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Supplement B

Economic prospects - business survey results

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Sustained gradual improvement in the industrial business climate. — The business climate indicator for Community industry has risen continuously, if gradually, since April, advancing by some 9,5 percentage points in the period up to September (see Graph 1 and Table 1). The continued improvement of industrial business confidence strengthens the probability that the recession which began in the first quarter of 1980 will soon give way to renewed growth.

The probability that recovery from the 1980/81 recession is imminent is strengthened by the recent improvement in industrialists' opinions on order-books, as expressed in the Community business survey. Although the two component series of the business climate indicator, short-term production expectations and opinions on the level of finished-goods stocks, have either been improving (production expectations) or stable (stocks) since April, order-book assessments appear to have begun their recovery only in June. Since then, the net balance of chief executives, participating in the survey, considering total order-books to be below normal has recovered by some 8 percentage points to -48 per cent in September. The balance of opinion on industrial order-books is now very much better than the low point reached during the 1974/75 recession (a net balance of -70 per cent in June 1975).

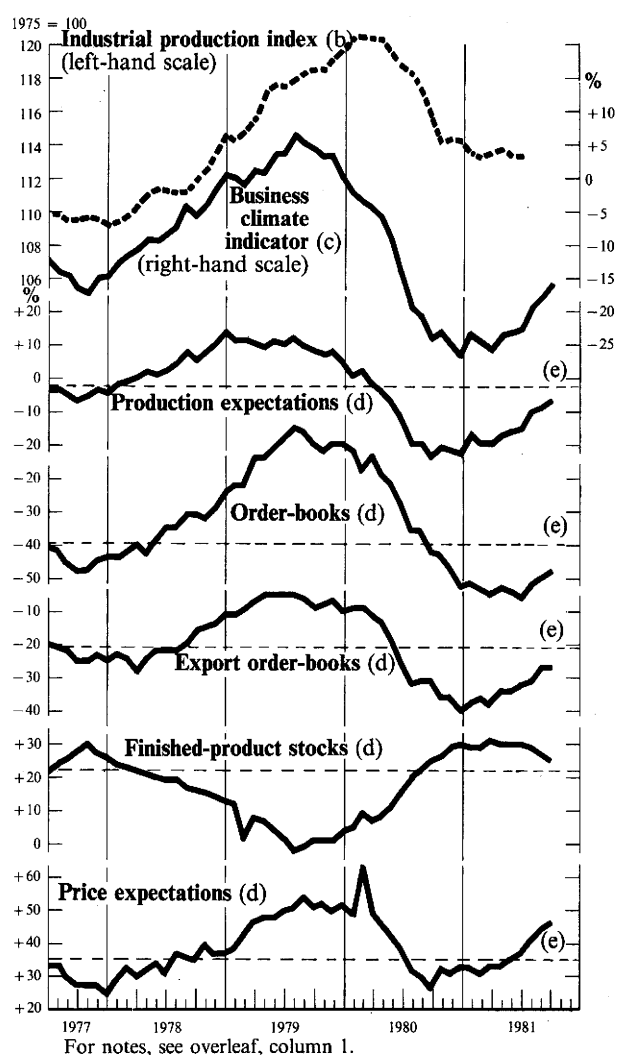
Results for the individual Member States. — Industrial business sentiment, led by expectations of rising output in the next three or four months, improved in September in all Member States, except Belgium and Luxembourg (data are not available for Denmark). The improvement was significant in the Federal Republic of Germany (+3 percentage points), France and Ireland (+2,5 percentage points in each case), and the Netherlands (+3,5 percentage points). It is worth noting that this is the first substantial sign of recovery observed in the German business climate index since the trough was reached in February of this year.

Finished-stock levels (which are, with production expectations, included in the business climate indicator) were judged, by chief executives replying to the September survey, to have become less excessive in all reporting Member States, except Belgium and Luxembourg. Total industrial order-book levels, the other important survey indicator of industrial business conditions, were reported to have improved in all Member States except Ireland (no change), Italy (a deterioration of 2 percentage points) and Luxembourg (a deterioration of 4 percentage points). The order-book improvements reported were generally small except in France, where an advance of 5 percentage points emerged in the September enquiry.

