

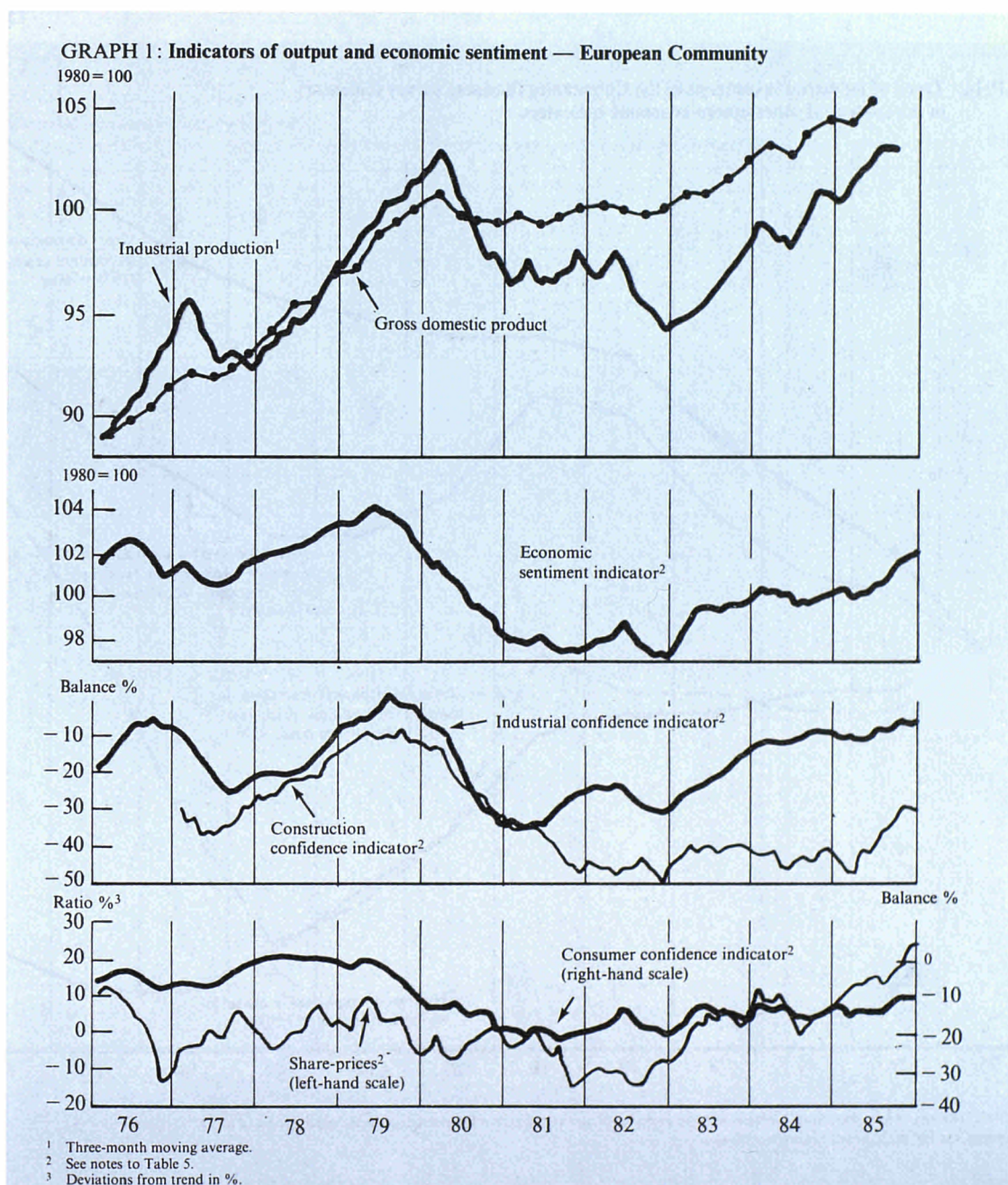
EUROPEAN ECONOMY

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

Supplement B — No 1 — January 1986

*In this number:
industrial investment in 1985
and prospects for 1986*

Business and consumer survey results



Industrial investment continues to grow strongly. — European industry plans to increase its investment spending by 10% in 1986 compared with 1985. After adjustment for price rises, this means an expected real increase of some 7%. Industrial investment thus remains buoyant, though without quite matching the high growth rates of 1985, when European industrial firms increased their investment spending by 15% in nominal terms and by 10% in real terms, almost precisely as planned a year ago.

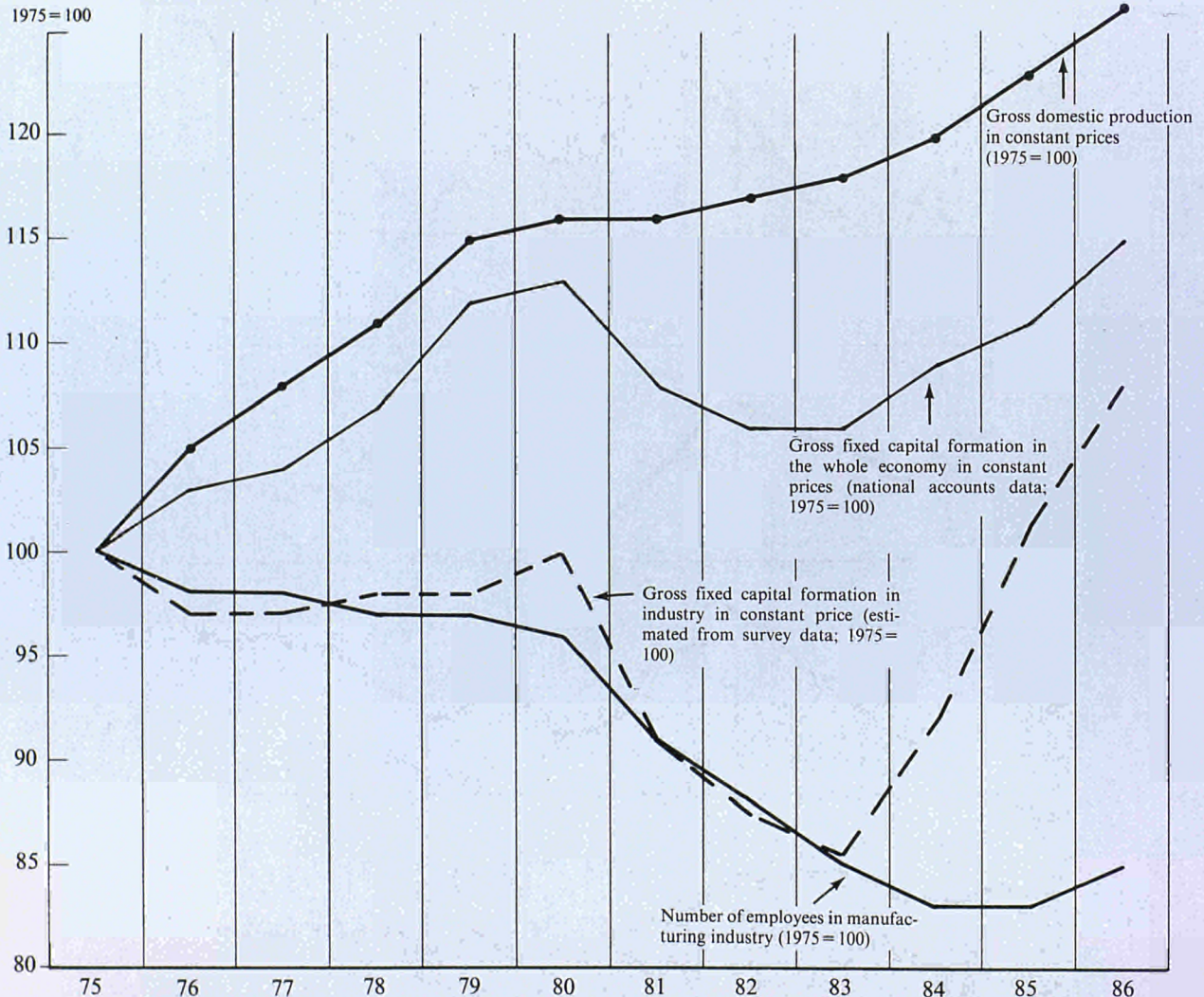
Industrial investment in 1986 is expected to be some 43% up in value terms and some 28% up in real terms on the cyclical low in 1983. This shows just how much investment activity has gathered momentum in the recent upturn. The volume of investment planned by firms for 1986 is at the level which it would have reached arithmetically if the investment trend observed in the period 1976-80 had continued (see Graph 2). However, if the severe investment shortfall in the period 1981 to 1983 is to be made up, at least in part, it will not be sufficient for investment to continue on this earlier trend in the years ahead. It needs to continue for several years to grow as buoyantly as in the period 1984-86 if there is to be any appreciable reduction in unemployment. So far, the numbers in industrial employment have increased in only a few member countries (mainly Denmark, the Federal Republic of Germany, the Netherlands and Luxembourg), but not at Community level. However, the downward trend in the numbers employed in European industry, which has continued for more than ten years, has at least been arrested

