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Background Economic Memo

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EEC'S QUARTERLY ECONOMIC SURVEY SHOWS MODERATE GROWTH RATE

WASHINGTON, D. C., October 18 -- The Commission of the European Economic Community (Common Market) this week published its latest quarterly survey of the economic situation in the Community. The report outlined the main features of the current economic situation in the Community as a whole and in the individual member countries, considered the outlook for the rest of 1962 and the first half of 1963, and examined the problems of economic policy involved.

The Commission noted that the pace of economic growth in the Community continued to be relatively moderate in the second quarter and - as far as can be judged at this stage - in the summer months also. The trend of demand became an increasingly important factor, even though in certain countries and sectors physical obstacles still set limits to growth.

Over-all demand again went up, but apparently the pace was once again somewhat slower. The improvement in exports to non-member countries in the first quarter gave way to another phase of relative stability from May onwards. In fact, exports in the second quarter were up only about 1 per cent (in value) over the corresponding figure for the previous year. Furthermore, there was a marked tendency for the growth of fixed asset formation to fall off. Building investment, however, rose strongly in the second quarter - a reaction after the stagnation caused by bad weather early in the year.

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Consumers Spend More

Investment in stocks made practically no contribution to over-all demand. However, private consumers' expenditure - particularly as a result of sharp wage increases - again expanded somewhat more than in the early months. In terms of volume, the growth of consumption was adversely influenced by rising prices; but, taking this factor into consideration, consumption expanded at least as fast as in the first quarter. In most member countries outlay by the public authorities on consumption also showed quite a clear rise.

The slow growth of the Community's industrial output continued. The rise in the seasonally-adjusted index of the Statistical Office of the European Communities was about 1 per cent from the first to the second quarter, when the level of output in the second quarter of 1961 was passed by about 6 per cent. Expansion in the services sector was probably a little more rapid.

More Produced in Fewer Hours

The expansion of production in certain member countries and branches continued to be handicapped by labor shortages. But the effect of this factor seems to have decreased somewhat in certain cases, where a decline in activity is attributable rather to more sluggish demand against a background of steadily expanding capacity.

The total number of persons in employment again rose slowly and there was a further fall in unemployment. In industry, however, the increase in numbers employed was relatively small, and was moreover almost completely offset by shorter working hours. However, productivity per manhour again forged ahead. Almost the entire increase in industrial production over the second quarter of 1961 is probably attributable to the rise in output per manhour.

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Imports From Non-Member Countries Up 8%

Partly under the influence of factors such as heavier buying of foodstuffs, imports from non-member countries were quite high. In the second quarter they were by value about 8 per cent above the level of the corresponding period of the previous year. The trade balance showed a deficit of almost \$500 million compared with \$169 million in the second quarter of 1961. Nevertheless, the balance of payments, both on current account and over-all, was probably in surplus, although distinctly less so than at the same period of 1961.

The upward pressure on prices continued to build up until July. This was mainly attributable to higher prices for certain foodstuffs owing to bad weather. Since July there have been some downward adjustments. Apart from this extraordinary movement, prices of services and industrial products continued to soar though they seem to have slowed down somewhat in the case of the latter.

The Commission considers that the outlook up to the end of the year promises no important change in these general economic trends. This being so, there are still no grounds for amending the estimates given at the beginning of the year for 1962 as a whole (real gross national product up 4.5 to 5 per cent, industrial production up 5.5 per cent).

Upward Trend Steady But Not Sharp

A survey of probable development trends in 1963 - chiefly the outlook for the first half-year - indicates that the Community's growth rate will continue to flatten out. The weaker expansion in most industrialized non-member countries' economies - particularly the United States' - and the

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fact that demand from the developing countries may well be practically stationary will probably keep any increase in Community exports within quite narrow limits.

Secondly, the growth of investment in the Community will again slow down. The foreseeable further rapid expansion of private consumption will probably not fully make up for the effects on over-all demand of the consequent loss of momentum. Finally, the growth of income and consumption will itself not be entirely unaffected by the slowdown in the growth of exports and particularly of investment.

In view of this outlook, economic policy will have to come to grips with the difficult problem of preventing, above all, any excessive falling off in investment and thus of general economic expansion, while, at the same time, combatting trends toward higher prices which will probably continue far into 1963, even though they may have spent some of their force.

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