

EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

No 6 — June 1981

Supplement B

Economic prospects - business survey results

Slightly improved business climate in the Community. — The business climate indicator for Community industry improved in May by 0,5 percentage points, according to the most recent survey results. The chief executives covered by the survey reported an improvement in the industrial production outlook of 1 percentage point (see Graph 1 and Table 1), confirming the recently improving trend; the net balance of chief executives expecting industrial production to fall in the months ahead is now 15%, the least pessimistic level seen since June 1980. Judgements on order-books, however, deteriorated in May by 1 percentage point, while judgements on export order-books and on stock levels remained unchanged by comparison with April. Industrial selling-price expectations increased by 2 percentage points in May.

The majority of Member States reported a less pessimistic business climate in May (see Table 1). The business climate indicator advanced in Belgium (by 0,5 percentage points), the Federal Republic of Germany (by 1 percentage point), Ireland (by 12,5 percentage points), Luxembourg (by 11 percentage points), the Netherlands (by 3,5 percentage points) and the United Kingdom (by 3 percentage points). In France, the business climate in May was unchanged by comparison with April but the Italian business climate indicator declined markedly in May, by 4,5 percentage points.

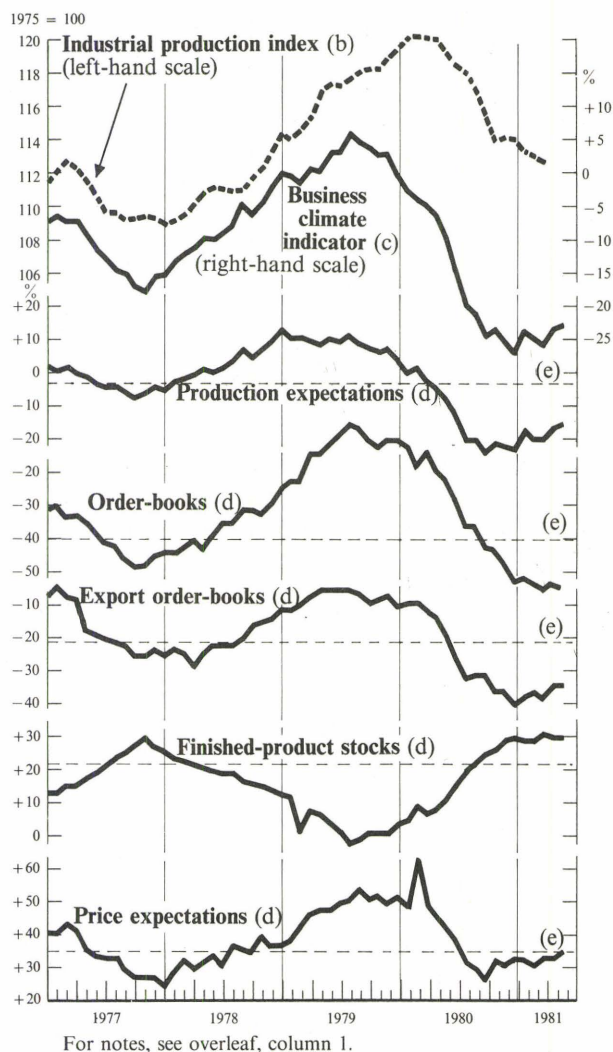
Looking at the trend of industrial opinion since the beginning of the year, it would seem that the trough of the current business cycle has been or is about to be reached in the Federal Republic of Germany, France, Belgium and the Netherlands; in the United Kingdom and Ireland, the surveys provide signs of recovery while in Italy, the recession appears to be deepening.

Detailed results for the individual Member States. — The short-term outlook for industrial production improved in May in the **Federal Republic of Germany**: the net balance of chief executives expecting production to decline in the following three or four months went from -23% in February, through -21% in March and -20% in April to -18% in May (see Table 1), suggesting a gradual end to the industrial recession. Judgements on stocks of finished products stabilized in May at a high level. The level of industrial order-books, by contrast, was judged to have declined further below normal, by 2 percentage points. Judgements on export order-books, however, improved by a further 5 percentage points, reaching the highest level observed since the first quarter of 1980.

In **France**, the net balance of production expectations improved for the second month in succession (by 2 percentage points). However, order-books and stocks of finished-products, in May, were judged by French executives to have continued to deteriorate by comparison with the

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 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 the tables are seasonally adjusted, except where otherwise stated.

GRAPH 1: Business survey indicators for manufacturing industry and the index of industrial production - EC 9 (a)



months before, counterbalancing the more favourable development of production expectations.

