

EUROPEAN ECONOMY

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No 1 — January 1982

Supplement A

Recent economic trends

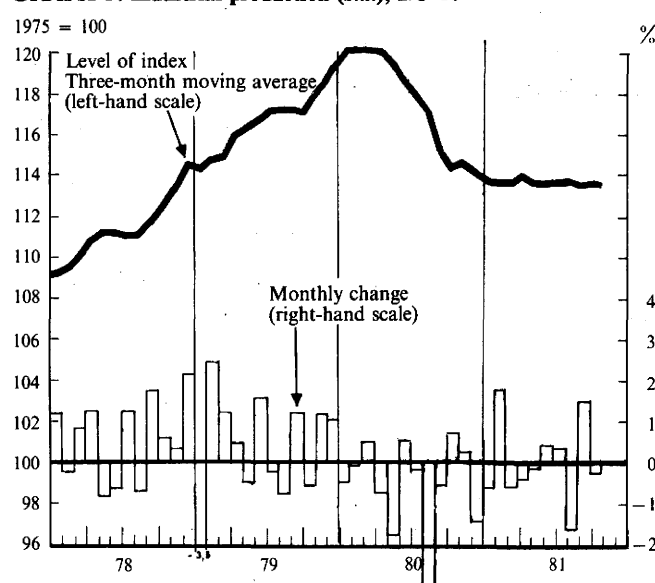
Activity sluggish, but costs, especially financial costs, improve. — Industrial production remained stable in October and unemployment continued to climb. However, the slowdown in the rate of increase in hourly wages in industry noted in the first half of 1981 has no doubt continued in the second half of the year when financial costs have also declined (see graphs 6-11). Short and long-term interest rates are now rising after the turnaround in trend which took place at the end of the third quarter of last year. The ECU's effective exchange rate, after drifting downward almost without interruption from the beginning of 1980 to August 1981, rose in September and October while conversely the dollar's effective exchange rate was falling.

Continued stagnation in industrial production. — Provisional results for industrial production in the Community in October indicate no strengthening of the upturn registered in September. The underlying trend, as measured by the three-monthly moving average, remained stable in October at around the same level as over the previous nine months. While revised figures for September now show a rise of 1.6% for that month, enough to offset the fall of 1.6% in August, the preliminary results for October show a fall of 0.2% in the index of industrial production (seasonally adjusted). Among the Member States, the upturn in the United Kingdom continued, a rise of 2.0% following the 1.5% rise in September, and in the Netherlands, a large rise of 6.8% largely offset the falls of the previous two months. In the Federal Republic of Germany, however, industrial production remains flat.

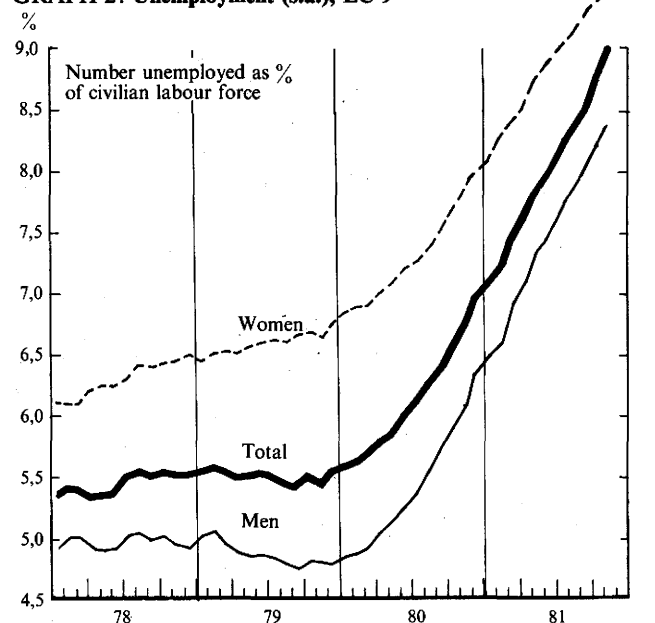
Unemployment still rising. — The rate of unemployment in the Community (seasonally adjusted) reached 8.9% in November, a rise of 0.1% point over October (revised result). The number of unemployed rose by 156 000, a somewhat smaller rise than in recent months, to just over 9.9 million. Unemployment is still rising fastest in Luxembourg (up 4% on 12 months previously) and in the Federal Republic of Germany where it rose by a further 0.3% to 5.8% and 54% higher than a year ago. In the Netherlands, unemployment rose 0.2% to 8.4%, the same rate as in France, where the rate of increase has been slowing recently. Among the Member States where unemployment rates are highest, it has begun to expand again slightly in Belgium, to 12.5%, but in the United Kingdom, unemployment stabilised at 11.6% in November, largely due to government measures which led to a once and for all reduction in registered unemployment.

