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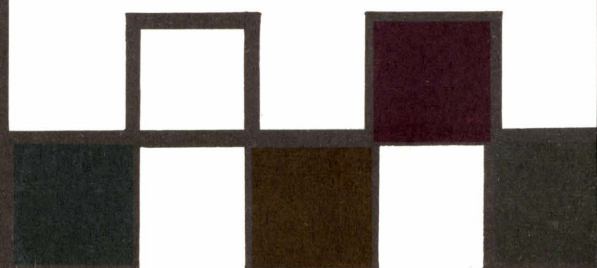
Commission

**Directorate-
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**The economic situation
in the Community**

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Quarterly survey

**Commission of the European Communities
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends
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EUROPEAN COMMUNITIES

COMMISSION

**The Economic Situation
in the Community**

SEPTEMBER 1971

This issue contains the proposal of the Commission of the European Communities for the first annual report on the economic situation in the Community which the Council of the European Communities is to adopt in the autumn, in accordance with Article 4 of its decision of 22 March 1971 on increased coordination of the Member States' short-term economic policies. It also gives the related annex on recent economic trends and outlook for the near future. On the pattern of the quarterly surveys of the economic situation in the Community, the various chapters of the annex are supplemented by summaries of major economic policy measures and statistical tables.

Brussels, 14 September 1971

Annual Report on the Economic Situation in the Community

*(drawn up in accordance with Article 4 of the decision of 22 March 1971 of the Council
of the European Communities on increased coordination
of the Member States' short-term economic policies)*

(Commission's proposal to the Council)

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FOREWORD

Within the programme of work towards the establishment by stages of an economic and monetary union and, more particularly, in accordance with Article 4 of its decision of 22 March 1971 on increased coordination of Member States' short-term economic policies, the Council of the European Communities, acting on a proposal from the Commission, and after consulting the European Parliament, must each autumn adopt an annual report on the economic situation in the Community. This report must make it possible to determine guidelines of economic policy for each Member State for the following year. Once the report has been adopted by the Council, the Governments bring it to the attention of their national Parliaments so that it may be taken into account in budget debates.

The present document is the first annual report to be drawn up under this procedure.¹ It proposes guidelines for short-term economic policy in the Community, especially budget policy, structural policy and the adjustment of the instruments of economic and monetary policy.

When at the beginning of the first quarter of 1972 the Council examines the report, as laid down under Article 2 of the decision of 22 March 1971, these guidelines may be adjusted to the requirements of economic developments at that time.

¹ A more detailed analysis of the economic situation and of the outlook for the months ahead, which served as a basis for the points made in this Report, is given in the annex.

I. CURRENT SITUATION AND OUTLOOK

A. Current situation

Monetary uncertainty, a slowdown in economic growth and the persistence of strong pressure on costs and prices—these are the main problems the Community's economic policy has to contend with in the autumn of 1971.

1. The international monetary crisis

The crisis in international monetary relations is having serious repercussions on the economies of the member countries, particularly since the disturbances caused in exchange rate relations between the countries considerably impede the progress towards economic and monetary integration.

The crisis arose because the growth of the deficit in the overall balance of payments of the United States gathered momentum. This was partly due to the rapid deterioration in the United States' balance on goods and services, but more particularly to the speculation reflected in substantial exports of American capital and a flow of international capital into Europe.

In an effort to stem further inflows of capital into economies already exposed to heavy inflationary pressures, Germany and the Netherlands on 5 May ceased to intervene on the exchange markets at the points prescribed internationally, thereby allowing their rates of exchange to float. In the first half of August, this floating led to a rise in the exchange rates of these currencies of about 8% and 5%, respectively. Other Community countries (France and the Belgo-Luxembourg Economic Union) modified their foreign exchange regulations to adjust them to the new situation. Two European countries (Austria and Switzerland) revalued their currencies.