The cyclical behaviour of the consumer, investment and intermediate goods industries. — The development of business opinion in the three

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)



major industrial end-product groups is illustrated in Graph 2, for the period since 1968 (for data, see Table 2). This period covers three complete economic growth cycles¹ in the Community, those of 1969-1973, 1973-1976 and 1976-1980 (peak-to-peak in each case). In addition, the current recession which began in the first quarter of 1980 is, of course, included.

The business survey indicators for the three major industrial groupings all display clear cyclical characteristics. Over the period since 1968, there seems to have been a slight downward trend in production expectations, with peaks occurring at successively lower levels of optimism. This no doubt reflects the flattening of the trend in production itself, following the period of rapid growth which ended in 1974.

A shift would appear to have occurred in industrialists' views on the normality of order-book and stock levels in the course of the severe 1973-1975 recession. In the case of order-books, both peaks and troughs of survey responses (to the question as to whether total order-books were above, equal to or below normal) have occurred at lower levels in the post-1975 period; it would seem that industrial chief executives have come to consider as normal less buoyant demand conditions than in the pre-oil crisis (1974/75) period. The survey data on finished stock levels display similar characteristics to those related to order-books: the peak in the demand for stocks (when the largest majority of industrialists perceived their stock levels to be below normal) reached in mid-1973 was never again attained in the subsequent stock cycles.

Production expectations in all three major sectors have generally led turning-points (peaks and troughs) in the growth cycle but by rather short periods (typically 1 to 2 quarters). The current recession is, however, an exception, in that production expectations in the consumer goods sector appear to have peaked towards the end of 1978, some 14 months before the onset of the recession. Although in theory production expectations in the investment sector should display longer leads at both peaks and troughs than the intermediate and consumer goods industries, this is not apparent either in the production data nor in judgements on the short-term production outlook. It would appear that during the period under review (from 1968 to 1981), factors other than the accelerator mechanism (notably the oil shocks) were primarily responsible for generating the growth cycle. The greatest amplitude of production expectations (reported by industrial chief executives) is displayed by the intermediate rather than the investment goods industries.

Order-book assessments have shown a very substantial range of variation over the period considered. This is especially marked in the intermediate goods sector, with a range of 123 percentage points between the peak of +36 per cent, in net balances, reached in August 1969 and the trough of -87 per cent observed in July 1975. The range of variation in assessments of investment goods order-books is 93 percentage points (+34 per cent in October 1969 to -59 per cent in September 1975) and that of consumer goods order-books 87 (a +27 per cent net balance in June 1969 as against -60 per cent in April 1975). The order-book series for the consumer goods sector was a more consistent leading indicator of growth turning-points than those for the investment and intermediate goods industries. Orders' judgements in the investment goods industries have, in fact, lagged growth cycle turning-points in four out of seven turning-points noted since 1968 and have led only once (at the 1972 trough). Intermediate-goods order-book judgements have led cyclical turning-points with only one exception (at the 1969 peak) but have typically given less forewarning of peaks than have order-book judgements in the consumer goods sector.

The finished-stocks indicators for the consumer and intermediate-goods industries signalled cyclical expansions and recessions with generally short but rather consistent leads during the period from 1968 to 1981. As in the case of order-books, however, finished stock judgements in the investment goods sector have tended to lag growth cycle turning-points, suggesting that investment demand, in recent times at least, has not played a causal role in generating expansions and recessions.