Production expectations in **Italian** industry deteriorated sharply, in May (by 6 percentage points by comparison with April), continuing the declining trend in evidence through the second half of 1980 and the beginning of 1981. Judgements on stocks of finished products were also more pessimistic. By contrast, however, the majority of chief executives considering order-book levels below normal declined by 1 percentage point.

There has been a further improvement in the industrial production outlook in the **United Kingdom**: the majority of industrial chief executives expecting output to fall in the next three or four months diminished further (after the marked decline in April) by 1 percentage point in May. A very substantial majority of chief executives (73%) consider order-books to be below normal, but this represents a further improvement from the low point (-85%) reached in March. The industrial stocks situation continued to improve between April and May (a fall of 5 percentage points in judgements that stocks were excessive).

Ireland and the **Netherlands** report a marked improvement in production expectations in May by comparison with April (by 17 and 5 percentage points, respectively); it should be noted, however, that these series have been unstable in recent months. In **Belgium** and **Luxembourg**, the majority of industrialists expecting industrial production to decline in the months ahead declined in May by 2 and 24 percentage points, respectively, but the pessimistic majority remains in both cases very substantial. Judgements on order-books in Belgium, as in Luxembourg, showed an improvement in May, by contrast with opinion on finished stock-levels which deteriorated by 1 and 2 percentage points, respectively.

Deterioration in the production outlook for investment goods. — Heads of firms in the Community's investment goods industries considered that the production outlook for the months ahead had deteriorated slightly between April and May, although the underlying trend is still improving (see Table 2). The principal cause of the decline at Community level, in May, was the marked deterioration in the outlook for investment-goods production in Italy (-19 percentage points), which was not quite offset by the slight improvement of the other Member States in this sector.

By contrast, chief executives in the intermediate-goods industry were less pessimistic, in May, concerning the production outlook for the coming months: the majority expecting intermediate goods production to decline in the course of the next three or four months declined, between April and May, by 3 percentage points. This reflects an improvement in the intermediate-goods production outlook in all Member States, suggesting that a general recovery of industrial production can be expected in the months ahead.

Business sentiment in the Community's consumer-goods sector improved steadily in the course of the three months from March to May, suggesting that the trough in business sentiment has now been passed. However, the May survey results for Belgium, France and Italy were somewhat more pessimistic with respect to the outlook for consumer-goods production than in the preceding month.

The business outlook in a longer-term perspective. — The decline in the Community business climate indicator which began in August 1979 seems now to have come to an end. The down-turn in the climate indicator lasted from the 1979 peak until the apparent recent trough in December 1980, some 17 months, a relatively short decline compared with those of 1969/71 (28 months) and 1973/75 (21 months) but somewhat longer than in 1976/77 (11 months - see Graph 2 and Table 3).

The level of the index at the trough in December 1980, at -26,5, was 12 percentage points less pessimistic than at the trough of the recession in 1975 but considerably deeper than the low points reached in November 1971 (-15) and October 1977 (-14,5). Since December, the business climate indicator has, with some setbacks, improved by 4 percentage points. By comparison with the recoveries of 1972 and 1975 the current improvement in the climate indicator is relatively slow: in the first five months of the earlier recoveries, the indicator advanced by 11 points (1971/72) and 10,5 points (1975). In the five months which followed the October 1977 trough, however, the climate indicator advanced by only 4 points, the same as in the current episode.