and there are at last signs of a slight increase in 1986¹. A contributory factor here is not only the level, but also the structure of investment. Investment in new capacity is increasing as a proportion of total investment, and rationalization investment is not as predominant as before². A typical example of this trend in the Community is the performance in the Federal Republic of Germany, where—in contrast to most of the other member countries—the question on the purpose of the investment has been included in the survey for many years: whereas during the cyclical trough in German fixed investment activity in 1982 only 20% of industrial firms indicated extra capacity as the main reason for their investment, the proportion rose to

¹ See European Economy, Supplement A, October 1985 (No 10).

² Questions on the purpose of the investment are not yet included in the Community investment survey in all the member countries, and where figures are available, they are not directly comparable. Nevertheless a general trend towards the extension of capacity is emerging: from 1985 to 1986, the proportion of industrial firms investing primarily in new capacity rose from 26% to 30% in the Federal Republic of Germany, from 31% to 32% in France, from 28% to 31% in Italy and from 20% to 23% in the United Kingdom (in the case of the United Kingdom, this increase is considerable, despite the low level, since the equivalent average annual proportion in the period 1980-1982 was only 11%). In Belgium, an increase in the proportion of expansion investment is so far evident only in the capital goods industries and in the industries satisfying consumer demand, whereas in the primary industries and food industries in particular investment in rationalization projects has actually increased further. Taking the average for Belgian industry, therefore, the proportion of total investment accounted for by expansion investment is expected to decline from 41% in 1985 to 38% in 1986.

GRAPH 2: Trend of industrial investment in the Community (business survey indicator) in the context of other macro-economic indicators



1985 and 1986: Estimates of the Commission's services with the exception of gross fixed capital formation in industry which are based on EC investment surveys.
Source: Eurostat and EC-Business and Investment Surveys

TABLE 1: Industrial investment in manufacturing industry by Member State
% change in relation to preceding year

| Year | B(d)(i) | DK(d) | D | GR(d)(g) | F | IRL(d)(h) | I | L(e) | NL | UK(d) | EUR |
|----------------------|---------|-------|-----|----------|-----|-----------|-----|------|-----|-------|-----|
| 1985 | | | | | | | | | | | |
| in values terms | +7 | +37 | +16 | +51(g) | +16 | -5 | +12 | +17 | +23 | +10 | +15 |
| in volumes terms (a) | +3 | +33 | +14 | +32 | +10 | -11 | +2 | +14 | +21 | +4 | +10 |
| 1986 | | | | | | | | | | | |
| in values terms | +16 | +7 | +10 | +69(g) | +3 | +24 | +15 | +20 | +10 | +11 | +10 |
| in volumes terms (a) | +13 | +5 | +8 | +41 | +1 | +19 | +8 | +17 | +9 | +6 | +7 |

TABLE 2: Industrial investment in the EC manufacturing industry

| Data of survey | A. % change in value in relation to preceding year | | | | | | | | B. % change in volume in relation to preceding year (a) | | | | | | | |
|------------------|--|------|------|------|------|------|------|------|---|------|------|------|------|------|------|------|
| | Years to which data relate | | | | | | | | Years to which data relate | | | | | | | |
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
| March/April 1980 | 11 | 16 | | | | | | | 0 | 4 | | | | | | |
| Oct./Nov. 1980 | | 13 | 6 | | | | | | | 1 | -3 | | | | | |
| March/April 1981 | | 14 | 3 | | | | | | | 2 | -1 | | | | | |
| Oct./Nov. 1981 | | | -1 | 3 | | | | | | | -9 | -3 | | | | |
| March/April 1982 | | | -1 | 3 | | | | | | | -9 | -3 | | | | |
| Oct./Nov. 1982 | | | | 1 | 5 | | | | | | | -5 | -1 | | | |
| March/April 1983 | | | | 2 | 4 | | | | | | | -4 | -2 | | | |
| Oct./Nov. 1983 | | | | | 3 | 10 | | | | | | | -3 | 5 | | |
| March/April 1984 | | | | | 3 | 13 | | | | | | | -2 | 7 | | |
| Oct./Nov. 1984 | | | | | | 12 | 14 | | | | | | | 7 | 9 | |
| March/April 1985 | | | | | | 12 | 16 | | | | | | | 7 | 11 | |
| Oct./Nov. 1985 | | | | | | | 15 | 10 | | | | | | | 10 | 7 |

TABLE 3: Industrial investment survey by branch

Results of the Oct./Nov. 1985 investment survey, % change in value, over the preceding year

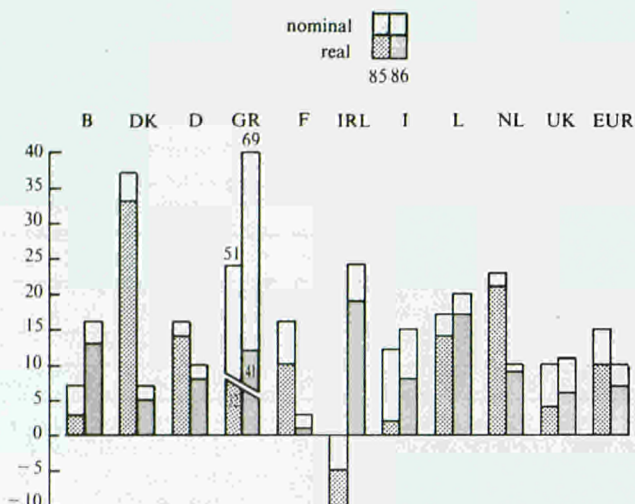
| | Basic materials industries (b) | | Metallurgical industries | | Mechan. & Elect. industries | | Processing industries (c) | | Extractive | | Food industries | | Total, all industry | |
|----------------|--------------------------------|------|--------------------------|------|-----------------------------|------|---------------------------|------|------------|------|-----------------|------|---------------------|------|
| | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 |
| B(i) | +28 | -24 | +27 | +42 | +7 | +31 | -17 | +15 | : | : | -24 | -17 | +7 | +16 |
| DK | +63 | +15 | -5 | +43 | +45 | +1 | +49 | +10 | : | : | +2 | -2 | +37 | +7 |
| D | +10 | +9 | +51 | -23 | +18 | +18 | +12 | +7 | +15,5 | +16 | 0 | +2 | +16 | +10 |
| GR (g) | +125 | +109 | -48 | -15 | +49 | +10 | +47 | +36 | : | : | +11 | +2 | +51 | +69 |
| F | +28 | +7 | +17 | -9 | +19 | +10 | +8 | -7 | +17 | +27 | -4 | -9 | +16 | +3 |
| IRL (h) | -5 | -67 | +103 | -24 | +102 | +11 | +29 | +11 | : | : | -11 | +50 | -5 | +24 |
| I | +9 | +21 | +16 | -6 | +13 | +19 | +16 | +5 | +55 | +28 | -9 | +21 | +12 | +15 |
| L | -24 | +34 | +18 | -5,5 | +16 | -19 | +183 | +134 | : | : | +13 | -37 | +17 | +20 |
| NL | +9 | -5 | +31 | +19 | +23 | +2 | +18 | +19 | +41 | +22 | +32 | -2 | +23 | +10 |
| UK | +25 | +10 | +8 | -3 | +2 | +14 | -1 | +9 | : | : | -12 | +12 | +10 | +11 |
| EUR (f) | +18 | +8 | +28 | -7 | +15 | +15 | +11 | +6 | : | : | +1 | +2 | +15 | +10 |

