



# EUROPEAN ECONOMY

Supplement — Series B

No 2 — February 1980

## Economic prospects - business survey results

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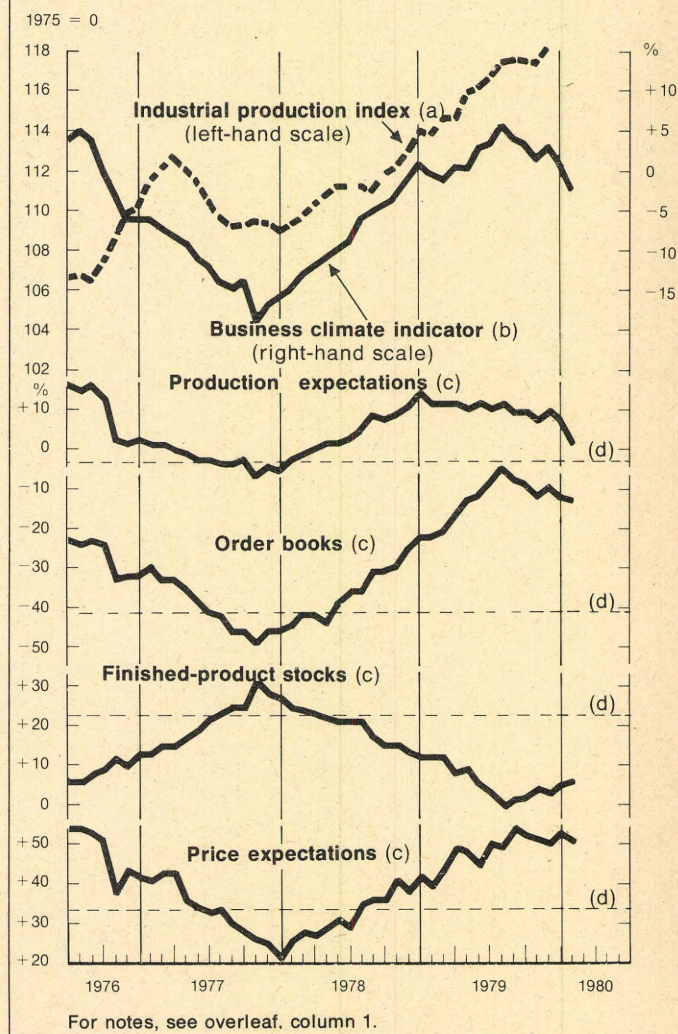
**Continued weakening in industrial business climate.** — Industrial business confidence, a leading indicator of industrial production, weakened noticeably between December and January. The industrial climate indicator for the Community as a whole (see Graph 1 and Table 1) fell by 3.5 percentage points in that period, due mainly to a decline of 6 percentage points in expectations of industrial production in the first quarter of this year. The other component of the business climate indicator, judgments on finished stock levels, rose slightly in January, thus continuing the upward trend noted since August 1979. Judgments on the level of order-books in Community industry were slightly more pessimistic in January: the net balance of chief executives who felt that order-books are below normal moved from 12% in December to 13% last month. Industrial selling-price expectations, an irregular series, moderated slightly in January but the general upward trend, noted since January 1978, was not disturbed.

Heads of firms in the intermediate-goods industries continued, in January, to revise downwards their production expectations: the net balance fell by 5 percentage points, with the result that a majority of 5% of respondents expected in January that intermediate-goods production would decline in the following three or four months (see Table 2). The production outlook for the Community's investment-goods-industries also deteriorated in the recent survey; the January result showed a worsening of 3 percentage points, compared to December, in the net balance of respondents expecting investment-goods production to rise. Production expectations in the consumer-goods industries increased by 4 percentage points between December and January, but the net balance of answers has not regained the relatively high level seen in the second half of 1979.

Continued signs of pessimism in the building sector were evident in the most recent survey results for the construction industry (see Table 5). The percentage of chief executives of building firms who considered orders to be below normal increased slightly (by 1 percentage point) in the Federal Republic of Germany and by 9 percentage points in Italy. In the Netherlands, opinion on construction-sector order-books remained at the low level reached in December and the slight improvement (+2 percentage points) noted in Belgium, was not enough to change the generally negative assessment of construction-sector orders in that country. Moreover, employment expectations in the Belgian construction industry deteriorated significantly (by 6 percentage points) between December 1979 and January of this year.

