

Commission of the  
European Communities

Directorate-General  
for Economic  
and Financial Affairs

# EUROPEAN ECONOMY

Supplement — Series A

No 5 — May 1979

## Recent economic trends

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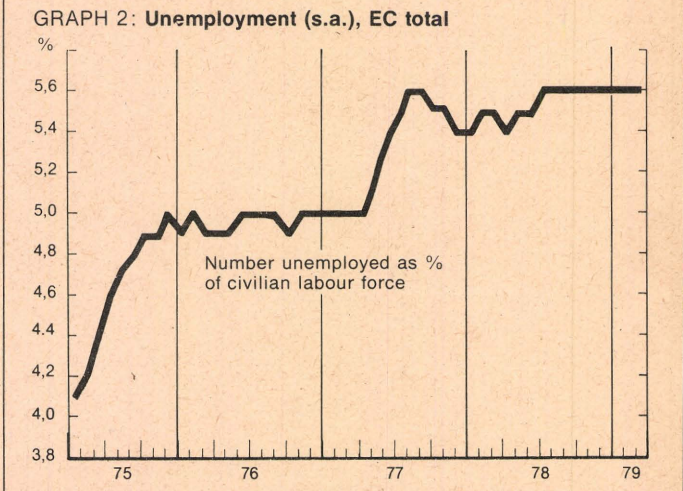
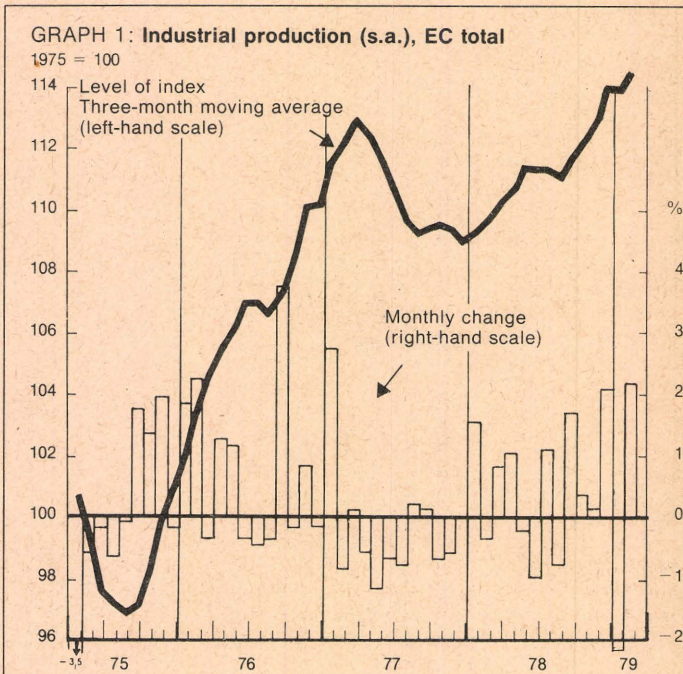
**Economic activity in the Community maintaining its upswing.** — The rising trend of demand in the Community has been reflected in renewed appreciable growth of industrial production accompanied by a stabilization of unemployment rates. While prices have continued to climb, the trade balance has tended to return to a position close to equilibrium.

**Industrial production expanding.** — Industrial production in the Community, seasonally adjusted and excluding building and construction, turned up sharply in February: rising by 2.3% it recovered almost all of the fall recorded in January. As a result, Graph 1 shows a renewed substantial increase in the moving average. The recovery was attributable to the vigorous expansion experienced in Italy, the United Kingdom and the Belgo-Luxembourg Economic Union, while production fell off in France and the Netherlands and also in the Federal Republic of Germany, where its level had still not risen above that recorded last October. Taking the index of industrial production, corrected for the difference in the number of working days, the 12-month increase was around 5.2% in February. This general improvement (see Table 1) was particularly marked in Italy (8.2%) and Belgium (7.3%).