Consumer prices rising 1% per month. — Community prices increased by 1.1% in November. This meant that for the third month in a row price rises were one per cent or higher. The six-month trend, at an annual rate, after dipping in the autumn, began to pick up again to 12.5% as a variety of special factors influenced prices in Member States. Thus the impact of indirect tax increases accounted for nearly half the rise in Irish prices since August bringing the yearly rate to 23.3% just half a percentage point short of the Greek rate where a slowdown in the month-to-month increase to 2.1% was recorded. In Luxembourg higher excise duties, in particular on tobacco, were the principal factors behind the acceleration in the monthly rate in November to 0.6%. Rises in Italian public sector charges continued to influence prices as they had done in October. Housing prices had a major influence on the behaviour of prices in Denmark (where rents accounted for over half the increase of 1.2%) and in the United Kingdom, where mortgage interest charges raised the housing index by just over 3%. Seasonal foods generally pushed up prices in Belgium, France, the United Kingdom, the Netherlands and the Federal Republic of Germany. Although in the last two countries fuel prices exercised a depressing effect, elsewhere energy prices, notably coal in the United Kingdom and Belgium, rose sharply.

GRAPH 1: Industrial production (s.a.), EC-10



GRAPH 2: Unemployment (s.a.), EC-9



Downturn in retail sales in mid-summer. — Preliminary figures for the volume of retail sales in the Community (seasonally adjusted) indicate a downturn in retail sales in August, after the small declines in the first two quarters of 1981 with some recovery in October. To a certain extent this may reflect holiday patterns and the effect of somewhat longer than usual 'summer sales' which have not been fully compensated by the seasonal adjustment system, but the results are consistent for those Member States for which they are available.

Trade deficit falls in October. — Preliminary estimates suggest that the Community's trade balance (fob-cif), which in September yielded a deficit similar in amount to that of the previous month, will have seen this deficit fall sharply in October to less than 2 000 million ECU. The figures available for October show an improvement in external trade in six Member States, and developments were particularly favourable in the Federal Republic of Germany, Italy and the United Kingdom.

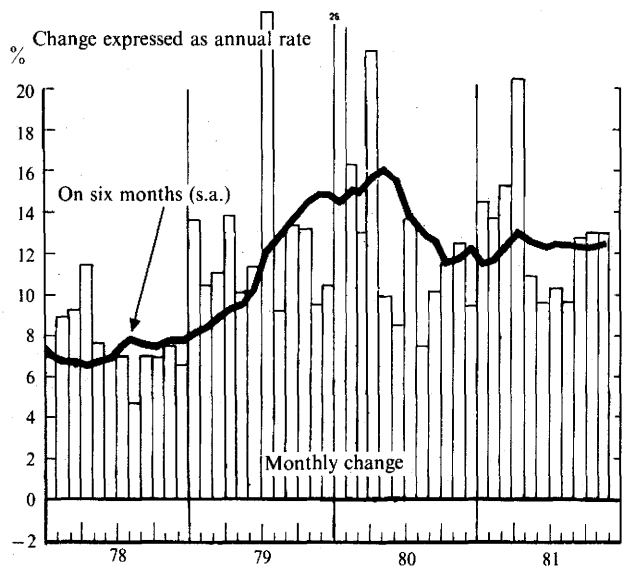
Monetary expansion slows down. — Taking the Community as a whole, monetary expansion moderated markedly in September. In France, money supply (M2) fell by 0,5%, due to a reduction in the gold and foreign currency counterparts, and the slower growth of lending to the economy. Money creation was low in Italy; the same was true of the Netherlands, as a result of the limited expansion in bank lending. The German and French monetary authorities announced their monetary guidelines for 1982. The German Bundesbank fixed a 4 to 7% range for the expansion of central bank money, while the Banque de France decided on a 12,5 to 13,5% range for the growth of money supply (M2).

