

# EUROPEAN ECONOMY

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

No 6 — June 1982

Supplement B

## Economic prospects - business survey results

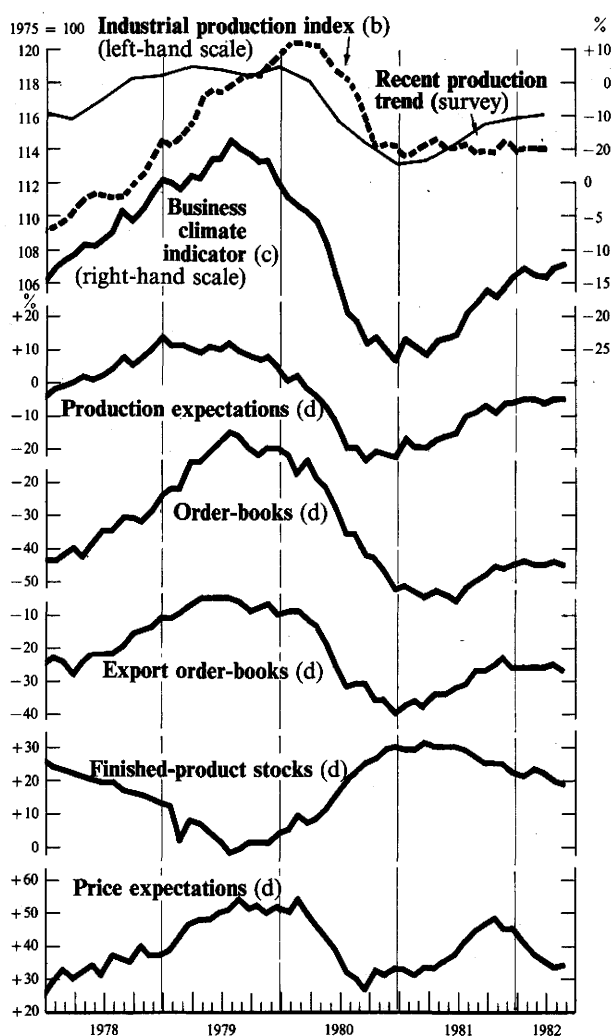
**Slightly improved business climate in the Community.** — The business climate indicator for Community industry improved in May by 0.5 percentage points, according to the most recent survey results. The chief executives covered by the survey, however, reported no change in the industrial production outlook (see Graph 1 and Table 1), confirming the stagnation in industrialists' sentiment on this point observed since November 1981: the net balance of chief executives expecting industrial production to fall in the months ahead has remained virtually unchanged since November 1981, at between 5 and 6%. By contrast, judgements on stocks of finished products — the second component of the business climate indicator — improved further in May 1982, by 1 percentage point. The majority of chief executives judging stocks of finished products in manufacturing industry to be above normal has declined by 6 percentage points since November 1981, coming back to 19% (a level seen for the last time in July 1980). Judgements on order-books deteriorated in May by 1 percentage point, with a net balance of 45% of respondents considering orders to be below normal. The net balance of opinion on export order-books also fell, by 2 percentage points, and is now lower than at any time since the third quarter of 1981. Industrial selling-price expectations increased by 1 percentage point between April and May but this has not changed the underlying downward trend of this series.

**The business climate in Member States.** — In the Federal Republic of Germany, the most recent survey results, for May 1982, indicated — after an improvement in April — a decline of 2 percentage points in the industrial business climate. This indicator has thus fallen back to the pessimistic level of the last quarter of 1981 and, taken together with other results for May, suggests that the conjunctural situation in Germany is still rather poor. The decline of the business climate index in the Federal Republic of Germany in May was mainly caused by a marked deterioration in production expectations (–3 percentage points). At the same time, assessments by German chief executives on stock levels of finished products declined by 1 percentage point. Judgements on total order-books as well as on export order books in May by comparison with April 1982 were more pessimistic by 2 and 4 percentage points, respectively, while price expectations were unchanged.

In France, the industrial business climate indicator continued to improve in May 1982, by a marked 4 percentage points, due to better production expectations (+3 percentage points) and a more optimistic evaluation of stock levels of finished products (by 5 percentage points). A negative aspect of opinion in French industry is represented by judgements on order-books (–2 percentage points) and on export order-books (–3 percentage points) in May 1982.

*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 ±...%). 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)



For notes, see overleaf, column 1.

The May survey results for Italy show an abrupt improvement in business sentiment, of 6 percentage points. The Italian business climate indicator, which had deteriorated sharply in March, has now regained the level reached at the beginning of 1982. Of the two components of the indicator, production expectations improved by 10 percentage points and finished-stock judgements by 2 percentage points. Italian order-book assessments in general, opinion on export order-books and selling price expectations for industrial products in May were all virtually unchanged.

