

EUROPEAN ECONOMY

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

Supplement B
Business and consumer
survey results
No 10 – October 1993

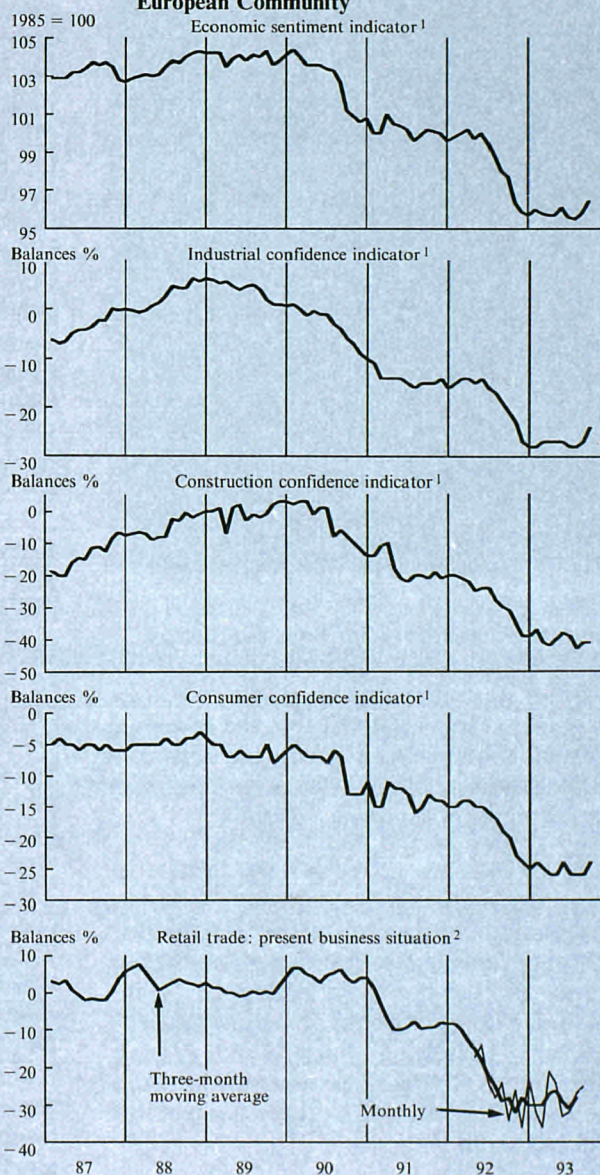


*In this number:
Present developments
in the construction industry (p. 10)*

THE MAIN POINTS IN BRIEF

- The economic climate in the Community has improved slightly. In the vast majority of member countries, the September business surveys show that pessimism is declining in industry, the retail trade and among consumers. In the construction industry, the loss of confidence evident during the summer has not persisted. These are the first signs that the fall in output in the Community may have come to an end.
- In September the Community's leading economic indicator was 0.6 percentage point up on the month before, returning to its level of last autumn after dipping to a new low in mid-1993.
- According to the leading indicator for the world economy, the beginnings of a gradual upswing in the world economy are now discernible. Whether this will exert a positive influence on business activity in the Community as well depends not least on the extent to which European firms can improve their price competitiveness.

