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Supplement B

Economic prospects - business survey results

Further slight deterioration in business confidence. — The business climate indicator for the Community as a whole fell in December 1980 by one percentage point, according to the most recent survey results. This follows a decline of 2 percentage points between October and November 1980 (see Graph 1 and Table 1). The quarterly comparison indicates a moderation in the spread of recessionary sentiment: while the decline of the business climate indicator between the first and the second quarters and between the second and the third quarters of 1980 amounted to 6,5 and 12 percentage points, respectively, the downturn between the third and the fourth quarters of 1980 was only 3 percentage points. Judgements on the level of stocks of finished products and on the production outlook were virtually stable in December (a deterioration of only 1 percentage point) but the chief executives covered by the survey reported a decline of 6 percentage points in judgements on the level of order-books.

The industrial business climate in the Member States. — The short-term outlook for industrial production worsened in December in the Federal Republic of Germany: the net balance of chief executives expecting production to decline in the next three or four months went from -11 in October, through -17 in November to -19 in December (see Table 1). However, the average of the results of those three months stayed on the same level, -16, as in the third quarter which may indicate a flattening of the downward trend in recent months. The level of industrial order-books, by contrast, was judged to have declined further below normal levels in December, by 7 percentage points, and on the average of the fourth quarters, 1980, by 10 percentage points. Judgements on export order-books were stable between the third and the fourth quarters of 1980, though the majority of chief executives considering the level of export order-books below normal increased in December by 4 percentage points.

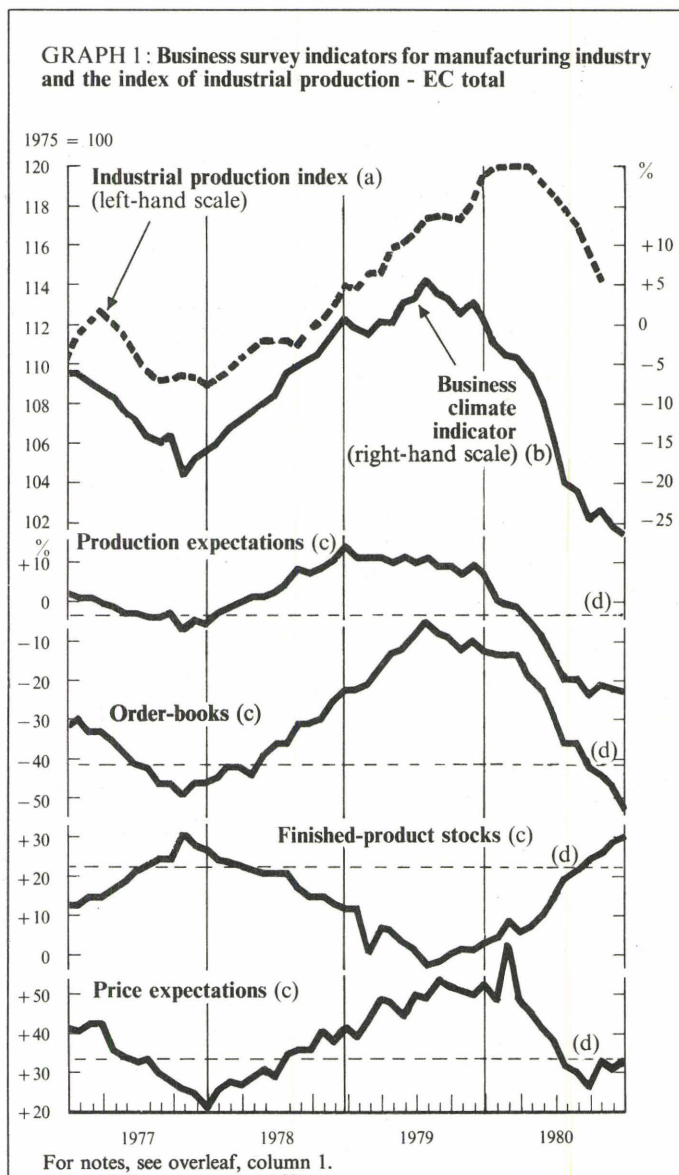
In France, the net balance of production expectations improved in December for the second month in succession (by 3 percentage points). However, order-books and stocks of finished-products, in December, were judged by French executives to have deteriorated sharply by comparison with November, continuing the trend in evidence through most of 1980.

