

Recent economic trends

LIBRARY

Energy policy a central concern. — Consultations in Europe and the West were stepped up in June as a reaction to the series of oil price rises. In accordance with their pledge to limit imports, Member States adopted the requisite energy saving measures (see the list of major economic policy measures on the last page, and in particular the measures adopted by France, Denmark and Ireland). In the area of budgetary policy a marked change of direction took place in the United Kingdom. In the monetary field, a large number of interest rate measures were taken: the main need was to defend parities and to control trends in nominal aggregates, and this pushed rates upward.

Pause in the recovery process. — After the spurt in economic recovery in the fourth quarter of 1978, which had a marked impact on the overall result for the year, the growth in the Community's gross domestic product was checked, in the early months of 1979, by the unusually hard winter and by labour disputes. For the first quarter as a whole, growth rates of 1,0% and 0,5% were recorded in Italy and France respectively but these contrasted with a decline in the United Kingdom (-1,5%) and in Belgium (-1,6%), and no change in the Federal Republic of Germany (see table below).

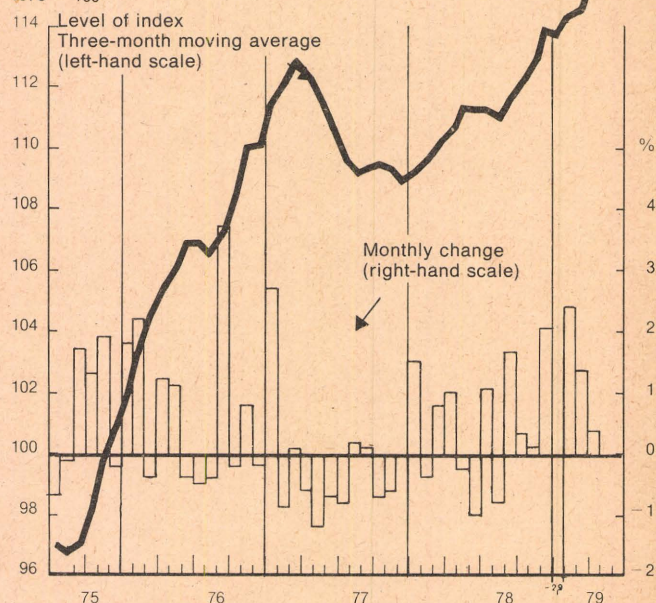
Real gross domestic product in the Community (% change on preceding period, s.a.)

Period	D	F	I	B	UK	EC
1975	-2.0	0.3	-3.5	-2.1	-1.7	-0.4
1976	5.0	4.6	5.9	5.7	3.6	4.8
1977	2.8	3.0	2.0	1.3	1.4	2.3
1978	3.1	3.3	2.6	2.3	3.5	3.0
1977 I	0.5	1.4	0.8	0.2	-1.4	0.3
II	0.5	-0.4	-1.7	-0.2	0.4	-0.4
III	0.5	1.1	-0.1	-0.5	1.8	0.8
IV	1.0	-0.1	0.1	0.8	1.6	0.7
1978 I	0	1.1	1.6	1.5	-0.2	0.5
II	2.0	1.8	0.4	-1.0	1.2	1.4
III	0.5	0.3	0.6	-0.1	1.3	0.6
IV	1.0	1.2	2.9	4.2	-0.3	1.3
1979 I	0	0.5	1.0	-1.6	-1.5	±0

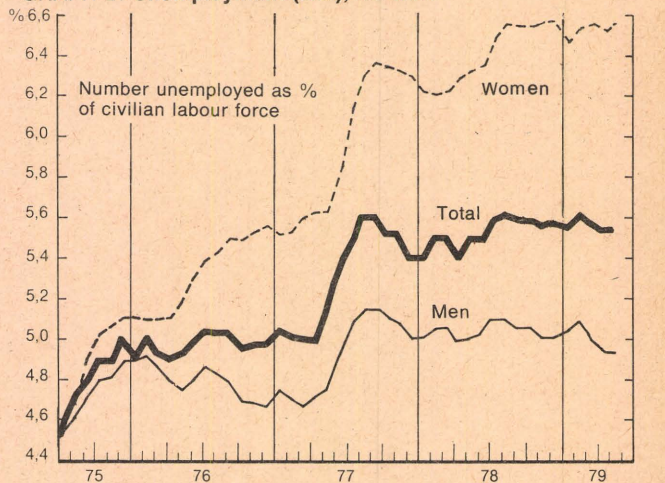
Source: The annual and quarterly figures for the EC were compiled by the relevant Commission departments; the quarterly figures for the different countries were supplied by the relevant national departments (D: Bundesbank, GNP; F: INSEE, market GDP; I: ISCO; B: DULBEA, GNP; UK: CSO). The quarterly figures for the Community were obtained by aggregating the figures for these five countries, which account for almost 90% of total Community GDP.