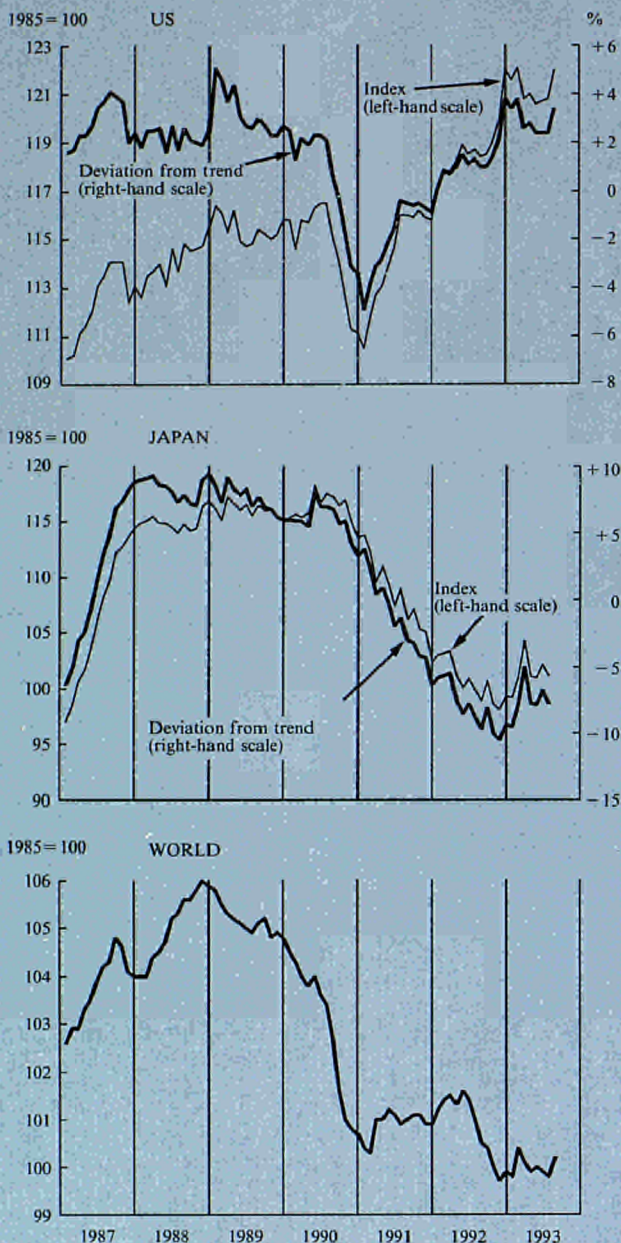
GRAPH 1: Indicators of economic sentiment –
European Community



¹ See notes to Table 1.

² Not seasonally adjusted.

GRAPH 2: Leading indicators for the US, Japan and world



Sources: Commission of the European Communities; US Department of Trade; Economic Planning Agency of the Japanese Government.

The economic climate in the Community has improved slightly. — For the first time since their sharp fall in the autumn of 1992 and the subsequent period of stagnation, the economic indicators are showing a marked rise. This is a signal that the economic downturn is at an end and that economic activity has bottomed out. However, this does not mean that the end of the downturn will bring an immediate onset of economic recovery.

In the vast majority of member countries, the September business surveys show that pessimism is declining in industry, the retail trade and among consumers. In the construction industry, the loss of confidence evident during the summer has not persisted. Clearly, one of the main hallmarks of the beginnings of an economic recovery would be an upward trend in real economic activity, something which is still missing. However, should the more positive business assessments take a firmer hold over the next few months, this may well signal that the decline in output has to an end.

Among *consumers*, confidence rose somewhat throughout the Community in September, after remaining at a record low in

June, July and August. This increase was the result of a slight improvement in Belgium, Germany, Spain, France, the Netherlands and the United Kingdom. Consumers are no longer as pessimistic as a month earlier about the current or the future economic situation. They are also less gloomy about their own future financial situation. This had a favourable effect both on consumers' intentions to purchase durable goods and on their purchasing plans for the next twelve months. The assessment of price movements probably played a key role here. Further price rises over the next twelve months were expected by fewer consumers — mainly in Belgium, Denmark, Germany, Spain, France, Italy and the Netherlands. Anxiety about a further increase in unemployment declined only slightly. The generally somewhat more positive picture of consumer activity is marred by the less favourable assessment by consumers in the Community of their own current financial situation. Spain, the Netherlands and the United Kingdom are the only countries where assessments were less negative than in the previous month.

In August *retailers* were again less pessimistic about their economic situation than in July, and the results so far available for September point to a continuation of this trend. It is therefore quite probable that sentiment will improve further. In addition, Community retailers are intending to be less cautious as regards new orders.

Following its record low over the preceding ten months, the current climate also improved in *industry*. At the same time, the number of firms intending to reduce their output over the next few months declined. Indeed, a majority of firms in Greece, Italy, the Netherlands and the United Kingdom intend to expand production. In September this majority in the United Kingdom even showed a further marked increase. By contrast, production cutbacks are still planned in Belgium, Germany, Spain, France, Luxembourg and Portugal, although even in these countries production prospects are no longer viewed quite so pessimistically as previously. It is true that, despite a minimal improvement, the order-book situation in the Community is still viewed as highly unsatisfactory. Over half the firms in Germany, Spain, France and Portugal are still of the opinion that their order-book levels are too low to expand production. The pressure of stocks has also eased slightly compared with previous months. Industrial firms expect virtually no changes on the price front.

In the *construction industry*, sentiment showed no change on the previous month. This is attributable mainly to the scepticism of firms with regard to changes in employment levels expected over the next few months (see page 10).

The leading economic indicator for the Community rose in August and September. — In September the leading indicator for the Community was 0.6 percentage point up on the month before, returning to its level of last autumn after dipping to a new low in mid-1993.

