

EUROPEAN ECONOMY

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Supplement A

Recent economic trends

Strengthened activity in second half of 1981. — Provisional estimates based on national accounts data for the four major EC Member States appear to confirm that real gross domestic product was higher in the second half of 1981 than in the first half. Fourth quarter figures, seasonally adjusted by national authorities, show a further increase after a small third-quarter rise. The increase (annual rate, seasonally adjusted) between the two halves is put at 1,1%. A continued improvement in the net foreign balance was wholly responsible for the increase in GDP between the two halves, weakening gross fixed investment and government consumption just offsetting the impact of final domestic demand of slow growth in private consumption. The change in stock-building continued to make a negative contribution to GDP in the second half as a whole, but on the basis of the provisional quarterly data a turnaround in the stocks cycle may have occurred in the fourth quarter. In the foreign sector, the growth of import demand also seems to have accelerated notably in the fourth quarter of 1981, presumably in part a reflection of the turnaround in the stock cycle, while exports showed, on these provisional estimates, strong growth throughout the year.

Major supply and demand components at constant prices, EC total

(Percentage change on preceding period, annual rates, seasonally adjusted)

	GDP ¹	Imports ²	Exports ²	Foreign Balance ^{2,3}	Domestic demand	Change in stocks ³	Gross fixed investment	Government consumption	Private consumption
1978 Q1	3,8	4,3	5,1	0,3	3,6	-1,3	3,3	5,7	5,3
Q2	5,8	10,0	7,9	-0,4	6,2	1,1	9,1	1,7	4,8
Q3	1,1	10,4	0,2	-2,4	3,6	0,4	1,7	2,9	3,8
Q4	5,6	11,9	10,7	0,2	5,8	2,5	5,3	3,1	2,6
1979 Q1	1,2	6,6	-0,9	-1,8	3,1	0,5	-5,8	2,4	5,7
Q2	6,5	20,6	15,8	-1,0	7,7	-1,3	18,2	2,5	8,3
Q3	2,0	12,1	5,0	-1,7	3,7	4,5	7,8	0,8	-4,0
Q4	4,9	8,0	3,7	-1,1	6,1	0,5	10,5	2,2	5,2
1980 Q1	4,8	8,4	12,1	0,9	3,9	-0,3	3,5	2,6	5,1
Q2	-6,2	-3,5	-10,4	-1,9	-4,3	-1,2	-5,9	2,1	-3,9
Q3	-2,0	-5,1	-5,3	0,0	-2,0	-3,3	-4,3	3,3	2,8
Q4	0,4	-2,9	0,9	1,1	-0,6	-1,7	3,9	-1,3	0,9
1981 Q1	1,1	-1,4	9,3	2,8	-1,7	-0,9	-10,7	7,8	0,4
Q2	-1,4	1,6	11,4	2,5	-3,8	-2,6	1,1	-4,9	-1,0
Q3	1,2	3,0	9,8	1,8	-0,6	-0,9	-3,3	2,9	0,9
Q4	3,6	11,8	16,2	1,3	2,4	2,2	-1,0	-2,0	1,2

1 FR Germany: GNP.

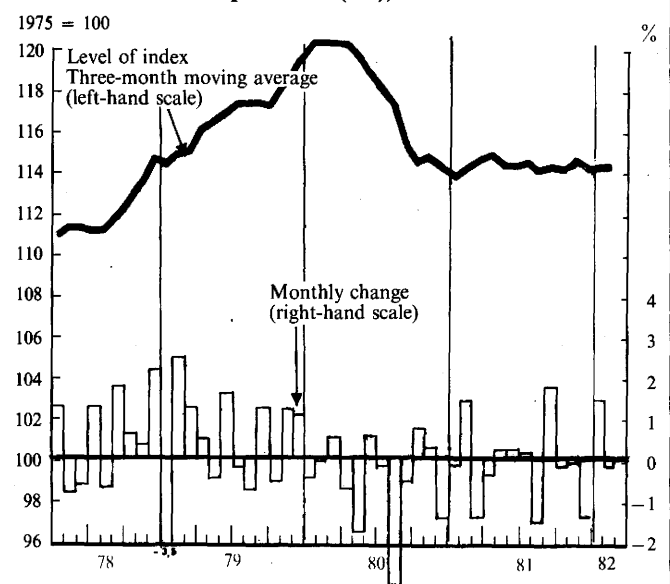
2 Goods and services; including intra-Community trade; FR Germany: including factor incomes.