The measures which the United States took or announced on 15 August plunged all those countries within the international monetary

system into an even more critical situation. The exchange relationships of industrialized countries were profoundly affected. The countries of the Community thus found themselves obliged to operate widely differing exchange rate systems. While Germany maintained the system introduced on 9 May, the Benelux countries decided to float their rates of exchange jointly but to continue to operate differing arrangements for capital movements. Italy allowed its rate of exchange to fluctuate within fairly narrow limits. Like the Belgo-Luxembourg Economic Union, France introduced a two-tier foreign exchange market, on which commercial transactions and related business are handled at parity. Mainly as a result of the protectionist measures taken by the United States, the international economic relations of the Western countries are liable to be seriously disrupted. Given the importance of foreign trade for these countries, their level of employment and their rate of economic growth could also be affected.

The disruption of the international monetary set-up and the introduction of restrictions curbing world trade occur at a moment when the balance on current payments, on a transactions basis, for the Community as a whole shows a slight deficit, after closing with a large surplus for several years past (1968: \$4 500 million; 1969: \$2 200 million; 1970: \$1 500 million).

In the first half of 1971, Germany, France, Italy and the Netherlands recorded a deficit in their balance on current payments.

2. The economic situation within the Community

The mounting uncertainty in the monetary field coincided with a certain slowdown of economic activity within the Community.

Trade balance and current account

million u.a.¹

	1968 ²	1969 ²	1970 ²	1971 January-June
<i>2. Trade balance</i>				
Germany	+ 5 680	+ 5 158	+ 4 281 ³	+ 1 881 ³
France	+ 68	- 859	+ 485 ³ (- 1 176) ³	(- 429) ³
Italy	+ 1 047	+ 584	- 2 180 ³	- 1 000 ³
Netherlands	- 323	- 407	- 644 ³	- 231 ³
BLEU	- 26	+ 192	+ 780 ³	+ 366 ³
Community	+ 6 446	+ 4 668	+ 2 722 (+ 1 061)	(+ 587)
<i>2. Current account</i>				
Germany	+ 2 838	+ 1 604	+ 681 ³	- 22 ³
France	- 1 059	- 1 798	+ 235 ³	.
Italy	+ 2 627	+ 2 368	- 96 ³	- 178 ³
Netherlands	+ 73	- 18	- 131 ³	- 88 ³
BLEU	+ 36	+ 84	+ 744 ³	+ 398 ³
Community	+ 4 515	+ 2 240	+ 1 433	

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

² On a transactions basis.

³ On a settlements basis.

Source: National statistics and Statistical Office of the European Communities.

The volume of exports to non-member countries showed little if any rise in the second quarter of 1971, despite the recovery of business in the United States and other major industrialized countries such as Great Britain and Canada.

Within the Community, investment activity slackened in most member countries with the result that despite the buoyant trend of con-

sumption total production remained stationary in the spring although at a higher level than at the end of 1970. The rate of utilization of production capacity was therefore lower than before.

In Italy, the economic trend remains weak. In contrast to the situation last year, this weakness stems not only from disturbances affecting the

Industrial production

(% change in seasonally adjusted index over preceding quarter)

	1970				1971	
	I	II	III	IV	I	II ¹
Community	+ 5.2	- 0.5	- 0.5	+ 0.4	+ 4.0	- 2
Germany	+ 2.5	- 0.3	- 1.2	0	+ 4.5	- 0.5
France	+ 4.8	- 5.6	+ 3.9	+ 1.4	+ 3.7	- 4
Italy	+ 18.7	- 3.0	0	+ 0.3	+ 0.5	- 8
Netherlands	+ 4.5	- 2.4	+ 0.9	+ 4.0	+ 4.2	0
Belgium	- 2.4	+ 6.4	0	+ 1.0	+ 6.4	+ 2
Luxembourg	- 0.1	+ 0.1	- 3.0	- 5.1	+ 1.0	+ 3

¹ Estimates.

Source: Statistical Office of the European Communities.

factors of production but also from a fall off in domestic demand.

Although the imbalance between supply and demand has eased, costs and prices continue to

rise swiftly, and, even more rapidly than before in some countries. The level of wage increases has remained high, sometimes reaching almost 15% over a given year, while productivity gains are slowing down.