Key interest rates fall. — In early December, several monetary authorities decided, after consultation, to lower their key interest rate: outside the Community, the United States and Japan brought down their discount rate, while in Europe the Bundesbank cut its special rate for advances against securities by half a point, the Nederlandsche Bank cut the surcharge on banks exceeding their rediscount quota to 0,5% and in the United Kingdom the banks lowered their base rate from 15% to 14,5%. However, on 11 December the Banque nationale de Belgique raised its discount rate from 13 to 15% in defence of the Belgian franc. Apart from Belgium, money market rates were stable in the Community. In November, long-term interest rates generally continued to ease, the Community average standing at 15,1% as against 15,4% in October.

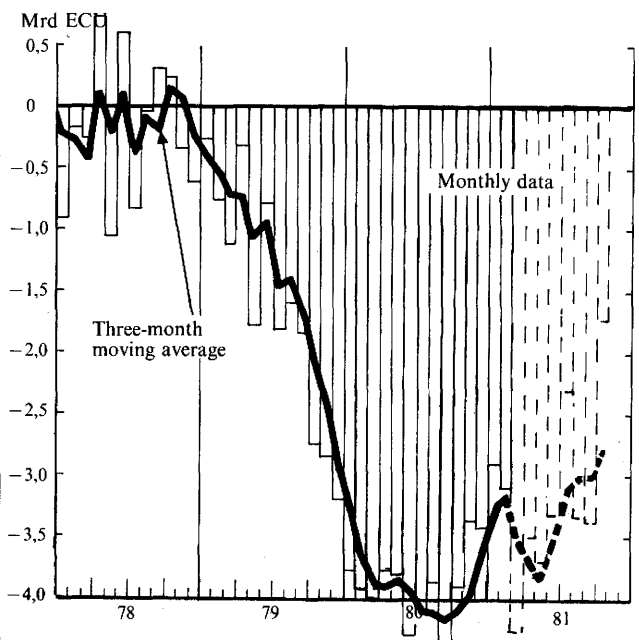
Dollar firm and strains within the EMS. — The dollar was firm throughout December: on average for the month, it gained 1,4% against the ECU. In the same period, the yen continued the recovery it had started in November and came close to its record August value. Of the Community currencies. Only sterling and, less so, the Irish punt appreciated against the ECU. The Belgian franc came under heavy attack in the second week of the month, causing strains within the European Monetary System, but recovered the following week. In the second half of the month, the German mark and the Belgian franc stayed in the lower part of their bilateral margin while the other currencies regrouped in the upper half of the system.

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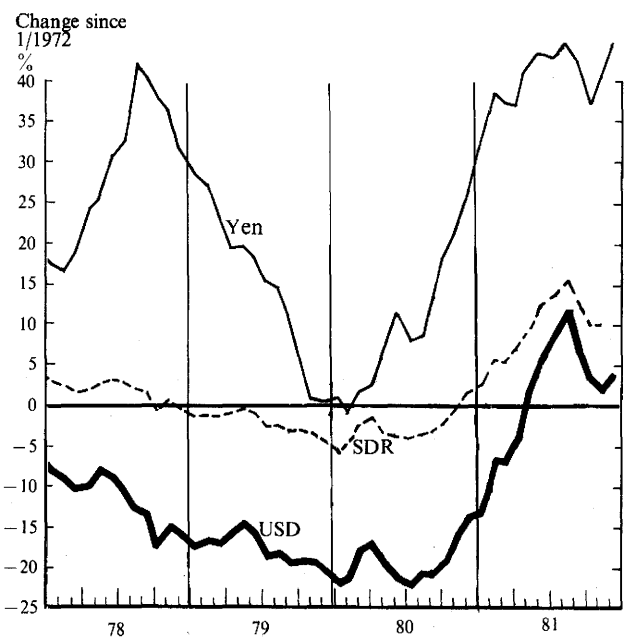
GRAPH 3: Consumer prices EC-10