**Overall unemployment situation virtually stable.** — In March, the unemployment rate (seasonally adjusted number of wholly unemployed expressed as a percentage of the civilian labour force) remained unchanged from the level of 5.6% recorded in the preceding eight months (see graph and Table 2). The fall in the unemployment rate in the Federal Republic of Germany, Italy, Denmark and Luxembourg contrasts with stable rates for the United Kingdom and Belgium and with increases in France and the Netherlands. Year on year, unemployment showed a fall in five Member States. Looking at the breakdown of unemployment by sex in the Community as a whole, the number of men out of work in March was once again lower than a year earlier, while unemployment among women was 6.9% higher.

**Trade balance tending towards equilibrium.** — The most recent seasonally adjusted figures would seem to indicate that the Community's trade balance has shown no further significant deterioration since the beginning of the year. The deficit on France's trade balance (fob, cif) recorded for a number of months gave way in March to a slight surplus. Similarly, Italy's trade account showed a substantial surplus in February thanks to the buoyant trend of exports and in spite of the persistent growth in imports brought about by the rapid expansion of industrial activity. In the Federal Republic of Germany there was a continuing tendency for the trade surplus to shrink as imports surged. German imports from the other Member States rose significantly in the first few months of 1979, as did intra-Community imports in France, Ireland and the Benelux countries.

**Inflationary pressures persisting.** — In March, the index of consumer prices in the Community climbed by 0.8%, the same rate as in





February. Although smaller than in January, this increase easily exceeded most of the monthly increases recorded in 1978. Year on year, consumer price inflation was 8.4%. In the different Member States, the monthly rates of increase ranged from 0.1% in Belgium to 1.2% in Italy; however, with the exception of Belgium and Luxembourg (0.2%), no Member State recorded an increase of less than 0.7% (see Table 3). In March, the six-month increase in the seasonally adjusted index of consumer prices was once again 8.8% at an annual rate, at least one percentage point higher than the comparatively stable rate recorded in the second half of 1978 (see graph 3). Since, for the Community as a whole, there was little, if any change in the rate of increase in unit wage costs, the fresh burst of inflation was due mainly to higher import prices and the unfavourable impact of seasonal factors although certain increases in administered prices also played a part.

**Interest rates firm.** — In the early months of 1979, short-term and long-term interest rates were adjusted significantly in a number of Member States. However, since not all these adjustments were upwards, the average for the Community was affected to only a limited extent (see Table below). At the short end, the average level of three-month rates was around 8.4% in March, as against 7.7% at the end of 1977. Most of this increase took place towards the end of 1978, when a number of Member States (the United Kingdom and the Benelux countries) adjusted their rates for reasons of exchange rate policy. More recently, the average rate for the Community edged up further under the impact of the appreciable rise in German rates which occurred in March and was reflected in the Bundesbank's decision to raise the discount rate from 3 to 4% on 30 March. The average level of long-term rates in the Community also rose somewhat towards the end of 1978 and again from February onwards. It has been some 11% in recent months, a level which has prevailed, with some slight fluctuations, since 1975.

#### Interest rates (%)

	Short-term rates <sup>1</sup>					Long-term rates <sup>2</sup>				
	1977 1978 1979					1977 1978 1979				
	Dec.	Dec.	Jan.	Feb.	March	Dec.	Dec.	Jan.	Feb.	March
DK	18,8	15,2	14,4	8,5	10,7	16,8	17,2	15,8	15,5	14,9
D	4,0	4,1	4,2	4,1	5,2	5,7	6,3	6,4	6,8	6,9
F	9,6	6,6	6,6	7,0	7,1	11,1	9,9	9,7	:	:
IRL	7,1	12,6	13,3	14,0	14,3	11,8	16,2	17,2	:	:
I	11,8	10,5	10,5	10,7	10,9	15,3	14,1	13,7	13,9	14,2
N	6,8	10,4	8,0	7,4	7,3	8,1	8,5	8,2	8,3	8,5
B	9,5	9,3	8,8	8,3	8,1	8,4	8,8	9,0	:	:
UK	6,7	12,6	13,2	13,0	12,3	11,2	13,2	13,7	13,9	:
EC <sup>3</sup>	7,7	8,5	8,3	8,3	8,4	11,0	11,2	11,1		

<sup>1</sup> Three-month rates; Denmark: call money rates — monthly average.

