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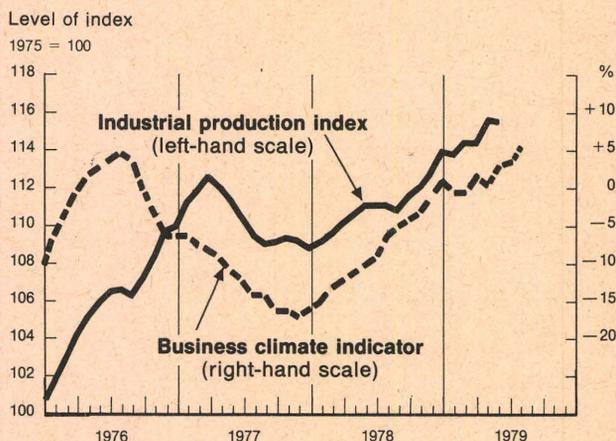
Economic prospects - business survey results

Further improvement in the business climate in industry. — The industrial business climate in the Community again improved in June and July, as shown by the composite index of management confidence, which is based on the results of the European Community business surveys (see Graph 1). As in the previous month, this positive development (see Graph 2 and Table 1) is due mainly to a further reduction in stocks of finished products and to a slight improvement in short-term production expectations. Managements' views on the level of order-books improved significantly between June and July, with only 5% of them considering the level of their order-books to be below normal, as compared with 9% in the previous month. Since the beginning of 1979 there has been an improvement of 18 percentage points, an indication of the buoyancy of demand. The results for July confirm the distortion between the replies to the question concerning short-term production expectations, which are showing a slight improvement and remain positive, albeit at the same level as in January, and the marked recovery in order-books since January (see Graph 2). In view of recent events, industrialists are thus still taking a somewhat cautious view of short-term trends, at a time when order-books remain healthy. Assessments concerning stocks of finished products are also very favourable: in July, 0% of industrialists considered the level of stocks of finished products to be above normal, compared with an average figure of 20% in 1978. The July survey again confirms that managements' expectations concerning selling prices over the months ahead remain very steady: in July, 49% of them were expecting price rises in the months ahead.

The industrial business climate in the Member States. — The results of the July survey indicate a further improvement in the industrial business climate in the Community. In July, the business climate indicator showed marked gains over June in the Federal Republic of Germany and particularly in France and Italy, while the improvement was slower in Belgium (see Graph 3 and Table 1). It was only in the United Kingdom and, to a lesser extent, in the Netherlands that the business climate deteriorated compared with June. In most countries, the level of order-books rose again in July: in the Federal Republic of Germany, assessments concerning order-books improved by 5 percentage points, in Italy by 4 points and in France by

3 points. The business climate indicator was up 8,5 percentage points in Italy, 6,5 points in France, 2,5 points in the Federal Republic of Germany and 2 points in Belgium, but down 3,5 points in the United Kingdom and 1,5 points in the Netherlands. The expectations regarding selling prices suggest a further worsening of inflation in most Member States. In Italy, inflation is gathering momentum quite sharply, with 84% of industrialists anticipating increases in selling prices in the short-term, as opposed to 73% in June and an average of 41% in 1978. In the Federal Republic of Germany, the number of industrialists expecting an increase in selling prices in the months ahead increased from 34% to 39% between June and July, whereas the average for 1978 was 19%. In France too, the net balance of managements anticipating a rise in industrial selling prices

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. Three month's moving average.

Source: European Community business surveys and EUROSTAT.

Note. The main statistical measure used to summarize the results of the European Community business surveys is the difference between the percentages of respondents giving 'positive' and 'negative' replies to questions. Increasing or upward trends in production, order-books, stocks and selling prices are all counted as 'positive' (+ in tables), and vice versa for 'negative' responses (- in the tables). For the purpose of interpretation, an increase in stocks is considered to be a negative development, and vice versa. The differences between percentage 'positive' and 'negative' responses are called in the text 'majorities' or 'net balances' (of ± ...%). The monthly and quarterly data in Tables 1 and 2 are seasonally adjusted, except where otherwise stated.

increased between the June and July surveys from 52% to 58%, reflecting a return to the most pessimistic assessments recorded since the beginning of the year. There has also been an increase in Belgium since May, although the figure is still low in comparison: 29% in July, as against 25% in June and an average of 14% in 1978. The United Kingdom was the only Member State in which the percentage of managements expecting increases in selling prices fell in July, from 72% to 49%, or just under the average figure of 50% recorded in 1978.