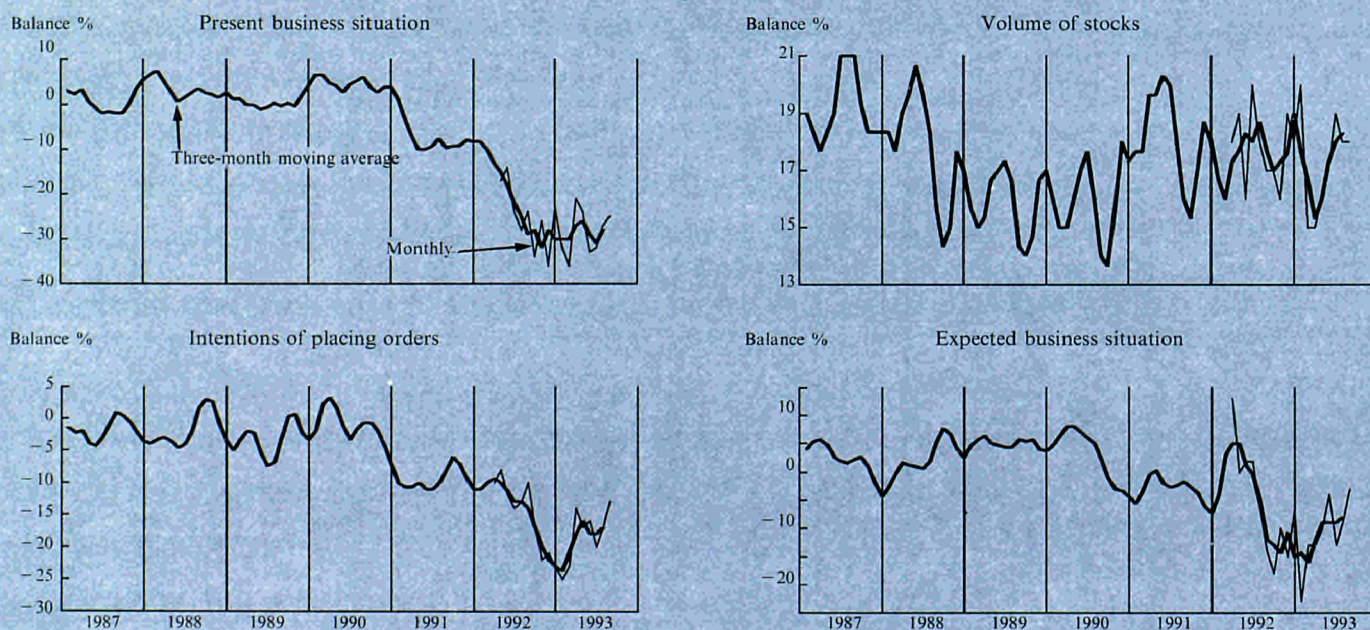
Taken by itself, the latest change in this indicator does, of course, give few clues as to the scale of the economic recovery. The beginnings of a gradual upswing in the world economy, which is also discernible in the leading indicator for the world economy, will probably have a positive effect on the Community as well, but European firms are hemmed in by the fact that they are currently somewhat lacking in price competitiveness. However, the slowdown in price rises, which the survey results suggest will continue, should contribute to the necessary strengthening of their international competitiveness.

TABLE 4: Results of business surveys in the retail trade (a) (b)