Production expectation in Italian industry fell in December 1980 by 5 percentage points. Nevertheless, comparison of the survey results for the third and the fourth quarters as a whole shows a recovery of 2 percentage points in the production outlook. By contrast, the majority of chief executives considering stocks of finished products to be above normal increased markedly, both in December (by 4 percentage points)

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 upwards trends in production, order-books, stocks and selling prices are all counted as 'positive' (+ in the tables) and vice versa for 'negative' responses (- in the tables). For the purpose of interpretation, an increase in stocks is considered to be a negative development, and vice versa. The differences between the percentages of 'positive' and 'negative' responses are called in the text 'majorities' or 'net balances' (of $\pm \dots\%$). The monthly and quarterly data in the tables are seasonally adjusted, except where otherwise stated.

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GRAPH 1: Business survey indicators for manufacturing industry and the index of industrial production - EC total



and on the average of the fourth quarter (by 8 percentage points). The overall industrial business climate indicator for Italy declined by 4.5 in December, indicating growing pessimism concerning general business conditions.

There has been a certain stabilization in the industrial production outlook in the United Kingdom: the net balance of industrial chief executives expecting output to fall in the next three or four months diminished by a marginal 1 percentage point in December and by 2 percentage points between the third and fourth quarters of 1980. By contrast, judgements on order-books in December and on the average of the fourth quarter of 1980 were less favourable: a net balance of 87% of British industrialists now consider order-books to be below normal, a figure which indicates a very marked degree of pessimism among industrial chief executives. The industrial stocks situation seems, however, to be improving: the majority of chief executives considering the level of stocks of finished products excessive, was 7 percentage points less in December than in the preceding month.

Of the other Member States, Ireland reports a marked improvement in production expectations in December by comparison with November, and the overall business climate indicator has improved by 7.5 percentage points. In the Netherlands and Belgium, the majority of industrialists expecting industrial production to decline in the months ahead increased slightly in December, by 1 percentage point, there having been little change in both cases in the production outlook in the fourth quarter as a whole.

Consumption, investment and intermediate-goods sectors. — The production outlook for the consumption and investment-goods sectors worsened in December 1980 at the Community level by 3 and 4 percentage points, respectively. However, in the intermediate-goods industries, the pessimistic majority of industrialists diminished in December by 2 percentage points, coming back to the level of October (see Table 2). Comparison of the third and fourth quarters, however, shows a stabilization of production expectations in all three major industrial groups.

Employment outlook in industry. — Recent survey results on the employment outlook in the months ahead indicate widespread pessimism on the part of industrial chief executives (see Table 3). Between the first and the second halves of December, the net balance of European industrialists considering that employment in industry would decline in the months ahead advanced by 13 percentage points. Only the Netherlands and Ireland reported a fall in the pessimistic majority on the employment outlook question, with improvements of 1 and 7 percentage points, respectively.

Factors limiting industrial production. — In all Member States for which data are available, insufficient demand is, as one would expect, the major factor limiting industrial output (see Table 4). The percentage of responses in this sense, in the October and November, 1980, surveys ranged from 94% in Ireland to 28 and 26% in the Federal Republic of Germany and the Netherlands, respectively (the relevant data are not available for France and the United Kingdom). Nevertheless, shortages of labour and equipment are still reported by a significant percentage of chief executives, notably in France, where equipment is cited as a limiting factor by 16% of industrialists, and the Netherlands, where 10% of respondents report labour supply difficulties. The trend in all cases is, however, downwards, as labour supplies and the capital stock become more abundant in relation to weaker demand for industrial products.

Construction. — Between the third and the fourth quarters, the net percentage of chief executives of building firms who considered orders to be below normal increased at the Community level, by 7 percentage points (see Table 5). The fourth-quarter results show a decline in assessments of order-book levels by 10 percentage points in the Federal Republic of Germany, 9 points in the United Kingdom, 7 points in France and 3 percentage points in Italy. In the Belgium and Luxembourg area, the deterioration in order-book judgements has been more substantial: in Luxembourg, 15 percentage points and Belgium, 9 percentage points. Employment expectations in the construction sector have deteriorated more markedly than orders at the level of the Community as a whole, by some 9 percentage points between the third and fourth quarters. Excluding Belgium, Member States reported increasing pessimism on employment expectations in the fourth quarter of between 4 and 15 percentage points. In Belgium, however, the outlook for employment in the building sector has improved.

