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Economic prospects - business survey results

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Improvement in the industrial business climate. — The results of the March survey of chief executives in the Community's manufacturing sector indicate an improvement in the business climate compared with the situation in the first two months of the year. Thus, the fall of 1½% in the business climate indicator observed in the January-February period was fully compensated by the recovery recorded in the first half of March. However, as can be seen from Graph 1 and Table 2, the rising trend of the climate indicator, which began at the end of 1977, has been moderated by the results of the early months of this year.

Of the two components which make up the industrial climate indicator, the short-term production outlook and the level of finished-stocks, it is the latter which accounts for the improvement observed in March. The net balance of industrialists who consider finished-stocks levels to be above normal declined from 12% in January and February to 8% in March; the corresponding average for 1978 as a whole was 20% and for 1976, a year of relatively strong industrial growth, 11%. As Graph 2 indicates, the latest data suggest a continuation of the downward phase of the stock-cycle (declining excess stocks, indicating an improvement in business prospects), which began in the final quarter of 1977. The other component of the business climate indicator, the industrial production outlook, was stable in March, the net balance of industrialists expecting production to rise in the second quarter of 1979 being 11%; at this level, expectations for industrial production remain some 3 points short of the peak reached in December 1978.

Industrialists' assessment of order-books improved by 4% in March, continuing the rising trend which began in the second quarter of 1978: the net balance of chief executives who consider order-books to be below normal improved from 39% in April 1978 to 17% in March of this year.

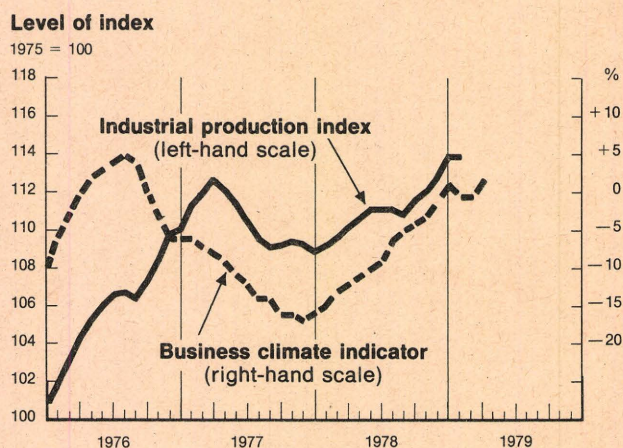
There was a net increase of 6% between February and March in the number of respondents expecting finished-product prices to increase. As can be seen from Graph 2 and Table 1, industrialists' expectations of price increases have strengthened markedly in the course of the last two months and are now approaching the previous peak, reached in mid-1976.

The industrial business climate in the Member States. — The industrial business climate recovered again in the United Kingdom in March (an increase of 8,5%) following an improvement of 2,5% in February. As a result, the UK indicator of industrial business sentiment is now back on the improving trend which began in October 1978. The trend of business opinion in Italian industry is also positive: the increase observed in February and March (7,5%) has carried the industrial confidence indicator above the peak reached in the final quarter of 1976. The business climate in the Federal Republic of Germany saw a slight improvement (of 1,5%) in March, following a

decline of 3,5% in February from the January peak (which was the highest value observed since the third quarter of 1976). In France, the business climate indicator was stable in March and remains below the peak reached in December 1978. The climate of business confidence in France, by contrast with that of the Federal Republic of Germany, is well short of the relatively high levels reached in mid-1976. Business confidence among industrialists in the Benelux region, has also moderated in February and March, from the peaks reached at the turn of the year.

Production expectations in the major industrial sectors. — In the Community as a whole, output expectations for the consumer goods

GRAPH 1: Business climate of manufacturing industry (a) and the index of industrial production (b) - EC total



- (a) Composite indicator based on the replies to the questions on production expectations and stocks of finished products. The indicator is an average of the net balances: i.e. differences between the percentages of respondents giving positive and negative replies. Derived from data as shown in Table 1, with the sign inverted for stocks.
- (b) Industrial production excluding building and construction and, in the case of France, the foodstuffs and beverages industry.

Source: European Community business surveys and Eurostat.

sector improved slightly, whereas the opposite happened in the intermediate goods sector.