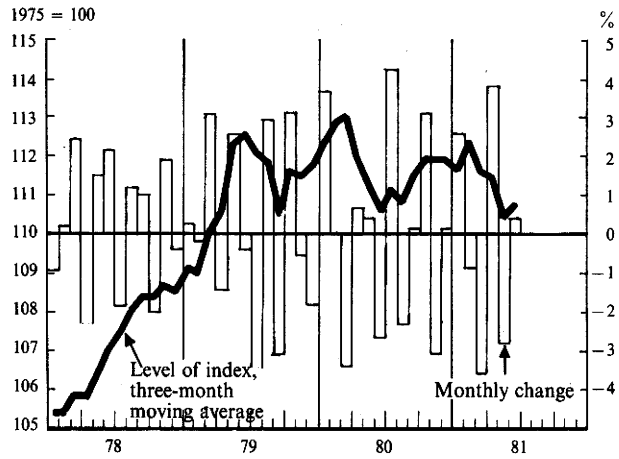
GRAPH 4: Trade balance (s.a.), EC-9



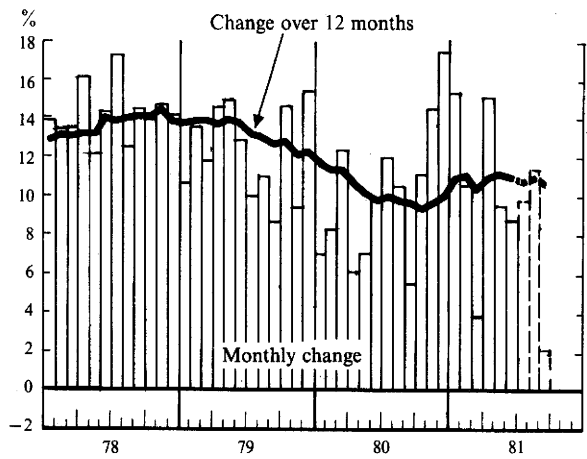
GRAPH 5: Value of USD, yen and SDR in ECUs



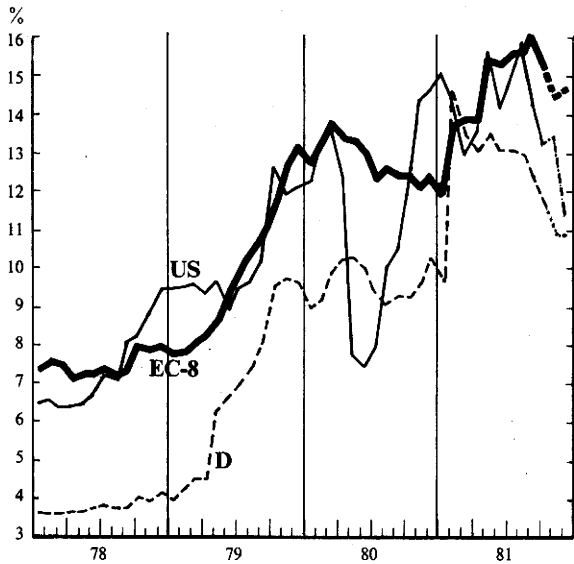
GRAPH 6: Volume of retail sales (s.a.), EC-9



