

# EUROPEAN COMMUNITY

## BACKGROUND INFORMATION

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### BACKGROUND NOTE

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### EC ANNUAL ECONOMIC REPORT INDICATES SIGNS OF RECOVERY

The current economic recession appears to have bottomed out in France, Germany, and Denmark, and is nearing an end in most other member states, according to the Annual Report on the Economic Situation in the European Community, adopted by the EC Commission October 15.

Once the Council has adopted the report, member state governments must send it to their national legislatures for consideration in national budget debates.

The stimulus provided by signs of recovery in industrialized countries such as Japan and the United States, national reflationary measures, and renewed confidence could lead the EC economy out of recession between now and early 1976. Thus, the Community's gross domestic product could grow by 3-to-3.5 per cent next year, after a 2.5 per cent fall in 1975, according to the Commission.

In order to lead the Community to full recovery, national officials responsible for economic policy will have to sustain expansionary forces and foster conditions favoring continued growth and higher employment without allowing inflation to get out of hand again.

#### Stocktaking of 1975

The nine EC member states have gone through the worst recession since World War II, since the middle of last year, and especially in the first six months of 1975. Demand, production, and employment have plummeted, while unused production capacity and consumer prices have soared. Oil import bills have ballooned. By mid-1975, industrial production had dropped below its 1972 level. From June 1974 to June 1975, industrial production registered a 12.5 per cent decline.

In the light of these factors, the Commission made the following assessment of the Community's economic situation this year.

- From June 1974 to June 1975, the decline in world economic activity led to a 20 per cent reduction in demand for Community exports. As a result, the Commission predicted export shrinkage ranging from a low of 4 per cent in the United Kingdom to a high of 11 per cent in Germany in 1975.
- Trade between Community members has declined even more than export demand.
- Member countries' imports have declined more sharply than their exports.
- EC member countries' (except the United Kingdom) current account deficits will decrease in 1975. Overall, the Community's current account will show a small surplus.
- EC member countries' increasing interdependence -- with each other and with the rest of the world -- demands close coordination of economic policies to avoid economic disruption.
- Private investment is still falling because of excess industrial capacity, rises in costs due to losses in productivity, and uncertainty about the economic outlook.
- Industries continued to run down stocks in 1975.
- Private consumer spending has increased little. People are saving more.
- Unemployment continues to rise. There were 5 million unemployed in August 1975, more than 4.5 per cent of the Community's population.
- Inflation has eased in every member country, but consumer prices will still rise 12.5 per cent this year. The range of inflation rates will be wider in 1975 than in 1974 -- from a high of 22-to-23 per cent in Ireland and the United Kingdom to a low of 6 per cent in Germany. Consumer prices for manufactured products have risen less than those for other products and services, although industrial wage costs per unit are still rising.

#### Commission Sets Community Economic Policy Guidelines

Economic policy has to be differentiated according to member countries' vastly different economic situations. The Commission recommended an alignment of basic economic goals so that the Community's achievements can be preserved and further progress made toward European integration.

The Commission made the following recommendations for Community-wide action:

- continued budgetary policy support of economic activity in most member states

- maintenance of expansionary monetary policies
- closer coordination between member states and between the Community and the large industrial nonmember countries to avoid huge interest rate differentials on the international market, which could distort capital movements
- cooperation between management, labor, and government
- strong social policy and effective employment policy to curtail budget deficits and to encourage economic recovery.

#### Looking Ahead to 1976

If trends toward stock rebuilding, the recovery of export demand, and the increase in consumer spending continue, the Community's gross national product should show some growth in 1976. Nevertheless, some excess industrial capacity may remain, and employment will pick up only gradually.

Because of the uncertainties of world economic trends, the Commission made no forecasts on the size or duration of the economic recovery.

The Commission gave specific economic guidelines for each member state, taking into consideration its special problems and economic situation. The guidelines can be adapted to changes in the world economy when the Council of Ministers reviews the economic situation.

