

EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

No 3 — March 1981

Supplement A

Recent economic trends

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Revised Commission forecasts for 1981. — In the context of the preparation of its communication to the Council concerning the adaptation of economic policy guidelines the Commission has undertaken a revision of its economic forecasts for 1981. The slowdown of activity in the second half of 1980 has been stronger and has lasted longer than expected and the recovery may therefore begin somewhat later than envisaged in the Annual Economic Report adopted by the Commission in October 1980. GDP is now forecast to see a decline of 0,6% and the rate of unemployment may reach 7,4% on average for this year. Consumer prices may rise by 10,4% (against 12,1% in 1980) and the deficit on the current account of the balance of payments may remain high. (Details to be published in *European Economy* No 8.)

The Community economy 1979-81

	1979	1980	1981
	% volume change		
Gross domestic product	3,5	1,3	-0,6
Imports of goods and services	10,3	2,4	-1,0
Exports of goods and services	6,1	2,4	0,1
	% change		
Consumer prices	8,9	12,1	10,4
	% of GDP		
Current account of balance of payments	-0,5	-1,5	-1,6
General government, financial deficit	-3,6	-3,6	-4,0
	% of labour force		
Unemployment	5,5	6,1	7,4

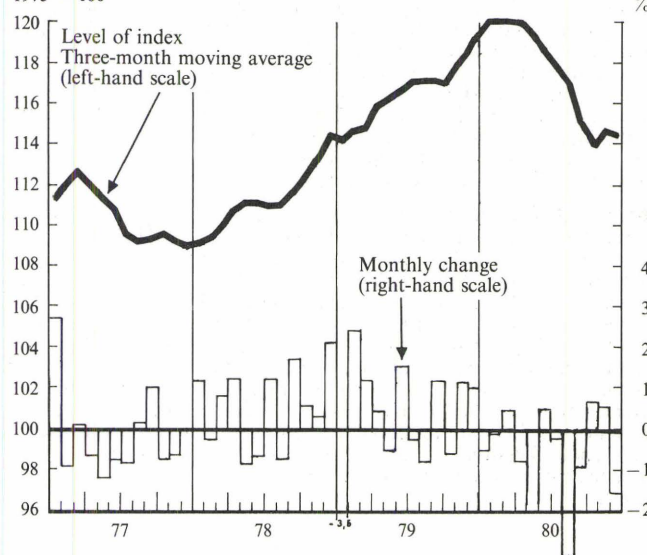
Industrial production: trend uncertain. — The index of industrial production in the Community, seasonally adjusted by Eurostat, fell in December by 1,7% following rises of 0,7% in October and 0,6% in November (revised figures). The underlying trend, as estimated by the three-monthly moving average, remained unchanged compared to the month before, confirming thus a certain tendency for industrial output to stabilize in most recent months (Graph 1). Developments among Member States were mixed in December with large falls in Belgium (-7,3%), Italy (-6,2%), Luxembourg (-6,2%) and The Netherlands (-4,4%) being matched by large rises in Denmark (6,8%) and France (5,6%). Compared to December 1979 the level of industrial production in December 1980 was down by 6% for the Community as a whole.

Slight slowdown in the rise of unemployment. — The rate of unemployment in the Community, seasonally adjusted, in January rose to 7,1%, up from 7% in December. The number of unemployed was up 27% over a year earlier for the Community on average (almost the same 12-month rise as in December) with particularly pronounced increases occurring in Denmark (+61,8%) and the United Kingdom (+64,5%). The slight slowdown in the rise of unemployment may not be more than a temporary phenomenon related to the relatively mild winter (the adjustment concerns only normal seasonal fluctuation). Indeed unfilled vacancies continued to fall in a majority of the Member States for which data are available.