Consumer prices

(% variation during the quarter)

	1970				1971	
	I	II	III	IV	I	II
Germany	+ 1.9	+ 0.8	- 0.1	+ 1.3	+ 2.5	+ 1.2
France	+ 1.7 ¹	+ 1.3	+ 1.0	+ 1.1	+ 1.5	+ 1.6
Italy	+ 1.9	+ 1.3	+ 1.2	+ 0.8	+ 1.5	+ 1.0
Netherlands	+ 2.4	+ 0.9	+ 2.0	+ 0.4	+ 3.2	+ 1.9
Belgium	+ 1.3	+ 0.4	+ 0.7	+ 0.6	+ 1.8	+ 1.0
Luxembourg	+ 1.2	+ 1.2	+ 0.4	+ 1.1	+ 1.7	+ 1.0

¹ Old index.

Even though in the monetary field the Community was again exposed to strong inflationary stimuli from outside, the imbalance between

supply and demand in various industries and the upward thrust of costs were mainly due to internal causes.

B. Outlook

The disturbances in the monetary system and the introduction of protectionist measures in the United States have made the economic outlook particularly uncertain. There is reason to fear that the revival of world trade, under way since the end of 1970, will be heavily affected by these factors. The Community's exports to non-member countries will also be seriously hampered by the appreciation of the currencies of most Member States and by the unfavourable repercussions of the commercial measures taken by the United States. Whereas the economic upswing which had set in particularly in the United States, Canada and Great Britain had brought hopes of a faster rise in the Community's exports, foreign demand must now be expected to stagnate.

The prospects for the growth of internal demand in the Community likewise appear to have deteriorated in the face of the possible trend not only of investment but also of consumption.

The monetary uncertainty, the new restrictions imposed on the movement of goods and capital, the slower growth of business, the persistent pressure of production costs on the possibilities of self-financing, as well as the lower rate of capacity use suggest that the climate for corporate investment will be less favourable in 1972; this is already evident in the orders for plant and machinery and the results of the surveys among enterprises. Although private incomes will undoubtedly go up appreciably in 1972, the rise may slow down during the year, mainly as a result of the slower growth of wage incomes coupled with a reduction in the numbers of hours actually worked. In terms of value, the growth of private consumption is therefore likely to lose momentum while in real terms it is limited by the still appreciable rise of prices.

The Community is thus in the most difficult situation it has been in since its inception. Not

only is it passing through a difficult adjustment process after the inflationary excesses of 1969 and 1970, but it must also restore the basic equilibria in a climate of extreme uncertainty as to international monetary and commercial relations.

The return of the member countries to balanced economic growth in accordance with the guidelines of the third Medium-term Economic Policy Programme also raises delicate problems as regards coordination of short-term economic policy.

Firstly, the Community taken as a whole would seriously jeopardize its cohesion and its economic and social well-being if the grave problems raised in the field of international relations were treated differently by each country without there being any Community strategy.

In this context, the maintenance of differing exchange rate systems in the various member countries would be a distinct step backwards compared with the progress already made in economic integration and would weaken the Community in its dealings with its major international partners. It is at present indispensable that cost inflation should be arrested and an exchange rate system introduced endowing the Community with a distinct personality of its own in international monetary relations.

Secondly, the stabilization processes started in the various member countries entail the risk of disequilibrium, if not disturbance, within the Community; the extent of the risk must be calculated if it is to be countered in good time.

The forces holding back growth will not be equally strong in all the member countries. Similarly, the rise in costs and prices between now and the end of 1972 may be more vigorous in some member countries than in others. The

difficulty in implementing a coordinated policy at Community level lies not only in such differences in the actual situation but also, as experience shows, in diverging reactions to the short-term conflicts of priority between full employment and stability according to the country concerned. In this context it must be emphasized that the increasing economic interpenetration of the member countries places more limits on the powers of the individual country to pursue a national policy of its own. Any attempt to return to full autonomy would necessarily affect the interests of every other Member State.

This outlook gives cause for concern as to the economic future of the Community and each of its members. The chief aim is still to restore stability; the choice of the measures, the ways in which they are combined and applied over time must be determined by the overriding need to safeguard the medium-term growth. These measures must take account of the uncertainty deriving from the current upheavals in the world monetary system yet must also contribute to the creation of a new international

order. Establishment of an economic and monetary union which is the background to the economic policy measures to be taken, will also be one of the elements in the recasting of the international monetary system, particularly if the responsibility the Community bears as the largest trading power in the world is borne in mind.