Low growth of industrial production. — Industrial production in the Community rose slightly in April. Because of the decline noted in France and Denmark, the monthly increase of the seasonally adjusted index was only 0,3% (Table 1). The sharp deceleration compared with March was in part also attributable to the upward revision (from 0,8% to 1,4%) of the figures for that month; one main reason behind this revision are corrected figures for the Federal

GRAPH 1: Industrial production (s.a.), EC total
1975 = 100



GRAPH 2: Unemployment (s.a.), EC total



Republic of Germany which indicate that the stagnation observed throughout the five preceding months has given way to an upturn. Year on year, the trend is on the whole quite favourable, since in April the Community index was 4,9% up on twelve months earlier. The year-on-year growth rate was between 8% and 9% in Italy, Belgium and the Federal Republic of Germany. However, negative rates were recorded in Denmark and France, while the growth recorded in the other Member States was well below the Community average.

Slight decline in unemployment. — The unemployment rate which in April had declined a little to 5,5%—a rate last recorded in June 1978—was held at much the same level in May. The trend of the unemployment rate by sex (Table and Graph 2) showed little change. Looking at the situation in the various Member States, the unemployment rate declined on a monthly basis in Italy and Denmark, rose in the Netherlands and in Belgium and remained stationary in the other countries. The number of unemployed in the Community as a whole increased by 1,5%, year on year. Between May 1978 and May 1979, unemployment fell in the Federal Republic of Germany, the United Kingdom, Denmark and Luxembourg, but increased in France, Italy, the Netherlands and Belgium. Lastly, short-time working in the Community as a whole in April was almost 30% down on a year earlier.

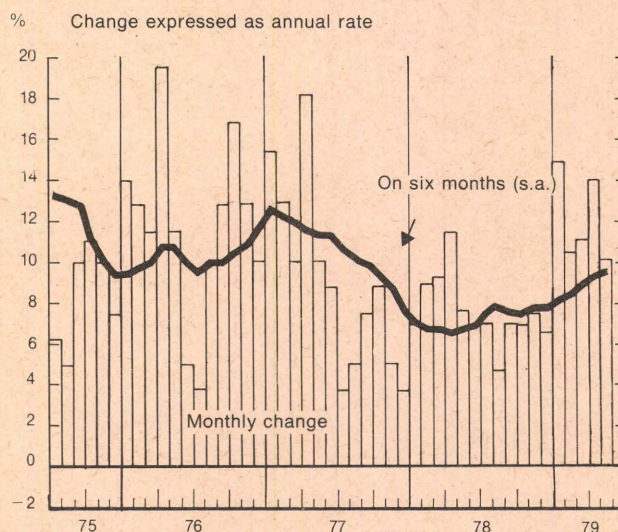
Inflation continues to gather pace. — The rise in the consumer price index for the Community over six months earlier, seasonally adjusted and expressed at an annual rate, has continued, reaching 9,7% in May (Graph 3). While this particular measure of inflation can be distorted by step-changes in elements of the index, its steady rise since the turn of the year leaves no doubt that the trend rate of increase of consumer prices has been accelerating during 1979. Higher import prices, especially for oil, have continued to have a significant impact on consumer prices. Further, increases in public sector tariffs and publicly regulated rents have been contributing in a major way to the rise in the index, as has the more rapid rise in the prices of services. In May, the Community index rose by 0,8%, bringing the twelve-month increase to 8,9% (Table 3). Among the Member States, increases in May were lowest for the Benelux countries (especially the Netherlands, where the index was unchanged). The monthly increase was 1% or even more in France, Ireland, Italy and Denmark. In the United Kingdom, it was equal to the Community average.