TABLE 4: Industrial investment survey—all branches
% change in value in relation to preceding year

| Year to which data relate: | 1981 | | 1982 | | 1983 | | 1984 | | 1985 | | 1986 | | | | | | | |
|----------------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|----------------|-----|-----|-----|-----|-----|-----|
| | Oct./Nov. 1981 | March/April 1982 | Oct./Nov. 1981 | March/April 1982 | Oct./Nov. 1982 | March/April 1983 | Oct./Nov. 1983 | March/April 1984 | Oct./Nov. 1984 | March/April 1985 | Oct./Nov. 1985 | Oct./Nov. 1985 | | | | | | |
| B (d)(i) | +4 | +4 | -9 | -3 | +10 | +18 | -7 | -9 | -2 | -2 | +5 | +15 | +13 | +10 | +3 | +12 | +7 | +16 |
| DK (d) | : | : | : | : | +11 | +4 | +4 | +11 | +18 | +19 | +20 | +60 | +54 | +44 | +18 | +40 | +37 | +7 |
| D | 0 | -1 | 0 | 0 | -2 | -2 | +3 | +2 | +2 | +1 | +2 | +5 | +4 | +1 | +10 | +14 | +16 | +10 |
| GR(d)(g) | +38 | +42 | -2 | -6 | -19 | +6 | -23 | -35 | -49 | -36 | +41 | +23 | -1 | -34 | +95 | +82 | +51 | +69 |
| F | -1 | +3 | +6 | +5 | +4 | +6 | +7 | +6 | +6 | +5 | +15 | +20 | +18 | +19 | +6 | +13 | +16 | +3 |
| IRL(d)(h) | -16 | -26 | +33 | +54 | 0 | +27 | +5 | -18 | -24 | -1 | +19 | +13 | -31 | +21 | +16 | +9 | -5 | +24 |
| I | +14 | +10 | : | +6 | +8 | +13 | +13 | +7 | +3 | +3 | +8 | +11 | +6 | +8 | +29 | +14 | +12 | +15 |
| L(e) | +17 | -10 | -20 | +24 | +1 | +34 | +17 | -39 | +13 | +20 | -6 | -22 | +4 | +17 | -6 | +4 | +17 | +20 |
| NL | -6 | -2 | -2 | +6 | -1 | 0 | +11 | +11 | +6 | +5 | +25 | +29 | +27 | +29 | +15 | +24 | +23 | +10 |
| UK(d) | -11 | -11 | +7 | +5 | -4 | -3 | +5 | +2 | +2 | +3 | +15 | +16 | +16 | +19 | +13 | +15 | +10 | +11 |
| EUR | -1 | -1 | +3 | +3 | +1 | +2 | +5 | +4 | +3 | +3 | +10 | +13 | +12 | +12 | +14 | +16 | +15 | +10 |

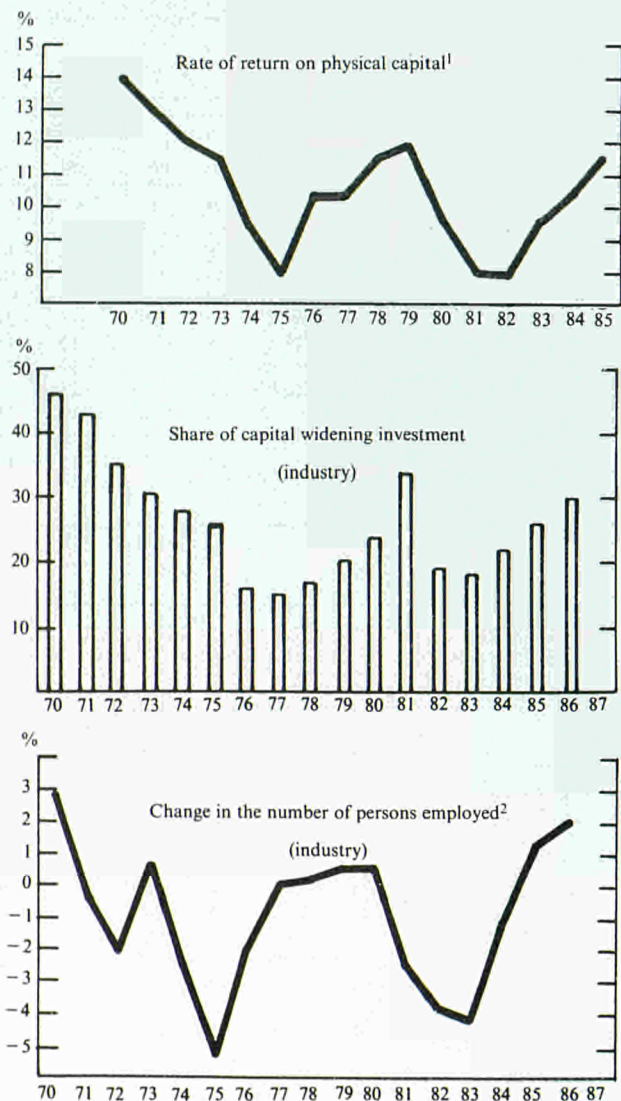
(a) The changes in volume are calculated by dividing the changes in value by the corresponding deflators for gross capital formation. For 1985 and 1986 forecast deflators are used.
 (b) Chemicals, man-made fibres, petroleum refining, rubber processing, etc.
 (c) Manufacture of textiles, footwear, wood, paper, printing and processing of plastic industries.
 (d) Excluding the extractive industries.
 (e) Excluding the extractive industries; including energy and water.
 (f) Weighted total of the above (not given when data are substantially incomplete).
 (g) Mainly due to increase in basic material industries in 1985/86.
 (h) Mainly due to decrease in food industry in 1985 and an expected strong increase in 1986.
 (i) 1986 figures without chemical industry and iron and steel.

GRAPH 3: Industrial investment by Member State in 1985/86; change in % (Investment plans in industry)



Source: European Community Investment surveys.

GRAPH 4: Profits, capital widening investment and employment in the Federal Republic of Germany



¹ Estimate of the German Bundesbank.

² 1986 figure estimated by Commission's Services.

Source: Deutsche Bundesbank, IFO-Institut, Statistisches Bundesamt.