		Peak 88,90	1990	1991	1992	1993			1993					
						I	II	III	April	May	June	July	Aug.	Sept.
PRESENT BUSINESS SITUATION	B	28	15	-9	-12	-29	-32	:	-24	-43	-28	-18	-15	:
	DK	:	:	27	28	18	18	8	13	19	21	10	9	4
	D	49	28	21	-6	-20	-17	-14	-6	-23	-21	-10	-13	-19
	E	-1	-34	-33	-49	-61	-64	-67	-64	-66	-62	-74	-63	-63
	F	12	0	-17	-27	-63	-46	-58	-38	-44	-58	-60	-58	-56
	I(c)	9	1	-9	-17	-34	-37	:	-35	-36	-39	-34	-29	:
	NL	55	46	41	26	18	24	30	24	24	23	35	37	18
	P	7	-15	-9	-9	-22	-34	-35	-26	-40	-37	-39	-34	-32
	UK (d)	46	-7	-33	-34	-10	-21	:	-18	-28	-17	-3	1	:
	EUR	9	5	-8	-19	-30	-30	:	-24	-33	-32	-27	-24	:
VOLUME OF STOCKS	B	18	7	19	22	24	32	:	24	29	34	26	22	:
	DK	:	:	17	20	18	24	14	26	21	24	10	12	21
	D	29	10	19	25	26	32	26	24	28	34	26	28	23
	E	13	6	2	8	11	5	5	8	7	1	3	6	6
	F	24	15	13	9	1	4	1	10	2	-1	2	1	-4
	I(c)	29	27	26	21	27	29	:	28	30	30	34	39	:
	NL	21	10	11	14	14	15	12	15	15	14	12	9	14
	P	28	20	11	11	14	18	12	17	20	16	22	13	12
	UK (d)	35	23	27	16	9	10	:	4	8	19	15	7	:
	EUR	22	16	18	17	17	17	:	16	17	19	18	17	:
INTENTIONS OF PLACING ORDERS	B	26	7	-5	-9	-15	-20	:	-21	-37	-29	-19	-5	:
	DK	:	:	19	21	4	-1	2	5	-6	-2	9	-6	3
	D	24	13	10	-3	-13	-12	-3	-8	-11	-16	-5	0	-5
	E	26	10	8	-3	-18	-13	-16	-18	-9	-12	-23	-14	-13
	F	-2	-12	-23	-25	-31	-26	-26	-26	-22	-31	-31	-26	-21
	I(c)	4	-14	-20	-2	-48	-45	:	-50	-44	-43	-49	-44	:
	NL	24	17	8	5	-5	-13	-4	-13	-11	-14	-9	7	-9
	P	10	-8	-8	-15	-22	-34	-32	-25	-36	-42	-41	-30	-25
	UK (d)	41	-6	-28	-18	1	11	:	14	11	8	-18	18	:
	EUR	6	-1	-10	-14	-21	-18	:	-17	-16	-20	-17	-12	:
EXPECTED BUSINESS SITUATION	B	35	7	3	0	-4	-21	:	-15	-21	-26	-10	11	:
	DK	:	:	40	41	22	41	26	44	41	37	30	19	28
	D	24	19	12	-3	-10	-13	-6	-11	-15	-13	-6	0	-12
	E	47	19	24	-1	-18	-9	-25	-13	-4	-10	-23	-26	-25
	F	-5	-20	-41	-33	-34	-29	-32	-25	-12	-49	-27	-32	-37
	I(c)	14	-1	-11	-17	-46	-31	:	-34	-26	-33	-35	-5	:
	NL	43	34	23	18	11	2	9	3	5	-1	7	14	6
	P	42	17	17	8	2	5	-6	10	0	5	12	1	-7
	UK (d)	40	-8	1	7	21	35	:	:	35	:	:	25	:
	EUR	9	3	-3	-7	-16	-9	:	-10	-4	-13	-9	-4	:

(a) Not seasonally adjusted.
 (b) Percentage balances.
 (c) Excl. large multiple shops.
 (d) Refers to volume of sales for the time of the year.

GRAPH 3: Results of business surveys in the retail trade — European Community¹



For the notes: see table 4.

¹ Since September 1988 with Spain; since January 1989 with Portugal; since November 1990 with Denmark.

TABLE 6: Results of monthly business surveys for the Federal Republic of Germany: West and East

Balances: i.e. differences between the percentages of respondents giving positive and negative replies (not seasonally adjusted)

Survey of the manufacturing industry

		1992						1993								
		July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Ma.	April	May	June	July	Aug.	Sept.
CONFIDENCE INDICATOR (a)	West	-15	-15	-19	-26	-34	-36	-34	-33	-35	-35	-36	-35	-33	-34	-30
	East	-23	-18	-27	-30	-29	-32	-31	-23	-26	-24	-24	-27	-24	-23	-19
PRODUCTION EXPECTATIONS	West	-4	-1	-8	-20	-37	-36	-27	-20	-19	-23	-22	-21	-19	-16	-8
	East	13	30	21	2	3	-4	6	16	11	16	6	6	13	11	16
ORDER-BOOKS	West	-28	-30	-35	-40	-44	-47	-51	-51	-57	-55	-57	-57	-56	-57	-57
	East	-60	-58	-72	-68	-64	-67	-70	-63	-66	-66	-60	-64	-60	-59	-56
EXPORT ORDER-BOOKS	West	-35	-36	-38	-45	-55	-54	-59	-62	-62	-61	-63	-60	-62	-66	-66
	East	-51	-53	-56	-65	-58	-59	-56	-51	-51	-52	-49	-51	-50	-55	-48
STOCKS OF FINISHED PRODUCTS	West	14	13	15	19	21	26	25	29	28	26	29	28	25	28	25
	East	23	27	30	24	27	25	28	23	23	21	19	23	24	22	16
SELLING-PRICE EXPECTATIONS	West	5	5	4	1	3	6	9	1	3	2	-6	-8	-6	-4	-6
	East	4	4	5	-1	2	-6	6	4	4	3	0	2	0	1	3

