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Supplement B

Economic prospects - business survey results

Slight deterioration in business climate. — The business climate indicator for Community industry fell by 1,5 percentage points in February, offsetting some of the advance noted in January. The indicator has still improved, however, by comparison with the levels observed in November and December 1980. Looking at the two components of the business climate indicator, it appears that production expectations reached their lowest point of the present cycle in September 1980; since then they have fluctuated around a somewhat less depressed level but with as yet no sign of a sustained recovery in confidence. Excess stocks of finished products in manufacturing industry seem to have peaked in December, with the January and February survey results indicating stability at a slightly lower level. Judgments on order-books, however, unlike production expectations and assessments of finished-stock levels, are still deteriorating, with a net balance of 55% of chief executives now considering industrial order-books to be below normal. This is some 7 percentage points below the level for the fourth quarter of 1980 and indicates that basic recessionary tendencies are still present in the manufacturing sector. The mixed results of recent surveys, with some indicators improving, then falling back somewhat, and others continuing to deteriorate suggest that the business cycle is at a particularly delicate point in its development, with the signs of recovery being threatened by the continued weakness of order-books.

The business climate in the Member States. — The most striking result of the February survey is the deterioration in the German industrial business climate: the climate indicator fell by 4,5 percentage points between January and February and is now 5,5 percentage points below the average for the fourth quarter of 1980. Of the monthly questions in the German survey, only that on the export outlook has improved: while the net balances of replies on production expectations (-5 percentage points), order-book levels (-3) and excess finished stocks (+4) deteriorated, the export outlook improved by some 4 percentage points, for the second month in succession.

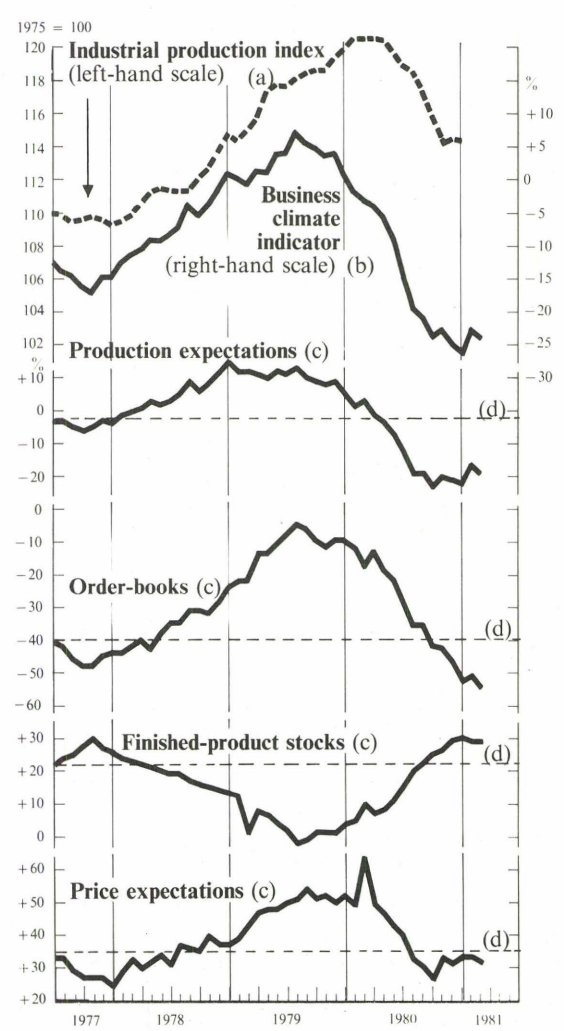
French industrialists were slightly more pessimistic in February than in January in their assessment of business conditions (see Table 1) but the underlying trend of opinion in January and February, by comparison with end-1980, is positive. Finished stocks were reported to be above normal by 35% of chief executives in February, the same level as in the preceding month. Production outlook and order-book judgments had, however, both worsened (by 2 and 4 percentage points, respectively).

The February survey results for Italy are very similar to those for France with production expectations having deteriorated (by 4 percentage points) but judgments on finished-stock levels remaining stable. Order-book judgments were, as in the Federal Republic of Germany and France, more pessimistic than in January.