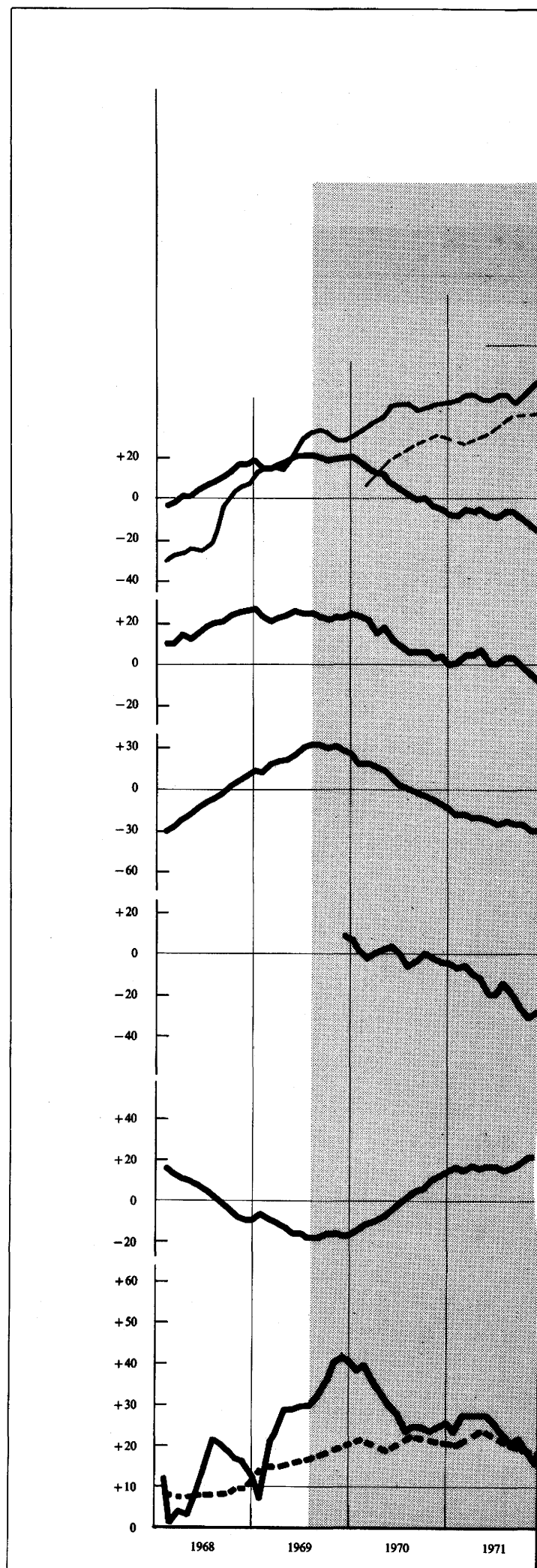
From the cyclical behaviour of the survey data, it would appear, therefore, that the current recession has been of intermediate duration, of relatively severe intensity and will be followed by a rather slow initial recovery.

Brussels, 15 June 1981.

Notes on Graph 1.

- (a) Weighted total of available country data — see Table 1.
- (b) Industrial production excluding building and construction and, in the case of France, the foodstuffs and beverages industry. Three months' moving average.
- (c) 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.
- (d) Net balances, i.e. differences between the percentages of respondents giving positive and negative replies (see notes on final page).
- (e) Dotted line shows average for 1968-1977.

Source: European Community business surveys and Eurostat.



GRAPH 2: Monthly survey of manufacturing Industry and related economic Indicators: EC 9

Historical data, 1968 to 1981 (For notes, see Table 3)

(Shaded areas indicate periods of below-trend economic growth or recession, although it is not yet clear when the end to the current recession may be dated.)