With these main objectives in mind, three types of measure should be envisaged:

- (i) Control of demand designed to curb the rise in costs and prices, coupled with the elaboration of a set of measures to be resorted to promptly in the event of any radical change in the economic situation;
- (ii) Priority for certain structural measures so as to ensure that any subsequent revival of economic activity does not rapidly encounter bottlenecks and the strains that normally ensue;
- (iii) Adjustment of the instruments of economic and monetary policy to the new tasks arising from increased coordination within the Community.

II. GUIDELINES FOR ECONOMIC POLICY

A. General guidelines for short-term economic policy

Persistence of the current pace of price and wage increases would jeopardize the economies of the Member States.

There is therefore a special case for gradually reducing the price increases to an annual rate of 3 to 3½% by the final quarter of 1972 and for bringing down wage increases (including fringe benefits) to an annual rate of 6 to 7% by the same date, if not earlier.

The economic and social policy of all member countries will need to be supported by both sides of industry if these objectives are to be achieved by the end of 1972 without any slowdown in growth.

In all industrialized countries the pace of inflation and the fears it engenders revive interest in incomes policy. In spite of differences of view over the conception and the instruments of such a policy, it is important for both sides of industry to recognize the need for a slower rise in prices and incomes and be ready to moderate their moves and claims in order to ensure that the rapid progress of incomes made possible by an inflationary situation will not later be too heavily affected by the subsequent inevitable restoration of sound economic conditions. In order to maintain a regular and continuous rise in purchasing power, it is up to both sides of

industry to contribute to a steadier price and wage trend, under procedures already in existence, or to be introduced in the member countries.

The authorities of the Member States have their responsibilities too. They must in the months ahead endeavour to curb the rise in the volume of money and quasi-money; this applies most of all to the countries which in 1970 and the first half of 1971 experienced a particularly heavy increase. This objective can be attained by strictly regulating bank liquidity, by a closer control on inflows of capital and, where necessary, by neutralizing their expansionary effects on domestic liquidity.

Budget policy should on the whole aim at keeping the rise in expenditure to a rate near to that forecast as the likely rate of nominal growth of gross national product. At the same time, sufficient provision should be made for expenditure on infrastructure since there is a need to remove the discrepancy which has arisen over the past few years between the very rapid growth of private consumption and the unduly slow expansion of infrastructure.

Lastly, savings incentives and the promotion of long-term investment are indispensable if there is to be more balanced economic growth.

B. Guidelines for the individual countries

In Germany, the principal aim of economic policy must continue to be better control of price and cost trends.

The *de facto* revaluation of the German mark in May will undoubtedly dampen the growth

of foreign demand, but domestic demand must also be controlled so as to ensure that an unduly strong upward thrust of costs and prices does not end up by having serious repercussions on corporate investment and consequently on the economy as a whole. The risks involved in

following such a policy are all the smaller in as much as the authorities have considerable room for manoeuvre in both their monetary and credit policy and in their fiscal policy (being able to draw on the counter-cyclical equalization reserve, which is expected to reach some DM 4 500 million by the end of 1971, and on DM 5 800 million from the counter-cyclical surcharge immobilized in the Bundesbank), which enables them to make a rapid change in the general direction of short-term economic policy should this prove necessary.

Credit policy should remain cautious over the next few months. This calls for active use of the instruments available to control bank liquidity, and for regulation of capital transactions with other countries. In this context, the help afforded by the measures taken since May to shield the economy against unduly heavy inflows of capital and their expansionary effect on domestic liquidity should be stressed. These measures include above all the raising of the minimum reserve ratio for all bank liabilities, the imposition of additional minimum reserve requirements in respect of additions to the foreign liabilities of commercial banks, and the introduction of the requirement to obtain authorization to pay interest on the deposits of non-residents and the purchase of open-market paper by non-residents. Once adopted, the law under which corporate borrowing abroad may be made subject to the maintenance of a non-interest bearing cash deposit with the Bundesbank will also supply the monetary authorities with a useful and necessary instrument.