*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-book, stocks and selling prices are all counted as 'positive' (+ in the 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 the percentages of 'positive' and 'negative' responses are called in the text 'majorities' or 'net balances' (of  $\pm \dots\%$ ). The monthly and quarterly data in Tables 1, 2 and 3 and 4 are seasonally adjusted, except where otherwise stated.

GRAPH 1: Business survey indicators for manufacturing industry and the index of industrial production - EC total



Production expectations have weakened in most of the individual industrial branches included in Table 3; exceptions are mineral oil refining, the chemical industry and the manufacture of motor vehicles and accessories where the production outlook improved between December and January. Order-books are generally weak but appear to be improving somewhat in the electrical engineering and car industries; on the other hand, the chemical, textiles and mineral-oil refining industries reported weaker order-books. Of the sectors examined, only in the chemical, mineral-oil refining and in the manufacture of motor-vehicles industries are order-books judged to be above normal. A marked improvement in stocks of refined mineral-oil was reported in January; an increase in finished stocks was also indicated by car industry.

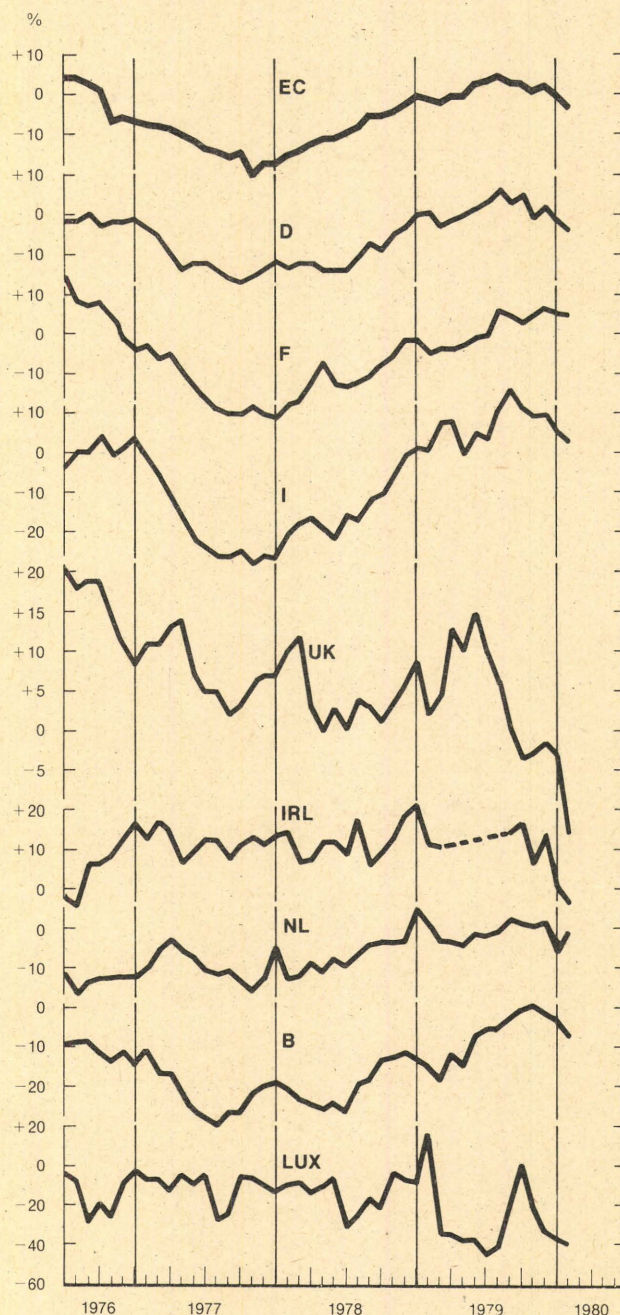
**Worsening industrial business climate in Member States.** — The business climate indicator continued to fall in all Community Member States in January, with the exception of the Netherlands. The United Kingdom reported a particularly marked deterioration in the industrial business climate; the fall in the indicator between December 1979 and January 1980 (see Graph 2 and Table 1) came to 10 percentage points. The extent of the declines in the business climate indicators for the other Member States ranged from 4 percentage points in Belgium and in Ireland through 3 percentage points in Luxembourg, 2.5 percentage points in the Federal Republic of Germany and Italy, to a negligible 0.5 percentage points in France. Contributing to the fall in the business climate indicator, judgments on the production outlook for the first quarter of this year were more pessimistic in January in all Member States, except in the Netherlands and Luxembourg (see Graph 3 and Table 1).