Deterioration of the trade balance. — Taking into account the recently published data on the trend of the British trade balance in 1979, it can now be seen that the deficit on the Community's balance of trade has deteriorated sharply since the beginning of the year (Graph and Table 4). It was 2 000 million EUA for the first quarter, compared with 267 million EUA for the previous quarter and 1 122 million EUA for the first quarter of 1978. The United Kingdom's trade deficit, which exceeded 1 000 million EUA in February, has remained very large since then; the steady shrinking of the German surplus, scarcely interrupted in April, was an additional factor. Data at present available for May also show a widening of the trade deficits of France and Denmark.

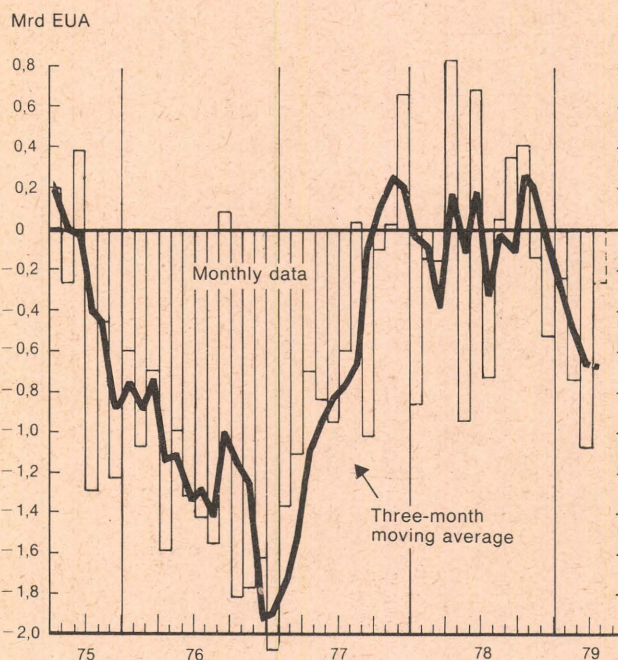
Major fluctuations in the dollar. — In June the ECU appreciated against the dollar for the first time since January (Graph and Table 5). The weakening of the American currency began towards the middle of the month and became rapidly more pronounced during the next ten days. However, the dollar gained ground again in the closing days of June, so that the appreciation of the ECU was finally 1,2% taking the average for the month and 3,7% taking the movement between the beginning and the end of the month. The ECU also resumed its tendency—interrupted in May—to rise against the yen. Lastly, the SDR value of the ECU also rose, but only slightly. Taking the Community currencies, the ECU rose sharply against the Danish krone (+2%): towards the end of May and the beginning of June, this currency fell from the upper to the lower limit of the margin of fluctuation within the European Monetary System. The Belgian franc consistently hovered around the lower limit. In contrast, the pound sterling continued to appreciate against the ECU, for the fifth consecutive month; between January and June, this appreciation totalled 6,5%. The other currencies showed only slight fluctuations against the ECU.

4 July 1979.

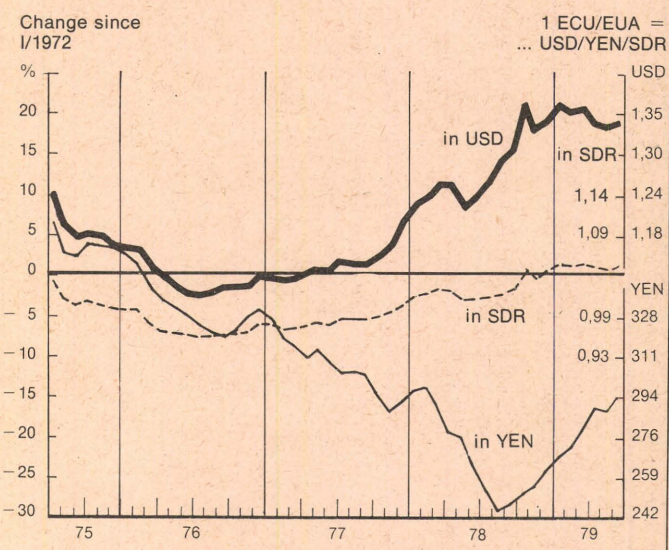
GRAPH 3: Consumer prices, EC total



GRAPH 4: Trade balance (s.a.), EC total



GRAPH 5: Value of ECU and EUA



Major economic policy measures — June 1979

Community (EC)

19.6 The Council (Economic and Financial Affairs) invited the Commission to submit to it at a forthcoming meeting practical proposals for strengthening the coordination of economic policies.