3 Change on previous period as per cent of previous period's GDP.

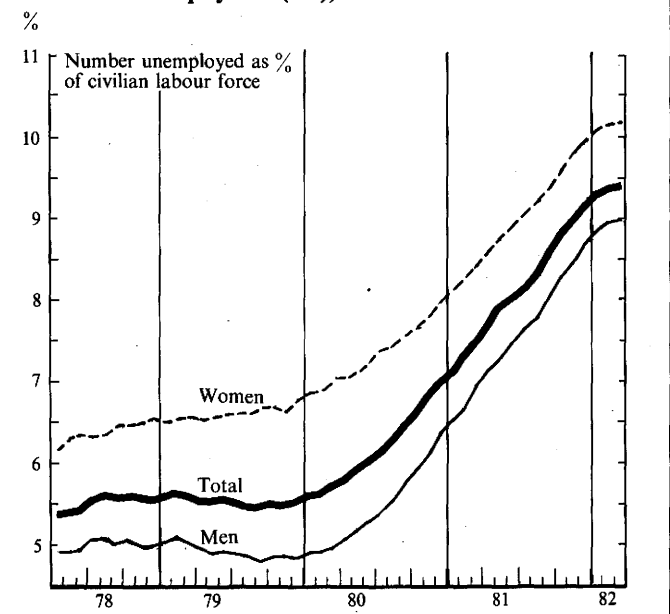
Source: Estimates by the Commission services based on national accounts data for the Federal Republic of Germany, France, Italy and the United Kingdom; United Kingdom 1981 Q2 and Q3: partly estimates of Commission services.

Industrial production still flat. — The monthly index of industrial production in the Community (seasonally adjusted) is estimated to have fallen by 0,2% in February following a rise of 1,3% (revised figure) in January. The underlying trend (measured by the three-month moving average) remained flat, as it has done, with temporary fluctuations, since the autumn of 1980. For the Community as a whole industrial production was down 1,2% over a year earlier with declines recorded in Denmark, Germany, Greece, Ireland and the Netherlands while increases were recorded in Belgium, Italy and the United Kingdom. The Community index in the early months of 1982 thus remained scarcely higher than it was before the onset of the 1974/75 recession (see Graph 6).

GRAPH 1: Industrial production (s.a.), EC 10



GRAPH 2: Unemployment (s.a.), EC 9



Slowdown in unemployment still apparent. — The number of unemployed, including school-leavers, in the Community (seasonally adjusted) rose by around 80 000 in March, about the same increase as in February. The unemployment rate rose to 9.4%, but the rate of increase has clearly been decelerating in recent months, most notably in the United Kingdom (mainly as a result of labour market measures aimed at taking young people off the unemployment register and after very sharp increases through most of 1981) and in France. By contrast, no definite deceleration is yet evident in the unemployment figures for the Federal Republic of Germany, the Netherlands and Belgium, where unemployment increased rapidly throughout 1981. What vacancies figures are available do not appear to presage, at the Community level, any early upturn in the demand for labour, and the slowdown in the unemployment rate may therefore, at least in part, be attributable to specific labour-market measures and perhaps also other factors leading to changes in recorded participation rates.

Slower inflation trend continues. — Despite a somewhat higher month to month increase the inflation rate trend (six-month rate expressed in annual terms; seasonally adjusted) in March fell further, to 10 ½%, the fourth month in which a decline occurred. This development was in evidence in most Member States with perhaps the most noticeable fall in trend being recorded in the Federal Republic of Germany. Here the only significant upward movement was in the price of food, principally due to seasonal factors, while other prices were more or less stable. In France the trend rate of inflation continued to decline although the month to month rate increased under the influence of higher gas and electricity prices. Nearly half of the Belgian price increase in March was due to higher telephone charges, with other commodities being held back by the price freeze. However, figures for April show a substantially higher rise (1.2%) principally due to energy prices and public transport charges. In Luxembourg and Italy food prices were the major factor behind the slowdown in March whereas in Denmark and Greece seasonal factors worked in the other direction. The biggest contribution to higher month to month rises in the Netherlands came from medical services and in the UK the rise reflected budgetary changes of 9 March.