Judgments on order-books were, in January 1980, improved in the Federal Republic of Germany, Italy and the Netherlands, and lower in France, Ireland, Belgium, Luxembourg and the United Kingdom (see Graph 4 and Table 1). Only in Italy is there a majority of entrepreneurs who estimate that order-books are above normal. Judgments on the level of finished products' stocks indicate that they are above normal in Member States, with the exception of Italy where a negative balance indicated that chief executives consider stocks of finished products to be below normal; in that country, and also in France and the Netherlands, finished stock-levels tended to diminish between December and January. In the United Kingdom, Ireland and Luxembourg, answers of chief executives indicated a high level of finished-goods' stocks, with a tendency for the excess to increase.

**Duration of production assured by orders on hand and judgments on the adequacy of production capacity.** — Orders on hand in Community industry represented 3.7 months of normal production activity according to last month's survey, about the same level as in October 1979. The increase in the number of months' activity assured by orders on hand observed in the first three quarters of 1979 in the Federal Republic of Germany and in Belgium was confirmed by the January survey. Heads of industrial firms in France and the Netherlands reported a stabilization on a high level, with orders' backlogs representing 4.1 months of normal production activity. The results for the United Kingdom and Ireland, however, indicate a marked fall in the orders/production ratio. Judgments of industrialists on the adequacy of production capacity to meet current output needs suggest that the level of capacity utilization in Community industry has risen further. In the survey carried out in January, the net balance of chief executives reporting that production capacity was more than sufficient to meet current output requirements fell by 3 percentage points at the Community level. (−8 percentage points in France, −1 percentage point in the Federal Republic of Germany and in Italy, and −3 percentage points in Belgium). Only in Ireland (+6 percentage points) and in Luxembourg (+8 percentage points) has there been an increase in the net balance of chief executives who judge that capacity is more than sufficient.

8 February 1980.

GRAPH 2: Business climate of manufacturing industry - EC and 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.

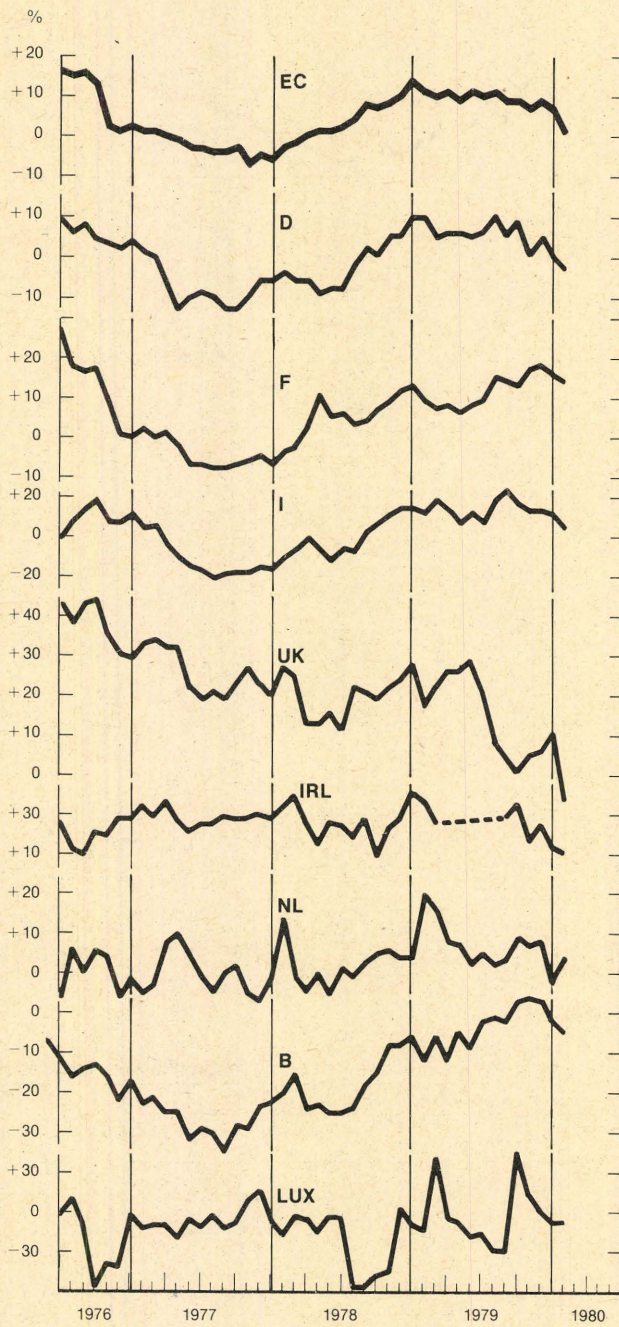
Source: European Community business surveys.