26% in 1985 and now stands at 30%. This means that it is probably back to the level reached during the previous cyclical peak in 1980; on a long-term comparison, however, it is still relatively low (1970: 45%). As Graph 3 shows, there is a relatively close relationship between the return on fixed capital, the proportion of expansion investment and the trend of employment. However, investment in new capacity does not react immediately to a change in profits, but with a time-lag of on average about two years.

Investment in the Member States (see Graph 4). — In 1985 industry in *Denmark* and the *Netherlands* again led the way with well above-average investment growth (+33% and +21% respectively, at constant prices). However, real investment growth reached double figures in a number of other member countries too, namely in the *Federal Republic of Germany* (+14%), *France* (+10%), *Luxembourg* (+14%) and—though due to special influences and not on a broad basis—in *Greece* (+32%)³.

In *Italy* and the *United Kingdom*⁴ the substantial nominal increases in 1985 are reduced to relatively modest levels if adjustment is made for the rise in prices (12% in nominal terms and 2% in real terms in Italy; 10% in nominal terms and 4% in real terms in the United Kingdom). In both cases, therefore, the increase fell short of the investment plans made at the beginning of 1985 (in the United Kingdom, the actual increase was 4% instead of the planned 9%; in Italy, it was 2% instead of the planned 5%). In *Belgium* too, actual investment was not quite up to the level expected at the beginning of the year; instead of the planned real increase of 8%, investment growth amounted to only 3%. The gap between firms' planned investment and the outturn was even wider in *Ireland*. Instead of the expected real increase, there was an average real decline of 11% in Irish industrial investment in 1985; however, this was entirely due to sharp adjustments to investment plans in the food industry. If the food industry is excluded, investment in Irish industry in 1985 rose by 14%, equivalent to some 8% in real terms. Real industrial investment growth in 1985 was higher than expected at the beginning of the year in the Federal Republic of Germany (+14% as against +13%)*, in France (+10% as against +7%)* and in Luxembourg, where, instead of remaining static as expected, investment rose appreciably in real terms (+14%).

Investment growth in the member countries seems likely to be much more balanced in 1986. In contrast to the previous two years, spectacular increases are not expected in *Denmark* and the *Netherlands* in 1986, although investment will continue on an upward trend in both countries (Netherlands +9%, Denmark +5%, at constant prices). In the *Federal Republic of Germany*, *Italy* and the *United Kingdom*⁵ too, the real investment growth expected by firms differs only a little from the Community average (+7%). Somewhat stronger investment growth is planned in *Belgium* (+13%)*, in *Luxembourg* (+17%)*, in *Ireland*⁶ (+19%)* and in *Greece*⁷ (+41%).

Investment intentions by industrial branch (see Table 3). — Firms in the *capital goods industries* (mechanical engineering, electrical engineering and motor vehicle construction) are planning to step up investment this year just as vigorously as in 1985 (+15% in nominal terms). This is a confirmation of the tendency for the capital goods industries to be their own best customers in the initial years of an investment revival. Investment in the *metal*

* At constant prices.

³ In Greece, the rise is mainly attributable to the surge in investment in state-owned firms in the primary sector. If investment in electricity and water supply schemes is included, the nominal increase in investment in 1985 is brought down to 13%; in real terms this means a 6% decline.

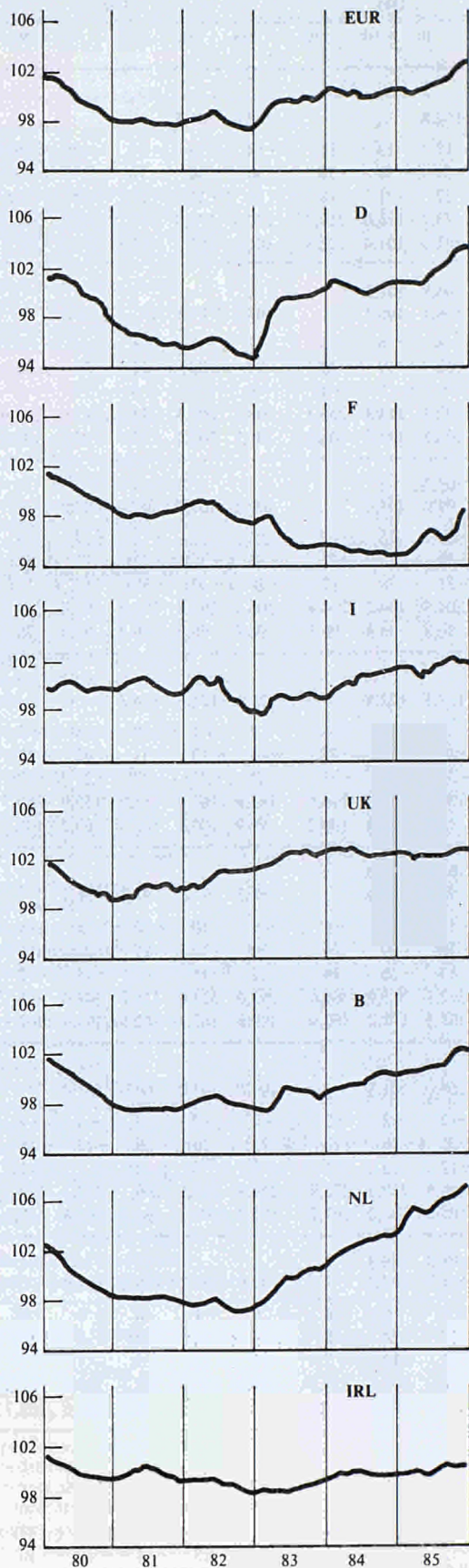
⁴ In the United Kingdom leasing investment increased sharply in 1985, mainly for tax reasons, accounting for almost 20% of total industrial investment in 1985, compared with just under 15% in previous years. If leasing investment is included, real investment growth in industry amounted to 7% in 1985.

⁵ If leasing investment is included, however, a slight decline seems likely in the United Kingdom in 1986.

⁶ The main factor being the pronounced increase in investment expected in the food industry.

⁷ The key determinant of the level of investment in Greece was once again large-scale projects undertaken by a number of State enterprises in the primary sector. For industry, including power and water, investment in 1986 is expected to rise by 28% in nominal terms and 10% in real terms.

GRAPH 5: Economic Sentiment Indicator¹



¹ The economic sentiment indicator is a composite measure in which the industrial confidence indicator and the consumer confidence indicator are given equal weight, while the construction confidence indicator (an average of two series of the EC survey of the construction industry, namely employment expectations and judgements on the level of order-books) and the share-price index are attributed half the weight of each of the other two. The share-price index is included in the composite indicator in ratio-to-trend form, in order to separate short-term or cyclical variations from long-term increases in the value of shares. The long-term trend of the series is calculated using the NBER Bry-Boschan growth cycle programme. For a fuller description of the economic sentiment indicator and its components, see the technical note in the November 1982 issue of this Supplement.

industries in the Community as a whole is expected to decline in 1986 by around 7%. This has to be seen against the background of a sharp expansion in 1985, when firms in the iron and steel industry in particular boosted investment in order to qualify for the Government grants available until the end of the year for restructuring and modernization. However, judging by the plans announced by firms, investment will also be less buoyant in most other *primary industries* in 1986. After climbing by 18% in 1985, it is expected to increase by only 8% in nominal terms. For firms in the *industries satisfying consumer demand* too, there is still little incentive to undertake any major expansion of investment in 1986 (expected increase of 6% compared with 11% in 1985). The emerging upturn this year in private consumption in Europe may, however, prompt firms to revise their investment plans slightly upwards. Investment in the food industry in the Community will probably remain steady, the expected increases in Ireland, Italy and the United Kingdom being balanced by the flat or downward trend of investment in most other Member States.