Brussels, 13 October 1981

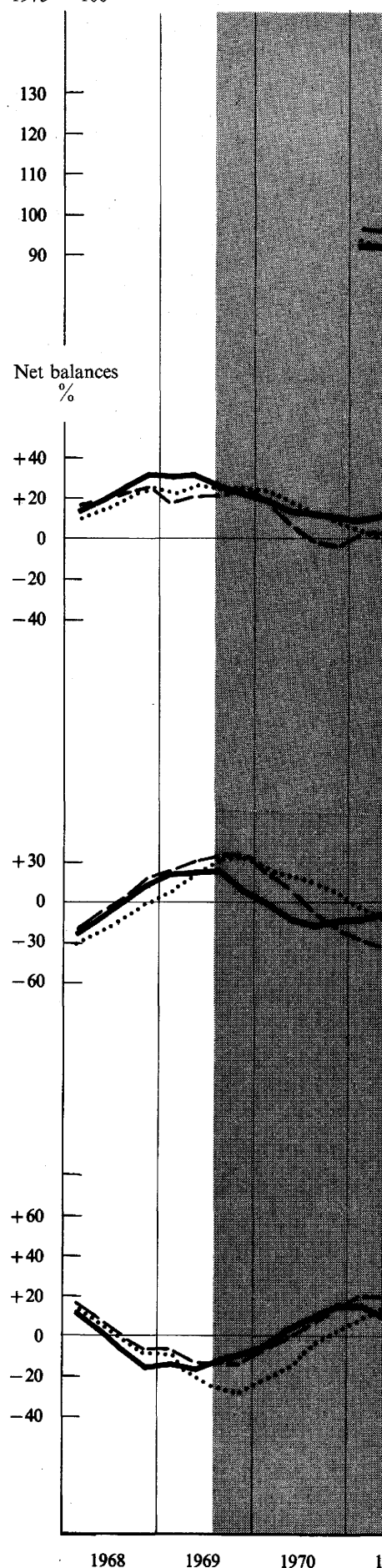
¹ The growth cycle chronology is based on the deviations from trend of a composite index of quarterly GDP for the four larger Member States and monthly industrial production for the Community as a whole.

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 of earlier issues).
- (e) Dotted line shows average for 1968-77.

Source: European Community business surveys and Eurostat.

1975 = 100



GRAPH 2: Manufacturing industry - production and monthly survey results for consumer, investment and intermediate goods

Historical data, 1968 to 1981. Quarterly averages, 1968-1980; monthly data, 1981. For notes, see Table 2.

(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).