Industrial production expectations in the United Kingdom fell, in February, by exactly the same amount as in the Federal Republic of

Germany (a net 5 percentage points) but, by contrast, judgments on finished stock levels improved: a net balance of 35% of UK industrialists now consider finished-goods stocks to be above normal, as opposed to 42% in January. There has, also, been a marked drop in

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



For notes, see overleaf, column 1.

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 upwards trends in production, order-books, 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 ±...%). The monthly and quarterly data in the tables are seasonally adjusted, except where otherwise stated.

inflationary expectations among chief executives: a net balance of only 7% of UK survey respondents now expect their selling prices to rise in the coming months, as against a Community average of 31% and an average for 1980 of 36% in the UK itself.

Production expectations in the consumption, investment and intermediate goods industries. — Of the three major industrial groups (classified by product use—see Table 2), the consumer goods sector reflects the clearest recessionary tendencies.¹ The December/January improvement in the production outlook for consumer goods was more than offset by the decline of 7 percentage points reported in February. Although the investment and intermediate goods industries also reported a more sober production outlook in February, the underlying trend had improved by comparison with the final months of 1980.

The decline in production expectations in February was particularly marked in the German, Italian, Belgian and Dutch consumer-goods sectors, with the investment goods industries reporting a weaker production outlook in France.

Production outlook at the industrial branch level. — The February survey indicates a substantial weakening in the production outlook for metals and motor vehicles, which seems to represent a correction of what was perhaps a surprisingly favourable turn of opinion for these sectors in January (see Table 3). The outlook for mineral-oil refining also worsened and production expectations in this sector (a net balance of -36%) are now well below the average for the fourth quarter of 1980. The non-metallic mineral products sector reports some weakening in the production outlook by comparison with the January survey as does the chemical industry (-4 and -5 percentage points, respectively). The latter is, however, still in a much stronger cyclical position than the other sectors covered by Table 3, with a net balance of only 7% of chief executives anticipating lower production in the months immediately ahead. Order-book levels were reported, in February, to have declined further below normal levels in the oil refining industry (-11 percentage points), which is now second only to the metallurgical sector in respect of the weakness of demand for its products. Electrical engineering also reported weaker order-books in February, with an increase of 9 percentage points, by comparison with January, in the number of chief executives reporting their orders backlog to be below normal. Stocks of finished products have increased substantially above normal levels in the motor vehicles sector since the fourth quarter of 1980: some 54% of chief executives in the industry considered, in February, that stocks were higher than would normally be indicated.

Industrial capacity utilization. — The average level of capacity utilization in manufacturing industry in January 1981 was 76.1%, according to the recent survey results (see Table 4). This represents a decline of some 6.9 percentage points by comparison with January 1980.² The most substantial declines over the past 12 months in capacity utilization are reported in the Federal Republic of Germany (-5.9 percentage points), Ireland (-9.1) and The Netherlands and Belgium (each -5). The highest rate of capacity utilization, at the total industry level, prevails in France (82.8%), with the Federal Republic of Germany and The Netherlands following (78.6 and 78%, respectively). The lowest degree of industrial capacity utilization is reported by Irish chief executives, at 58.3%. At the individual industry level, high utilization rates are reported by paper manufacturing (85.4%) and clothing and footwear (81.4%). Excess capacity is most in evidence in the metallurgical industries (68.1%) and plastics (72.3%).

Recent results of the construction survey. — The January (first quarter) 1981 survey of chief executives in the construction industry in France revealed a sharp deterioration in opinion on order-books (-14 percentage points) and a weaker employment outlook (a fall of 6 percentage points—see Table 5). February results for the Federal Republic of Germany, Italy and the Benelux countries indicate a weak but generally unchanged business climate in construction, with the exception of Belgium where both order-book judgments and the employment outlook have worsened, by 8 and 6 percentage points, respectively.

Brussels, 12 March 1981

¹ This is consistent with the weak demand trends suggested by the results of the Commission's January survey of consumer sentiment. See *European Economy*, Supplement C, No 1 — March 1981.