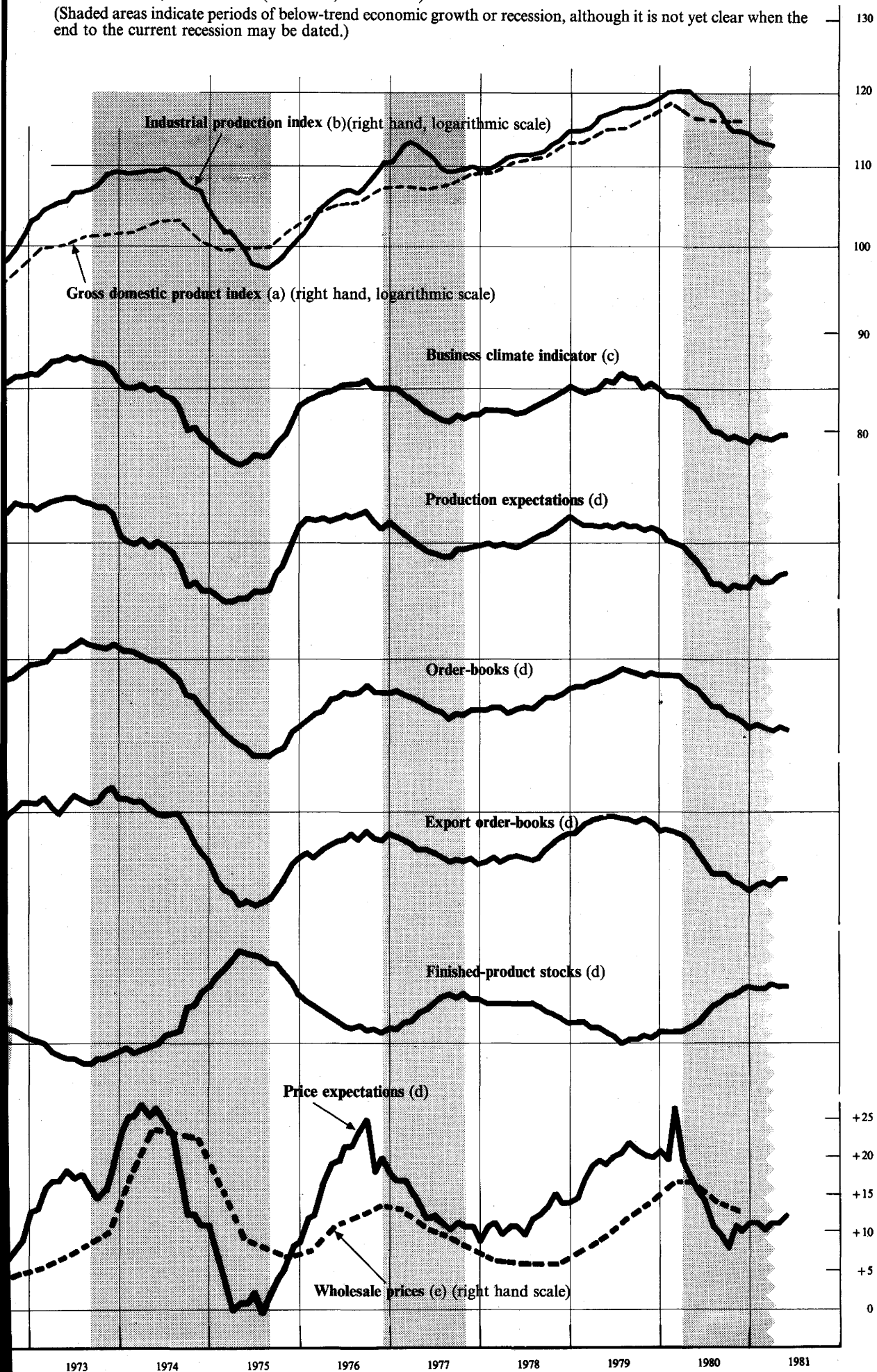


TABLE 3 (cont.): Monthly survey of manufacturing industry and related economic time-series: EC 9
Historical data, 1968 to 1980.

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Selling-price expectations (e)														
year	13	30	29	24	27	44	48	20	48	33	33	49	38	
quarter														
1	5	16	37	26	23	40	60	18	38	42	32	43	51	32
2	9	29	34	28	28	46	62	15	50	34	31	51	42	..
3	21	33	25	22	25	42	45	13	61	33	36	52	29	..
4	16	42	26	18	31	49	33	26	46	29	39	54	32	..
month														
1	13	7	39	24	19	37	61	25	34	44	32	39	50	33
2	1	21	40	28	23	42	61	18	35	44	33	41	54	31
3	4	24	36	28	26	44	64	10	43	42	30	49	49	33
4	3	29	33	28	27	44	61	12	48	37	32	50	46	33
5	8	29	30	28	29	47	63	12	49	34	32	51	42	35
6	15	30	27	26	28	45	59	15	53	35	30	52	39	..
7	22	30	24	23	27	46	56	9	53	33	34	52	32	..
8	21	34	25	21	25	42	47	14	57	31	35	55	30	..
9	19	36	25	22	23	39	35	17	60	33	37	52	26	..
10	17	41	24	19	26	43	35	21	46	32	41	56	33	..
11	16	42	25	16	29	48	32	27	50	32	38	52	31	..
12	13	41	26	18	36	56	32	28	46	28	38	54	33	..
Wholesale prices (f) of manufactured goods														
year		3,4	5,7	5,5	3,9	8,1	22,0	10,0	11,3	10,5	6,4	11,0	15,2	..
quarter														
1	2,0	6,0	5,4	3,5	5,7	18,0	15,8	8,0	13,3	6,8	7,8	16,8	10,2	..
2	2,9	4,6	7,1	3,5	7,0	23,7	9,5	11,1	11,0	6,3	9,7	17,0
3	3,7	6,2	5,3	3,6	8,9	23,3	8,2	12,4	9,8	6,2	12,2	14,3
4	4,8	5,9	4,2	4,9	10,5	22,9	7,1	13,7	8,3	6,4	14,1	13,1

- (a) Total of available country data — see note (a) on Graph 1.
 (b) The annual data cover the nine Community Member States, and are based on 1970 prices and exchange rates. The quarterly series cover the Federal Republic of Germany (gross national product), France, Italy and the United Kingdom, representing approximately 80% of Community production. The latter series are based on 1975 prices and exchange rates. All available revisions are included.
 (c) Industrial production excluding building and construction and, in the case of France, the foodstuffs and beverages industry. Three months' moving average, latest revisions included.
 (d) Composite indicator based on the survey questions on production expectations and stocks of finished products (see notes below). The indicator is an average of the net balances, i.e. the differences between the percentages of respondents giving positive or negative replies, with the sign inverted for stocks.
 (e) Details of the questions are given in the notes below.
 (f) The component indices for Member States are taken from national sources. In the case of France, retail prices of manufactured goods are used.

Sources: Eurostat and 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.

Building 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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