Recovery in retail sales. — The seasonally-adjusted volume of retail sales in the Community is estimated to have recovered by 1.1% in December after a sharp fall in November. Preliminary indications suggest that there were falls in retail sales in January in Denmark, the Federal Republic of Germany and France but an increase in the United Kingdom. In France there appears to have been an increase in February. Interpretation of monthly figures for retail sales is particularly hazardous, but the quarterly figures do suggest, consistently with the estimates of GDP components given above, a definite recovery in the second half of 1981 after a very weak first half.

Trade deficit more limited in February. — Preliminary estimates suggest that the Community's trade deficit narrowed slightly in February after growing in January. Italy's deficit, however, increased sharply. In March, the Federal Republic of Germany achieved a record foreign trade surplus while the Danish and French trade balances showed an improvement and the Irish trade deficit grew.

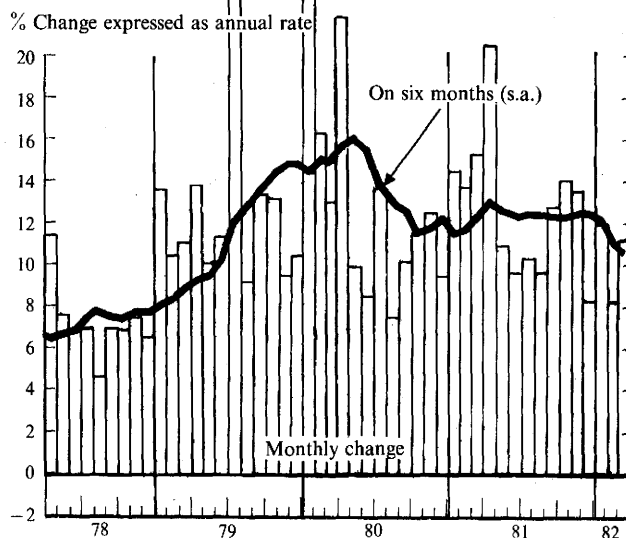
Sharp monetary expansion in January. — After accelerating in December, the money supply in the Community (s.a.) expanded sharply (1.6%) in January. The increase was brisk in all the Member States and reached 2% or more in France, Ireland and the Netherlands. Monetary growth may possibly, however, again have slowed slightly in February. For 1981 as a whole (December 1980 to December 1981), monetary expansion in the Community stood at 9.3% compared with 10.6% in 1980.

Slight fall in long-term interest rates. — The average long-term yield in the Community came down two-tenths of a point to 14.4% in March because of the falls which occurred in the Federal Republic of Germany, Ireland, Italy, the Netherlands and the United Kingdom. Although rates went on easing steadily in the Federal Republic of Germany, the Community average for short-term interest rates rose slightly in April. In Belgium—where the discount rate was raised by one point—and France the increases were dictated by the policy of defending the exchange rate. The surge in rates on the Danish money market was caused by outflows of foreign exchange. In the Netherlands, rates rose slightly, but the cost of money there is still the lowest in the Community.