The industrial business climate indicator for the United Kingdom fell in May by 2.5 percentage points, back almost to the pessimistic level of February 1982. A net balance of chief executives expected in May — for the first time since June 1981 — that industrial production would decline in the months ahead. Judgements on the level of stocks of finished products also deteriorated, by 2 percentage points. On the other hand, total order-book judgements have recovered strongly, by 6 percentage points since April, thereby reaching a level seen for the last time in April 1980.

In the Netherlands, Belgium and Ireland, the industrial business climate indicator weakened in May by between 1 and 2.5 percentage points. Industrial production expectations declined in the Netherlands by 2 percentage points and in Ireland by 6 percentage points, while they were unchanged in Belgium. By contrast, in Luxembourg, an improvement in industrial production expectations was reported last month.

**Production outlook in the consumption, investment and intermediate goods industries.** — A substantial advance (of 4 percentage points) in production expectations in Community consumer goods industries is revealed by the May survey. This result shows, for the first time since April 1980, an optimistic majority (+2%) expecting industrial production in the consumer goods sector to increase in the months ahead. Growing optimism of chief executives has been reported in France (by 13 percentage points) where a net balance of 30% of industrialists now expect an increase in consumer goods production in the months ahead. In Italy, production expectations in the consumer goods sector advanced, in May, by 12 percentage points and in the Netherlands, by 3 percentage points.

Intermediate goods production expectations in May were unchanged at the Community level while industrialists in the investment-goods sector were slightly more pessimistic concerning the production outlook, by 1 percentage point. Only in three Member States — Italy (+10 percentage points), Belgium (+6 percentage points) and Ireland (+30 percentage points) — were chief executives more optimistic concerning the production outlook in the investment goods sector in May than in April. In the other Member States, industrialists expect a decline of production in the investment goods sector in the months ahead.

**The business outlook in a longer-term perspective.** — The current, moderate, up-turn in the business climate indicator has so far continued for 17 months, compared to 30 months in the 1967-1969 recovery, 20 months in 1971-1973, 17 months in 1975-1976 and 23 months in 1977-1979. In the course of the current improvement in business confidence, the indicator has risen by only 14.5 points, whereas in the first 17 months of the four preceding recovery periods the indicator rose by 30, 29, 43.5 and 15.5 percentage points, respectively. The survey data thus confirm the impression that the present upswing is of very moderate proportions. The duration and the amplitude of the currently anticipated up-turn in industrial activity cannot, of course, be predicted by simple extrapolation of business-survey results. The recent stagnation in the industrial business climate corresponds, however, to the very weak performance of industrial production in the Community.

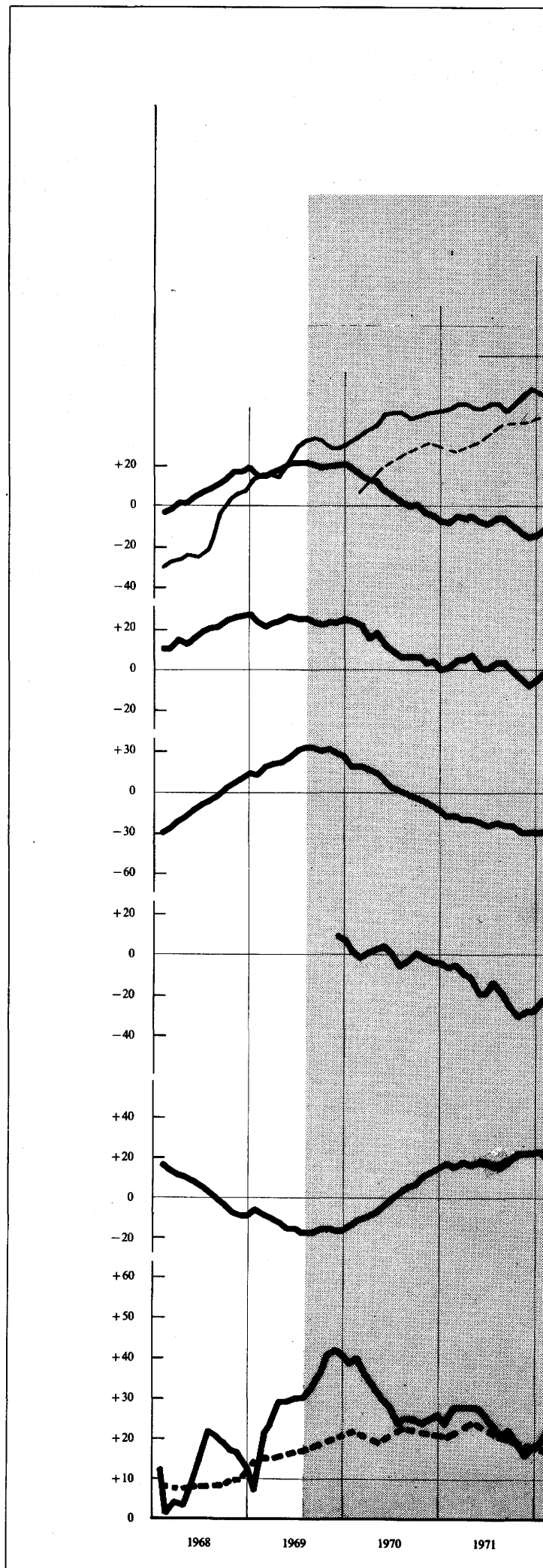
Production expectations, which have led the business climate indicator and, *a fortiori*, the industrial production trend, reached a recessionary trough in September 1980 and have now improved, albeit slowly, over a period of 20 months. The four preceding periods of recovery in industrial production expectations only lasted between 17 and 20 months. The fact that no growth of industrial output has occurred during a sustained phase of improvement in industrial business sentiment suggests either that the production statistics are understating activity in the industrial sector or that industrialists are measuring short-term production performance against a declining medium-term trend. The weak amplitude of the improvement in production expectations, which in the current episode is less marked than that of the business climate indicator, is consistent with the very flat trend of industrial production.