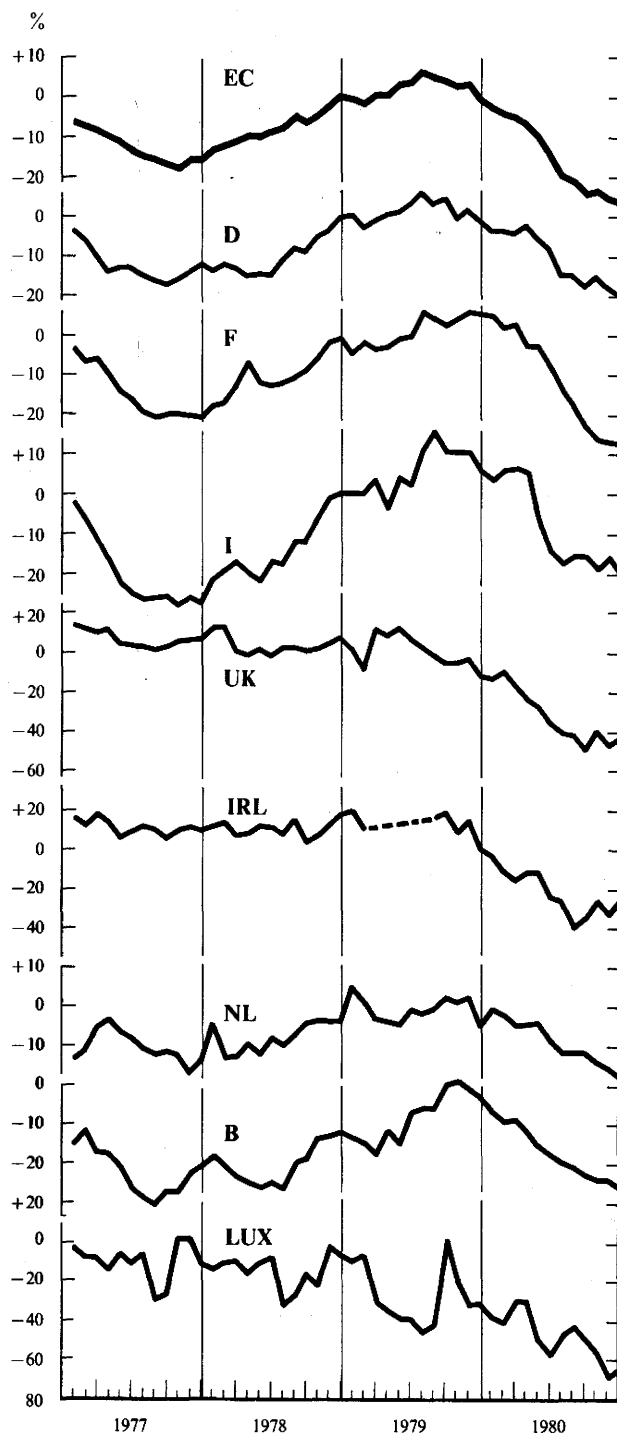
Brussels, 14 January 1981

Notes on Graph 1.

- (a) Industrial production excluding building and construction and, in the case of France, the foodstuffs and beverages industry. Three months' moving average.
- (b) 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.
- (c) Net balances, i.e. differences between the percentages of respondents giving positive and negative replies (see notes on final page).
- (d) Dotted line shows average for 1968-1977.

Source: European Community business surveys and Eurostat.