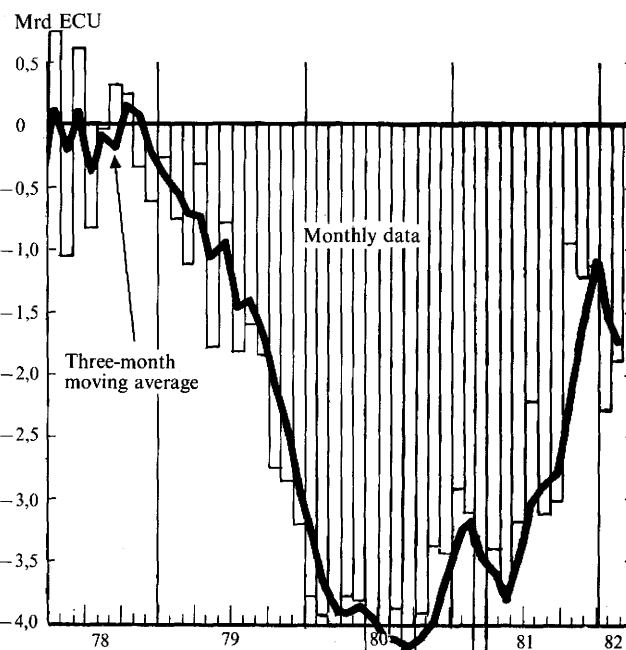
Dollar fluctuates. — The April average shows the ECU again falling against the dollar. During the month the ECU nevertheless started to recover, returning to its early March level. Within the European Monetary System, the mark remained close to its ceiling. The Irish pound, the French franc and the Belgian franc stayed in the lower part of the exchange rate system and needed a certain amount of support. The financial Belgian franc improved, with its discount narrowing against the official franc. The Italian lira slipped slightly at the end of the month and sterling weakened against the ECU.