Notes on Graph 1.

- (a) Industrial production excluding building and construction and, in the case of France, the foodstuffs and beverages industry. Three month's moving average.
- (b) 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.
- (c) Net balances: i.e. differences between the percentages of respondents giving positive and negative replies.
- (d) Dotted line shows average for 1968-1977.

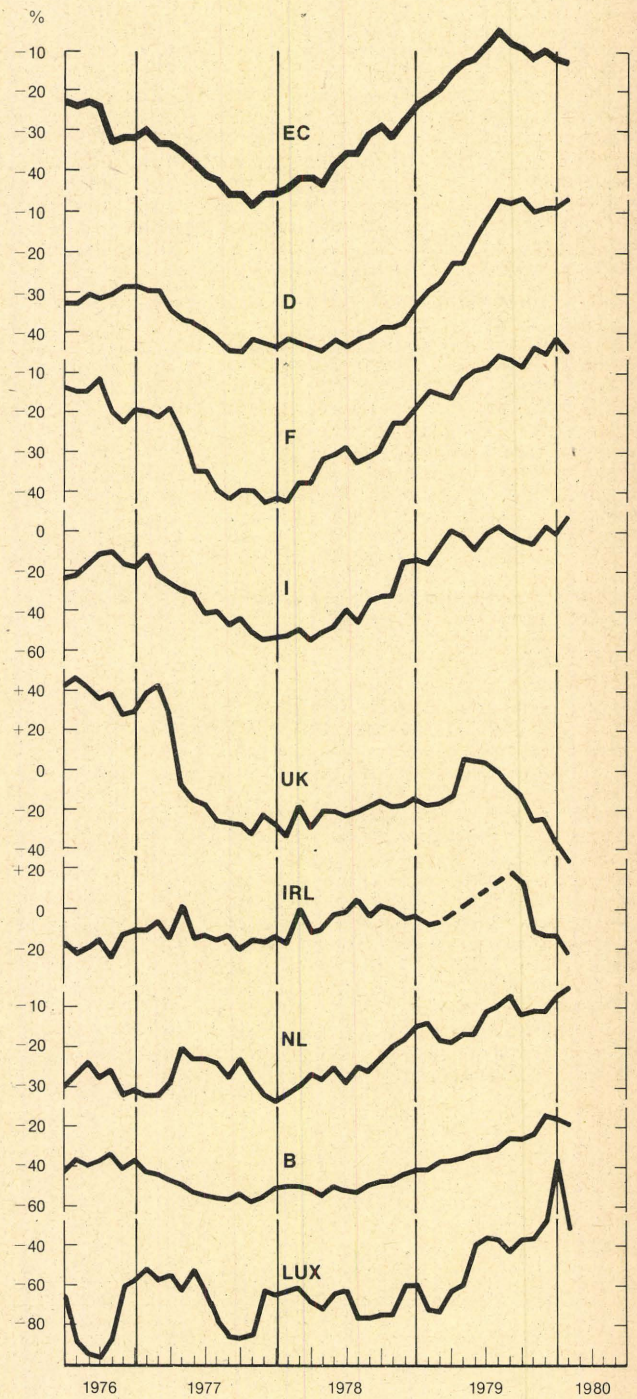
Source: European Community business surveys.