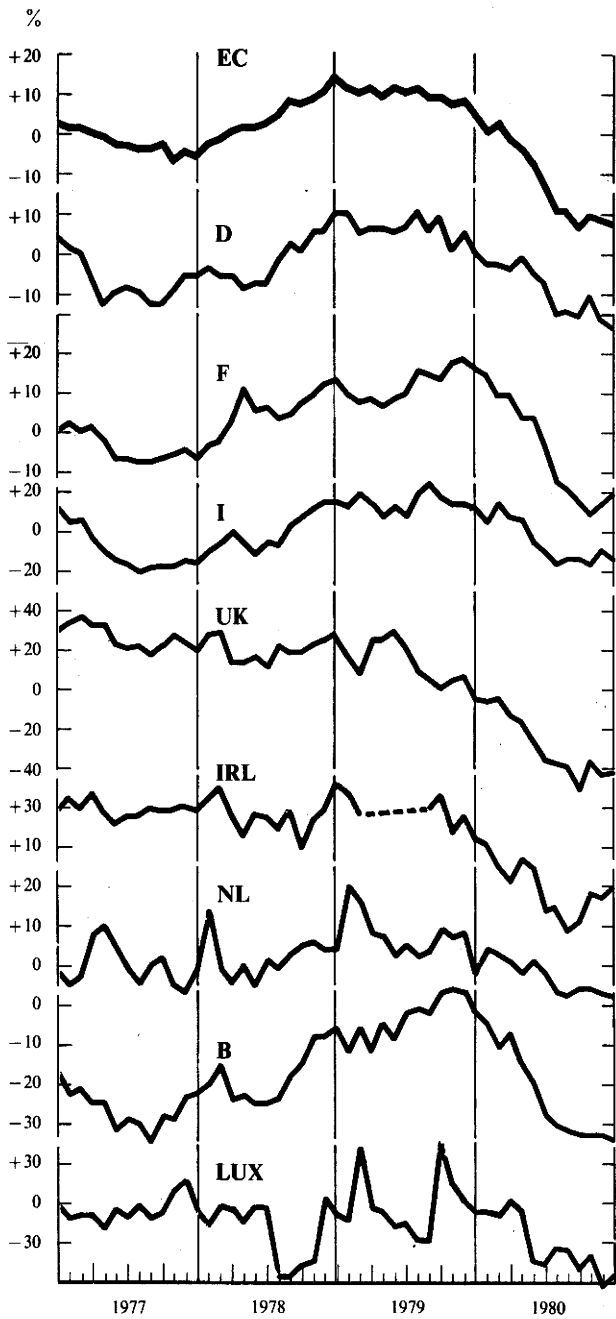
GRAPH 2: Business climate of manufacturing industry - EC and Member States



Note: 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.

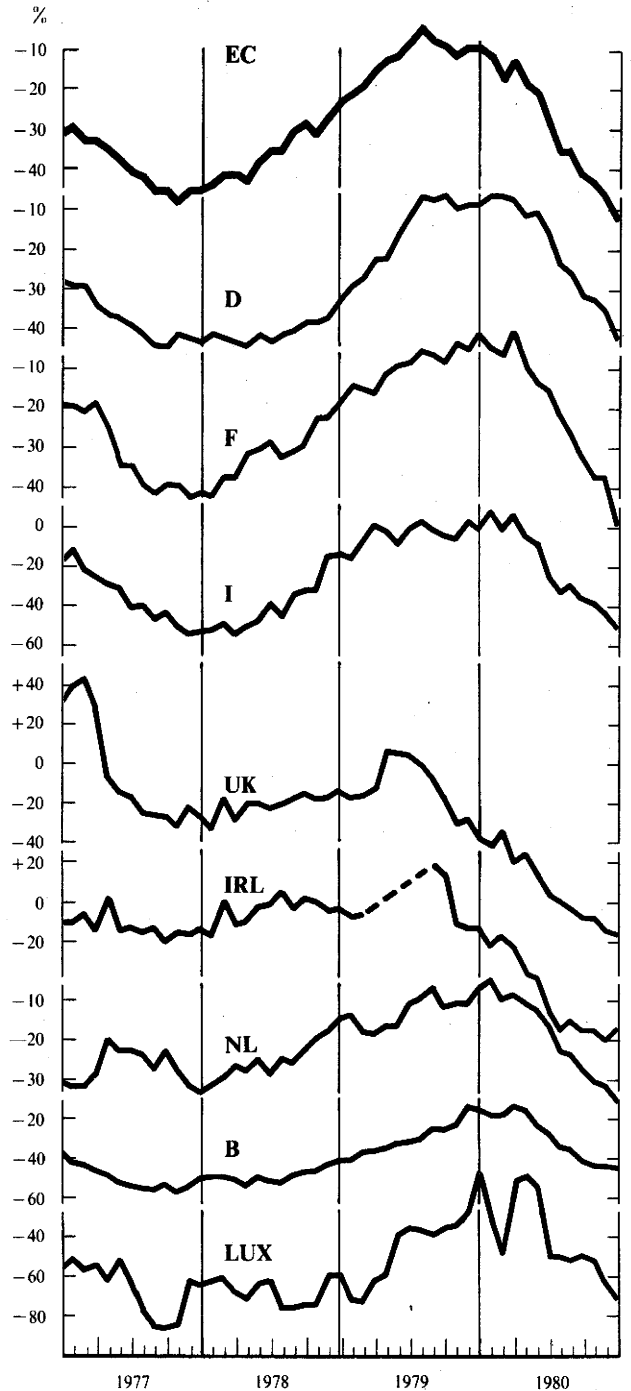
Source: European Community business surveys.