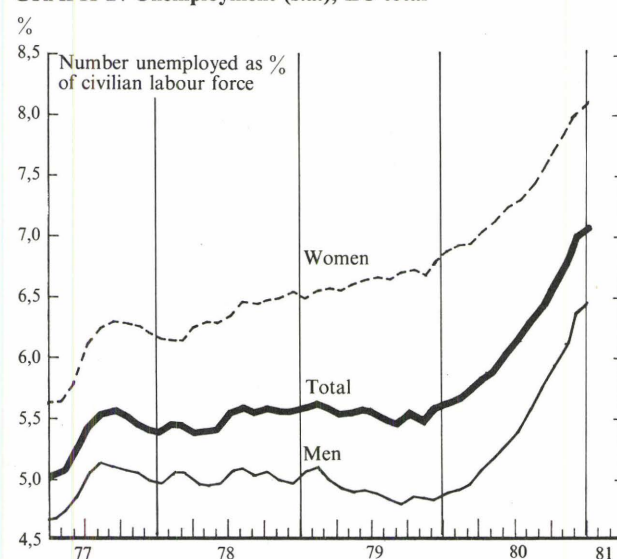
Prices: year starts with adjustments. — Consumer prices rose by 1,0% in January compared with 0,8% in December (Table 3). The acceleration

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

1975 = 100



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



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was experienced in all the countries except Luxembourg where consumer prices slowed down despite the rise in energy prices, and in the United Kingdom, where the monthly rate for several months seems to have stabilized at 0,6%. The marked rise in prices in the Federal Republic of Germany (0,8%) is mainly due to increases in railway fares and telephone charges, and to the readjustments traditionally made by firms at the start of the year. In France, increases in rents and in the prices of petroleum products are largely responsible for the high monthly rate. Expressed as an annual rate the six-month change in prices (s.a.) was slightly smaller in January (11,3% as against 12,2% in December) (Graph 3).

Community trade deficit stable. — The trade-balance situation showed little change in December. The Community's external trade remained heavily in deficit at near November's level (3 700 million ECU, s.a., cif-fob). In terms of trend, some improvement nevertheless seems under way: the three-month moving average again recovered in December (Graph 4). The data for December show an improvement in the trade balance in the Federal Republic of Germany, Italy and The Netherlands and a widening of the deficit in Denmark and Ireland. The first preliminary results for January suggest that the situation has worsened again in the Federal Republic of Germany, while there are signs of improvement in France and the United Kingdom.

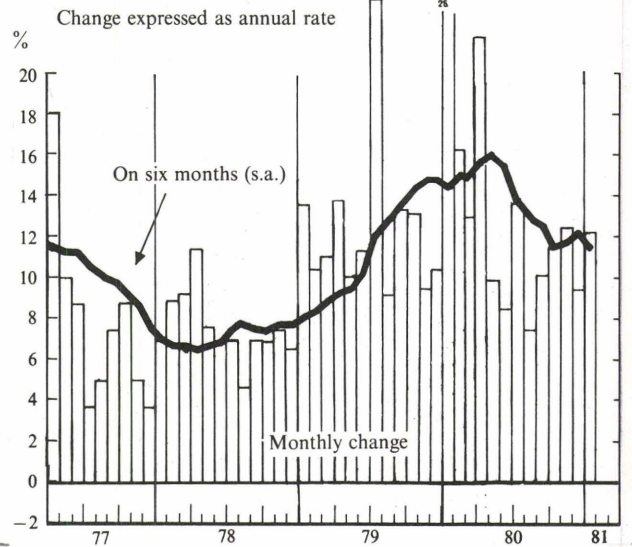
Significant expansion in the money supply. — Monetary expansion accelerated in the Community in November 1980: the average monthly increase of 1,4%, compared with 0,8% in October (seasonally-adjusted figures) reflects a near-general surge in the rate of monetary growth. In France in particular the increase in the money supply was partly due to large inflows of capital while the main cause of the acceleration in the Federal Republic of Germany was domestic credit expansion. In December, money creation remained buoyant in Denmark and the Federal Republic of Germany but was negative in Ireland, though this followed large increases in the preceding months. In the United Kingdom money creation definitely slackened. In January the slowdown in the expansion of the United Kingdom money supply was confirmed.