Business conditions in the major industrial sectors. — Production expectations in the consumer goods sector improved somewhat between June and July in the Community as a whole, with the net balance of industrialists forecasting an increase in production in the three or four months ahead rising from 9% in June to 11% in July. The improvement in production expectations between June and July was most marked in the Federal Republic of Germany, and, to a lesser extent, in France, but an improvement was also evident in Italy, where the recovery in confidence in July almost entirely offset the substantial decline in June. By contrast, there was an appreciable deterioration in the United Kingdom and the Netherlands, while the situation remained stable in Belgium. In the investment goods industry, the climate remains favourable. Industrialists' assessments of the production trend remained unchanged between June and July in the Community as a whole. However, the trend differed quite widely from one Member State to another. While expectations improved in the Federal Republic of Germany, France, Italy and the Netherlands between June and July, they deteriorated much more sharply in the United Kingdom and remained unchanged in Belgium. In the intermediate goods sector, the improvement in the production expectations which first became evident in May, continued in July, and assessments of the short-term outlook climbed back to their January level in the Community as a whole. The recovery in confidence was most marked in France and Italy and, to a lesser extent, in the Federal Republic of Germany. By contrast, the future is viewed unfavourable in the Netherlands and, above all, in the United Kingdom.

Production expectations in a number of industrial sectors. — Generally speaking, the replies, given in a number of major industrial sectors to the monthly questions in the business survey show that, since the beginning of the year, there has been an appreciable improvement in order-books in the Community, together with a reduction in stocks of finished products, a recovery in short-term production expectations, and expectations of a sharp rise in selling prices in the months ahead (see Table 3).

In the textile industry, 10% of managements considered in July that order-books were below normal, as against an average of 36% in 1978 and 52% in 1977. A majority of managements still consider stocks of finished products to be above normal, though the number of industrialists taking this view, has been falling since 1976. Production expectations remain favourable for the months ahead.

In the chemical industry too, order-books have improved appreciably since March: the proportion of industrialists considering order-books to be above normal rose from 4% to 20% between March and July. Parallel to this trend, stocks of finished products have fallen and are at their lowest level since 1976. Production expectations remain favourable, but selling price expectations point to sharp price rises during the coming months.

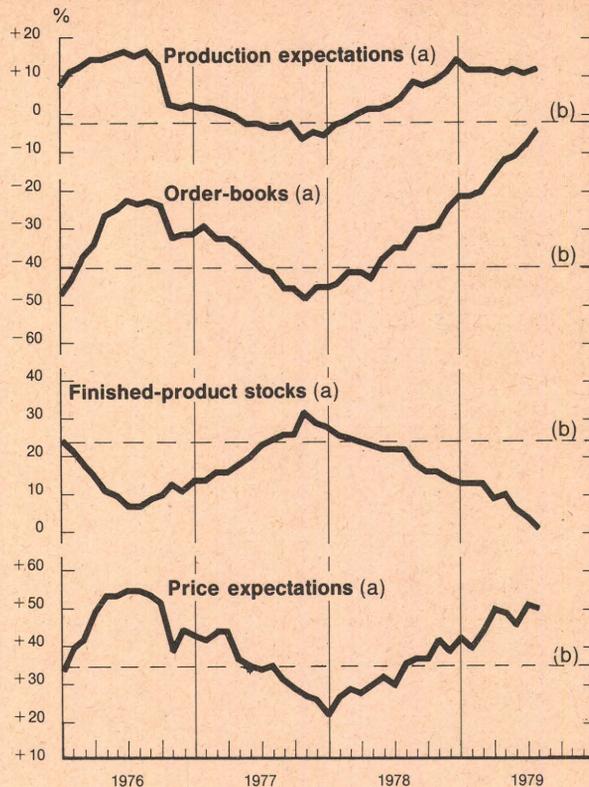
In the mechanical engineering industry, the level of order-books remains low but there has been a tendency towards improvement in the past few months: while 39% of industrialists considered order-books to be below normal in January, the figure had fallen to 23% in July. Similarly, stocks of finished products have been falling steadily since the beginning of 1978. Production expectations are favourable and have returned to their early-1976 level, while price expectations point to increasingly acute inflationary pressures.

In the electrical engineering industry, order-books remain thin and stocks of finished products are still above normal. Production expectations have changed little, but remain positive.

In the motor vehicles industry (including parts and accessories), the level of orders is high: in July, 20% of managements considered that orders were above normal, as against 17% in January and an average of 10% in 1978. Stocks of finished products have fallen, with 16% of managements considering them to be below normal, as against 1% in January and an average of 4% in 1978. Production expectations are very favourable and have regained their 1976 level: in July, 33% of managements expected a rise in production in the months ahead, as against 20% in June and an average of 15% in 1978. There was also a tendency for selling prices to rise sharply in July: 57% of managements expected an increase in the months ahead, as against 52% in June and an average of 39% in 1978.