Further rise in EC leading indicator. — The EC economic sentiment indicator showed a further slight improvement in December (from 102.0 to 102.1; 1980 = 100). This was due primarily to the industrial confidence indicator and the share-price index; the consumer confidence indicator, by contrast, remained unchanged and the fourth component of the composite indicator, confidence in the construction industry, dipped a little.

Broken down by Member state, the composite indicator in December showed the largest month-to-month increases in France (from 98.3 to 98.8)* and the Netherlands (from 107.3 to 107.7)*. The rise was somewhat smaller in the Federal Republic of Germany (from 104.0 to 104.2)*. In the other Member States, the indicator remained unchanged or fell slightly (see Table 5).

Taking 1985 as a whole, the process of economic recovery—measured in terms of the composite indicator—made the greatest headway in the Netherlands and the Federal Republic of Germany (gains of 3.6 and 3.5 points respectively). In France and Belgium too, the leading indicator rose appreciably (by 3.3 and 2.3 points respectively). In France, the indicator is still at a low level (98.8; 1980 = 100) despite an almost continuous climb since the beginning of 1985 that was only briefly interrupted in the middle of the year. In the United Kingdom, it has gained only 0.2 of a point since the beginning of 1985 while in Italy it fell back in December to its level of the previous January (see Graph 5).⁸

Small improvement in industrial confidence for the Community. — The recent rise in December (from -6 to -5; balance) is attributable to two of the indicator's three components, production expectations for the coming three months and assessments regarding the level of order-books. Views on the third component, the stock of finished products, were slightly more unfavourable than in the preceding months. The further overall improvement in the order-book situation reported by firms in the Community was especially significant even though views on export orders became more pessimistic (from -15 to -17; balance). Domestic demand in most member States has evidently been strong enough recently to outweigh the more sluggish trend of export demand. Among the positive factors for the future economic trend is the fall in the price expectations of industrial firms in the Community (+19 in December 1985 compared with +29 a year earlier).

Consumer climate has improved in the second half of 1985, but remained stable in December — The results of the consumer surveys conducted in Belgium, the Federal Republic of Germany, Italy and the United Kingdom in December 1985 are now available. Taken together with the changes in consumer behaviour throughout 1985, they suggest that consumer confidence in the Community picked up in the closing months of

* 1980 = 100.

⁸ Owing to insufficient data, it has not yet been possible to compile a composite indicator for Denmark, Luxembourg and Greece.