Short-term interest rates turn up. — After easing slightly in January in the Federal Republic of Germany, France, Belgium and the United Kingdom, short-term interest rates again showed a marked tendency to move up in February, most particularly in the Federal Republic of Germany. The United Kingdom was the only country in which the cost of short-term money continued to fall. The movement was sparked off by the Bundesbank decision on 19 February to end automatic Lombard credit and grant it only on authorization by the central bank and at a variable rate. The sharp rise in German money market rates pushed short-term rates up in other Member States, notably in France, The Netherlands and Belgium. In January, long-term rates showed little change over December, but in February the surge in short-term rates began to pull long-term yields higher.

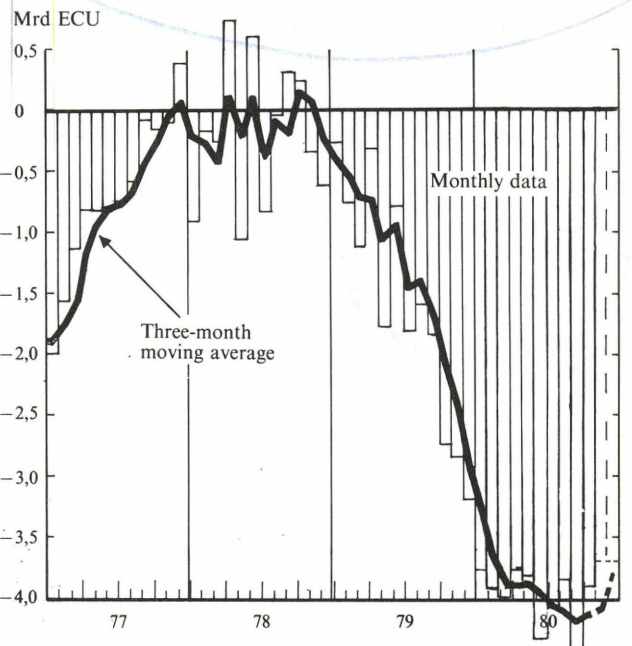
Sharp exchange-rate fluctuations. — The weakening of Community currencies against the dollar and the yen, which began in early January, was temporarily halted in mid-February following the restrictive measures taken by the Bundesbank (see above). In the last week of February the ECU, however, again turned down, and its average depreciation for the month in relation to January was 6,1% against the dollar and 4,4% against the yen. At the beginning of February the German mark stood at its bilateral limit against the French franc in the exchange-rate system, but it then recovered and this led to a deterioration in the relative position of the other currencies, in particular the Belgian franc: its rate against the central rate crossed the divergence threshold. Sterling declined slightly against the EMS currencies in February, while showing a slight rise on average for the month.