GRAPH 3: Production outlook for manufacturing industry - EC and Member States (a)



(a) Net balances: i.e. differences between the percentages of respondents giving positive and negative replies.
 Source: European Community business surveys.

GRAPH 4: Order-books in manufacturing industry - EC and Member States (a)



(a) Net balances: i.e. differences between the percentages of respondents giving positive and negative replies.
 Source: European Community business surveys.

TABLE 3: Survey of manufacturing industry — Question asked half-yearly (a)

Employment expectations for the months ahead: net balance of respondents expecting employment up, unchanged or down (b)

	Range (c)		1977	1978	1979	1980	1979		1980	
	Peak 1972/73	Trough 1974/75					June/ July	Oct./ Nov.	June/ July	Oct./ Nov.
D	+13	-34	-13	-8	+1	-6	-1	+2	+1	-12
F	+17	-35	-18	-24	-23	-29	-22	-23	-24	-33
IRL	+15	-34	+5	:	:	-33	:	-2	-36	-29
I	+13	-26	-15	-6	+1	-22	+3	-1	-15	-28
NL	+4	-32	-27	-22	-10	-10	-13	-6	-10	-9
B	+12	-26	-22	-17	-6	-21	-9	-2	-12	-29
L	+75	-67	-66	-34	-10	-13	-19	-1	-12	-13
UK	:	:	:	-6	-19	-52	-14	-24	-40	-64
EC (d)	+12	-31	-13	-12	-10	-23	-9	-10	-16	-29

TABLE 4: Survey of manufacturing industry - Question asked three times a year (a)(b)

Limits to production: insufficient demand, shortage of labour, lack of equipment

		1977			1978			1979			1980		
		Jan./ Feb.	June/ July	Oct./ Nov.	Jan./ Feb.	June/ July	Oct./ Nov.	Jan./ Feb.	June/ July	Oct./ Nov.	Jan./ Feb.	June/ July	Oct./ Nov.
D	insufficient demand	40	38	38	42	36	32	28	16	16	16	13	28
	shortage of labour	3	4	4	4	4	6	6	11	14	10	3	6
	lack of equipment	1	2	1	1	2	1	2	3	3	3	3	1
F	insufficient demand	:	:	:	:	:	:	:	:	:	:	:	:
	shortage of labour	4	6	4	2	3	3	3	3	6	5	4	6
	lack of equipment	13	14	9	11	12	11	11	12	16	18	17	16
IRL	insufficient demand	12	26	16	17	:	31	32	:	16	41	65	94
	shortage of labour	4	6	4	10	:	16	16	:	6	37	7	3
	lack of equipment	3	2	4	2	:	9	2	:	24	11	5	1
I	insufficient demand	72	80	86	80	76	69	62	40	53	40	40	70
	shortage of labour	2	2	2	1	3	2	2	6	9	8	6	5
	lack of equipment	7	6	1	2	2	7	6	4	8	9	4	5
NL	insufficient demand	49	44	50	50	29	28	15	10	9	18	17	26
	shortage of labour	4	7	7	4	11	10	13	16	21	15	17	10
	lack of equipment	0	1	1	1	2	0	5	2	5	2	2	1
B	insufficient demand	83	87	88	90	91	86	83	78	78	78	75	83
	shortage of labour	3	2	0	0	0	2	2	3	3	3	5	3
	lack of equipment	4	2	2	1	2	5	4	6	7	7	8	6
L	insufficient demand	75	76	73	70	72	62	65	48	47	46	64	69
	shortage of labour	0	0	0	0	0	0	4	1	1	0	1	1
	lack of equipment	5	1	2	1	2	0	2	7	1	1	4	1
UK	insufficient demand	:	:	:	:	:	:	:	:	:	:	:	:
	shortage of labour	:	:	27	24	26	30	25	26	25	17	12	5
	lack of equipment	:	:	9	11	9	12	10	15	11	8	7	3
EC (d)	insufficient demand	:	:	:	:	:	:	:	:	:	:	:	:
	shortage of labour	:	:	8	7	8	10	9	11	13	10	6	5
	lack of equipment	:	:	5	6	6	7	6	8	9	8	7	6

(a) Details of the questions are given on the last page.