**GRAPH 3: Production outlook for manufacturing industry - EC and Member States (a)**



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

**GRAPH 4: Order-books in manufacturing industry - EC and Member States (a)**



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

Industrial groups	1977	1978	1979	1979				1979				1980	
				I	II	III	IV	August	Sept.	Oct.	Nov.	Dec.	Jan.
<b>Production expectations</b>													
Textile industry	-10	+1	+6	+8	+5	+5	-5	+6	0	0	-4	-10	-10
Mineral oil refining	-3	+10	+2	+11	-3	-1	-1	-1	-12	-7	-1	+6	+26
Production and preliminary processing of metals	-21	-2	+8	+7	+4	+11	+9	+10	+8	+5	+17	+5	-12
Non-metallic mineral products (ceramics)	-9	-2	+6	+5	+9	+2	+7	+3	+4	+4	+11	+6	-1
Chemical industry	+5	+12	+12	+19	+15	+15	0	+11	+15	0	+6	-7	-3
Manufacture of metal articles	-6	+1	+5	+2	+6	+3	+7	+1	+4	+5	+6	+10	0
Mechanical engineering	-4	0	+8	+6	+7	+8	+12	+6	+8	+13	+11	+12	+5
Electrical engineering	+3	+13	+10	+10	+13	+10	+8	+9	+10	+5	+10	+9	+5
Manufacture of motor vehicles and accessories	+15	+15	+18	+17	+23	+22	+10	+20	+12	+16	+17	-2	+6
<b>Order-books</b>													
Textile industry	-52	-36	-14	-17	-12	-11	-13	-9	-12	-15	-18	-22	-24
Mineral oil refining	-32	-34	+10	-3	+14	+13	+16	+7	+10	+14	+11	+22	+22
Production and preliminary processing of metals	-72	-65	-32	-41	-30	-26	-32	-25	-32	-34	-31	-31	-26
Non-metallic mineral products (ceramics)	-48	-41	-18	-30	-19	-11	-12	-14	-4	-15	-10	-11	-9
Chemical industry	-38	-25	+6	-5	+4	+15	+10	+14	+10	+9	+10	+11	+5
Manufacture of metal articles	-44	-31	-16	-20	-20	-8	-17	-7	-9	-17	-17	-16	-14
Mechanical engineering	-42	-42	-28	-38	-29	-23	-20	-22	-23	-22	-18	-19	-19
Electrical engineering	-29	-17	-20	-19	-23	-17	-21	-20	-18	-19	-26	-17	-11
Manufacture of motor vehicles and accessories	+8	+10	+14	+12	+17	+17	+10	+17	+15	+17	+9	+3	+7
<b>Export order-books</b>													
Textile industry	-45	-33	-31	-24	-31	-32	-35	-31	-31	-37	-34	-34	-36
Mineral oil refining	-8	-26	-5	-21	+8	-10	+3	-12	-10	+15	-6	0	+27
Production and preliminary processing of metals	-16	-12	-8	+11	-16	-8	-20	-6	-10	-11	-20	-30	-34
Non-metallic mineral products (ceramics)	-18	-12	-7	-6	-9	-7	-7	-7	-5	-5	-5	-8	-11
Chemical industry	-13	-7	+13	+9	+14	+15	+12	+12	+16	+13	+13	+9	+1
Manufacture of metal articles	-15	-17	-27	-16	-30	-30	-30	-30	-25	-34	-25	-30	-29
Mechanical engineering	-15	-21	-25	-19	-28	-26	-27	-26	-30	-27	-24	-29	-31
Electrical engineering	-23	-23	-30	-26	-31	-31	-32	-35	-36	-36	-32	-28	-29
Manufacture of motor vehicles and accessories	-5	0	+7	+7	+13	+8	-2	+13	-7	+9	+2	-16	-9
<b>Stocks of finished products</b>													
Textile industry	+40	+34	+20	+24	+19	+15	+23	+13	+15	+21	+20	+27	+25
Mineral oil refining	+23	+5	-29	-21	-16	-44	-33	-44	-45	-39	-35	-24	-16
Production and preliminary processing of metals	+16	+9	0	+4	+3	-4	-4	-5	-3	-4	-5	-2	-7
Non-metallic mineral products (ceramics)	+29	+29	+14	+24	+18	+8	+6	+9	+7	+8	+8	+2	+4
Chemical industry	+25	-15	-8	+3	-11	-16	-6	-11	-12	-10	-5	-2	-1
Manufacture of metal articles	+28	+11	0	+10	+2	-8	-5	-9	-12	-7	-6	-1	+1
Mechanical engineering	+21	+22	+8	+14	+11	0	+7	+8	+8	+8	+8	+7	+7
Electrical engineering	+25	+20	+20	+28	+22	+15	+16	+17	+12	+13	+18	+17	+16
Manufacture of motor vehicles and accessories	+3	-4	-14	-9	-19	-21	-7	-28	-20	-7	-7	-6	+5
<b>Selling-price expectations</b>													
Textile industry	+19	+35	+58	+47	+62	+63	+58	+63	+61	+57	+58	+59	+57
Mineral oil refining	+41	+29	+70	+62	+100	+81	+35	+82	+57	+36	+18	+51	+46
Production and preliminary processing of metals	+20	+37	+46	+43	+41	+46	+53	+46	+54	+48	+53	+57	+54
Non-metallic mineral products (ceramics)	+36	+30	+47	+31	+46	+54	+55	+56	+57	+58	+52	+54	+57
Chemical industry	+27	+32	+57	+49	+61	+65	+52	+67	+64	+56	+51	+50	+59
Manufacture of metal articles	+31	+30	+51	+44	+49	+57	+52	+59	+54	+57	+49	+51	+43
Mechanical engineering	+34	+38	+44	+38	+41	+44	+48	+44	+44	+47	+45	+51	+47
Electrical engineering	+35	+27	+40	+27	+37	+47	+47	+47	+48	+41	+47	+53	+43
Manufacture of motor vehicles and accessories	+44	+39	+46	+43	+45	+49	+47	+52	+38	+50	+51	+41	+38