5 March 1981

GRAPH 3: Consumer prices, EC total



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



GRAPH 5: Value of USD, yen and SDR in ECUs

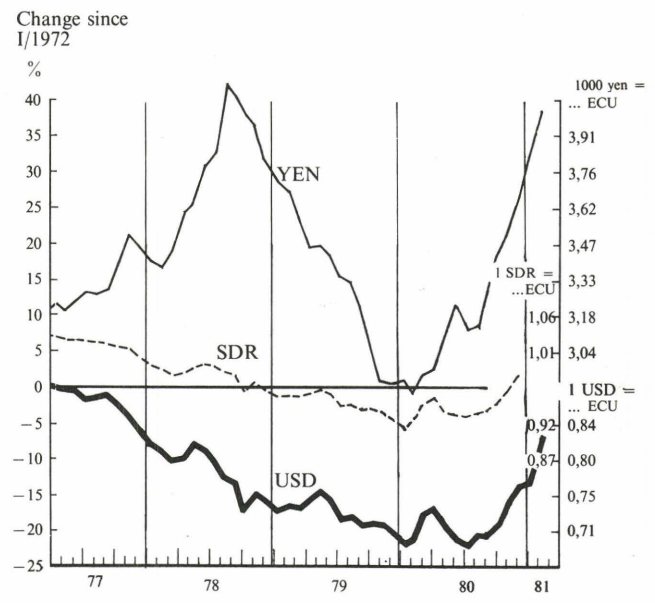


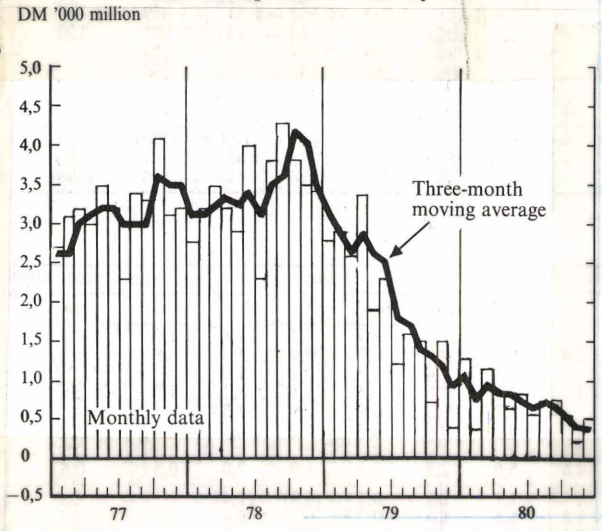
TABLE 1: Industrial production¹ - Percentage change on preceding period (s.a.)

1970 1980 1990 Change over

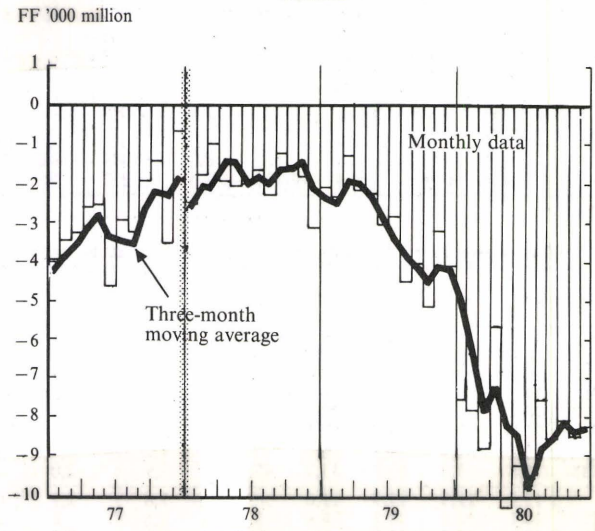
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Trade balance