TABLE 5: Indicators of output and economic sentiment

| | Range | | Range | | 1985 | 1985 | | | 1985 | | | | | |
|---|-----------------|-------------------|-----------------|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Peak 1972/73 | Trough 1974/75 | Peak 1979/80 | Trough 1981/83 | | II | III | IV | July | Aug. | Sept. | Oct. | Nov. | Dec. |
| B <i>gross domestic product</i> 1980 = 100 | : | : | : | : | : | : | : | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 102,5 | 76,5 | 106,3 | 92,4 | : | 103,8 | : | : | 102,9 | 101,5 | : | : | : | : |
| 1. industrial confidence indicator | +19 | -56 | -4 | -35 | -13 | -17 | -13 | -11 | -14 | -15 | -11 | -10 | -10 | -12 |
| 2. construction confidence indicator | +9 | -36 | -7 | -65 | -40 | -39 | -38 | -36 | -36 | -40 | -37 | -37 | -33 | -37 |
| 3. consumer confidence indicator (a)(d) | 7,0 | -18,0 | -7,0 | -31,0 | -21 | -22 | -21 | -18 | -21 | (-21) | (-21) | -18 | (-18) | (-18) |
| 4. share-price index (d)(e) | 155,1 | 98,0 | 114,3 | 75,0 | 185,3 | 173,7 | 176,6 | 219,7 | 172,3 | 174,3 | 183,3 | 208,1 | 224,3 | 226,7 |
| = 5. economic sentiment indicator | 107,9 | 99,4 | 103,0 | 97,5 | 101,5 | 101,0 | 101,4 | 102,8 | 101,2 | 101,1 | 101,8 | 102,5 | 103,1 | 102,9 |
| D <i>gross domestic product</i> (c) 1980 = 100 | 85,1 | 83,3 | 101,2 | 98,9 | : | 104,8 | 107,2 | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 92,0 | 82,4 | 103,1 | 91,4 | : | 104,1 | 106,1 | : | 108,0 | 104,8 | 105,3 | 106,9 | : | : |
| 1. industrial confidence indicator | +10 | -49 | +2 | -40 | -6 | -8 | -6 | -2 | -7 | -6 | -4 | -4 | -2 | -1 |
| 2. construction confidence indicator | -4 | -72 | +11 | -64 | -54 | -62 | -49 | -38 | -54 | -50 | -45 | -38 | -38 | -41 |
| 3. consumer confidence indicator (d) | : | -22,2 | 9,0 | -31,0 | -7 | -9 | -7 | -4 | -8 | -7 | -6 | -3 | -5 | -5 |
| 4. share-price index (d)(e) | 109,0 | 75,2 | 115,6 | 97,6 | 209,4 | 192,3 | 213,8 | 256,3 | 208,3 | 209,3 | 223,9 | 243,0 | 257,9 | 268,0 |
| = 5. economic sentiment indicator | 103,8 | 97,0 | 103,6 | 94,7 | 102,0 | 101,1 | 102,2 | 104,0 | 101,7 | 102,0 | 102,8 | 103,7 | 104,0 | 104,2 |
| F <i>gross domestic product</i> 1980 = 100 | 85,4 | 84,2 | 99,8 | 102,4 | : | 105,3 | : | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 96,7 | 82,2 | 105,2 | 94,8 | : | 99,0 | 101,0 | : | 101,5 | 101,5 | 100,0 | 100,8 | : | : |
| 1. industrial confidence indicator | +29 | -49 | +5 | -39 | -17 | -20 | -15 | -13 | -15 | -15 | -13 | -13 | -14 | -12 |
| 2. construction confidence indicator | : | : | -17 | -57 | -38 | -39 | -32 | -32 | -32 | (-32) | (-32) | -32 | (-32) | (-32) |
| 3. consumer confidence indicator (a)(d) | : | -9,0 | 3,0 | -27,0 | -23 | -21 | -30 | -17 | -30 | (-30) | (-30) | -17 | (-17) | (-17) |
| 4. share-price index (d)(e) | 86,6 | 53,6 | 101,2 | 82,7 | 201,7 | 204,5 | 204,2 | 214,3 | 205,3 | 203,8 | 203,4 | 195,4 | 213,2 | 234,3 |
| = 5. economic sentiment indicator | 107,8 | 97,6 | 101,8 | 95,1 | 96,7 | 96,8 | 96,4 | 98,1 | 96,4 | 96,0 | 96,7 | 97,3 | 98,3 | 98,8 |
| IRL <i>gross domestic product</i> 1980 = 100 | : | : | : | : | : | : | : | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 80,4 | 72,3 | 103,8 | 99,6 | : | 127,1 | 122,8 | : | 121,6 | 122,6 | 124,2 | : | : | : |
| 1. industrial confidence indicator | : | -41 | +20 | -40 | -7 | -13 | -2 | -6 | -7 | +1 | 0 | -4 | -7 | -7 |
| 2. construction confidence indicator | : | : | : | : | -33 | -30 | -36 | -29 | -45 | -13 | -51 | -42 | -12 | -32 |
| 3. consumer confidence indicator (d) | : | -41,0 | 12,0 | -44,0 | -29 | -31 | -27 | -27 | -27 | (-27) | (-27) | -27 | (-27) | (-27) |
| 4. share-price index (d)(e) | 85,8 | 29,9 | 112,2 | 79,4 | 147,7 | 136,6 | 155,0 | 164,8 | 142,9 | 161,0 | 161,0 | 155,9 | 169,7 | 168,7 |
| = 5. economic sentiment indicator | 109,1 | 96,7 | 103,6 | 98,1 | 100,0 | 99,7 | 100,3 | 100,2 | 99,9 | 100,4 | 100,3 | 100,2 | 100,3 | 100,2 |
| I <i>gross domestic product</i> 1980 = 100 | 80,4 | 77,2 | 101,2 | 98,2 | : | 103,8 | 104,0 | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 87,9 | 72,6 | 104,7 | 98,1 | : | 96,9 | 96,3 | : | 95,3 | 95,7 | 97,8 | 96,1 | : | : |
| 1. industrial confidence indicator | +31 | -59 | +13 | -41 | -10 | -11 | -10 | -8 | -9 | -10 | -10 | -6 | -9 | -8 |
| 2. construction confidence indicator | -8 | -56 | -5 | -51 | -29 | -30 | -29 | -26 | -30 | -30 | -25 | -21 | -29 | -28 |
| 3. consumer confidence indicator (d) | : | -39,0 | -12,1 | -29,6 | -12 | -13 | -10 | -14 | -11 | -11 | -9 | -15 | -12 | -16 |
| 4. share-price index (d)(e) | 169,6 | 68,5 | 185,0 | 116,9 | 286,3 | 252,1 | 315,9 | 361,0 | 292,0 | 313,0 | 335,6 | 344,0 | 356,3 | 382,8 |
| = 5. economic sentiment indicator | 103,8 | 97,4 | 101,6 | 97,6 | 101,8 | 101,5 | 102,2 | 101,9 | 102,0 | 102,1 | 102,5 | 101,9 | 102,1 | 101,7 |
| NL <i>gross domestic product</i> 1980 = 100 | : | : | : | : | : | : | : | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 94,8 | 87,1 | 117,5 | 90,7 | : | 103,0 | 101,3 | : | 101,0 | 103,0 | 100,0 | 101,0 | : | : |
| 1. industrial confidence indicator | +12 | -44 | +4 | -31 | -2 | -2 | -2 | -3 | -1 | -2 | -3 | -4 | -1 | -4 |
| 2. construction confidence indicator | +3 | -47 | +3 | -46 | (-19) | -21 | (-20) | -15 | (-21) | (-20) | -19 | -17 | -18 | -11 |
| 3. consumer confidence indicator (d) | 6,0 | -15,0 | 5,0 | -37,0 | -7 | -12 | -4 | -1 | -4 | (-4) | (-4) | -1 | (-1) | (-1) |
| 4. share-price index (d)(e) | : | 86,3 | 122,8 | 92,8 | 255,1 | 248,6 | 259,3 | 275,9 | 258,9 | 257,8 | 260,7 | 257,3 | 278,5 | 291,9 |
| = 5. economic sentiment indicator | 107,8 | 100,7 | 105,3 | 97,1 | 105,8 | 105,0 | 106,2 | 107,2 | 105,9 | 106,3 | 106,5 | 106,6 | 107,3 | 107,7 |
| UK <i>gross domestic product</i> 1980 = 100 | 94,6 | 91,0 | 102,5 | 97,7 | : | 108,5 | 108,3 | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 92,7 | 89,6 | 110,0 | 93,8 | : | 108,2 | 107,8 | : | 107,0 | 107,3 | 109,1 | 108,8 | : | : |
| 1. industrial confidence indicator | : | : | +9 | -60 | 0 | +1 | 0 | 0 | 0 | -1 | 0 | 0 | 0 | 0 |
| 2. construction confidence indicator | : | : | +7 | -60 | -25 | -28 | -24 | -18 | -24 | (-24) | (-24) | -18 | (-18) | (-18) |
| 3. consumer confidence indicator (d) | : | -32,5 | 14,4 | -25,5 | -10 | -11 | -10 | -7 | -10 | -12 | -9 | -7 | -7 | -7 |
| 4. share-price index (d)(e) | 78,5 | 23,3 | 111,6 | 104,4 | 242,6 | 240,0 | 238,1 | 257,3 | 228,7 | 240,2 | 245,3 | 248,9 | 262,2 | 260,7 |
| = 5. economic sentiment indicator | 103,8 | 97,7 | 104,9 | 98,8 | 102,2 | 102,2 | 102,2 | 102,6 | 102,1 | 102,1 | 102,4 | 102,6 | 102,7 | 102,6 |
| EUR <i>gross domestic product</i> 1980 = 100 | 85,1 | 85,5 | 101,1 | 101,0 | : | 105,6 | : | : | : | : | : | : | : | : |
| <i>index of industrial production</i> | 92,9 | 83,0 | 103,2 | 94,6 | : | 102,6 | 103,4 | : | 103,4 | 103,0 | 103,7 | 103,1 | : | : |
| 1. industrial confidence indicator | +16 | -49 | +3 | -36 | -7 | -9 | -7 | -5 | -8 | -7 | -6 | -5 | -6 | -5 |
| 2. construction confidence indicator | : | : | -1 | -48 | -38 | -40 | -34 | -29 | -35 | (-35) | (-32) | -29 | (-29) | (-30) |
| 3. consumer confidence indicator (a)(d) | 4,6 | -16,7 | 0,8 | -22,0 | -13 | -13 | -13 | -10 | -14 | -13 | -11 | -10 | -10 | -10 |
| 4. share-price index (d)(e) | : | 47,0 | 100,8 | 115,1 | 238,4 | 229,8 | 240,4 | 266,2 | 233,9 | 240,2 | 247,2 | 254,4 | 268,6 | 275,7 |
| = 5. economic sentiment indicator | 107,5 | 96,6 | 104,1 | 97,4 | 101,0 | 100,5 | 101,1 | 102,0 | 100,7 | 101,0 | 101,5 | 101,9 | 102,0 | 102,1 |

(a) Quarterly series are constructed by attributing results of the January, May and October surveys to the first, second and fourth quarters respectively. Third quarter data are interpolated between second and fourth quarter values.

(b) Weighted total of quarterly figures for the Federal Republic of Germany, France, Italy and the UK.

(c) For the Federal Republic of Germany, gross national product for quarterly data.

(d) Not seasonally adjusted.

(e) Revised by Eurostat.

() = estimated.

Source: European Community business surveys and Eurostat. For quarterly GDP/GNP: Federal Republic of Germany (Bundesbank), France (INSEE), Italy (ISCO) and the United Kingdom (CSO). Figures for Germany do not include the adjustment for calendar irregularities.

TABLE 6: Monthly survey of manufacturing industry—Monthly questions and the composite industrial confidence indicator(a)
Balances: i.e. differences between the percentages of respondents giving positive and negative replies(s.a.)