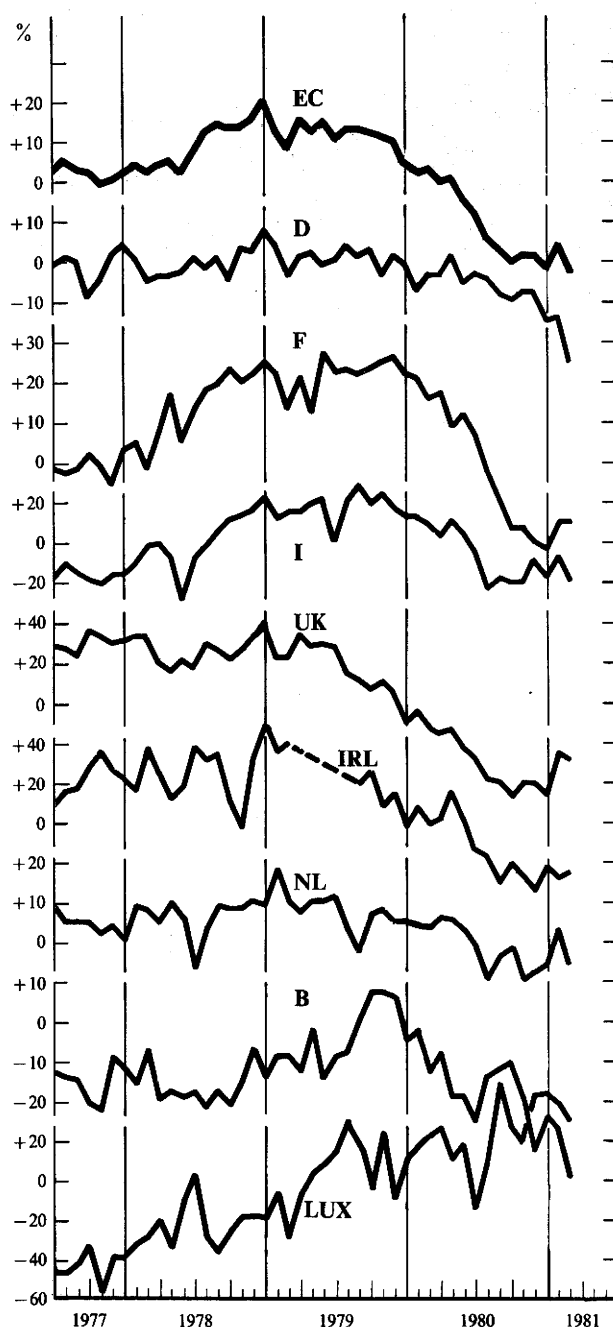
² The UK was not included in the Community estimates of industrial capacity utilization published in the March 1980 number but has now been added, on an estimated basis, to the other available data. The basic UK data relate to the percentage of industries reporting below-capacity working (rather than the absolute level of capacity utilization) and have been transformed by equating the UK results to the average level of capacity utilization of the other Member States at a cyclical trough (1975); variations in the UK series have been standardized on the typical peak to trough ranges observed elsewhere in the Community.

Notes on Graph 1.

- (a) Industrial production excluding building and construction and, in the case of France, the foodstuffs and beverages industry. Three months' 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 (see notes on final page).
- (d) Dotted line shows average for 1968-1977.

Source: European Community business surveys and Eurostat.