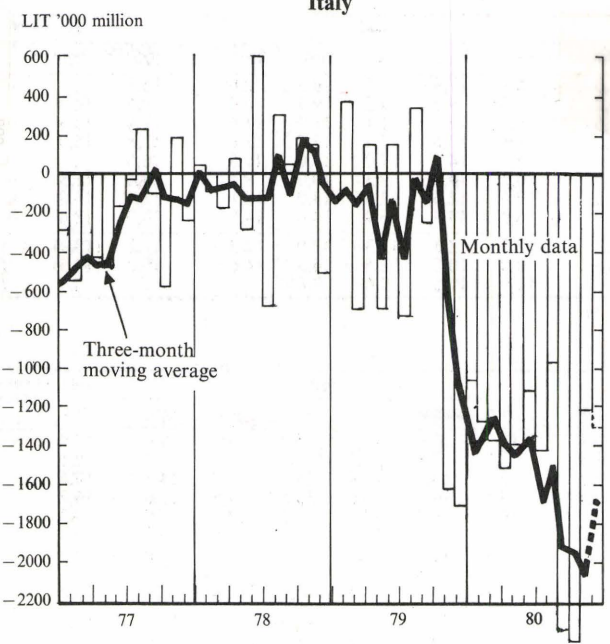
Federal Republic of Germany



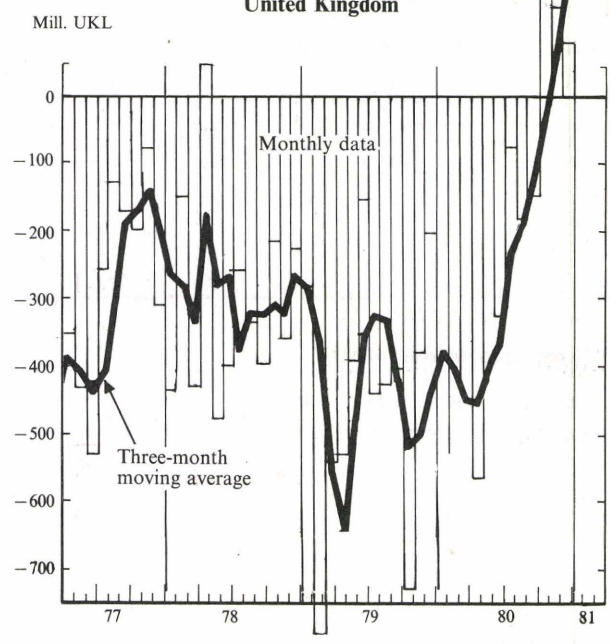
France



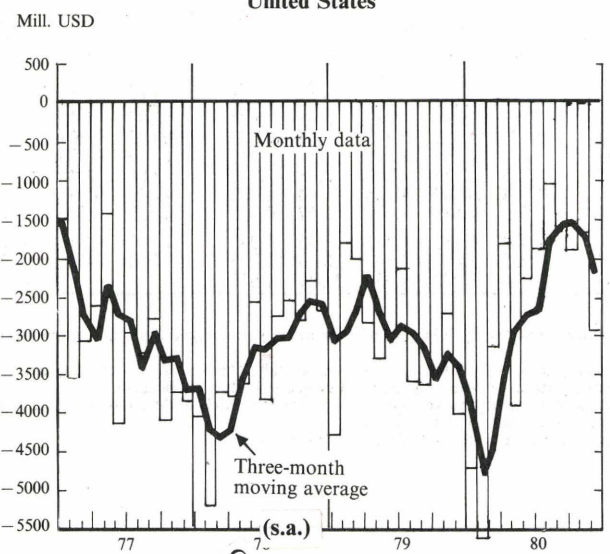
Italy



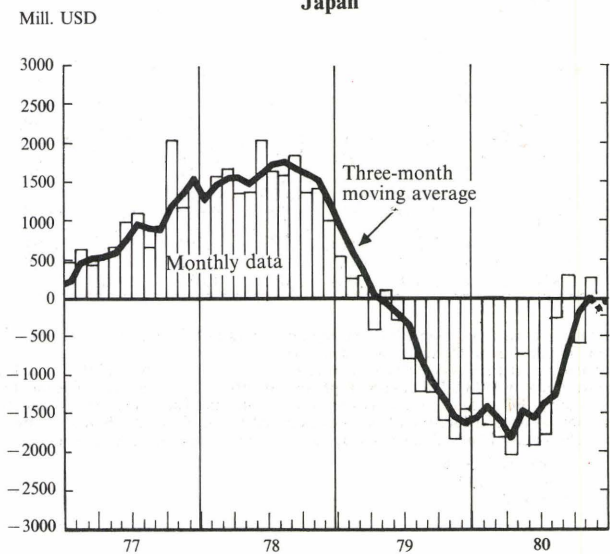
United Kingdom



United States



Japan



Sources: National data.

GRAPH 6:

Major economic policy measures — February 1981

Community (EC)

16.2 The Economics/Finance Council decided to raise the ceiling on Community loans for supporting balance of payments to 6 000 million ECU (interest not included). Until now the Community loan mechanism, instituted in 1975, authorized the Community to borrow USD 3 000 million (interest included).

Belgium (B)

11.2 The Banque Nationale raised the ceiling for the indirect advances which it can grant the Treasury through the Fonds des Rentes (Securities Stabilization Fund) from BFR 90 000 million to BFR 110 000 million. This, plus the BFR 37 000 million in official advances, brings the limit for the central government's indebtedness with the Banque Nationale to BFR 147 000 million.

13.2 A general agreement was concluded between management and unions for the period 1 January 1981 to 31 December 1982. It permits the application of the existing wage scales and of the sectoral agreements concluded before 1 January 1981. The latter are extended, on the same conditions, for 12 months with effect from their expiry date. New agreements can, depending on the working hours already in force, negotiate either a maximum 1% a year wage increase over and above the index-linked increases, or a phased reduction in working hours totalling no more than one hour at the end of two years.