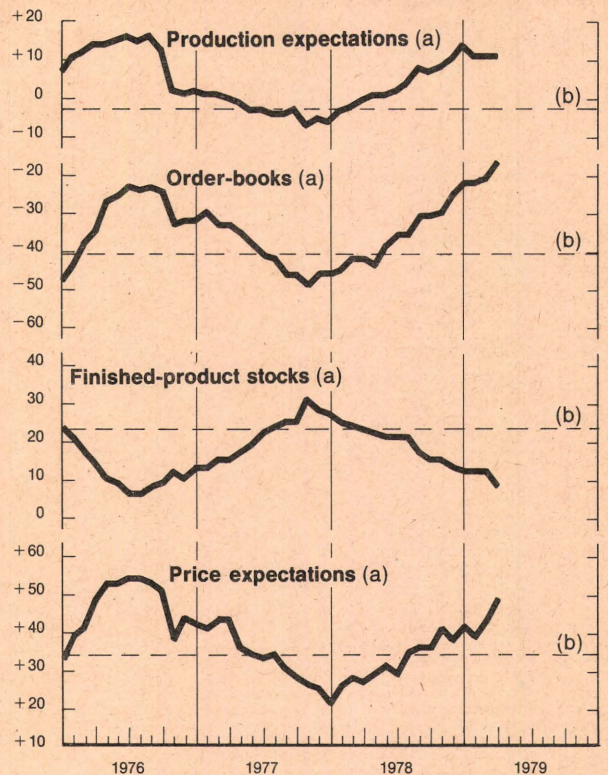
The production outlook improved, in March, in the UK consumer and intermediate goods industries but weakened somewhat in the investment goods sector, whereas in the Federal Republic of Germany the production outlook strengthened in the consumer and investment sectors but weakened in the intermediate goods industries (see Table 2). The production outlook for the Italian intermediate goods sector also weakened in March but the other two major sectors showed little or no change. In France, a slight fall in production expectations can be observed in the investment and intermediate goods sectors.

In the Netherlands and Belgium, the production outlook for the major sectors weakened generally in March. In the Netherlands, however, the production outlook in all sectors are still relatively good by comparison with the situation at the end of last year, whereas in Belgium the investment and intermediate goods sectors both appear to have experienced a decline in confidence in recent months. In both countries, the intermediate goods group indicated, in March, a stronger outlook for production than did the other two major sectors.

The construction industry. — The complete survey data for the final quarter of 1978 and the partial results now available for the first quarter of this year indicate some improvement in business conditions in the construction industry (see Table 3). This can be seen in the survey data on order-books: with the exception of Luxembourg and the United Kingdom (where order books are in any case considered to be relatively strong) and France, heads of enterprises in the construction sector are becoming more optimistic in their assessment of order-books or production schedules. In the Federal Republic of Germany, judgments on business conditions in the construction sector are clearly so; the net 10% of chief executives who consider building order-books or production schedules to be below normal is a particularly good result when seen in the context of the behaviour of that indicator since the early 1970s (the cyclical peak of order-book judgments was a net balance of -17% in 1973). Despite the bad weather conditions at the beginning of this year, the employment outlook in the German construction sector remains strong, with a net balance of 14% of respondents expecting construction employment to rise the months ahead. In the Netherlands, also, the most recent survey results indicate an improvement in business conditions in the construction sector: both the assessment of order-books (a net balance of -14%) and the employment outlook (a net balance of +11%) are now approaching the cyclically high levels previously reached in 1973. Business conditions in the French construction sector deteriorated somewhat in the fourth quarter of 1978; a net balance of 48% of heads of building enterprises now report that order-books or production schedules are below normal while a net 26% expect employment in the construction sector to decline in the coming months. Judgments on order-books and the employment outlook in the Italian construction sector improved considerably in the final quarter of 1978; and this outlook was maintained in January and February 1979. In the United Kingdom, heads of building enterprises became somewhat more pessimistic concerning their order-book position but a little more optimistic on the employment outlook in the fourth quarter. Under both headings, the UK construction sector appears to be enjoying relatively favourable business conditions. As is the case in Italy, an increasing majority of respondents in the UK survey expect price increases in the coming months.