(b) Not seasonally adjusted.

(c) These are the extreme (high and low) values of the net balance of the responses, reached in the course of 1972/73 and 1974/75, respectively.

(d) Weighted total of available country data.

Source: European Community business surveys.

TABLE 5: Survey of the construction industry

Net balances: i.e. differences between the percentages of respondents giving positive and negative replies (s.a.) (a)

		Range (b)		1978	1979	1980	1980				1980					
		Peak 72/73	Trough 74/75				I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.
D	order-books	-17	-84	-32	-7	-30	-15	-24	-35	-45	-31	-37	-37	-41	-47	-48
	employment expectations	+10	-60	+5	+9	-7	+6	-5	-12	-17	-13	-12	-11	-16	-15	-19
	price expectations	+48	-37	+28	+30	-5	+21	+3	-21	-23	-20	-23	-19	-16	-25	-27
F	order-books	:	:	-48	:	-30	-29	-28	-28	-35	:	:	:	:	:	:
(c)	employment expectations	:	:	-19	:	-11	-13	-5	-5	-19	:	:	:	:	:	:
I	order-books	-25	-68	-40	-29	-33	-33	-30	-31	-34	-27	-31	-36	-35	-35	-31
	employment expectations	+10	-44	-16	-12	-11	-7	-13	-7	-15	-10	-2	-9	-17	-15	-14
	price expectations	+85	+30	+62	+71	+71	+71	+74	+67	+72	+65	+66	+69	+70	+75	+70
NL	order-books	-8	-81	-19	-19	-39	-25	-39	-45	-47	-46	-45	-45	-43	-47	-50
	employment expectations	+14	-13	+12	+11	-8	+9	-9	-13	-17	-9	-13	-17	-18	-16	-16
B	order-books	-13	-47	-39	-28	-32	-30	-37	-26	-35	-34	-38	-35	-34	-32	-40
	employment expectations	+31	-24	-9	0	-23	-8	-26	-31	-28	-34	-31	-29	-34	-28	-22
	price expectations	+75	+25	+31	+43	+31	+42	+36	+27	+20	+26	+22	+32	+19	+22	+19
L	order-books	+21	-50	-11	-7	-12	-3	-2	-13	-28	+1	-10	-16	-15	-21	-48
	employment expectations	+31	-39	+14	+16	+6	+8	+11	+9	-3	+22	-5	+10	+23	+2	-35
	price expectations	+82	+11	+27	+46	+45	+61	+65	+23	+31	+41	+11	+18	+38	+33	+22
UK	order-books	:	:	-8	:	-33	-21	-31	-36	-45	:	:	:	:	:	:
(c)	employment expectations	:	:	-2	:	-27	-11	-12	-34	-49	:	:	:	:	:	:
	price expectations	:	:	+53	:	+50	+67	+63	+40	+31	:	:	:	:	:	:
EC	order-books	:	:	-32	:	-32	-24	-29	-33	-40	:	:	:	:	:	:
(d)	employment expectations	:	:	-9	:	-14	-6	-9	-15	-24	:	:	:	:	:	:

(a) Details of the questions are given below.

(b) These are the extreme recent (high and low) values of the net balances of the different questions, reached in the course of 1972/1973 and 1974/1975, respectively.

(c) Not seasonally adjusted.

(d) Owing to lack of data for certain Member States, Community totals are incomplete.

Note: The annual and quarterly figures are averages of the corresponding monthly data, except for France and the United Kingdom, where the survey is carried out on a quarterly basis. The monthly and related quarterly data are seasonally adjusted unless otherwise indicated: the seasonal adjustment applied to the most recent observations is sometimes provisional, so that such data are subject to later revision.

Source: 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:

- 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.

Construction 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:

- D - Federal Republic of Germany: IFO (Institut für Wirtschaftsforschung)
- 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)
- NL - Netherlands: CBS (Centraal Bureau voor de Statistiek)
- B - Belgium: Banque Nationale de Belgique
- L - Luxembourg: STATEC (Service Central de la Statistique et des Etudes Economiques)
- UK - United Kingdom: CBI (Confederation of British Industry), for the manufacturing industry survey.
- DI (Department of Industry), for the investment survey.
- DE (Department of Environment), for the construction survey.

Supplement B to 'European Economy', gives a monthly selection of the most recent results. Articles containing more detailed analyses and longer time-series of data will appear periodically in the main editions of 'European Economy'. 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'.

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