Survey of the construction industry

		1992						1993								
		July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Ma.	April	May	June	July	Aug.	Sept.
CONFIDENCE INDICATOR (b)	West	-9	-10	-14	-21	-28	-36	-35	-27	-22	-20	-20	-23	-24	-25	-29
	East	-39	-31	-34	-34	-40	-41	-36	-29	-17	-17	-16	-16	-15	-14	-15
ORDER-BOOKS	West	-18	-18	-20	-25	-34	-40	-42	-41	-41	-38	-34	-35	-34	-34	-35
	East	-39	-41	-40	-38	-44	-43	-45	-46	-41	-39	-32	-31	-26	-21	-20
EMPLOYMENT EXPECTATIONS	West	0	-1	-7	-17	-22	-32	-27	-13	-3	-1	-5	-10	-13	-15	-22
	East	-39	-21	-28	-29	-35	-38	-26	-12	7	5	0	-1	-3	-7	-9
PRICE EXPECTATIONS	West	1	-7	-17	-29	-34	-31	-23	-16	-11	-3	-10	-15	-21	-23	-26
	East	24	25	18	14	6	9	12	19	16	31	28	11	13	11	13

Survey in the retail trade

		1992						1993								
		July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Ma.	April	May	June	July	Aug.	Sept.
PRESENT BUSINESS SITUATION	West	-10	-15	-5	1	-20	7	-24	-30	-4	-6	-23	-21	-10	-13	-19
	East	9	4	5	6	8	32	-7	-8	-2	-13	8	2	6	9	:
VOLUME OF STOCKS	West	26	34	26	23	25	22	25	27	27	24	28	34	26	28	23
	East	27	28	13	35	30	29	26	32	43	50	35	32	24	25	:
EXPECTED BUSINESS SITUATION	West	-2	3	0	4	-13	-19	-16	-8	-5	-11	-15	-13	-6	0	-12
	East	17	-2	6	4	-4	2	20	6	3	-3	1	-4	6	8	:
EMPLOYMENT EXPECTATIONS	West	:	:	-2	:	:	-1	:	:	-11	:	:	-7	:	:	-7
	East	-48	-44	-44	-40	-39	-40	-29	-21	-25	-28	-28	-27	-19	-30	:

Consumer survey

		1992						1993								
		July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Ma.	April	May	June	July	Aug.	Sept.
CONFIDENCE INDICATOR (c)	West	-17	-15	-19	-21	-24	-27	-29	-28	-31	-26	-27	-28	-30	-27	-26
	East	-7	-2	-9	-8	-6	-10	-14	-18	-22	-15	-13	-16	-14	-14	-15
FINANCIAL SITUATION OF HOUSEHOLDS — over the last 12 months	West	-13	-12	-13	-14	-15	-16	-17	-17	-19	-18	-18	-18	-19	-19	-18
	East	2	13	7	10	10	5	2	0	-2	1	6	-2	3	0	1
— over the next 12 months	West	-7	-3	-8	-10	-13	-14	-15	-13	-15	-11	-11	-13	-15	-12	-12
	East	-4	3	-4	-1	-1	-5	-3	-4	-8	-1	-2	-2	-2	-5	-5
GENERAL ECONOMIC SITUATION — over the last 12 months	West	-32	-29	-36	-40	-43	-48	-50	-52	-57	-52	-53	-53	-57	-54	-54
	East	-6	-5	-17	-9	-16	-22	-26	-33	-41	-32	-27	-31	-31	-31	-30
— over the next 12 months	West	-20	-20	-23	-27	-36	-41	-41	-40	-46	-35	-37	-36	-37	-32	-31
	East	5	-3	-11	-3	-15	-21	-24	-26	-33	-20	-19	-21	-21	-22	-21
MAJOR PURCHASES — at present	West	-15	-12	-16	-16	-16	-16	-20	-19	-18	-16	-15	-18	-21	-19	-15
	East	-25	-17	-19	-17	-8	-7	-21	-26	-25	-23	-22	-22	-17	-13	-18
— over the next 12 months	West	-21	-21	-24	-22	-25	-26	-26	-23	-26	-26	-26	-27	-30	-28	-23
	East	-29	-32	-24	-29	-29	-30	-29	-32	-37	-37	-31	-34	-32	-37	-32

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

(b) The indicator is an arithmetic average of the responses (balances) to the questions on order-books and employment expectations.