21-22.6 The European Council expressed the determination of Member States to maintain Community oil imports between 1980 and 1985 at an annual level not higher than that for 1978. It considered that it was vital that the consumer and producer countries together worked out a world energy strategy.

27.6 The Commission concluded the agreement renewing the Lomé Convention which links the EEC to 57 African, Caribbean and Pacific countries. The amount of financial aid which the Nine will grant the ACP countries over five years is 65% higher than that provided for under the previous five-year Lomé agreement.

29.6 At the Western Summit in Tokyo, the Federal Republic of Germany, France, Italy and the United Kingdom agreed to recommend to their Community partners that each member country's contribution to achieving the oil import level agreed in Strasbourg will be specified. The Federal Republic of Germany, France and the United Kingdom undertook not to exceed their 1978 oil import levels for the period until 1985.

Denmark (DK)

15.6 The Central Bank raised the discount rate from 8% to 9%.

29.6 With the aim of reducing the anticipated balance of payments deficit for 1979 and 1980, Parliament adopted the following measures:

- an increase in excise duties and VAT on energy products raising these prices by about 20%. Private firms registered for VAT (excluding certain service sector firms) and public transport will be exempted. Other tax measures affect cigarettes and charter flights. The extra revenue should amount to DKR 1 200 million in 1979 and to DKR 2 700 million in 1980;
- a limitation on certain direct tax allowances and extension until 1980 of the special DKR 500 personal income tax allowance;
- a further cut of DKR 2 500 million in central government expenditure for 1980 (i.e. DKR 700 million off 'controllable' amounts and DKR 1 800 million off 'legislative' amounts) and a 3% limit (in real terms) on the growth of local government expenditure in 1980;
- the transfer to 1979 and 1980 of unexpended funds allocated to the August 1977 employment programme (DKR 1 300 million);
- a 50% increase (i.e. DKR 500 million) in the loan programme for industry and agriculture.

Federal Republic of Germany (D)

1.6 The Bundestag adopted amendments to the Employment Promotion Law (Arbeitsförderungsgesetz). The main aim is to improve vocational training, especially that of older, handicapped or unskilled workers. Employment offices will now be able to apply stricter rules to increase the mobility of the unemployed.

20.6 The Government decided to build up emergency stocks of essential imported raw materials. The Minister for Economic Affairs, in agreement with the Minister for Finance, will conclude a special contract with the industries concerned and will settle the method for refinancing the stocks with the Kreditanstalt für Wiederaufbau. The level of stocks should be sufficient for one year.

France (F)

6.6 The increase in rents may not exceed the increase in the building costs index (i.e. 12% in a year).

6.6 Family allowances are to be increased by 11,6% as from 1 July.

14.6 The rules applicable to foreign workers (from non-member countries, except Algeria and countries whose accession to the Community is imminent) were amended to limit immigration and to reduce the number of foreigners by 200 000 a year.

20.6 The Government adopted a number of measures to conserve energy (reduction in heating, speed limits, particularly for lorries). The aim is to achieve additional savings of 8,4 million tonnes of oil between now and the end of 1980 (i.e. 7,2% of national consumption).

Ireland (IRL)

8.6 The Government authorized an average increase of 19½% in electricity charges.

12.6 A 7% ceiling is to be applied to pay increases during the six months following the expiry of the 1978 National Pay Agreement.

25.6 Interest rates were increased by between 1½ and 2½ percentage points for loans and by between 1½ and 3 percentage points for deposits.