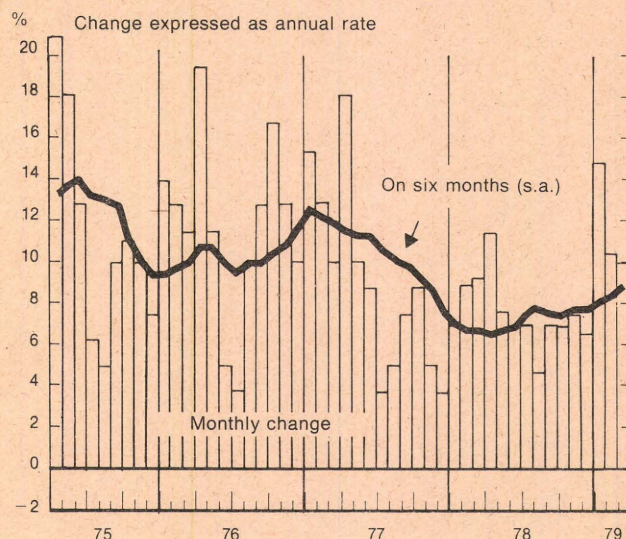
<sup>2</sup> Yield of public-sector bonds. <sup>3</sup> Weighted average.

Source: Commission departments.

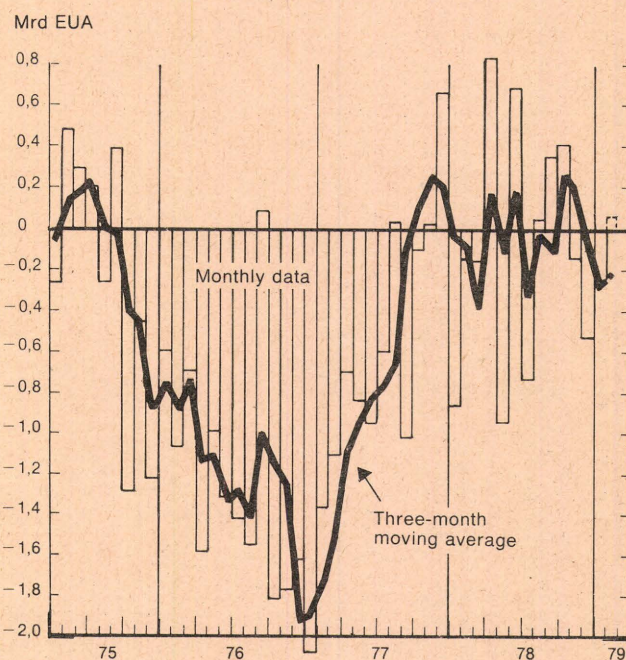
**Dollar holding up well.** — Taking the monthly average, the dollar value of the ECU fell by 1.1% between March and April (see Table 5). By the end of April the dollar, though firm since February, had not entirely made up the ground lost between mid-December and the beginning of January. Of the Community currencies, sterling and the lira appreciated against the ECU by close on 3% and by 0.8% respectively in terms of monthly averages while the other Community currencies with the exception of the Irish pound depreciated.