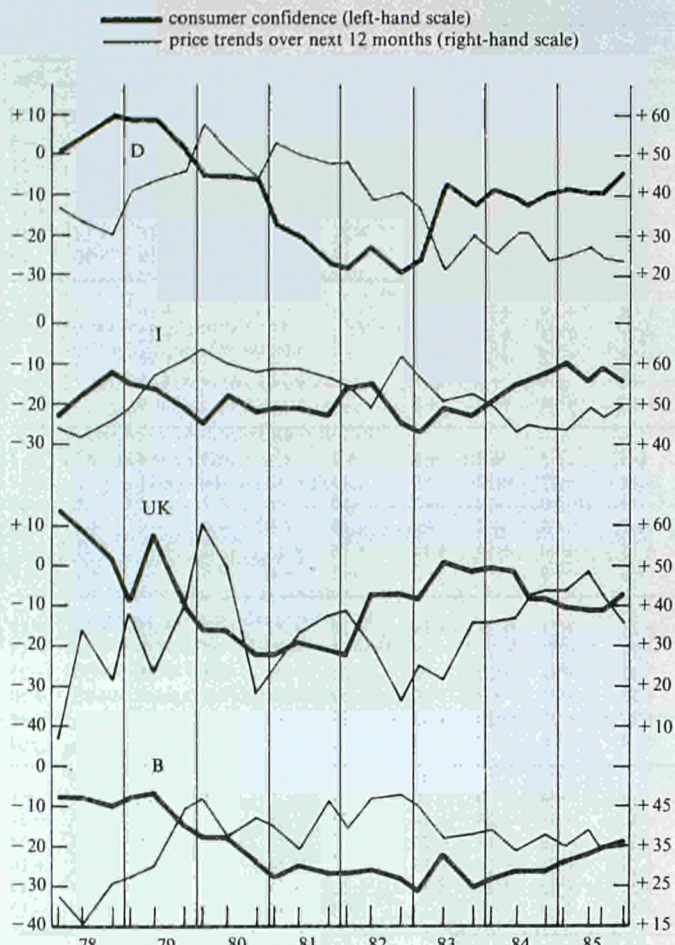
| | Range (b) | | Range (b) | | 1985 | 1985 | | | 1985 | | | | | |
|---------------------------------|-----------------|-------------------|-----------------|-------------------|------|------|-----|-----|------|------|-------|------|------|------|
| | Peak 1972/73 | Trough 1974/75 | Peak 1979/80 | Trough 1981/82 | | II | III | IV | July | Aug. | Sept. | Oct. | Nov. | Dec. |
| B | | | | | | | | | | | | | | |
| production expectations | +31 | -56 | -4 | -37 | -6 | -10 | -5 | -4 | -6 | -8 | -3 | -2 | -6 | -5 |
| order-books | +13 | -74 | -14 | -49 | -24 | -26 | -25 | -20 | -26 | -27 | -23 | -23 | -17 | -21 |
| export order-books | +15 | -82 | -19 | -55 | -27 | -27 | -27 | -28 | -27 | -28 | -27 | -30 | -26 | -28 |
| stocks of finished products | -14 | +37 | +2 | +18 | +10 | +14 | +9 | +8 | +10 | +11 | +6 | +6 | +7 | +10 |
| selling-price expectations | +64 | -10 | +39 | +12 | +19 | +20 | +20 | +13 | +21 | +19 | +21 | +16 | +14 | +10 |
| industrial confidence indicator | +19 | -56 | -4 | -35 | -13 | -17 | -13 | -11 | -14 | -15 | -11 | -10 | -10 | -12 |
| DK | | | | | | | | | | | | | | |
| production expectations | : | : | : | +8 | +18 | +19 | +17 | +16 | : | : | : | +16 | : | : |
| order-books | : | : | : | -34 | +25 | +23 | +29 | +22 | : | : | : | +22 | : | : |
| export order-books | : | : | : | +14 | +24 | +22 | +30 | +16 | : | : | : | +16 | : | : |
| stocks of finished products | : | : | : | +24 | +4 | +1 | +5 | +10 | : | : | : | +10 | : | : |
| industrial confidence indicator | : | : | : | -22 | +13 | +14 | +14 | +9 | : | : | : | +9 | : | : |
| D | | | | | | | | | | | | | | |
| production expectations | +17 | -32 | +10 | -30 | +3 | +3 | +2 | +6 | +2 | +1 | +3 | +4 | +7 | +7 |
| order-books | +5 | -73 | -6 | -59 | -14 | -17 | -12 | -9 | -13 | -12 | -11 | -11 | -10 | -7 |
| export order-books | : | : | -14 | -50 | -9 | -10 | -8 | -7 | -10 | -6 | -7 | -6 | -6 | -8 |
| stocks of finished products | -7 | +43 | -2 | +31 | +7 | +9 | +7 | +4 | +10 | +8 | +4 | +4 | +4 | +4 |
| selling-price expectations | +55 | +4 | +38 | +4 | +17 | +20 | +14 | +15 | +16 | +13 | +12 | +13 | +17 | +16 |
| industrial confidence indicator | +10 | -49 | +2 | -40 | -6 | -8 | -6 | -2 | -7 | -6 | -4 | -4 | -2 | -1 |
| GR | | | | | | | | | | | | | | |
| production expectations | : | : | : | : | +21 | +21 | +21 | +19 | +26 | +21 | +15 | +23 | +14 | +19 |
| order-books | : | : | : | : | -24 | -23 | -22 | -18 | -17 | -22 | -27 | -26 | -14 | -15 |
| export order-books | : | : | : | : | -33 | -32 | -27 | -30 | -24 | -27 | -31 | -36 | -30 | -25 |
| stocks of finished products | : | : | : | : | +10 | +15 | +7 | +10 | +9 | +7 | +6 | +7 | +13 | +10 |
| selling-price expectations | : | : | : | : | +32 | +29 | +29 | +42 | +27 | +29 | +31 | +34 | +45 | +46 |
| industrial confidence indicator | : | : | : | : | -4 | -6 | -3 | -3 | 0 | -3 | -6 | -3 | -4 | -2 |
| F | | | | | | | | | | | | | | |
| production expectations | +33 | -29 | +18 | -20 | -3 | -4 | 0 | 0 | -1 | 0 | +1 | +1 | -1 | +1 |
| order-books | +26 | -69 | 0 | -56 | -30 | -33 | -28 | -24 | -28 | -28 | -27 | -23 | -27 | -21 |
| export order-books | +24 | -66 | +10 | -52 | -20 | -19 | -18 | -22 | -20 | -18 | -16 | -15 | -26 | -24 |
| stocks of finished products | -14 | +50 | +3 | +42 | +19 | +21 | +16 | +16 | +17 | +16 | +14 | +18 | +14 | +16 |
| selling-price expectations | +76 | +15 | +62 | +17 | +29 | +32 | +28 | +19 | +30 | +28 | +27 | +30 | +14 | +14 |
| industrial confidence indicator | +29 | -49 | +5 | -39 | -17 | -19 | -15 | -13 | -15 | -15 | -13 | -13 | -14 | -12 |
| IRL | | | | | | | | | | | | | | |
| production expectations | : | -21 | +40 | -33 | +6 | +5 | +11 | +7 | +8 | +10 | +14 | +9 | +8 | +4 |
| order-books | : | -68 | +18 | -55 | -20 | -30 | -14 | -17 | -21 | -8 | -13 | -24 | -13 | -14 |
| stocks of finished products | : | +35 | -6 | +33 | +8 | +13 | +3 | +8 | +8 | -1 | +2 | -2 | +15 | +12 |
| selling-price expectations | : | +64 | +77 | +20 | +14 | +19 | +12 | +3 | +20 | +5 | +12 | -1 | -1 | +10 |
| industrial confidence indicator | : | -41 | +20 | -40 | -7 | -13 | -2 | -6 | -7 | +1 | 0 | -4 | -7 | -7 |
| I | | | | | | | | | | | | | | |
| production expectations | +40 | -43 | +24 | -26 | +8 | +5 | +6 | +13 | +7 | +5 | +6 | +12 | +10 | +17 |
| order-books | +30 | -82 | +7 | -66 | -21 | -22 | -20 | -21 | -20 | -22 | -19 | -19 | -22 | -22 |
| export order-books | +13 | -67 | -6 | -59 | -30 | -31 | -30 | -30 | -30 | -30 | -29 | -29 | -29 | -31 |
| stocks of finished products | -24 | +53 | -8 | +32 | +16 | +17 | +15 | +15 | +14 | +13 | +18 | +11 | +15 | +19 |
| selling-price expectations | +76 | +10 | +87 | +37 | +39 | +43 | +36 | +34 | +32 | +39 | +37 | +37 | +34 | +31 |
| industrial confidence indicator | +31 | -59 | +13 | -41 | -10 | -11 | -10 | -8 | -9 | -10 | -10 | -6 | -9 | -8 |
| L | | | | | | | | | | | | | | |
| production expectations | +84 | -80 | +40 | -66 | -1 | 0 | +3 | -5 | 0 | +4 | +4 | +4 | +6 | -24 |
| order-books | : | : | +8 | -70 | +3 | -1 | +6 | +2 | 0 | +9 | +10 | +4 | +6 | -4 |
| export order-books | : | : | +9 | -80 | -3 | -2 | +9 | -21 | -1 | +12 | +15 | +6 | -27 | -42 |
| stocks of finished products | -14 | +74 | 0 | +58 | +3 | +10 | +2 | +3 | +8 | -3 | +2 | +3 | +8 | -2 |
| selling-price expectations | : | -46 | +74 | -38 | +17 | +26 | +24 | +18 | +22 | +28 | +21 | +30 | +22 | +3 |
| industrial confidence indicator | : | : | +16 | -65 | 0 | -4 | +2 | -2 | -3 | +5 | +4 | +2 | +2 | -9 |
| NL | | | | | | | | | | | | | | |
| production expectations | +26 | -26 | +20 | -13 | +4 | +2 | +2 | +3 | +4 | +2 | 0 | +1 | +7 | +2 |
| order-books | +7 | -48 | -5 | -42 | -5 | -5 | -5 | -8 | -5 | -3 | -7 | -10 | -8 | -7 |
| stocks of finished products | -3 | +57 | +3 | +39 | +4 | +4 | +3 | +4 | +3 | +4 | +3 | +3 | +3 | +6 |
| industrial confidence indicator | +12 | -44 | +4 | -31 | -2 | -2 | -2 | -3 | -1 | -2 | -3 | -4 | -1 | -4 |
| UK | | | | | | | | | | | | | | |
| production expectations | : | : | +29 | -52 | +20 | +21 | +19 | +20 | +17 | +20 | +21 | +21 | +17 | +21 |
| order-books | : | : | -2 | -85 | -7 | -5 | -5 | -5 | -3 | -7 | -6 | -7 | -3 | -6 |
| export order-books | : | : | -11 | -72 | -5 | -1 | -5 | -8 | +2 | -5 | -11 | -10 | -4 | -10 |
| stocks of finished products | : | : | -1 | +42 | +14 | +12 | +15 | +15 | +14 | +15 | +15 | +14 | +14 | +15 |
| selling-price expectations | : | : | +70 | +7 | +23 | +26 | +20 | +16 | +24 | +18 | +19 | +17 | +16 | +15 |
| industrial confidence indicator | : | : | +9 | -60 | 0 | +1 | 0 | 0 | 0 | -1 | 0 | 0 | 0 | 0 |
| EUR | | | | | | | | | | | | | | |
| production expectations | +24 | -30 | +15 | -20 | +7 | +5 | +7 | +9 | +5 | +6 | +9 | +9 | +8 | +10 |
| order-books | +15 | -70 | -7 | -56 | -17 | -18 | -16 | -14 | -16 | -16 | -15 | -15 | -14 | -12 |
| export order-books | : | : | -12 | -50 | -15 | -14 | -15 | -16 | -14 | -15 | -15 | -15 | -15 | -17 |
| stocks of finished products | -10 | +48 | -1 | +31 | +12 | +13 | +11 | +11 | +12 | +11 | +11 | +10 | +11 | +12 |
| selling-price expectations | +64 | +9 | +53 | +22 | +25 | +28 | +22 | +21 | +24 | +24 | +23 | +23 | +20 | +19 |
| industrial confidence indicator | +16 | -49 | +3 | -36 | -7 | -9 | -7 | -5 | -8 | -7 | -6 | -5 | -6 | -5 |