25.2 The Banque Nationale raised interest rates on very short-term Treasury certificates in several stages. Since the beginning of February, the rate for one-month certificates has gone up from 11,50% to 12,50%.

Denmark (DK)

February — The national pay agreement expiring in March has been renewed in a number of sectors and trades covering the period 1981-83. The increase in the private sector is estimated at 7,50% to 8,50% annually, whereas in the public sector the increase may attain 11% annually.

Federal Republic of Germany (D)

19.2 The Central Bank Council of the Bundesbank announced the following measures:

- the Lombard rate facility, under which banks can borrow from the Bundesbank against securities, is suspended and existing Lombard credits are to be repaid;
- until further notice, banks can obtain short-term credits from the central bank at a Special Lombard rate, which will be set daily;
- non-residents are in future entitled to obtain also those German securities which have a maturity of less than one year.

19.2 The Bundestag adopted a draft bill with respect to the increase as from 1 April of duties on oil products (petrol + 7 Pfennigs/Litre; diesel + 3 pfennigs/litre) and alcohol. The revenue effects of these measures are estimated to be DM 2 500 million in 1981 and DM 3 600 million in a full year.

26.2 The Bundesbank suspended the Special Lombard facility with effect from 27 February.

France (F)

16.2 An extra 15 000 home-ownership loans (corresponding to FF 3 500 million worth of activity for the building sector) were made available in addition to the 65 000 loans already available since January.

25.2 Several measures were adopted to combat unemployment. They concern vocational training, the development of part-time work and jobs involving

shorter working hours, the prevention of dismissals by the better use of short-time working techniques and the temporary lowering of the qualifying age for the early retirement scheme.

Greece (GR)

7.2 The Ministry of Trade announced that with effect from 10 February prices for goods and services would be freed from control, except for 57 categories of products.

25.2 A law set out the procedures for granting investors subsidies on the basis of the branch and location of activities.

Ireland (IRL)

None.

Italy (I)

31.1 The monetary authorities adopted the following measures:

- The ceiling on lira bank lending, due to expire in March 1981, was extended to December 1981. The increase for the whole year was set at 12%. The base is all loans and no longer only loans over LIT 130 million. Banks overstepping the monthly ceilings are required to deposit, in a non-interest-bearing account for one month with the Banca d'Italia, the equivalent of 30% of their excess lending between 1 and 2%, 50% of the excess between 2 and 4% or 75% of the excess over 4%. Excess lending under 1% will not be penalized.
- Foreign currency bank lending is limited up to 31 December 1981 to the end-1980 level except for credits to finance exports. If the ceiling is exceeded a sum equivalent to 50% of the excess and calculated on the basis of end-1980 exchange rates must be deposited in a non-interest bearing account with the Banca d'Italia. Excess lending under 1% is not penalized.

13.2 The Italian Government approved a decree-law laying down the procedures for public action in the reconstruction of the areas struck by the earthquake in November 1980. The decree grants substantial aid for the reconstruction of housing and industrial establishments, and for farmers. The budgetary cost of these measures should be LIT 8 000 000 million for the period 1981-83, LIT 3 400 000 million of which is allocated to 1981.

The Netherlands (NL)

11.2 The Government decided to carry out studies aimed at bringing public expenditure below the multiannual forecasts to 1985: a 10% cut in collective expenditure on social security, public health and civil service salaries, and a 20% cut in other expenditure.

Luxembourg (L)

20.2 Parliament approved the draft laws which, *inter alia*, double the flat-rate tax reduction for farmers, increase the tax exemption on premiums (up to LFR 45 000) paid to persons retiring early, and reduce the tax on bonuses paid to workers for their inventions and suggestions.

20.2 In order to align prices on those charged abroad, the Government authorized an increase in the prices of certain products and services (beer, petrol, the postage on letters sent abroad and on registered letters, etc.).

United Kingdom (UK)

18.2 The Government announced in a Commons written answer, a 6% cash limit for pay provisions for central government and health service workers. The limit will apply to pay settlements due before 1 August 1981 and provisionally for settlements after that date.

Price (excluding VAT) in Luxembourg

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