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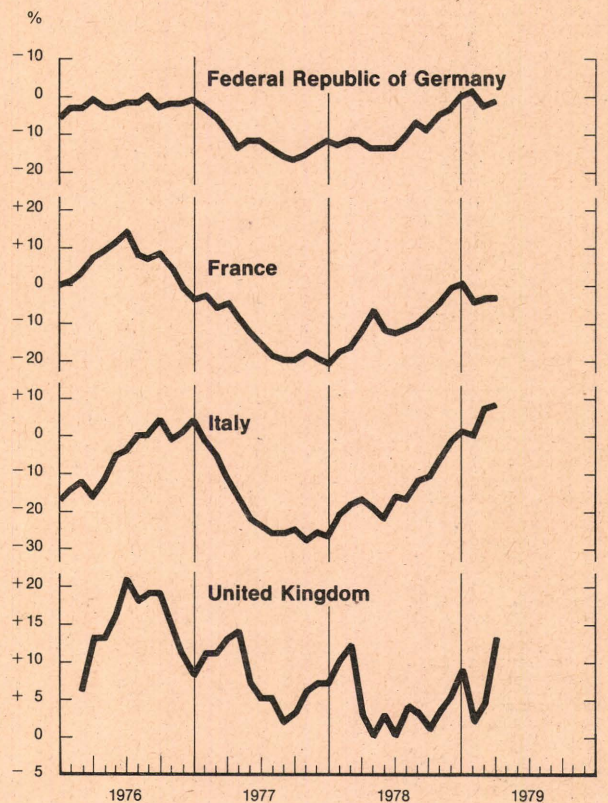
GRAPH 2: Business survey indicators for manufacturing industry (a) - EC total



(a) Net balances: i.e. differences between the percentage of respondents giving positive and negative replies.
(b) Dotted line shows average for 1968-1977.

Source: European Community business surveys.

GRAPH 3: Business climate of manufacturing industry - EC total.



Note: Composite indicator based on the replies to the questions on production expectations and stocks of finished products. The indicator is an average of the net balances: i.e. differences between the percentages of respondents giving positive and negative replies. Derived from data as shown in Table 1, with the sign inverted for stocks.

Source: European Community business surveys.

TABLE 3: Monthly survey of the construction industry.

Net balances: i.e. differences between the percentages of respondents giving positive and negative replies (a)

		Range (b)		1976	1977	1978	1978			1979	1978			1979			
		Peak	Trough				II	III	IV		I	Oct.	Nov.	Dec.	Jan.	Feb.	March
D	order-books	-17	-84	-58	-59	-32	-37	-26	-17	-14	-21	-17	-18	-18	-14	-10	
	employment expectations	+10	-60	-14	-16	+5	+2	+3	+15	+14	+10	+14	+20	+15	+14	+14	
	price expectations	+48	-37	+17	+15	+28	+37	+44	+32	+34	+35	+35	+27	+23	+35	+43	
F	order-books	:	:	:	-61	-48	-48	-49	-48	:	:	:	:	:	:	:	
	employment expectations	:	:	:	-27	-19	-13	-23	-26	:	:	:	:	:	:	:	
I	order-books	-25	-68	-45	-40	-40	-39	-46	-29	:	-44	-35	-7	-29	-30	:	
	employment expectations	+10	-44	-19	-16	-16	-18	-25	-3	:	-5	-15	+11	-11	-4	:	
	price expectations	+85	+30	+66	+61	+62	+67	+62	+62	:	+59	+65	+63	+62	+60	:	
NL	order-books	-8	-81	-41	-25	-19	-20	-20	-21	:	-22	-19	-22	-18	-14	:	
	employment expectations	+14	-13	+4	+8	+12	+10	+12	+12	:	+13	+12	+12	+8	+11	:	
B	order-books	-13	-47	-23	-35	-39	-39	-39	-38	-36	-39	-39	-35	-43	-34	-32	
	employment expectations	+31	-24	+4	-12	-9	-9	-11	-5	-7	-12	-6	+2	-6	-13	-1	
	price expectations	+75	+25	+54	+44	+31	+33	+33	+28	+38	+27	+26	+30	+36	+30	+48	
L	order-books	+21	-50	-44	-36	-11	-13	-3	-4	-7	-3	-2	-6	-6	-6	-10	
	employment expectations	+31	-39	-14	-8	+14	+3	+22	+40	+21	+21	+43	+56	+30	+24	+10	
	price expectations	+82	+11	+30	+23	+27	+30	+25	+33	+29	+36	+35	+28	+32	+23	+33	
UK	order-books	:	:	:	-25	-8	-6	-6	-10	:	:	:	:	:	:	:	
	employment expectations	:	:	:	-20	-2	-3	-8	+4	:	:	:	:	:	:	:	
	price expectations	:	:	:	+45	+53	+53	+50	+59	:	:	:	:	:	:	:	
CE	order-books	:	:	:	-46	-32	-33	-31	-26	:	:	:	:	:	:	:	
(c)	employment expectations	:	:	:	-18	-9	-6	-9	-13	:	:	:	:	:	:	:	

Note: The annual and quarterly figures are averages of the corresponding monthly data. The most recent data are subject to revision.