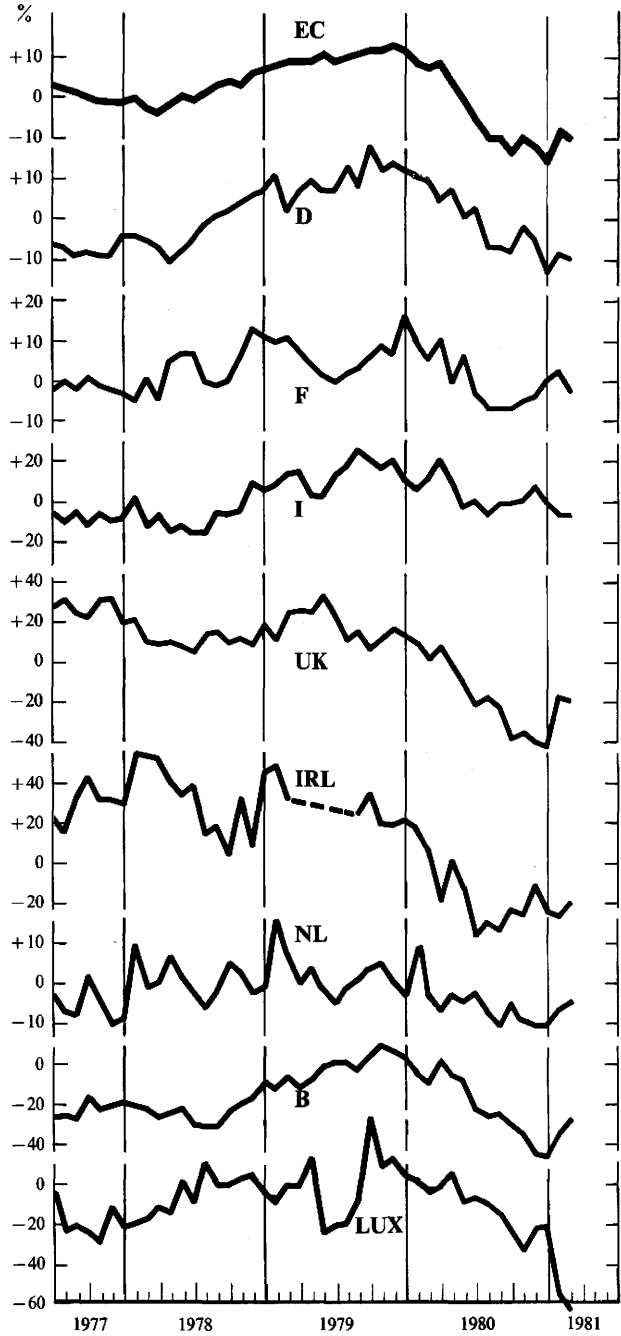
GRAPH 2: Consumer goods industries - Production expectations (a)



(a) Net balances, i.e. differences between the percentages of respondents giving positive and negative replies (see notes on page 6).

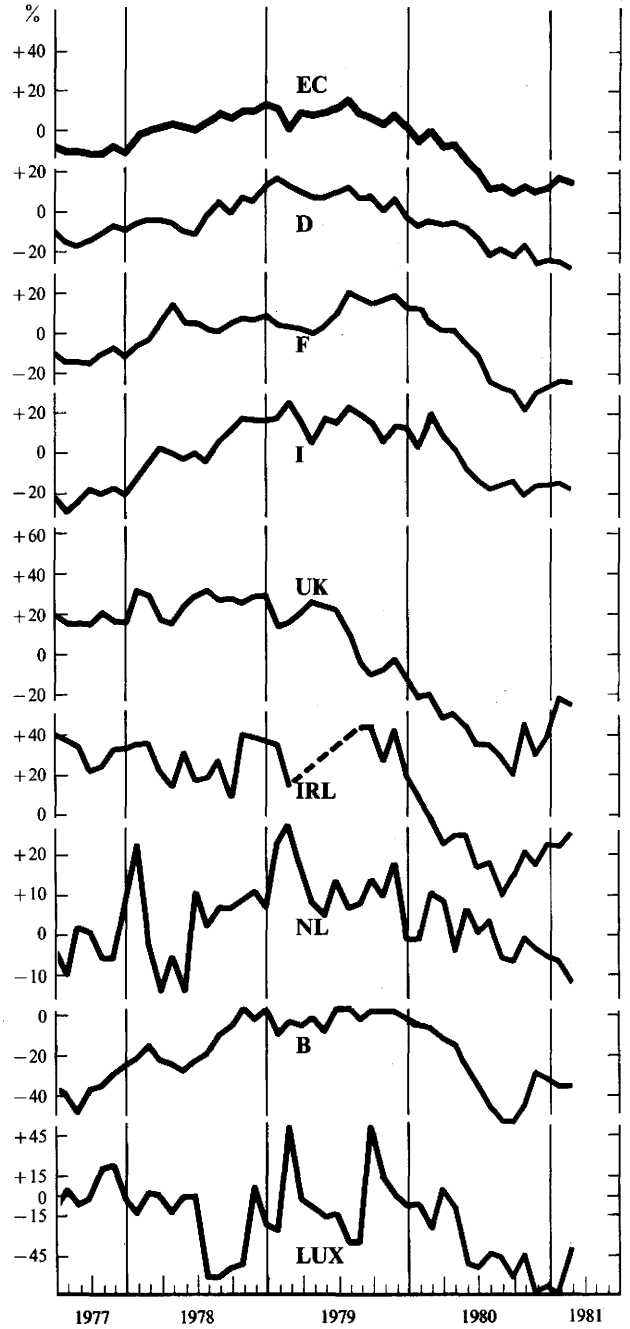
Source: European Community business surveys.