(a) Denmark excluded.

(b) For the exact formulation of the questions, see the notes on page 6.

**TABLE 4: Survey of manufacturing industry — Questions asked each quarter (a):**

Estimated number of months' production assured by orders on hand

Expected capacity constraints: i.e. net balance of respondents expecting capacity to be insufficient in relation to production expectations

	Range (b)		1977	1978	1979	1979				1980	
	Peak 1973	Trough 1975				Jan.	April	July	Oct.	Jan.	
duration in months of assured production	D	3,3	2,8	2,9	2,9	3,2	2,9	2,9	3,2	3,3	3,4
	F	3,5	2,7	3,1	3,5	3,8	4,4	3,1	3,9	4,1	4,1
	IRL	2,2*	1,8	2,0	2,1	2,2	2,0	2,1	:	2,6	1,9
	I	4,7	3,7	4,1	4,2	4,5	4,3	4,1	4,5	4,9	4,5
	NL	4,7	2,6	4,3	3,9	4,2	4,3	4,2	4,2	4,1	4,1
	B	4,5	2,8	3,0	3,0	3,3	3,0	3,1	3,2	3,4	3,5
	L	3,5	1,4	1,5	1,5	2,8	1,6	1,6	1,9	2,3	2,1
	UK			4,3	3,6	3,4	3,6	3,2	3,5	4,0	3,0
	EC (d)	3,7	3,0	3,4	3,4	3,6	3,6	3,2	3,6	3,8	3,7
	adequacy (+) or inadequacy (-) of existing production capacity (c)	D	-3	+56	+37	+33	+21	+32	+32	+22	+15
F		-24	+45	+26	+28	+18	+23	+19	+27	+16	+8
IRL		:	+34	+4	-1	+1	-8	-12	:	+4	+10
I		+1	+63	+40	+46	+23	+42	+37	+18	+19	+18
NL		-3	+60	+45	+40	+22	+34	:	+29	+19	+19
B		-12	+58	+61	+57	+45	+53	+52	+51	+39	+36
L		-72	+73	+72	+69	+40	+70	:	:	+36	+44
EC (d)	-7	+54	+36	+35	+20	+33	+23	+22	+17	+14	

\* Peak, 1974.