7 May 1982.

GRAPH 3: Consumer prices EC 10

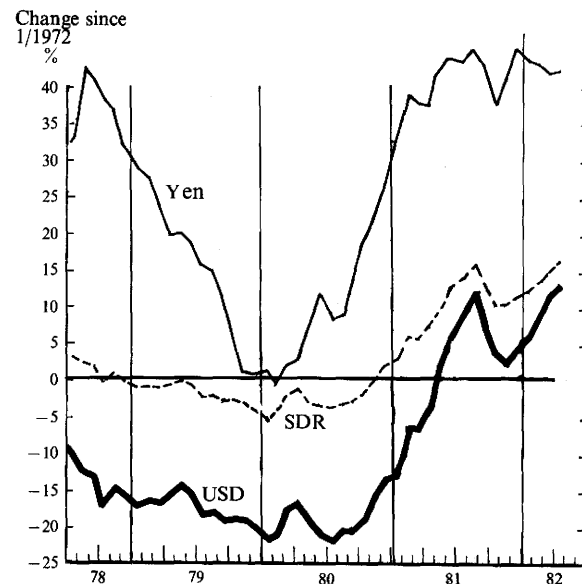


GRAPH 4: Trade balance (s.a.), EC 9

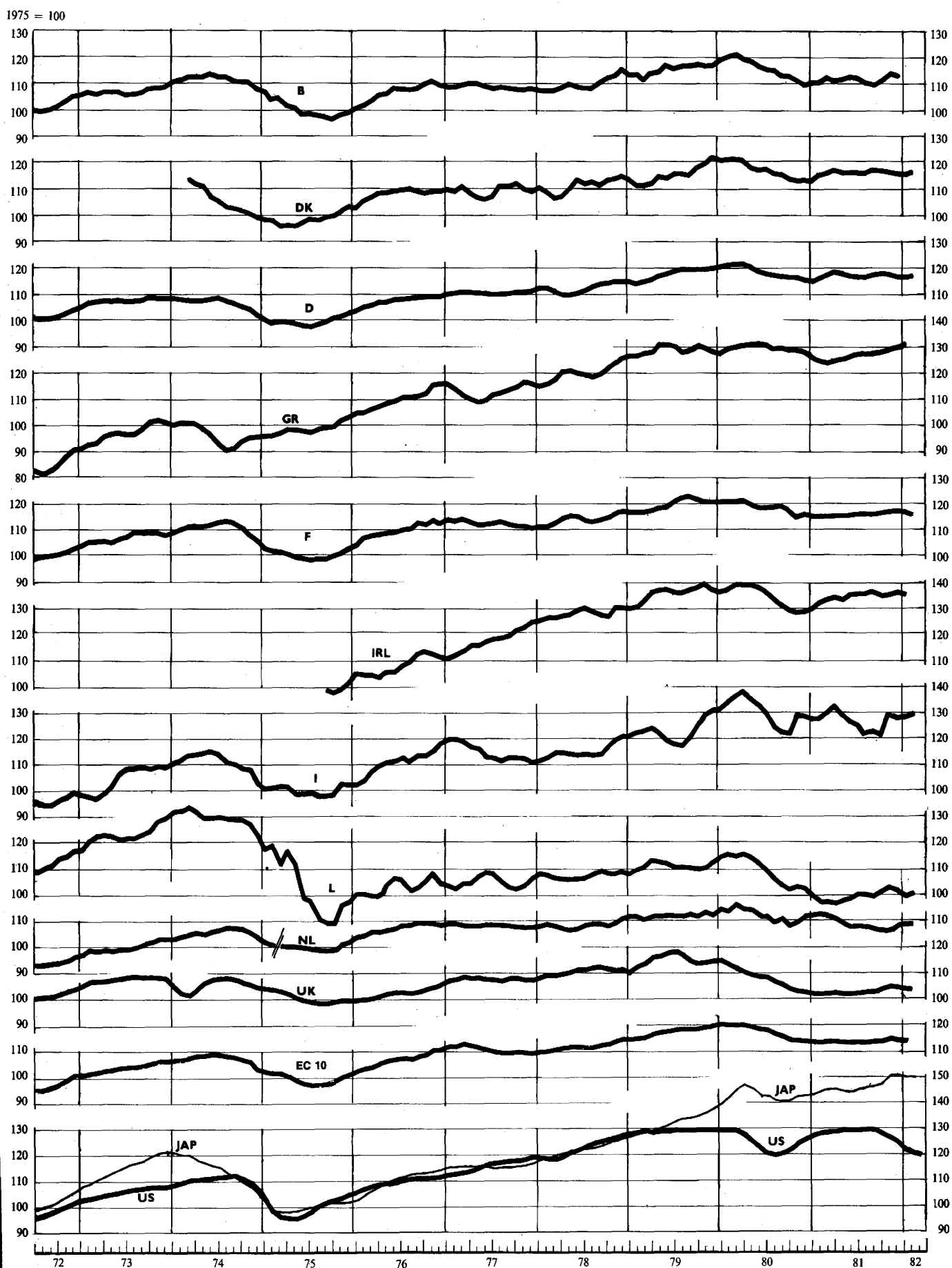


From March 1981 the series is constructed on the basis of an estimate for the United Kingdom.

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



GRAPH 6: Industrial production (s.a.).
 (Index: 1975 = 100; three-month moving average).



Source: National, except EC, DK, IRL, B, L - Eurostat.

Major economic policy measures — April 1982

Community (EC)

26.4 The Council (Economic and Financial Affairs) adopted the implementing decision relating to the whole of NCI II (the New Community Instrument), i.e. 1 000 million ECU; the decision empowers the Commission to contract loans for the promotion of investment in the Community.

Belgium

7.4 The Banque Nationale raised the discount rate from 13 to 14% and the rate for advances from 13,50 to 15%.

7.4 The Banque Nationale raised the interest rates on very short-term Treasury certificates in several stages, taking the rate for one-month certificates from 13,60 to 14,75%.

8.4 The financial intermediaries decided to raise the range of discount and acceptance credit rates by 0,75 of a point and the range of cash credit rates by 0,50 of a point.

Denmark (DK)

None.

Federal Republic of Germany (D)

30.3 The Government decided that unemployed persons would be obliged in future to accept jobs requiring lower levels of qualifications than those which they have obtained (Zumutbarkeitsregelung) when all other possibilities of appropriate employment are exhausted.

1.4 The Cabinet agreed to raise the level of pensions in 1983 by 5,6%. This adjustment is estimated to add DM 8 300 million to the 1983 budget.

Greece (GR)

2.4 Parliament adopted the new tax law, which introduce new taxes (in particular on real estate) and adjusts existing ones (by raising income tax allowances and thresholds, but increasing corporation tax, turnover tax, certain consumption taxes or taxes on luxury goods, estate duties, etc.). The law also provides for reliefs on low incomes, for families and for farmers. The resultant overall increase in taxation will be reinforced by strict measures to combat tax evasion, with the increase in tax receipts for 1982 estimated at 51%: 46% of this will come from direct taxation, and 53% from indirect taxation.