(a) The indicator is an average of the responses (balances) to the questions on production expectations, order-books and stocks (the latter with inverted sign).

(b) These are the extreme (high and low) values of the balances of the different questions, reached in the course of 1972-1975 and 1979-1982, respectively.

Note: (s.a.) = seasonally adjusted; : = not available; () = estimated. Source: European Community business surveys.

GRAPH 6: Climate of consumer confidence and opinion on price trends over the next 12 months.



Source: European Community consumer survey.

1985 as compared with the beginning and middle of the year. The developments in the countries mentioned are looked at more closely below.

In December, the consumer confidence indicator for the *Federal Republic of Germany* remained unchanged from the previous month (-5). Taking 1985 as a whole, the consumer climate showed an improvement, notably in the second half of the year, the main reason being the more positive appreciation of the general economic situation. Consumers' perceptions of their real financial situation were also slightly more favourable in December. The fact that intentions to save remain more or less unchanged, goes some way towards explaining why the propensity to make major purchases in the future was further reinforced in December. But as in November, consumer sentiment as to the advisability of making major purchases at present

fell back compared with the previous month. An explanation for this discrepancy could be that consumers expect discounts on prices in the near future. The results of the retail survey suggest, however, that in November consumers were more inclined to make purchases than was indicated by the November consumer survey, but in December the volume of sales declined somewhat (seasonally adjusted). Expectations concerning the overall business situation in the retail trade remained positive.

In December, developments in the consumer climate in the *United Kingdom* and in the *Federal Republic of Germany* were somewhat similar: not only did the confidence indicator for the *United Kingdom* remain at its November level (-7), but consumer confidence was, on the whole, stronger in the second half of the year than in the first. As in the *Federal Republic of Germany*, this was attributable mainly to the more positive trend in consumers' assessments of the general economic situation. The unchanged confidence indicator in December was due entirely to British consumers' strong reservations regarding the advisability of making major purchases; a similar but less marked reluctance was noted on the part of German consumers. A further parallel with developments in the *Federal Republic of Germany* stems from the fact that British consumers are reckoning on an improvement, albeit a slight one in their real financial position. Although the number of jobless—expressed both in absolute terms and as a percentage of the working population—has fallen only slightly since September, the highly optimistic expectations regarding unemployment appeared to be a major component of consumer behaviour in December. This could have a stimulating effect on the buying-behaviour.

The consumer climate in *Belgium*, which as in the other countries mentioned above has been measured each month since October 1985, was a little more pessimistic in December than in the previous month (from -20 to -21) but the fall was less marked than in November (from -17 to -20). The deterioration in December was attributable mainly to consumers' unfavourable assessments of the general economic situation. By contrast, expectations regarding the real financial situation of households showed—globally—a distinct improvement (from -24 to -20) particularly in the lower and medium income brackets.

The possibility of a more restricted system of the sliding scale of wages—which is under discussion now—might have contributed to a deterioration of the *Italian* consumer climate in December as compared to the preceding month (-16 vs -12). The recent developments as well as the expectations, especially as the personal real financial situation and the buying behaviour are concerned, were subject to rather pessimistic appreciations. These negative perceptions concerned also the general economic development in the next twelve months, particularly with regard to the price development.

21 January 1986

Prices (excluding VAT) in Luxembourg

| | ECU | BFR | IRL | UKL | USD | |
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