4 May 1979.

GRAPH 3: Consumer prices, EC total



GRAPH 4: Trade balance (s.a.), EC total



GRAPH 5: Value of ECU and EUA against USD

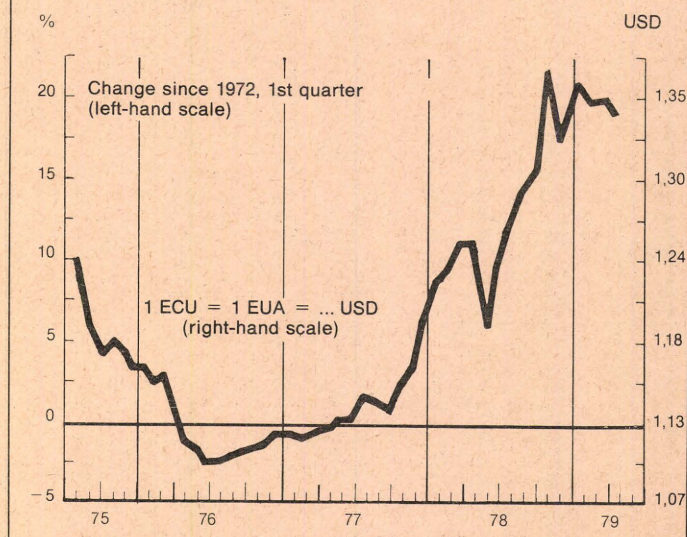




TABLE 1: Industrial production<sup>1</sup> - Percentage change on preceding period (s.a.)

	1974	1975	1976	1977	1978	1977	1978				1978					1979		Change over 12 months % 3
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	
DK	-1,1	- 5,7	9,3	0,8	2,1	-1,6	-2,9	7,2	-2,1	2,8	8,6	-4,1	2,6	2,7	-3,9	:	:	0,9
D	-1,1	- 6,2	7,4	2,8	2,2	0,9	0	0	2,6	0,8	-0,8	1,7	0	0	0	0	-0,8	3,7
F	2,5	- 8,9	9,7	1,6	1,6	-1,6	2,4	1,9	-0,8	1,8	0	1,6	0	0,8	0,8	0,8	-1,5	3,7
IRL	2,9	- 6,1	9,0	8,1	12,1 <sup>2</sup>	3,5	2,1	3,0	-1,3	:	-9,0	10,7	0,9	:	:	:	:	8,2
I	3,9	- 8,8	11,6	0	2,0	-1,8	3,6	-0,8	0,4	5,8	-0,5	1,8	5,0	0,4	-1,5	-0,2	4,6	8,2
NL	5,0	- 4,8	5,9	0,8	1,2	1,9	0	-0,3	1,3	2,6	-4,6	3,2	0	0,8	4,6	-3,7	-0,8	3,0
B	4,0	- 9,8	7,7	0,4	2,0	-0,5	-1,0	1,4	1,4	4,7	-2,2	5,2	0,7	-1,1	7,3	-5,9	1,7	7,3
L	3,5	-21,9	6,4	0,5	1,5	0,5	-0,2	1,3	2,3	0,6	-0,8	-4,9	4,3	-1,2	3,2	-6,0	7,0	5,9
UK	-2,6	- 4,8	2,7	4,6	3,0	-0,9	1,2	3,0	0,7	-1,3	0,5	-1,5	-1,9	1,1	1,9	-6,7	8,7	4,9
EC	0,6	- 6,6	7,3	2,2	2,2	-0,5	1,8	0,5	0,9	1,8	-0,9	1,8	0,2	0,2	2,1	-2,5	2,3	5,2

TABLE 2: Unemployment rate - Number of unemployed as % of civilian labour force (s.a.)

	1974	1975	1976	1977	1978	1978				1979	1978				1979			Change over 12 months % 3
						I	II	III	IV		Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	March	
DK	2,0	4,6	4,7	5,8	6,6	6,1	6,6	6,7	6,6	6,0	6,6	6,7	6,6	6,6	5,9 <sup>4</sup>	6,2	6,0	-12,3
D	2,2	4,2	4,1	4,0	3,9	3,9	3,9	3,9	3,7	3,6	3,9	3,8	3,8	3,7	3,7	3,6	3,5	-12,9
F	2,3	3,9	4,3	4,9	5,3	4,9	5,1	5,5	5,7	5,9	5,6	5,7	5,7	5,8	5,8	5,9	6,0	20,6
IRL	6,3	8,7	9,8	9,7	8,9	9,2	8,9	8,6	8,5	:	8,5	8,6	8,6	8,4	8,3	:	:	-8,6
I	4,9	5,3	5,6	6,4	7,1	7,0	7,0	7,1	7,3	7,5	7,1	7,2	7,3	7,4	7,3	7,6	7,5	8,7
NL	2,9	4,1	4,4	4,3	4,3	4,1	4,2	4,4	4,4	4,4	4,5	4,4	4,4	4,3	4,3	4,3	4,4	3,3
B	3,2	5,3	6,8	7,8	8,4	8,2	8,4	8,4	8,5	8,6	8,5	8,5	8,5	8,5	8,5	8,6	8,6	5,5
L	0,0	0,2	0,3	0,6	0,8	0,9	0,8	0,9	0,7	0,8	0,9	0,7	0,7	0,7	0,8	0,8	0,7	-13,0
UK	2,4	3,8	5,3	5,7	5,7	5,8	5,7	5,7	5,5	5,5	5,6	5,6	5,5	5,4	5,4	5,5	5,5	-4,0
EC	2,9	4,4	4,9	5,3	5,5	5,5	5,5	5,6	5,6	5,6	5,6	5,6	5,6	5,6	5,6	5,6	5,6	2,5