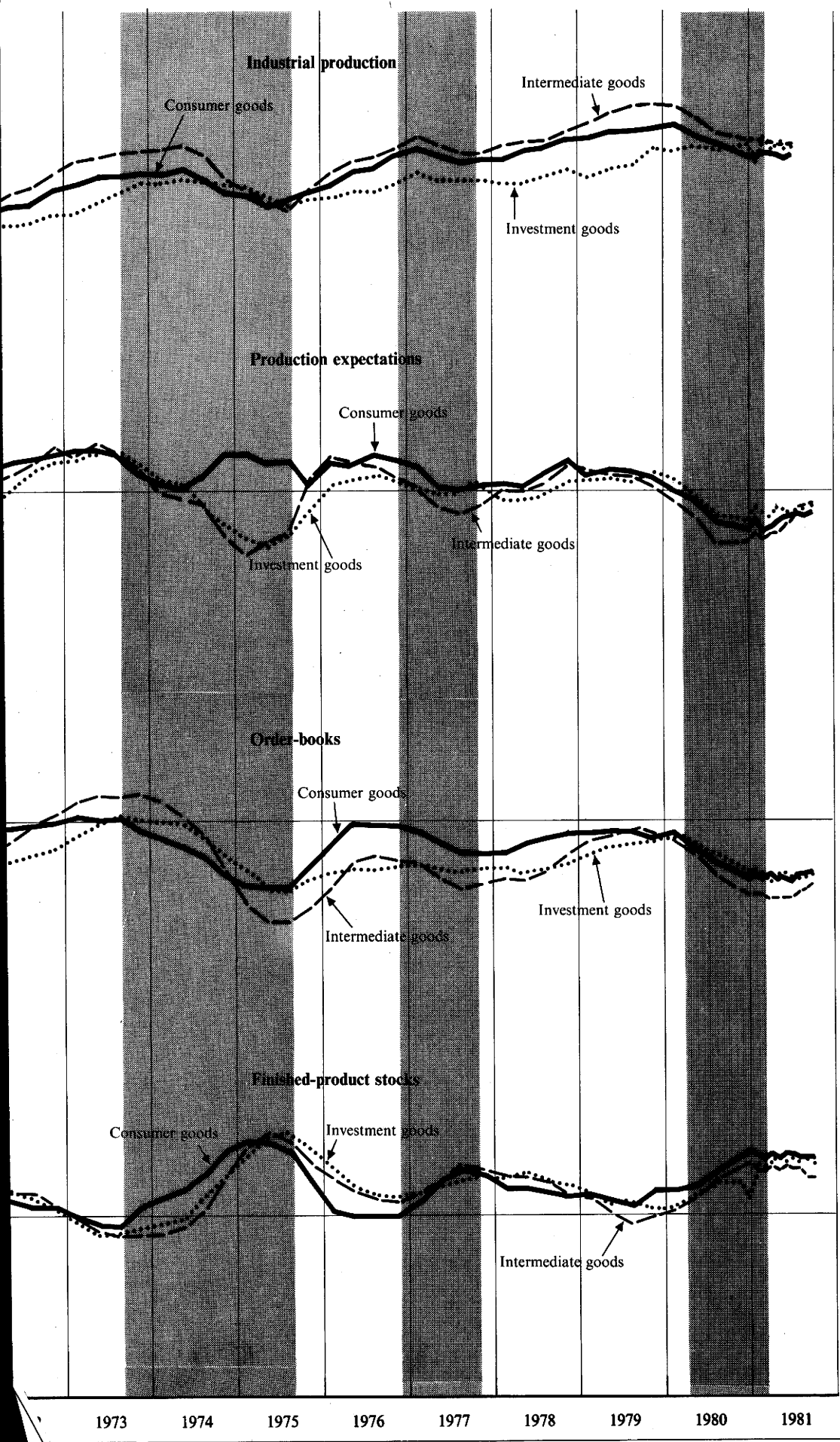


TABLE 2 (cont.): Monthly survey of manufacturing industry: results for major sectors and related production data: EC (a) (s.a.)
Historical data, 1968 to 1981.