As regards budget policy, the return to greater stability makes it necessary for the aggregate cash expenditure of the Federal Government and the Länder to rise by no more than between 7½ to 8½% in 1972, compared with actual outlays in 1971 and for the net borrowing requirements under the Federal and Länder budgets not to exceed some DM 6 000 million.

Should business activity slow down significantly during 1972, the Government could mobilize the funds frozen in the counter-cyclical equalization reserve. Furthermore, in the event of a distinct slackening in the push of costs and prices, the counter-cyclical surcharge levied on income and corporation tax might be paid back in stages.

In France, although further satisfactory growth of production appears to be assured, the monetary equilibria will still be difficult to maintain in 1972. The sometimes considerable *de facto* revaluations of the currencies of some major trading partners, both inside and outside the Community, will at least at the beginning have inflationary repercussions on the French economy; there is therefore a need for additional caution, or even rigour.

The return to greater stability without jeopardizing long-term growth requires in particular a shift in the pattern of domestic demand involving a rise in public and private investment and a simultaneous slowdown in the expansion of expenditure on consumption.

In this context, credit policy must aim at damping the growth in the volume of money, extremely vigorous since the autumn of 1970. This, in turn, should be done mainly by regulating and neutralizing the inflow of short-term funds and by making intensive use of the instruments available to control bank liquidity.

In the field of budget policy, public finances will still have to be handled along stringent lines. The growth of Government expenditure should not exceed 9%. The 1972 budget should be implemented in such a way as to achieve a slight cash surplus of roughly FF 2 000 million in the Central Government budget; this would help to offset the likely deterioration in the financial position of the other public authorities and thus achieve a surplus for 1972 on all the budgets taken together.

Given the level of administrative expenditure and particularly of subsidies, the trend of current expenditure must be closely supervised if public investment is to develop along satisfactory lines. This should be borne in mind when considering the efforts made towards a "true prices", policy, above all where public service charges are concerned.

On the revenue side, there is a need to step up receipts and to defer the tax relief envisaged for some time already.

A slackening in the rise of costs and prices, which moreover would increase the real value

of current interest rates, could be encouraged by fresh incentives to medium- and long-term savings. The moves to be made to eliminate inflationary pressures include not only short-term economic policy measures in the proper sense of the term but also increased efforts on the part of the authorities to reduce certain bottlenecks, particularly in the field of vocational training and housing, and to create better conditions of competition in the non-import competing industries (construction and services). There also appears to be a case for improving the flow of finance by dismantling existing barriers.

In Italy, the trend of economic activity contrasts so sharply with that of the other Member States, that priority must be given to an appreciable rise in production. Undoubtedly, the success of moves in this direction hinges mainly on an improvement in the social climate, but it also calls for an economic policy that provides stimuli, with as little strengthening as possible of inflationary pressures. The latter aspect appears to be all the more important as the special situation created by the introduction of the value added tax will entail major shifts in the structure of prices.

The volume of money, which expanded at a particularly rapid pace over the past one and a half years, should be carefully controlled. As the revival of economic activity gets under way, credit expansion should be limited to allow the growth of demand in money terms to keep in step with the rise in production capacity.

The boost to economic activity must come mainly from the budget. A rise in actual public spending of 11 to 12% over 1971 should be recommended; this and the likely trend of receipts, would bring the Government's borrowing requirement in 1972 to some Lit. 2 500 000 million. The emphasis should be on expenditure apt to stimulate investment, most of all in the building industry, a particularly depressed sector, through the encouragement of saving for housing purposes and the granting of building premiums. Great caution must be exercised in respect of expenditure that directly promotes private consumption. Generally speaking the budget stimuli and the monetary financing of the deficit should be gradually reduced as economic activity returns to a satisfactory level.

In order to avoid a wage-price spiral, it would be advisable for the Government to keep in permanent touch with the representatives of the various social groups, especially once the value added tax is introduced. A cut in indirect taxes under the tax reform programme will help to stabilize the economy and promote a more equitable distribution of national income.

If the strains in industrial relations are to be eased and economic activity revived through indirect moves by the public authorities, efforts must be made to reduce the gap in infrastructure. The magnitude of the difficulties facing some regions, makes it essential for the Italian authorities and the Community institutions to step up their efforts and to have consistent recourse to measures in favour of new productive investments, the reduction of unemployment and underemployment, vocational retraining and the creation of infrastructures.