Source: European Community business surveys.

(a) Details of the questions are given below.

(b) These are the extreme recent (high and low) values of the net balances of the different questions, reached in the course of 1973 and 1975, respectively.

(c) Owing to lack of data for certain Member States, Community totals are incomplete.

European Community business surveys

The Community's business surveys, of industry and the construction sector, have been progressively developed since 1962. They are undertaken by national institutions on the basis of the Commission's harmonized questionnaires. The results are communicated to the Commission which processes and publishes the data for Member States and the Community as a whole. The number of enterprises surveyed in manufacturing industry is about 20 000, and in the construction sector about 10 000.

The questions put in the business surveys have the content and periodicity set out below; in general, the questionnaires are sent out at end-month and are returned by the respondents in the course of the following two or three weeks.

QUESTIONS

Manufacturing industry, excluding food, beverages and tobacco

Monthly:

- production expectations for the months ahead: up, unchanged, down?
- stocks of finished products: above normal, normal, below normal?
- order-books: above normal, normal, below normal?
- export order-books: above-normal, normal, below normal?
- selling price expectations in the months ahead: up, unchanged, down?
- production trends in recent past: up, unchanged, down?

Quarterly (undertaken in March, June, September and December):

- capacity utilization: in %?
- production capacity: not sufficient, sufficient, more than sufficient?
- duration of assured production: in months?
- new orders in the recent past: up, unchanged, down?
- export-orders expectations for the months ahead: up, unchanged, down?
- stocks of raw materials: high, normal, low?

Three times a year (undertaken in January, May and October):

- limits to production: none, insufficient demand, shortage of labour, lack of equipment?

Half-yearly (undertaken in May and October):

- Employment expectations for the months ahead: up, unchanged, down?

All industries, including manufacturing, extractive and food

Half-yearly (undertaken in February/March and October/November):

- investment trends and prospects: yearly percentage change of investment expenditure in current money values.

Construction industry

Monthly (except for France and the United Kingdom, where the survey is carried out quarterly):

- current production compared with the preceding month: up, unchanged, down?
- factors holding up production: bad weather, shortage of manpower, shortage of equipment, none?
- order-books or production schedules: above normal, normal, below normal?
- employment expectations for the months ahead: up, unchanged, down?
- price expectations in the months ahead: up, unchanged, down?

Quarterly (undertaken in March, June, September and December):

- duration of assured production: in months?

The surveys are undertaken by:

- D - Federal Republic of Germany: IFO (Institut für Wirtschaftsforschung)
- F - France: INSEE (Institut National de la Statistique et des Etudes Economiques)
- IRL - Ireland: CII (Confederation of Irish Industries) and ESRI (Economic and Social Research Institute)
- I - Italy: ISCO (Istituto Nazionale per lo Studio della Congiuntura)
- NL - Netherlands: CBS (Centraal Bureau voor de Statistiek)
- B - Belgium: Banque Nationale de Belgique
- L - Luxembourg: STATEC (Service Central de la Statistique et des Etudes Economiques)
- UK - United Kingdom: CBI (Confederation of British Industry), for the manufacturing industry survey.
 - DI (Department of Industry), for the investment survey.
 - DE (Department of Environment), for the construction survey.

Supplement B to 'European Economy', gives a monthly selection of the most recent results. Articles containing more detailed analyses and longer time-series of data will appear periodically in the main editions of 'European Economy'. The surveys of manufacturing industry are broken down by twenty-one industrial sectors, and also by consumer, intermediate and capital goods branches; the results in this detail are published each month by the Office for Official Publications of the European Communities in 'Results of the business survey carried out among managements in the Community' (ISSN 0378-4479). The results of consumer surveys appear three times a year in Supplement C to the 'European Economy'.

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