TABLE 3: Consumer price index - Percentage change on preceding period

	1974	1975	1976	1977	1978	1978				1979	1978				1979			Change over 12 months %
						I	II	III	IV		Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	March	
DK	15,3	9,6	9,0	11,1	10,0	1,3	1,6	1,2	2,9	1,0	0,7	1,9	0,6	0,1	0	0,6	0,9	7,0
D	7,0	5,9	4,6	3,9	2,6	1,3	0,9	0	0,1	2,1	-0,3	0	0,3	0,4	1,1	0,6	0,7	3,3
F	13,6	11,7	9,6	9,5	9,3	1,6	2,9	2,7	2,1	2,1	0,6	0,9	0,5	0,5	0,9	0,7	0,9	10,1
IRL	17,0	20,9	17,9	13,7	7,7	1,4	1,8	3,1	1,5	4,1	0,5	0,5	0,5	1,4	1,4	1,3	:	10,9
I	19,2	17,0	16,7	18,5	12,1	2,6	3,1	2,4	3,0	3,8	1,6	0,9	1,0	0,5	1,7	1,5	1,2	13,0
NL	9,8	9,9	8,9	6,8	4,2	0,1	2,0	0,7	1,1	0,2	0,7	0,5	0	-0,1	-0,4	0,6	1,0	4,1
B	12,7	12,8	9,2	7,1	4,5	1,3	0,5	1,1	1,0	1,2	0,4	0,2	0,3	0,4	0,6	0,3	0,1	3,7
L	9,5	10,8	9,8	6,7	3,1	0,7	1,0	0,5	0,9	1,3	0,2	0,6	0,3	0	0,8	0,5	0,2	3,9
UK	16,0	24,2	16,5	15,9	8,2	1,7	2,7	1,8	1,7	3,1	0,4	0,4	0,7	0,8	1,5	0,8	0,8	9,8
EC	12,7	13,3	10,9	10,8	7,5	1,6	2,2	1,6	1,6	2,5	0,6	0,6	0,6	0,5	1,2	(0,8)	0,8	8,4

TABLE 4: Trade balance - fob/cif, million EUA (s.a.)