(c) The indicator is an arithmetic average of the responses (balances) to the questions on financial situation of households and the general economic situation (past and future) and the present major purchases.

RECENT DEVELOPMENTS IN CONSTRUCTION INDUSTRY

In this article the most recent construction survey results are analyzed. The information content of the construction survey results can be used for prediction purposes. (See the historical turning-point analysis in Box 1).

The survey results indicate that **the deterioration of the climate in construction activity has now stopped** (Table 3). The results for the trend in activity were less negative in August and September, reaching a higher level than the July figure in all countries, except for Belgium and Portugal. Improvement, in comparison with the first quarter of this year, can also be observed in employment expectations, with the biggest progress being in Spain and the United Kingdom. Price expectations also become less negative, indicating that the pressure on profit margins may have slowed down. The evolution of order-books was showing greater pessimism up to August. But in September, the opinion on order-books improved in the Community, with only a worsening in Belgium, the Netherlands and West Germany. Construction survey results for Eastern Germany show major improvements also, with the Confidence Indicator rising from -36 in January 1993 to -15 in September (Table 6). This evolution will have a positive impact on construction figures for the Community aggregate including the new German Länder.

Even if negative attitudes about the climate in the construction industry are not increasing, it is interesting to look at those factors which may have been responsible for the general level of pessimism.

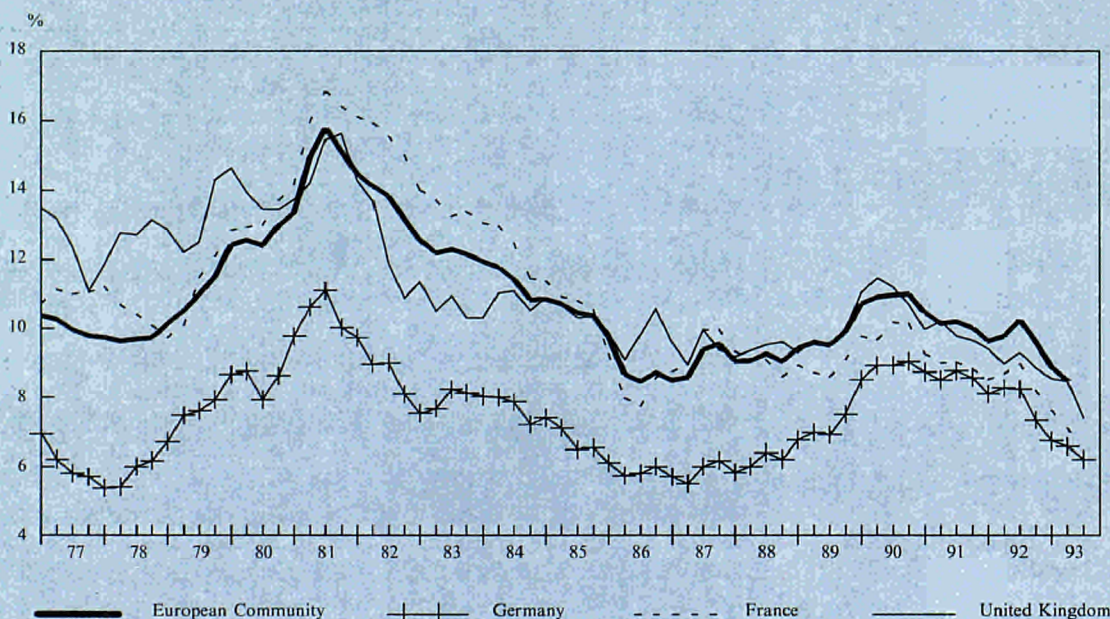
Negative effects outweighed any beneficial stimulus arising from the downward evolution of long term interest rates in 1993 (Graph 4). Important factors are the remaining uncertainty about general recovery and the uncertainty on the monetary side. Uncertainty is also spread through households and firms. Little can be expected from government given the general budgetary situation.

Building intentions of **households** (see Table 7) are negatively affected by the rise of unemployment and the lack of improvement in their financial situation over the last twelve months (see Table 5). Investment of **firms** is expected to fall in 1993 because of low profit prospects, mainly caused by weak demand, which has pushed capacity utilization downwards to only 77.2 % in July (the lowest figure since 1983) The Spring Survey on Investment showed a likely fall of 9 % in the volume of investment of industrial firms in the Community, with declines of 10 % or more in Italy, France and Western Germany. A rise of 7 % was expected for the United Kingdom.