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

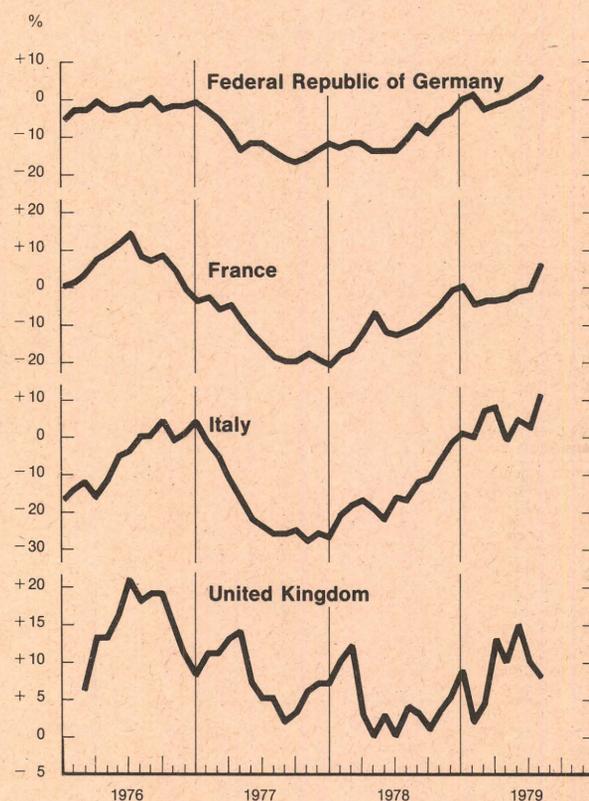


(a) Net balances: i.e. differences between the percentages of respondents giving positive and negative replies.

(b) Dotted line shows average for 1968-1977.

Source: European Community business surveys.

GRAPH 3: Business climate of manufacturing industry - Four major Member States



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: Business survey in certain manufacturing sectors: EC total (a)

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

Industrial groups	1976	1977	1978	1978		1979		1979						
				III	IV	I	II	Feb.	March	April	May	June	July	
Textile industry														
production expectations	+ 6	-10	+ 1	+ 3	+ 6	+ 8	+ 5	+ 7	+ 9	+ 8	+ 6	+ 2	+ 8	
order-books	-28	-52	-36	-38	-26	-14	-10	-19	-12	-12	-12	- 8	-10	
export order-books	-33	-45	-33	-32	-28	-24	-33	-26	-18	-28	-31	-32	-35	
stocks of finished products	+27	+40	+34	+34	+29	+22	+17	+24	+19	+22	+21	+15	+15	
selling-price expectations	+56	+19	+35	+38	+44	+55	+65	+45	+58	+62	+64	+65	+65	
Chemical industry														
production expectations	+27	+ 5	+12	+17	+19	+21	+18	+21	+23	+20	+17	+17	+19	
order-books	-22	-38	-25	-25	-20	- 2	+11	-12	+ 4	+ 1	+ 6	+ 7	+20	
export order-books	+ 6	-13	- 7	- 8	+ 4	+11	+18	+ 7	+16	+10	+18	+19	+16	
stocks of finished products	+10	+25	-15	+14	+10	- 2	-13	+ 6	- 2	-10	- 9	- 7	-24	
selling-price expectations	+42	+27	+32	+35	+37	+ 8	+62	+49	+62	+63	+64	+59	+63	
Mechanical engineering														
production expectations	+ 3	- 4	0	+ 2	+ 4	+ 6	+ 9	+ 6	+ 7	+ 5	+ 6	+ 8	+10	
order-books	-41	-42	-42	-43	-40	-36	-25	-38	-38	-33	-25	-27	-23	
export order-books	-12	-15	-21	-21	-23	-24	-22	-19	-21	-31	-22	-22	-22	
stocks of finished products	+14	+21	+22	+22	+20	+13	+14	+15	+12	+12	+16	+13	+12	
selling-price expectations	+41	+34	+38	+38	+39	+38	+55	+38	+37	+40	+52	+54	+58	
Electrical engineering														
production expectations	+11	+ 3	+13	+15	+18	+ 8	+12	+ 8	+ 8	+ 9	+16	+10	+10	
order-books	-20	-29	-17	-12	-19	-22	-20	-22	-20	-24	-25	-20	-15	
export order-books	-14	-23	-23	-22	-21	-30	-24	-25	-24	-42	-30	-21	-22	
stocks of finished products	+13	+25	+20	+16	+19	+29	+20	+30	+31	+26	+24	+19	+18	
selling-price expectations	+43	+35	+27	+28	+23	+30	+42	+24	+31	+37	+38	+41	+46	
Manufacture of motor vehicles and of motor vehicle parts and accessories														
production expectations	+25	+15	+15	+12	+23	+20	+29	+13	+19	+28	+35	+20	+33	
order-books	+27	+ 8	+10	+11	+14	+13	+17	+11	+11	+16	+13	+17	+20	
export order-books	+13	- 5	0	- 0	+ 3	+10	+18	+ 3	+14	+12	+12	+25	+17	
stocks of finished products	-26	+ 3	- 4	- 7	- 4	-13	-13	- 9	-18	-13	-12	-12	-16	
selling-price expectations	+49	+44	+39	+40	+37	+47	+52	+46	+49	+46	+47	+52	+57	

Source: European Community business surveys.

(a) Denmark excluded.

(b) For the exact formulation of the questions, see the notes below.

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: more than sufficient, sufficient, not sufficient?
- duration of assured production: in months?
- new orders in the recent past: up, unchanged, down?
- export volume 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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