In the Netherlands, domestic demand must be curbed energetically to restore the basic equilibria, especially in the interest of longer-term growth. The measures introduced in November 1970 to dampen the movement of wages and prices were lifted in August 1971. Given the persistent rise in prices (5.2% between December 1970 and June 1971) there is a case for maintaining the restrictive line of monetary and credit policy over the next few months; its effectiveness should be reinforced through the continued application and, where necessary, adjustment of the instruments used to combat unduly heavy inflows of capital. Since the beginning of September, net purchases by non-residents of bonds issued in the Netherlands have been prohibited.

Budget policy should remain strict and produce drastic savings. The growth of Government expenditure should be checked significantly and kept below 10%.

There is a case for sharply reducing the net borrowing requirements to about Fl. 1 500 million. If necessary, taxation would have to be increased for a while by levying the counter-cyclical surcharge, especially on incomes.

The policy of budget austerity should, however, interfere as little as possible with the implementation of the structural measures concerning regional investments and vocational training,

taken with a view especially to removing the bottlenecks existing in the west of the country to the benefit of other less developed regions.

In Belgium, the main problem facing economic policy remains the need to check the upward thrust of prices, particularly since a large number of price adjustments are overdue since the price control regulations were extended when the value added tax was introduced.

It should be possible to achieve this aim without major risks for employment or growth provided that the expansion of domestic demand is kept within strict limits.

While maintaining their cautious monetary and credit policy and the accompanying measures to strengthen the control of liquidity, the authorities should aim at a considerable reduction in the vigorous stimuli coming from the public finances.

In view of the measures in the field of social security, put into effect in mid-1971 or planned for 1972, such a policy calls for a deliberate effort to curb certain types of public consumption, and for caution over public investment.

Even so, however, government spending is still liable to rise sharply (10 to 11%) so that the reduction of inflationary stimuli from the public finance sector assumes a certain increase in direct taxation. The case for limiting the

Government's borrowing requirements to Bfrs. 55 000 million is all the stronger since the deficit will have to be reduced in the medium term.

Structural policy should endeavour to promote a trend more towards products with a high value-added element and with a better regional balance, particularly by concentrating government activity in this field in actually depressed areas.

In Luxembourg, the success of the stabilization efforts depends largely on the return to sound economic conditions in the other countries, but the authorities responsible for economic policy should aim at gradually achieving satisfactory stability of costs and prices in 1972. Cautious management of the public finances and, particularly, the spreading over time of certain types of public investment expenditure appear desirable so as to limit the borrowing requirements of the budget to about Lfrs. 1 500 million.

Business is comparatively quiet in some sectors of the economy while full employment continues to be assured. In a country like Luxembourg, where manpower shortage and the low degree of diversification in economic activity considerably hamper expansion, this present situation could be used for increased efforts towards more flexibility of production.

C. Structural policy at Community level

In accordance with the recommendations contained in the Third Medium-term Economic Policy Programme, the struggle against inflation must be supported by structural measures. These must include steps to intensify competition and specific measures towards better adjustment to economic and social progress.

For one thing, it is the task of the Community institutions to make sure that the free movement of goods within the Common Market and the pressure this exerts on prices is not hampered by restrictive agreements or by the abusive practices of market-dominating firms; in this

context, care must be taken to see that competition is not seriously jeopardized by undue heavy concentration in certain sectors. In addition, measures must be taken to put the spontaneous forces of expansion more at the service of the social objectives and to attack certain causes for structural unemployment. The measures taken at national and at Community level should follow three main directions.

In the field of employment, the conflict between security of employment and high occupational mobility must be resolved gradually. To this

end, measures will have to be taken to give workers, particularly in periods of vocational retraining, better protection against the risks of a reduction or a temporary loss of income. To dispel the fears of the individual countries as to the possible effects of such measures on their competitive position, the possibility of the Member States entering simultaneously into precise commitments on this subject should be examined.