In **1994** a further fall of long term interest rates may help investment in general and investment in construction particularly. Demand may pick up again, although very hesitantly. On the household side, the outlook for the next 12 months for unemployment and for the general economic situation became clearly less pessimistic in August and September (Table 5).

21 October 1993

GRAPH 4: Long Term Interest Rates – Period 1977 Q1 - 1993 Q3



Source: Commission Services.

TABLE 7: Household Plans for Building or Purchasing a Home within the next Two Years

	1991				1992				1993		
	Jan.	Apr.	July	Oct.	Jan.	Apr.	July	Oct.	Jan.	Apr.	July
B	-69	-71	-71	-70	-69	-73	-69	-76	-74	-72	-75
DK	-82	-80	-84	-79	-78	-78	-77	-79	-81	-83	-80
D	-82	-82	-83	-81	-82	-83	-83	-81	-82	-82	-82
GR	-83	-86	-85	-87	-83	-88	-91	-91	-89	-89	-89
F	-86	-88	-88	-90	-88	-91	-88	-89	-88	-87	-89
IRL	-78	-80	-82	-80	-81	-84	-79	-82	-81	-82	-83
I	-79	-82	-81	-82	-80	-81	-80	-82	-85	-85	-86
NL	-76	-79	-76	-78	-80	-77	-80	-77	-80	-78	-77

Balances: i.e. differences between the percentages of respondents giving positive and negative replies (not seasonally adjusted).

Source: Consumer Surveys.

BOX 1: The Construction Confidence Indicator as a Predictor of Turning-Points

The results of the construction survey are summarized in the Construction Confidence Indicator. This indicator is defined as the average of the balance results of the questions on order-books and employment expectations. Given that order-books are an indication of future activity, this implies that the Construction Confidence Indicator is a leading indicator. One can test that leading character of the Construction Confidence Indicator by identifying the turning-points in the Construction Confidence Indicator and in the production of the construction industry, which is measured by the macro-economic variable «Investment in Construction».

One can define turning-points as those observations which are bigger than (or smaller than) each of the n observations immediately preceding and following in time. The number n of surrounding observations must be large enough to avoid an accidental or extreme outlying minimum or maximum. Setting n equal to 10 means that