(a) Details of the questions are given on page 6.

(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) Answers to the question whether, taking into account the level of order-books or production plans, existing production capacity is more than sufficient (+), sufficient (=) or less than sufficient (-). Thus, negative net balances (capacity less than sufficient) indicate high levels of capacity utilization and positive net balances (capacity more than sufficient) are associated with low levels of capacity utilization.

(d) Weighted total of available country data.

Source: European Community business surveys.



**TABLE 5: Survey of the construction industry.**

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

	Range (b)		1977	1978	1979	1979				1979				1980		
	Peak 72/73	Trough 74/75				I	II	III	IV	Aug.	Sept.	Oct.	Nov.		Dec.	Jan.
<b>D</b> order-books	-17	-84	-59	-32	-7	-11	0	-6	-10	-6	-8	-5	-11	-13	-14	
employment expectations	+10	-60	-16	+5	+9	+17	+11	+1	+7	0	0	+4	+8	+9	+10	
price expectations	+48	-37	+15	+28	+30	+38	+37	+27	+16	+30	+23	+17	+19	+13	+18	
<b>F</b> order-books	:	:	-61	-48	:	-43	-28	-27	:	:	:	:	:	:	:	
(c) employment expectations	:	:	-27	-19	:	-13	-11	-10	:	:	:	:	:	:	:	
<b>I</b> order-books	-25	-68	-40	-40	-29	-30	-30	-24	-33	-33	-8	-32	-36	-32	-41	
employment expectations	+10	-44	-16	-16	-12	-9	-13	-12	-13	-16	-9	-20	-9	-9	-15	
price expectations	+85	+30	+61	+62	+71	+63	+71	+76	+73	+82	+76	+76	+69	+73	+70	
<b>NL</b> order-books	-8	-81	-25	-19	-19	-15	-17	-19	-23	-18	-22	-20	-22	-26	-26	
employment expectations	+14	-13	+8	+12	+11	+11	+12	+7	+12	+7	+12	+15	+10	+11	+8	
<b>B</b> order-books	-13	-47	-35	-39	-28	-36	-26	-22	-27	-20	-22	-24	-29	-29	-27	
employment expectations	+31	-24	-12	-9	0	-5	0	+2	+2	0	+1	+7	+3	-3	-9	
price expectations	+75	+25	+44	+31	+43	+36	+37	+54	+44	+55	+61	+49	+45	+37	+37	
<b>L</b> order-books	+21	-50	-36	-11	-7	-8	-14	-14	+9	-19	+1	+15	+9	+4	+2	
employment expectations	+31	-39	-8	+14	+16	+23	+9	+7	+26	+7	+22	+23	+27	+27	+20	
price expectations	+82	+11	+23	+27	+46	+28	+45	+60	+50	+60	+60	+58	+43	+48	+63	
<b>UK</b> order-books	:	:	-25	-8	:	+2	+1	-15	-21	:	:	:	:	:	:	
(c) employment expectations	:	:	-20	-2	:	+26	+10	-11	-11	:	:	:	:	:	:	
price expectations	:	:	+45	+53	:	+72	+74	+70	+67	:	:	:	:	:	:	
<b>CE</b> order-books	:	:	-46	-32	:	-21	-14	-17	:	:	:	:	:	:	:	
(d) employment expectations	:	:	-18	-9	:	+6	+1	-6	:	:	:	:	:	:	:	

(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 1972/1973 and 1974/1975, respectively.

(c) Not seasonally adjusted.

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

Note: The annual and quarterly figures are averages of the corresponding monthly data, except for France and the United Kingdom, where the survey is carried out on a quarterly basis. The monthly and related quarterly data are seasonally adjusted; the seasonal adjustment applied to the most recent observations is sometimes provisional, so that such data are subject to later revision.

Source: European Community business surveys.

## 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 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 'European Economy'.

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