ORDERS (c)	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
(iii) Intermediate goods														
Year	- 3	30	2	-32	-21	14	-10	-72	-36	-49	-40	-12	-37	
Quarter 1	-23	22	23	-28	-34	5	17	-69	-55	-33	-47	-17	-14	-61
2	-9	30	11	-34	-26	15	5	-82	-34	-45	-48	-12	-27	-62
3	4	34	-6	-33	-17	20	-11	-83	-28	-54	-40	-6	-45	-55
4	16	34	-20	-36	-5	22	-40	-71	-31	-51	-29	-10	-56	
Month 1	-28	18	26	-29	-35	1	20	-60	-62	-30	-49	-23	-12	-60
2	-25	22	22	-25	-36	4	18	-70	-54	-31	-46	-19	-15	-61
3	-19	26	21	-32	-33	11	15	-76	-52	-35	-47	-11	-13	-64
4	-14	26	19	-32	-28	13	9	-80	-40	-38	-48	-14	-23	-63
5	-9	30	13	-35	-23	13	3	-84	-33	-43	-45	-13	-26	-63
6	-3	35	3	-36	-25	21	4	-86	-33	-49	-44	-7	-31	-64
7	0	33	0	-32	-17	25	-4	-87	-32	-51	-44	-5	-41	-59
8	4	36	-7	-33	-17	21	-10	-85	-27	-55	-41	-6	-44	-56
9	3	35	-11	-34	-17	19	-16	-82	-24	-53	-39	-9	-50	-52
10	13	35	-14	-38	-10	21	-29	-79	-29	-53	-34	-10	-52	
11	17	34	-20	-37	-5	24	-38	-72	-31	-50	-29	-8	-57	
12	19	32	-27	-32	1	23	-52	-67	-30	-48	-27	-9	-60	
STOCKS (c)														
(i) Consumer goods														
Year	- 2	-13	7	12	9	0	22	33	2	20	14	10	24	
Quarter 1	12	-14	-5	14	11	0	11	44	3	8	16	12	14	33
2	3	-16	4	10	9	-4	15	43	0	20	16	9	17	33
3	-6	-12	10	10	6	-4	24	36	0	25	13	6	27	33
4	-16	-9	15	15	6	6	37	19	0	23	11	14	33	
Month 1	11	-13	-8	18	15	2	8	43	6	3	17	12	16	34
2	12	-12	-5	15	11	1	13	44	1	8	15	11	16	32
3	13	-17	-2	13	9	-3	11	46	3	11	19	10	11	32
4	9	-16	-1	11	8	-3	13	46	1	14	18	11	14	32
5	1	-16	6	10	8	-6	14	45	0	22	18	8	16	34
6	-3	-15	9	10	9	-4	18	40	-3	23	14	8	24	34
7	-4	-15	11	10	8	-6	21	39	-3	22	14	6	24	32
8	-7	-14	11	8	4	-5	21	36	-2	27	15	6	26	32
9	-9	-8	12	11	5	-1	31	37	1	27	15	6	30	32
10	-14	-9	14	12	7	4	35	28	0	26	11	12	31	
11	-16	-11	15	17	6	3	37	20	-4	23	14	15	33	
12	-17	-9	16	17	2	9	40	11	1	21	8	13	36	
(ii) Investment goods														
Year	4	-20	-9	15	12	-5	9	39	16	20	20	7	14	
Quarter 1	15	-8	-21	9	19	-2	-3	36	27	14	22	13	6	28
2	9	-19	-16	14	14	-9	-1	44	16	17	24	8	11	31
3	-1	-25	-4	16	10	-9	11	45	12	20	20	7	18	29
4	-9	-27	3	23	4	-7	22	38	11	22	18	4	19	
Month 1	16	-5	-23	7	24	1	-3	33	31	20	20	15	5	28
2	13	-9	-21	9	17	-2	-3	35	29	13	23	14	6	27
3	13	-12	-21	10	17	-5	-2	41	25	14	24	12	6	29
4	12	-17	-19	13	16	-8	-1	42	19	15	23	9	9	33
5	9	-20	-15	12	15	-10	1	44	16	16	24	12	11	29
6	6	-21	-14	16	12	-9	1	46	14	18	25	7	12	32
7	3	-26	-7	15	12	-10	12	44	12	17	22	6	16	29
8	0	-25	-5	16	10	-10	10	46	13	20	20	6	17	32
9	-4	-24	-1	18	8	-8	10	46	13	23	19	4	21	28
10	-8	-26	2	22	4	-10	16	43	12	23	20	0	24	
11	-10	-25	4	25	2	-7	22	39	11	23	17	1	24	
12	-8	-27	6	23	5	-5	27	33	11	20	18	6	9	
(iii) Intermediate goods														
Year	4	-12	3	21	13	-7	3	37	13	23	19	2	16	
Quarter 1	14	-7	-7	21	18	-1	-10	38	21	12	22	10	3	26
2	8	-13	-1	20	14	-8	-6	46	14	19	22	2	10	26
3	1	-14	6	20	13	-11	3	42	10	28	19	-4	20	22
4	-6	-14	15	24	6	-10	21	30	9	26	11	0	26	
Month 1	17	-6	-10	21	20	2	-9	32	24	9	25	10	2	25
2	12	-7	-8	20	20	0	-12	39	22	12	21	11	2	25
3	9	-8	-5	23	16	-6	-11	42	18	13	21	7	4	28
4	11	-11	-5	20	16	-7	-10	48	16	17	21	4	6	26
5	9	-15	0	22	13	-8	-8	46	15	18	23	0	9	27
6	6	-14	2	20	14	-9	-2	46	11	22	22	0	15	26
7	2	-16	6	19	13	-12	4	43	7	26	21	-6	19	26
8	0	-15	8	19	13	-11	0	43	10	28	20	-3	20	21
9	0	-10	3	23	13	-11	6	42	12	27	20	-3	21	21
10	-5	-15	13	24	9	-14	13	37	8	27	14	-1	24	
11	-6	-14	15	24	7	-10	22	32	8	25	10	-4	28	
12	-6	-14	18	23	3	-9	27	25	9	24	11	3	29	

(a) Data coverage is as follows. Industrial production: EC 6 plus UK, 1971 to 1981; Denmark included as from January 1974 and Ireland as from July 1975; EC totals not available before 1971 owing to lack of data for Italy. Survey series: EC 6 excluding Netherlands: 1968 to November 1971; Netherlands included as from December 1971; Denmark, on a quarterly basis, from 1980; UK data were added, for production expectations, as from June 1976, and for orders and stocks as from November 1977.

(b) Excluding building and construction and, in the case of France, the foodstuffs and beverages industry.

(c) Details of the questions are given on the last page of earlier issues.

Sources: Eurostat and European Community business surveys.

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