$$X_t = \text{maximum if } X_t > X_j$$

with $j = t-5, t-4, \dots, t-1, t+1, \dots, t+4, t+5$

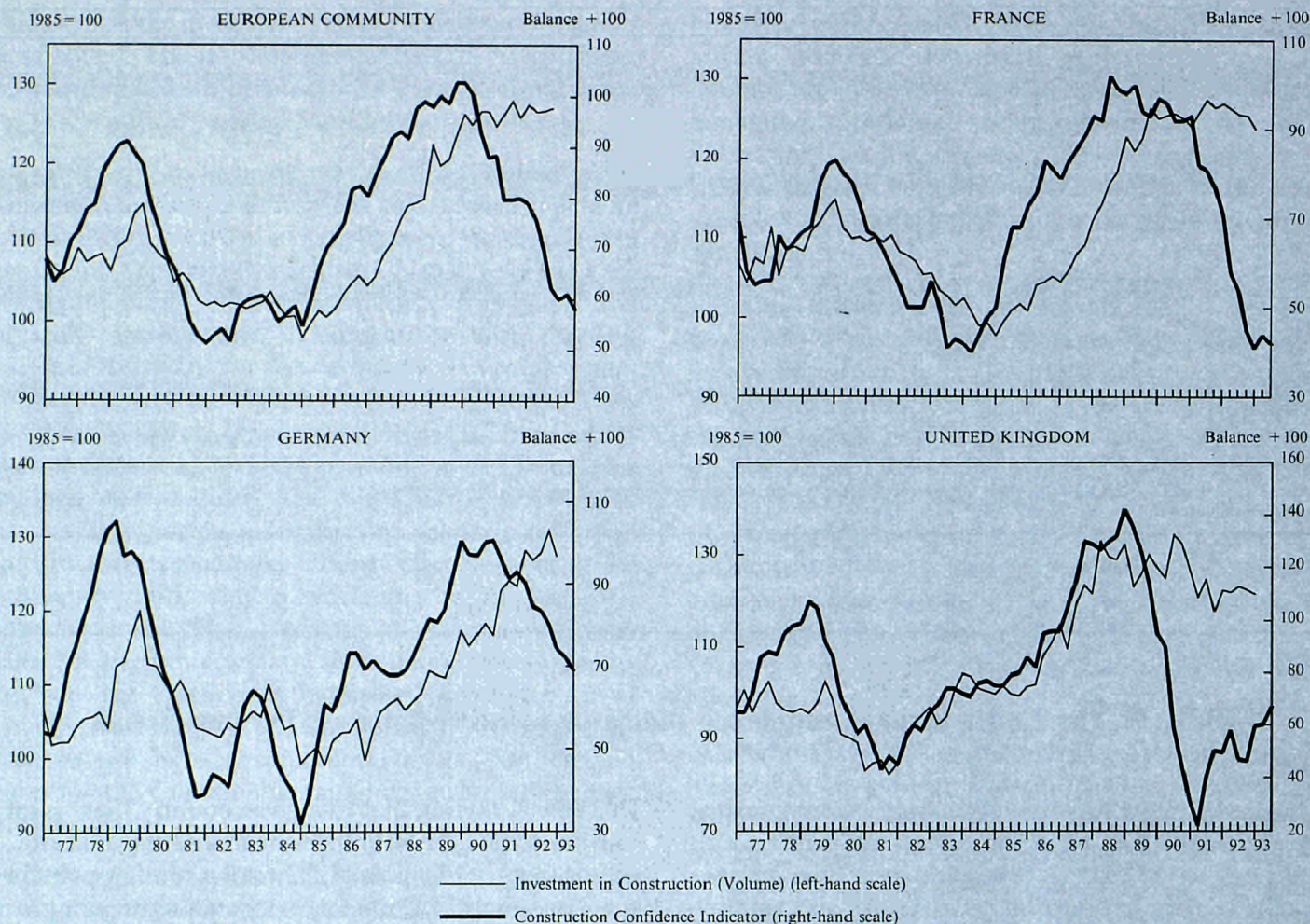
$$X_t = \text{minimum if } X_t < X_j$$

with $j = t-5, t-4, \dots, t-1, t+1, \dots, t+4, t+5$

In Table 8, finding that in a given country there is on one line a date for both investment and the indicator, means that for that country, there is a turning-point in the Construction Confidence Indicator preceding or coinciding with a turning-point in investment. Almost all the turning-points in the Construction Confidence Indicator are followed by or accompanied by turning-points in investment in construction (as can be seen in Graph 5). One can see however, that there are some turning-points which are only local maximum or minimum values. The presence of two successive pluses or two successive minuses indicates that one of these is not a real turning-point.

In forecasting practice, the turning-point analysis has the disadvantage that, in defining turning-points in this way, it is only possible to label in a definitive way the most recent observation as a turning-point after having five more observations. Even so, the quick availability of the survey results does provide an early preliminary appreciation of the evolution.

GRAPH 5: Investment in Construction and the Construction Confidence Indicator



Source: Commission Services.

**TABLE 8: Investment in Construction and the Construction Confidence Indicator
 Turning-points in the Period 1977 Q1 – 1993 Q1**

E.C.		FRANCE		GERMANY ¹		U.K.	
Indicator	Investment	Indicator	Investment	Indicator	Investment	Indicator	Investment
	1979 Q1 -	1980 Q1 +	1980 Q1 +	1979 Q2 +	1980 Q1 +	1979 Q2 +	1979 Q4 +
1979 Q3 +	1980 Q1 +		1981 Q4 +	1981 Q4 -	1982 Q3 -	1981 Q3 -	1981 Q4 -
1982 Q1 -		1984 Q2 -	1985 Q1 -	1983 Q3 +	1984 Q1 +		1984 Q1 +
1983 Q4 +	1984 Q1 +	1988 Q3 +	1989 Q4 +	1985 Q1 -	1985 Q4 -		1985 Q4 -
1985 Q1 -	1985 Q1 -		1991 Q1 -	1986 Q3 +			1988 Q2 +
1990 Q1 +	1991 Q3 +		1991 Q3 +	1987 Q4 -		1989 Q1 +	1990 Q3 +
				1991 Q1 +		1991 Q2 -	1991 Q4 -

+ = maximum - = minimum

The data on the Construction Confidence Indicator and on investment in construction are seasonally adjusted quarterly data, the Construction Confidence Indicator being the average of the monthly observations.

Source: Commission Services.

¹ All figures for Germany refer to Western Germany.

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