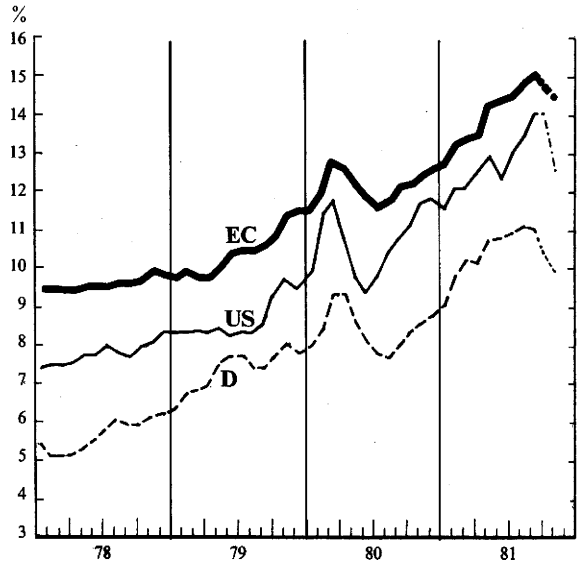
GRAPH 7: Money supply (s.a.), EC-8



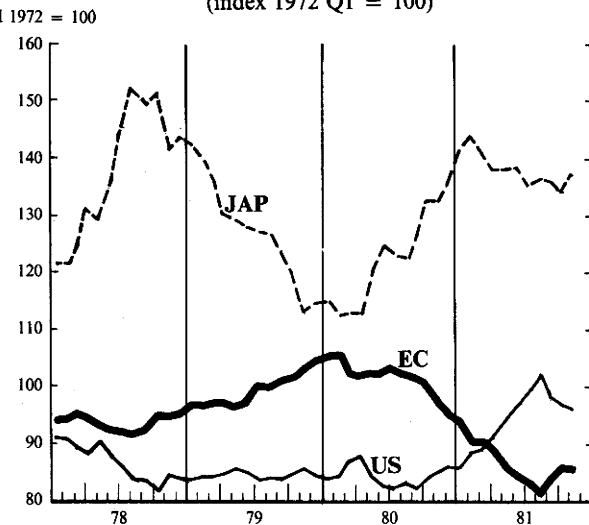
GRAPH 8: Short-term interest rates



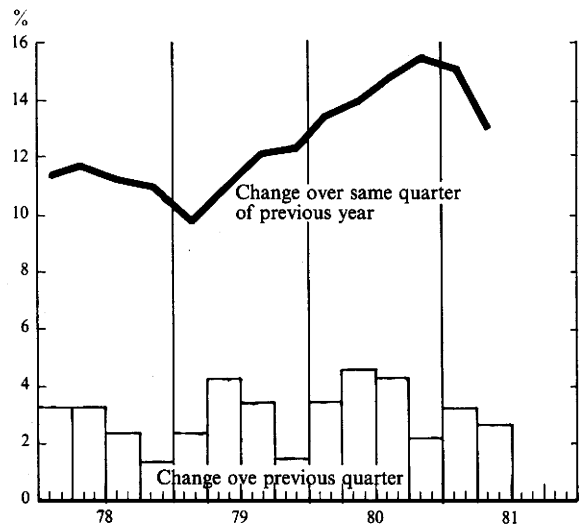
GRAPH 9: Long-term interest rates



GRAPH 10: Effective exchange rates, export aspect (index 1972 Q1 = 100)



GRAPH 11: Gross hourly wages in industry, EC-9



Major economic policy measures — December 1981

Community (EC)

14.12 The Council (Economic and Financial Affairs) adopted — with some amendments — the decision adopting the Annual Economic Report proposed by the Commission which analyses developments in 1981 and lays down the economic policy guidelines for 1982. The Council agreed to complete it as soon as possible by laying down the guidelines to be followed by Greece in her economic policy for 1982.

Belgium (B)

11.12 The Banque Nationale raised the discount rate from 13 to 15% and the rate for advances on current account from 15 to 17%.

15.12 Parliament adopted a law limiting rent increases to 6% in 1982.

29.12 After raising the interest rate on one-month Treasury certificates from 14.50 to 16.50% in four stages, the Banque Nationale brought the rate down to 16.25%.

Denmark (DK)

None.

Germany (D)

3.12 The central council of the Bundesbank (Zentralbankrat) decided to reduce the special Lombard rate from 11% to 10.5% and fixed the target range for the growth of the central bank money supply, between the fourth quarters of 1981 and 1982, at 4 to 7%.

18/19.12 The Bundesrat and Bundestag passed legislation aimed at reducing the structural deficit of the federal budget. The measures adopted include:

- reductions in family allowances, social security benefits and transfers to students, as well as in starting salaries for civil servants;
- increase in taxation on alcohol and tobacco and in tax liability on reinvested capital gains resulting from disposal of share holdings;
- reduction of tax allowances for pension funds;
- proposals to reduce the costs of the health service, employment support programmes and subsidies to existing public sector housing.

The measures are expected to limit the federal budget deficit in 1982 to DM 26 800 million.

Greece (GR)

13.12 The Prime Minister announced a first package of economic policy measures:

- The automatic *indexation* of public (and indirectly private) sector wages will apply from 1 January 1982 and will be triggered every four months. Indexation will be complete only for wages of up to DRA 35 000; for wages between DRA 35 000 and 55 000 the increase will equal half the inflation rate and for those between DRA 55 000 and 80 000 it will equal one quarter of the inflation rate. There will be no indexation increases above that level.
- Reduced taxation on the lowest incomes. The details will be announced when the 1982 budget is presented to Parliament.
- Certain *controlled prices* were raised immediately as part of their phased adjustment.
- The *social measures* include a shorter working week, longer paid holidays, increased appropriations for the building of low-cost housing, higher pensions for workers and farmers, etc.