22.4 The Government announced the credit ceilings for 1982: DR 250 000 million for the private sector and DR 330 000 million for the public sector. The public-sector amount of DR 330 000 million will be used to finance the following: DR 67 000 million for the ordinary budget deficit, DR 64 000 million for the trading accounts deficit, DR 114 000 million for the investment budget deficit and DR 85 000 million for the public enterprises deficit. Of the DR 250 000 million planned for the private sector, DR 111 000 million will be provided by the specialized credit institutions (Agricultural Bank, Investment Bank, etc.), DR 129 000 million by the commercial banks (an increase of 21%) and DR 10 000 million in the form of securities. Special emphasis will be placed on house-building, industry and craft industries, and agriculture.

France (F)

1.4 Public service pay was raised by 2,8% with effect from 1 April.

1.4 The draft outline and planning law for research and development plans to increase domestic research expenditure to 2,5% of GDP in 1985, implying an annual volume increase of 17,8% in the civilian research budget and a 4,5% increase in staffing levels.

8.4 A new savings book carrying an index-linked interest rate was introduced for the public, to take effect from 1 May 1982. Taxpayers who have their tax domicile in France and who pay less than FF 1 000 in tax will be allowed to save up to FF 10 000 in this book.

16.4 The Prime Minister announced an important set of measures to assist companies: reduction in the business tax (offset by an adjustment in VAT, a levy on banks and budget savings), stabilization of the company contribution to the financing of the general social security system, and greater flexibility in the reduction of working hours, to be left to the initiative of management and unions.

21.4 The Government adopted the draft law on family policy. The net cost of the reform will be FF 4 000 million for 1982. The principal measures concern the improvement of the family allowance system, the discontinuing of certain benefits above a certain level of income, a raising of the level of income conferring eligibility for the family income supplement and the improvement of certain pensions.

Ireland (IRL)

23.4 The Irish Government has decided to make further income tax concessions at a cost of IRL 45 million in order to compensate wage earners for the increase in Pay Related Social Insurance contributions, introduced in the budget of 25 March 1982.

Italy (I)

17.4 The Government adopted the following administrative measures for the foreign exchange market:

- the period during which operators can use foreign currencies and the time-limit for surrendering them are reduced to 7 days (15 days previously);
- the period for using liquid foreign exchange held in suspense accounts with the banks is reduced to 15 days (30 days previously);
- the time-limit granted for the advance payment of exports is reduced to 60 days (120 days previously);
- imports may not be paid for before the dates stipulated in the contracts.

Luxembourg (L)

None.

Netherlands (NL)

1.4 The Government decided to lower—with effect from 1 May 1982—the ceiling for the local authority floating debt from 18% to 16% of current receipts.

19.4 Under a framework agreement concluded with the State, the Nederlandsche Bank—throughout the period March 1982-February 1983—is prepared to buy Treasury bills to a maximum value of HFL 3 600 million, equivalent to 3% of budget receipts for 1981. The interest rate on these bills will be the same as the official discount rate (8% at present).

23.4 The Government decided to raise temporarily personal income tax and the tax on wages, except for the first slice of taxed income. From 1 July to 31 December 1982, the rates for the other slices will be raised by 0,75% in the case of personal income tax and by 1,5% in the case of the tax on wages. This increase is expected to yield HFL 420 million in 1982.

United Kingdom (UK)

None.

Price (excluding VAT) in Luxembourg

	ECU	BFR	IRL	UKL	USD	
'European Economy' (3 issues per year)	19.64	800	13.50	11.60	22.80	The annual subscription runs from 1 January to 31 December of each year.
Supplements						
Series A — 'Recent economic trends' (11 issues per year)	9.82	400	6.75	5.80	11.50	Payments to be made only to the agents in the countries listed on page 3 of the cover of European Economy.
Series B — 'Economic prospects — business survey results' (11 issues per year)	9.82	400	6.75	5.80	11.50	
Series C — 'Economic prospects — consumer survey results' (3 issues per year)	3.69	150	2.50	2.20	4.20	
All three supplements	23.32	950	16.00	13.80	27.00	These are surface mail rates; for air subscription rates please apply to the agents.
Combined subscription — 'European Economy' and supplements	42.97	1 750	29.40	25.50	50.00	