	1974	1975	1976	1977	1978	1978				1979	1978				1979			Change over 12 months <sup>3</sup>
						I	II	III	IV		Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	March	
DK	-1 860	-1 357	-2 949	-2 803	-2 294	-602	-471	-543	-608	-552	-151	-220	-216	-173	-190	-221	(-141)	(69)
D	16 227	12 234	12 301	14 520	15 967	3 458	4 100	3 982	4 380	3 394	1 561	1 607	1 431	1 342	1 183	1 149	1 062	-302
F	-5 804	-1 704	-7 672	-6 128	-4 081	-1 285	-1 091	-591	-972	-909	-124	-224	-277	-471	-464	-462	17	350
IRL	-986	-468	-786	-870	-1 129	-199	-312	-310	-308	-412	-86	-140	-112	-56	-168	-100	(-144)	(-105)
I	-8 965	-2 895	-5 772	-2 239	-319	-16	323	-419	23	:	66	106	103	-186	-185	322	:	284
NL	-149	136	116	-1 680	-2 198	-174	-517	-615	-849	:	-107	-295	-434	-120	-8	-105	:	51
B/L	-1 338	-1 615	-2 224	-2 439	-1 813	-696	-468	-459	-460	:	-105	-88	-104	-268	-75	:	:	67
UK	-13 174	-7 793	-8 852	-5 516	-5 588	-1 515	-1 238	-1 468	-1 231	:	-593	-328	-552	-352	-313	:	:	330
EC	-16 049	-3 461	-15 838	-7 154	-1 455	-1 121	585	-365	-269	:	353	406	-153	-523	-143	(50)	:	(190)
EC Trade balance fob/fob (in '000 million EUA)																		
	-3,8	7,4	-1,5	6,9	12,9	(3,3)	(5,4)	:	:	:	:	:	:	:	:	:	:	:
EC Balance of payments on current account (in '000 million EUA)																		
	-8,9	1,6	-5,1	2,1	10,6	(1,3)	(4,0)	:	:	:	:	:	:	:	:	:	:	:

TABLE 5: Value of ECU and EUA - 1 ECU = 1 European unit of account (EUA) = ... units of national currency

	1974	1975	1976	1977	1978	1978				1979	1978				1979				Change over 12 months %
						I	II	III	IV		Oct.	Nov.	Dec.		Jan.	Febr.	March	April	
DKR	7,26	7,12	6,76	6,86	7,02	7,03	6,98	7,07	6,99	6,98	7,00	6,97	7,01		6,96	6,96	7,02	7,05	0,4
DM	3,08	3,05	2,82	2,65	2,56	2,57	2,57	2,57	2,52	2,51	2,52	2,52	2,51		2,51	2,51	2,52	2,53	-0,8
FF	5,73	5,32	5,34	5,61	5,74	5,88	5,69	5,62	5,76	5,78	5,75	5,77	5,77		5,76	5,78	5,80	5,82	1,4
IRL	0,510	0,560	0,622	0,654	0,664	0,642	0,673	0,664	0,677	0,672	0,681	0,676	0,673		0,677	0,675	0,664	0,661	-2,3
LIT	776	810	930	1 007	1 080	1 067	1 065	1 074	1 116	1 136	1 108	1 116	1 126		1 136	1 136	1 137	1 128	5,1
HFL	3,20	3,13	2,96	2,80	2,75	2,75	2,75	2,79	2,73	2,71	2,74	2,73	2,72		2,71	2,71	2,72	2,74	0,4
BFR/LFR	46,40	45,57	43,17	40,88	40,06	39,92	40,11	40,53	39,69	39,65	39,69	39,61	39,78		39,58	39,57	39,79	40,14	0,9
UKL	0,510	0,560	0,622	0,654	0,664	0,642	0,673	0,664	0,677	0,672	0,681	0,676	0,673		0,677	0,675	0,663	0,645	-4,7
USD	1,193	1,241	1,118	1,141	1,274	1,237	1,236	1,282	1,342	1,354	1,366	1,323	1,335		1,358	1,352	1,352	1,337	6,8

Source: Eurostat unless otherwise stated.

<sup>1</sup> National sources, except in the cases of the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in the methods of seasonal adjustment, the change in the EC index, adjusted by Eurostat and given in Table 1, may differ from the change in the EC index obtained by aggregation of the national indices. The figures are corrected for the number of working days. Excluding building and construction and, in the case of France, the foodstuffs and beverages industry.<sup>2</sup> January-October.<sup>3</sup> For the most recent figure given in the table.<sup>4</sup> From January 1979: new series.

Note: (s.a.) = seasonally adjusted.

: = not available.

() = estimate.



## Major economic policy measures — April 1979

### Community (EC)

None.

### Denmark (DK)

None.

### Federal Republic of Germany (D)

None.

