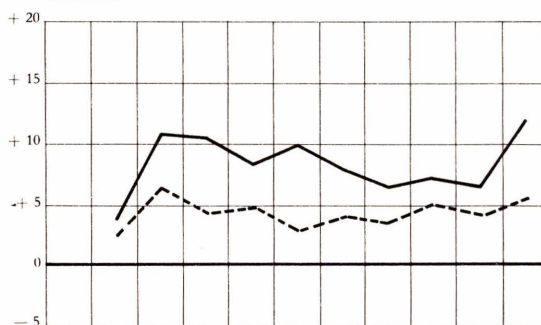
1958 = 100



% Germany

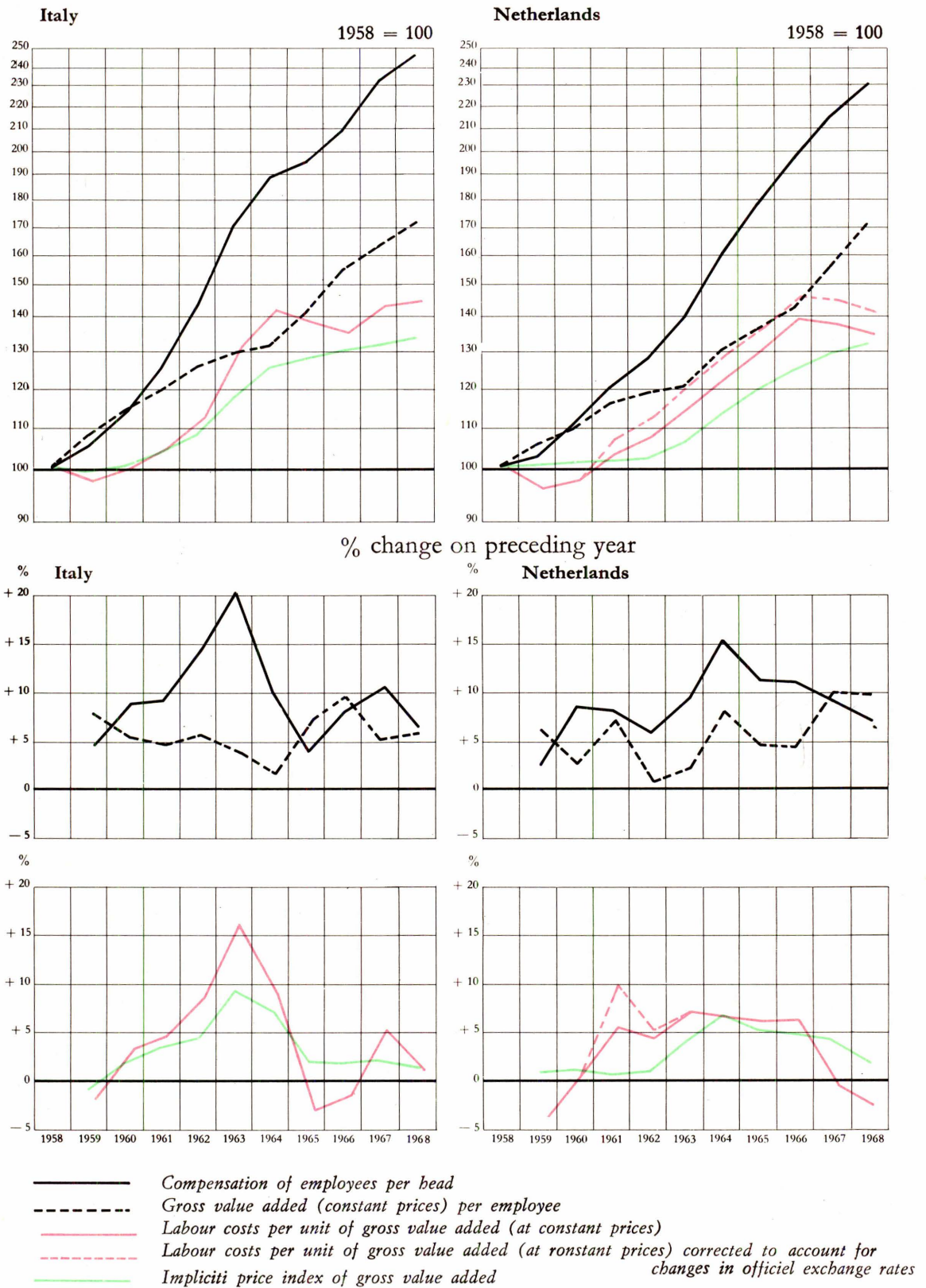


% France

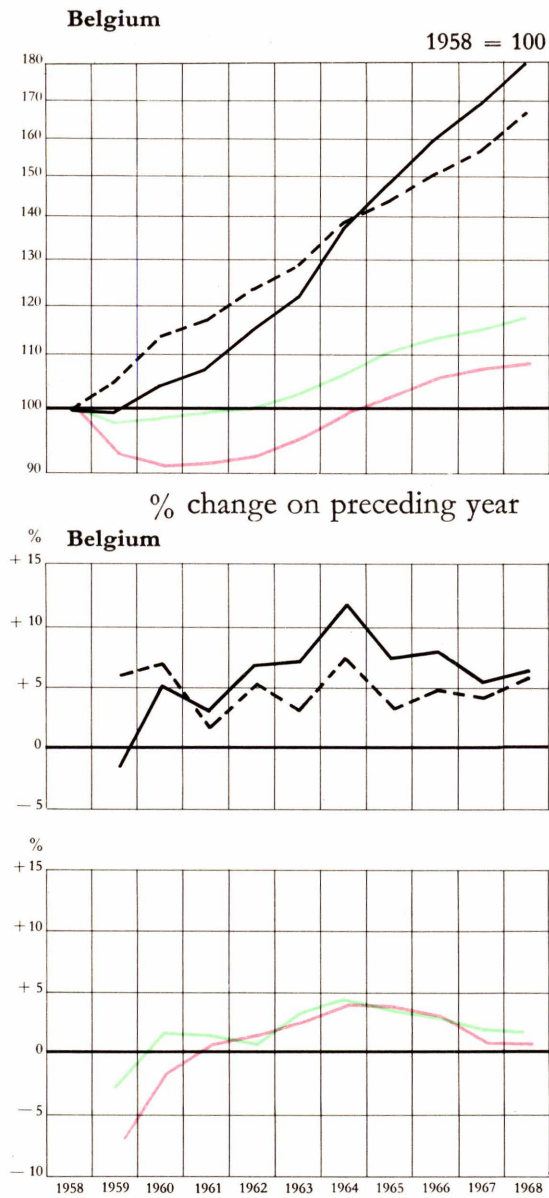


- Compensation of employees per head
- - - Gross value added (constant prices) per employee
- Labour costs per unit of gross value added (at constant prices)
- - - Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates
- Implicit price index of gross value added