25.6 The 18-week postal strike ended with a 15% pay settlement formula.

27.6 Agreement was reached between employers and unions on new pay proposals for a 15-month collective agreement. The deal is similar to that agreed on 24 April, except that the minimum increases are higher, the indexation provisions are more generous and the second phase provides for a basic increase of 2% instead of 1½%. The new proposals will be put to a special meeting of trade union delegates to be held next month.

Italy (I)

2.6 The Minister for the Treasury authorized a special issue of one-year Treasury bonds totalling LIT 1 500 000 million, to be subscribed to in full by the Banca d'Italia. The issuing authority thereby wished to increase its intervention reserve in order to be able to influence the degree of liquidity in the economy more effectively.

Netherlands (NL)

31.5 The Nederlandsche Bank raised its interest rates by ½ percentage point. The official discount rate thus went up from 6½% to 7%.

13.6 The Dutch Government announced that it would use the emergency procedure provided for in its 1979 budget to prevent the public sector cash deficit from exceeding 6% of national income. The payment of taxes is to be speeded up and some expenditure postponed.

Belgium (B)

31.5 The banks decided to increase the base rate for discount credits from 8,75% to 9,25% and that for overdrafts from 9,50% to 10%.

13.6 The savings banks and mortgage institutions decided to increase their mortgage and investment lending rates by 0,50 percentage points (i.e. from 10% to 10,5%).

14.6 The Banque nationale increased the discount rate and the rate on advances against collateral from 8% to 9%.

16.6 The financial intermediaries increased their interest rates on the various types of deposit by 0,50 percentage points.

19.6 The banks decided to increase their interest rates for discount and acceptance credits and for overdrafts by 0,75%.

29.6 The Banque nationale decided to divide the ceiling for the rediscount facilities of financial intermediaries into sub-ceiling A (1/3) and sub-ceiling B (2/3). The rediscount rate was maintained at 9% for sub-ceiling A, but was fixed at 11% for sub-ceiling B. The interest rate for current account advances not exceeding the monthly quota was increased from 9% to 11%, but was fixed at 12% for operations exceeding the quota.

Luxembourg (L)

None.

United Kingdom (UK)

12.6 The Chancellor of the Exchequer presented the budget for the 1979/80 financial year to the House of Commons. The main measures proposed were as follows:

- a reduction in direct taxes (UKL 3 500 million);
- an increase in indirect taxes (UKL 2 500 million);
- a cut in public expenditure, including the results of a strict enforcement of cash limits (UKL 2 500 million);
- the sale of State holdings in certain companies;
- a new target range of 7-11% at an annual rate for the growth of the money supply (sterling M_3) for the period from July 1979 to April 1980. This target range is to be revised in the autumn and rolled forward by six months. Minimum Lending Rate was raised from 12% to 14%;
- a substantial move towards the dismantling of controls on outward capital movements, with priority being given to direct investment. In addition, a relaxation of controls on individuals purchasing property overseas, higher travel and emigration allowances and minor changes in respect of outward portfolio investment.

21.6 The Government announced that the United Kingdom was to deposit one fifth of its gold and dollar reserves with the European Monetary Cooperation Fund.

PRICES

	BFR	DKR	DM	FF	LIT	HFL	UKL	USD
'European Economy' (3 issues per year)	1 000	175,—	63	140	26 800	69,—	16	32.50
Supplements								
Series A — 'Economic trends' (11 issues per year)	500	87,50	32	70	13 400	34,50	8	16.25
Series B — 'Economic prospects — business survey results' (11 issues per year)	500	87,50	32	70	13 400	34,50	8	16.25
Series C — 'Economic prospects — consumer survey results' (3 issues per year)	200	35,00	13	28	5 450	14,—	3	6.50
All three supplements	1 000	175,—	63	140	26 800	69,—	16	32.50
Combined subscription — 'European Economy' and supplements	1 500	262,50	95	210	40 100	103,50	24	48.50

The annual subscription runs from 1 January to 31 December of each year.

Payments to be made only to the agents in the countries listed on page 3 of the cover of European Economy.

These are surface mail rates; for air subscription rates please apply to the agents.



OFFICE FOR OFFICIAL PUBLICATIONS
OF THE EUROPEAN COMMUNITIES

Boite postale 1003 — Luxembourg

ISSN 0379-2056

Catalogue number: CB-AS-79-007-EN-C