GRAPH 3: Investment goods industries - Production expectations



For notes see Graph 2.

GRAPH 4: Intermediate goods industries - Production expectations



For notes see Graph 2.

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) | | 1978 | 1979 | 1980 | 1980 | | | 1981 | 1980 | | | | 1981 | |
|-----------|-------------------------|---------------|-----------------|------|------|------|------|-----|-----|------|------|-------|------|------|------|------|
| | | Peak 72/73 | Trough 74/75 | | | | II | III | IV | | I | Sept. | Oct. | Nov. | Dec. | Jan. |
| D | order-books | -17 | -84 | -32 | -7 | -30 | -24 | -35 | -45 | : | -37 | -41 | -47 | -48 | -50 | -50 |
| | employment expectations | +10 | -60 | +5 | +9 | -7 | -5 | -12 | -17 | : | -11 | -16 | -15 | -19 | -24 | -22 |
| | price expectations | +48 | -37 | +28 | +30 | -5 | +3 | -21 | -23 | : | -19 | -16 | -25 | -27 | -33 | -36 |
| F | order-books | : | : | -48 | : | -30 | -28 | -28 | -35 | -49 | : | : | : | : | : | : |
| | employment expectations | : | : | -19 | -25 | -11 | -5 | -5 | -19 | -25 | : | : | : | : | : | : |
| I | order-books | -25 | -68 | -40 | -29 | -33 | -30 | -31 | -34 | : | -36 | -35 | -35 | -31 | -29 | -28 |
| | employment expectations | +10 | -44 | -16 | -12 | -11 | -13 | -7 | -15 | : | -9 | -17 | -15 | -14 | -7 | -5 |
| | price expectations | +85 | +30 | +62 | +71 | +71 | +74 | +67 | +72 | : | +69 | +70 | +75 | +70 | +66 | +73 |
| NL | order-books | -8 | -81 | -19 | -19 | -39 | -39 | -45 | -47 | : | -45 | -43 | -47 | -50 | -48 | -49 |
| | employment expectations | +14 | -13 | +12 | +11 | -8 | -9 | -13 | -17 | : | -17 | -18 | -16 | -16 | -14 | -17 |
| B | order-books | -13 | -47 | -39 | -28 | -32 | -37 | -26 | -35 | : | -35 | -34 | -32 | -40 | -41 | -49 |
| | employment expectations | +31 | -24 | -9 | 0 | -23 | -26 | -31 | -28 | : | -34 | -28 | -22 | -30 | -30 | -36 |
| | price expectations | +75 | +25 | +31 | +43 | +31 | +36 | +27 | +20 | : | +32 | +19 | +22 | +19 | +18 | +16 |
| L | order-books | +21 | -50 | -11 | -7 | -12 | -2 | -13 | -28 | : | -16 | -15 | -21 | -48 | -17 | -18 |
| | employment expectations | +31 | -39 | +14 | +16 | +6 | +11 | +9 | -3 | : | +10 | +23 | +2 | -35 | -25 | +17 |
| | price expectations | +82 | +11 | +27 | +46 | +45 | +65 | +23 | +31 | : | +18 | +38 | +33 | +22 | +36 | +24 |
| UK | order-books | : | : | -8 | : | -33 | -31 | -36 | -45 | -60 | : | : | : | : | : | : |
| | employment expectations | : | : | -2 | : | -27 | -12 | -34 | -49 | -47 | : | : | : | : | : | : |
| | price expectations | : | : | +53 | : | +50 | +63 | +40 | +31 | -23 | : | : | : | : | : | : |
| EC | order-books | : | : | -32 | : | -32 | -29 | -33 | -40 | : | : | : | : | : | : | : |
| | employment expectations | : | : | -9 | : | -14 | -9 | -15 | -24 | : | : | : | : | : | : | : |

(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 unless otherwise indicated: 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?

Quarterly (January, April, July and October):

- 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 (carried out in January/February, June/July and October/November):

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

Half-yearly (carried out in June/July and October/November):

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

All industries, including manufacturing, extractive and food

Half-yearly (undertaken in March/April 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.
National Federation of Building Trade Employers, 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 'Business surveys' (ISSN 0378-4479). The results of consumer surveys appear three times a year in Supplement C to 'European Economy'.

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