LABOUR COSTS IN INDUSTRY



LABOUR COSTS IN INDUSTRY

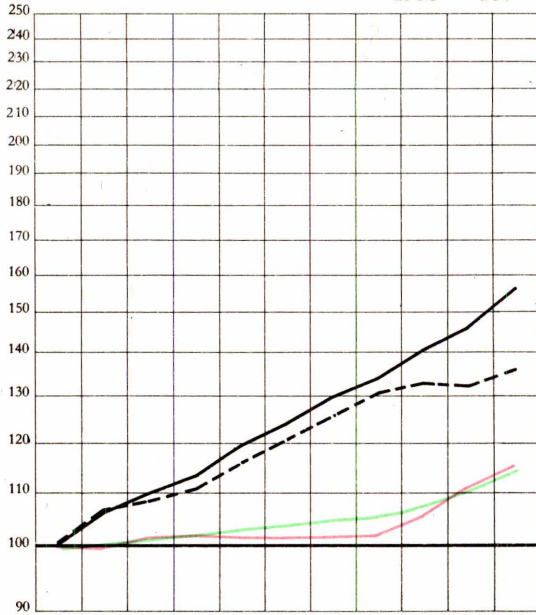


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LABOUR COSTS IN INDUSTRY

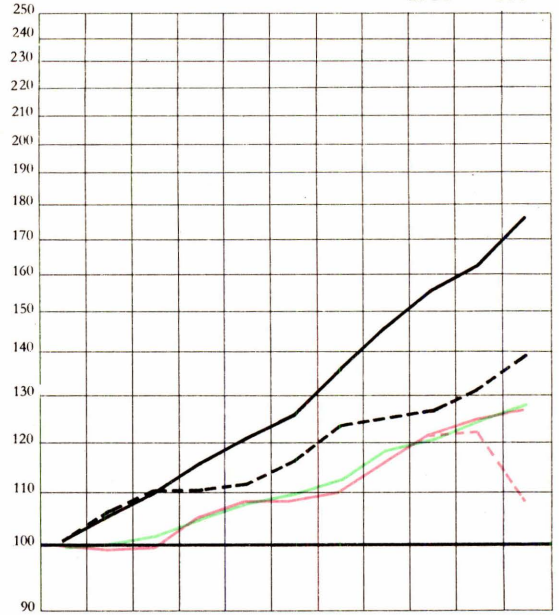
United States

1958 = 100



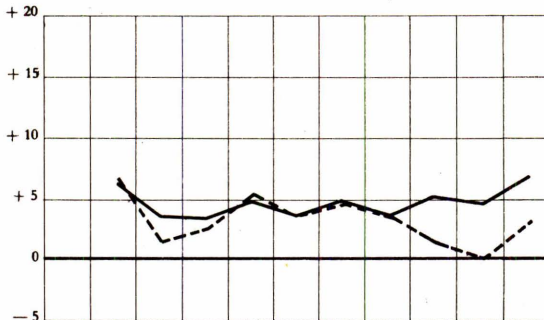
United Kingdom

1958 = 100

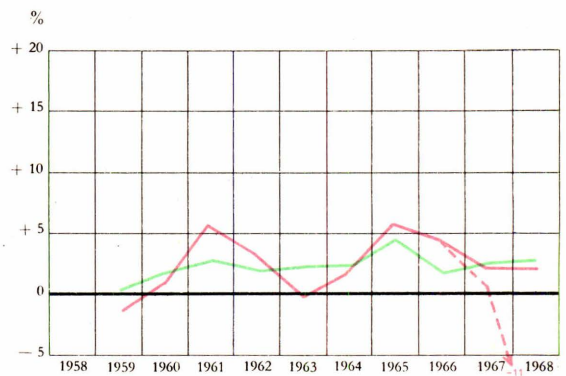
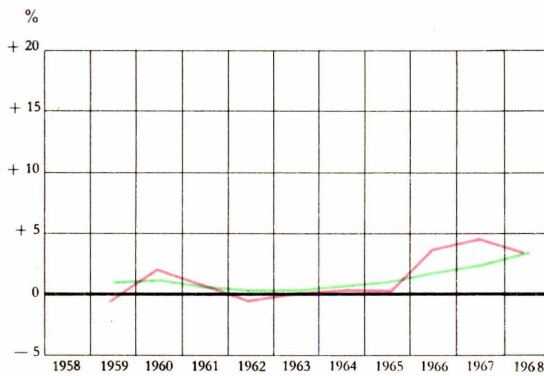
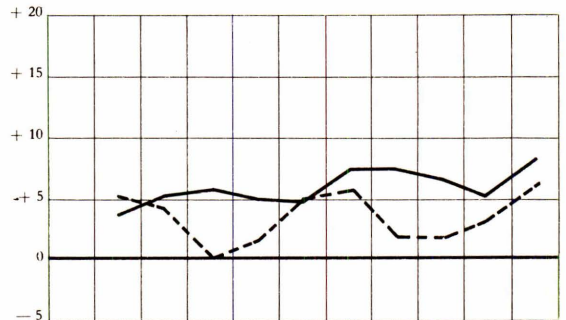


% change on preceding year

% United States



% United Kingdom



- Compensation of employees per head
- - - - - Gross value added (constant prices) per employee
- Labour costs per unit of gross value added (at constant prices)
- - - - - Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates
- Implicit price index of gross value added