In order to assist small and medium-sized enterprises, the ceiling for the automatic credit which banks may grant them was raised from DRA 3 million to DRA 5 million and the State guarantee broadened.

France (F)

2.12 The Prime Minister presented the broad outlines of a plan aimed at a 'reconquering the domestic market' by the introduction of a sectoral industrial policy: specific measures are planned for the furniture, textile, toy and machine tool industries in particular.

7.12 Parliament examined the third 1981 amending finance bill. This supplementary budget increases the forecast budget deficit for 1981 by FF 16 300 million to FF 73 900 million.

10.12 The appropriations to be distributed to maintain farmers' incomes in 1981 will amount to FF 5 556 million.

10.12 An interministerial Committee examined the content of the order lowering the retirement age to sixty. Eligibility will be subject to two conditions; thirty-seven and a half years' contribution and some forty years of activity.

10.12 The CNPF (the employers' organization) and all the trade unions signed

an agreement concerning the financing of the second solidarity contract formula known as 'phased early retirement'.

10.12 The Cabinet adopted a 'programme for young people between 16 and 18 year of age'.

18.12 The target range for money supply growth for 1982 was set at 12.5% — 13.5%.

18.12 During the most recent discussions on the adoption of the 1982 budget, the Government modified the system for tax relief on company investment provided for in the initial finance bill. The 10% uniform rate of deduction is replaced by a reducing-rate system.

18.12 With effect from 1 January 1982, the working week in the public service is fixed at 39 hours (formerly 41 hours).

18.12 The Mauroy governments' second State loan is to be launched in early January; The initial amount will be FF 10 000 million, for eight years, at a nominal rate of 16.2%.

25.12 From 1 January 1982 the minimum wage (SMIC) will go up to FF 18,15 (formerly FF 17,76).

Ireland (IRL)

None.

Italy (I)

24.12 The monetary authorities extended the ceilings on bank lending to 31 December 1982; the index for the increase in lira bank lending (31 December 1980 = 100); which was fixed at 112 at the end of 1981, will be allowed to rise to 125 by the end of 1982 (up 11.6%). Foreign currency bank lending — except for credits to finance exports — will be allowed to increase by 12%. Banks overstepping the monthly lira lending ceilings must lodge a non-interest bearing deposit with the Banca d'Italia for one month. These control measures are compatible with a LIT 30 000 000 million expansion in lending to the corporate sector and total domestic credit expansion of LIT 73 000 000 million

Luxembourg (L)

16.12 Parliament adopted the draft budget for 1982 (see No 8-9/1981 of this publication).

Netherlands (NL)

4.12 In view of the fall in interest rates on the international markets, the Nederlandsche Bank reduced the interest surcharge imposed on banks for large operations from 1% to 1/2%.

4.12 Because of the weakness of private sector demand for credit, the Nederlandsche Bank prolonged for 1982 the measure, already applied in the second half of 1981, which suspends the rule that the expansion of long and short term lending to the private sector must be limited to 6%.

24.12 The Government, pursuant to the law on wage formation, — prolonged the 1/2% cut in the holiday bonus (setting an annual upper limit of HFL 5 200) and — limited automatic wage indexation to earnings under HFL 60 000 per annum.

United Kingdom (UK)

2.12 The Chancellor of the Exchequer announced revised public expenditure plans for 1982/83, with expenditure in nominal terms UKL 5 000 million higher (at UKL 115 billion), than planned in the last White Paper published in March 1981.

Changes to the earlier plans include:

- an increase of UKL 1 400 million in the provision for local authority current expenditure but a proportionate reduction in the grant from Central Government to cover this expenditure;
- an increase of UKL 1 300 million in the external financing limits for the nationalized industries;
- an increase of UKL 480 million on defence expenditure;
- an increase of UKL 800 million for special employment schemes.

Certain measures on the revenue side were also announced:

- an increase to 8.75% in the rate of employees' National Insurance fund expected in 1982-83;
- an increase in National Health Service charges;
- an increase in public sector housing rents.

15.12 The Government announced plans for the development of industrial training of young people in a White Paper 'A new training initiative: a Programme for action'.

Price (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.
Supplements						
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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	