### France (F)

1.4 The statutory minimum wage was raised from FF 11.31 to FF 11.60 an hour, an increase of 2.6% which brought the 12-month increase to 15.3%.

4.4 A package of measures designed to promote investment in 1979 and 1980 was adopted: the package includes tax reliefs, financial assistance (concessionary loans) and measures to promote regional development and research. The budgetary cost of the tax reliefs is estimated at FF 1 900 million for 1980 and FF 1 300 million for 1981. Altogether, the measures will make FF 5 800 million available to firms between now and 1981.

13.4 Implementation of the 1978 Finance Act produced a general deficit of FF 34 100 million (1.6% of gross domestic product). This will not be covered by a supplementary budget, but mainly by borrowing.

26.4 The abolition of the special regulations on consumer credit entailed the lifting of the restrictions on the repayment period and of the requirement to make a down-payment. The rule restricting the volume of consumer credit granted by specialized institutions will also be repealed over the next fifteen months. It will be replaced by ordinary law provisions under which the volume of credit must not exceed twenty times the institution's own funds.

### Ireland (IRL)

24.4 A "National Understanding for Economic and Social Development" was reached by the Government, trade unions and employers' leaders. The understanding provides for pay increases in two phases covering fifteen months. At the beginning of the first phase, which will last nine months, an increase of 7% will be paid with a minimum of IRL 4 per week plus an increase of 2% if certain guarantees are given on strikes and other claims. The second phase, which will last six months, provides for an increase of 1½% (subject to conditions) plus 1% for each 1% rise in the consumer price index from November 1978 to November 1979, if such rises lie between 7% and 11%, with a minimum of IRL 2 per week. If the consumer price increase in that period is higher than 11%, an increase of IRL 0.50 will be granted for each 1% increase up to 15%. The understanding also contains a renewed commitment to the targets for increased employment and provides for an autumn increase in welfare payments and conditional concessions in income tax.

The Government announced new proposals on the taxation of farmers. In 1979, IRL 12 million is to be taken from farmers either through the introduction of the 2% sales tax on farm produce already contained in the February budget or through the removal of the existing VAT rebate available to farmers, provided they accept the new tax proposals for 1980. In 1980, farmers will be subject to a "resource tax" and changes will be made in income tax to give additional revenue of IRL 20 million from the agricultural sector.

### Italy (I)

2.4 The Banca d'Italia renewed the ceiling controls on bank lending for the period from 1 April to 30 September. Compared with the amount outstanding at the end of March 1978, lira lending by individual banks to all customers whose debit positions exceed Lit 100 million may not grow by more than the following percentages: 18% to the end of May, 21% to the end of July, and 21% to the end of September. Between the end of March and the end of September, the growth of lending is limited to 6%, as against 9% in the previous six months.

### Netherlands (NL)

None.

### Belgium (B)

5.4 The Government presented its programme to Parliament. In the economic and social section, the Government announced that it would start wide-ranging consultations with the two sides of industry with a view to achieving the following objectives:

- (a) reduction of the working week to 36 hours by the end of 1981;
- (b) mandatory recruitment of additional workers by firms (3% by the end of 1981);
- (c) reduction in costs borne by firms (social security contributions);
- (d) moderation on the wages front and appropriate measures for other incomes (increases limited to pace of inflation as measured for indexation purposes).

25.4 The Government introduced measures to save energy, including in particular restrictions on deliveries of fuel oil and light gas oil to households, a number of restrictions on the use of electricity between 9 p.m. and 9 a.m. and an information campaign to make people aware of the need to save energy.

### Luxembourg (L)

None.

### United Kingdom (UK)

3.4 The Chancellor presented his spring budget, which was largely limited to providing the legal basis for collecting direct taxes until a new Government is formed. However, in line with the statutory requirements, increases in personal tax allowances were announced to offset the effects of inflation. The adjustments will come into effect in August and are estimated to cost UKL 850 million in the current financial year. The Chancellor also announced that USD 5 200 million of external debt would be repaid this year, including prepayments of USD 2 500 million.

5.4 Minimum Lending Rate was cut from 13% to 12%.

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