CHANGES IN CONSUMER PRICES SINCE 1973

	DEC. 73 JUNE 74	JUNE 74 DEC. 74	DEC. 74 JUNE 75	FEB. 75 AUGUST 75	AUGUST 74 AUGUST 75
	HALF-YEARLY INCREASE (in percentages)				INCREASE (in percentages)
DENMARK	7.0	7.0	3.4	3.8	9.5
GERMANY	3.5	2.3	4.1	2.4	5.9
FRANCE	8.4	6.2	5.2	4.7	11.0
IRELAND	10.4	8.7	14.6	5.2	18.9
ITALY	10.9	12.3	6.0	4.0	13.2
NETHERLANDS	5.5	5.0	4.6	5.2	10.4
BELGIUM	8.3	6.8	5.3	4.8	11.4
LUXEMBOURG	6.1	4.9	5.5	4.6	10.6
UNITED KINGDOM	10.8	7.5	17.3	14.2	26.9
COMMUNITY	7.8	6.4	7.5	5.9	13.2
UNITED STATES	6.1	5.8	3.3	3.6	8.6
CANADA	6.6	5.4	4.7	5.9	11.1
JAPAN	12.5	8.7	4.7		

Ireland: quarterly variations

Source: Services of the Commission.

CHANGES IN THE PRINCIPAL MACRO-ECONOMIC AGGREGATES OF THE COMMUNITY, THE UNITED STATES AND JAPAN (a)

	Gross Domestic Product (b) (volume)			Consumer Prices (c)			Unemployment rate (d) (per cent of civilian labor force)			External balance (per cent of Gross Domestic Product)		
	% increase over average of preceding year											
	1974	1975	1976	1974	1975	1976	1974	1975	1976	1974	1975	1976
DENMARK	1.6	-1.0	4.0	15.0	9.5	8.0	2.4	4.5	3.7	-3.5	-1.1	-2.1
GERMANY	0.6	-3.5	4.0	7.3	6.0	5.5	2.2	4.5	4.6	+2.4	+0.9	+0.8
FRANCE	3.8	-2.0	5.0	13.7	11.6	9.0	2.3	3.9	4.0	-2.5	-0.1	-0.6
IRELAND	0.4	-3.6	2.5	17.3	21.5	16.0	5.7	8.4	10.1	-10.4	-1.7	-1.6
ITALY	3.4	-3.0	3.0	19.6	17.0	12.0	2.9	3.7	3.9	-5.3	-0.7	-0.7
NETHERLANDS	2.8	-2.1	2.8	10.0	10.5	10.0	3.0	4.4	5.2	+2.4	+1.7	+2.4
BELGIUM	3.9	-1.9	2.5	12.3	12.4	10.0	2.7	4.8	5.6	+1.5	+1.7	+1.0
LUXEMBOURG	4.5	-7.5	4.0	9.5	10.5	8.5	0	0.7	0.7	+4.4	-9.5	-8.8
UNITED KINGDOM	0.7	-0.7	±0	15.2	21.5	15.5	2.4	3.6	(5.3)	-4.6	-1.3	-1.2
COMMUNITY	2.0	-2.4	3.3	12.5	12.4	9.6	2.5	4.1	4.6	-1.4	+0.1	-0.1
UNITED STATES	-2.1	-4.0	5.0	11.5	8.5	8.5	5.6	8.5	8	-0.3	+0.5	-0.1
JAPAN	-1.8	+1.5	6.0	21.7	11.0	6.0	1.4			-1.		

- a) 1974: actuals; 1975: estimates; 1976: forecasts by the services of the Commission for member states, the Community and the third countries reported.
- b) Gross domestic product; United States and Japan: Gross National Product.
- c) On a national accounts basis.
- d) As a result of disparities in definition, unemployment statistics cannot be compared between countries but only reflect developments within each country.