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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).

Source: European Community business surveys and Eurostat.



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

Historical data, 1968 to 1982 (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.)

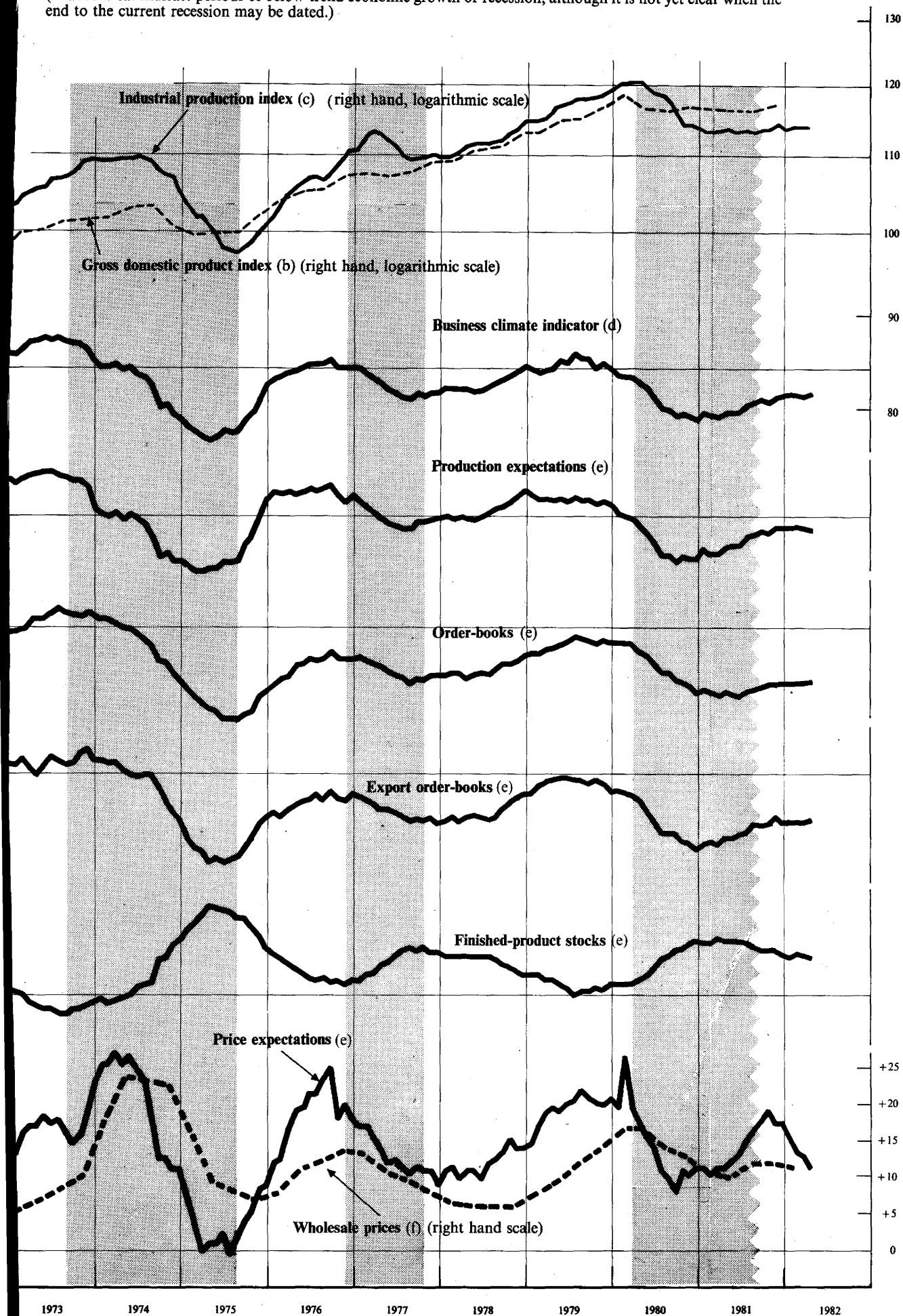






TABLE 3 (cont.): Monthly survey of manufacturing industry and related economic time-series: EC 9

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Net balances, %															
<b>Selling-price expectations (e)</b>															
year	11	30	29	24	27	44	48	20	48	34	35	49	38	40	:
quarter															
1	0	20	41	27	23	41	60	18	38	42	32	43	50	32	38
2	5	27	29	27	28	46	62	15	50	34	31	50	42	35	:
3	18	29	24	22	25	42	45	13	61	33	36	52	29	44	:
4	16	42	26	18	31	49	33	26	46	29	39	52	33	46	:
month															
1	-3	10	42	27	22	38	61	26	34	44	32	39	49	33	41
2	0	20	38	27	23	42	61	19	35	44	33	40	53	31	37
3	3	23	35	28	26	44	64	10	43	42	30	48	49	33	36
4	3	29	32	28	27	44	61	12	49	37	32	48	46	33	33
5	7	28	30	28	28	47	63	12	49	34	32	49	42	35	34
6	15	29	26	26	28	45	59	15	54	34	30	50	39	37	:
7	22	30	24	23	27	46	51	10	54	34	35	51	33	41	:
8	20	33	25	21	25	42	47	14	57	32	35	54	31	43	:
9	19	36	25	22	23	39	40	15	58	32	36	51	26	45	:
10	17	41	24	20	26	43	35	21	46	32	41	53	33	49	:
11	15	43	26	16	29	48	32	27	50	32	38	51	31	45	:
12	14	41	27	18	36	56	32	28	46	28	38	52	33	45	:
Percentage increase on the corresponding period of the previous year															
<b>Wholesale prices (f) of manufactured goods</b>															
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	11,5	:
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	10,9	11,7
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	10,8	:
3	:	3,7	6,2	5,3	3,6	8,9	23,7	9,5	12,4	9,8	6,2	12,2	14,3	12,0	:
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	12,2	:

- (a) Total of available country data.  
 (b) The data cover the Federal Republic of Germany (gross national product), France, Italy and the United Kingdom, representing approximately 80 % of Community production. The 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:

- estimate of production trend in recent months: up, unchanged, down?
- 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:

- B - Belgium: Banque Nationale de Belgique
- DK - Denmark: Danmarks Statistik
- D - Federal Republic of Germany: IFO (Institut für Wirtschaftsforschung)
- GR - Greece: Institute of Economic and Industrial Research
- 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)
- L - Luxembourg: STATEC (Service Central de la Statistique et des Etudes Economiques)
- NL - Netherlands: CBS (Centraal Bureau voor de Statistiek)
- 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. 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'.

### Prices (excluding VAT) in Luxembourg

	ECU	BFR	IRL	UKL	USD	
'European Economy' (3 issues per year)	19.64	800	13.50	11.60	22.80	The annual subscription runs from 1 January to 31 December of each year.
<b>Supplements</b>						
Series A - 'Recent economic trends' (11 issues per year)	9.82	400	6.75	5.80	11.50	Payments to be made only to the agents in the countries listed on page 3 of the cover of European Economy.
Series B - 'Economic prospects - business survey results' (11 issues per year)	9.82	400	6.75	5.80	11.50	
Series C - 'Economic prospects - consumer survey results' (3 issues per year)	3.69	150	2.50	2.20	4.20	
All three supplements	23.32	950	16.00	13.80	27.00	These are surface mail rates; for air subscription rates please apply to the agents.
Combined subscription - 'European Economy' and supplements	42.97	1 750	29.40	25.50	50.00	