Under regional policy, there is an urgent need for greater Community assistance to the backward regions, particularly at the Community's periphery. The Commission has submitted to the Council proposals for structural measures, largely financed from the EAGGF, in favour of

the most handicapped agricultural areas; such moves to promote the vocational adjustment of workers from the areas concerned could be supported by recourse to the reorganized Social Fund. For the Community's joint responsibility to be given concrete expression, other measures would also have to be taken particularly to attract capital and firms to invest in certain high-priority areas.

Lastly, protection and improvement of the environment are tasks which require the Community's special attention, given the urgency of these problems and their repercussions on the Community's economic and social policy. A first Commission communication was recently submitted to the Council on this subject.

D. Adjustment of the instruments of economic policy

These foregoing measures will prove successful only if increased efforts are made in 1972 to adjust the instruments of short-term economic policy to the new tasks that arise from the closer coordination of economic policies as part of the programme towards the establishment by stages of economic and monetary union.

On this score it is of paramount importance that the instruments of short-term economic policy and especially budget policy should be made more flexible. Member countries should be able rapidly to adjust receipts and expenditure to the economic situation; those among them which are not yet equipped to do this should make the necessary statutory and institutional arrangements. This is an important condition if the Governments are to be able to pursue a policy designed to curb the rise in costs and

prices, without running the risk, given the inevitable time-lags, of holding back economic growth for an unduly long period.

In the field of international monetary relations, a series of measures should be contemplated to help to overcome the current difficulties whilst at the same time strengthening monetary solidarity in the Community. Concrete arrangements would have to be made to regulate the international flows of capital and, where necessary, to neutralize the repercussions on domestic liquidity. In addition, a limited measure of flexibility should be introduced into exchange rates with non-member countries, exchange rates between the Member States themselves remaining fixed. At the same time, the Community countries should adopt a common position in their dealings with the international monetary institutions.

CONCLUSION

Despite the difficulties which currently beset the monetary relations between the countries of the Community and affect the implementation of the plan for the establishment by stages of economic and monetary union, the Council has set store by complying with the commitment, embodied in its decision of 22 March 1971, to adopt an annual report setting out broad guidelines for economic policy in 1972.

If economic and monetary union is to be built up gradually and the international economic and monetary system restored, it is indeed indispensable for the Member States to take coordinated action to safeguard the conditions for stability and the maintenance of growth in the Community.

**RECENT ECONOMIC TRENDS AND OUTLOOK
FOR THE NEAR FUTURE**

I. GENERAL SURVEY

A. The economic situation in the Community in summer 1971

In the past few months economic activity in the Community has been somewhat less buoyant but the upsurge of costs and prices has not slackened.

1. The world economic situation

The revival of the world economic trend registered at the beginning of 1971 has continued in recent months, though not at a particularly vigorous pace.

In the United States economic expansion slackened once the motor industry had cleared its backlog of orders at the beginning of 1971. Although budget policy provided strong stimuli, as can be seen from the considerable increase in the deficit on the Federal budget, growth of the real gross national product was down to 0.9% in the second quarter, compared with 2% in the first quarter. The unemployment rate remained high (in June 1971, 5.6% of the labour force in employment). The price climate improved a little as the GNP deflator fell from 5.3% in the first quarter to 4.2% in the second quarter (annual rates). In the second quarter of 1971, unusually substantial outflows of capital coincided with a heavy trade deficit, which rose to more than \$1 000 million between April and July. According to private estimates, the deficit on the overall balance of payments of the United States, on an official reserves transactions basis, reached a record, high of \$12 400 million in the first half of 1971. This disquieting development led the authorities to suspend the gold convertibility of the dollar completely, introduce protectionist measures in foreign trade and create fresh inducements to economic activity with a view to accelerating the revival, which was deemed insufficiently rapid, of expansion.

In the United Kingdom the real gross national product, which was down by 2.8% in the first quarter, appears to have grown again a little in the second quarter. Despite a certain slowdown in the pace, wages continued to go up briskly, engendering a faster rise in wholesale and retail prices. Unemployment, already high, showed an upward tendency. The trade balance improved appreciably in the first half of the year as the growth of exports gathered speed while the expansion of imports slowed down.

Among the Community's other industrialized customers, the economic trend varied fairly considerably from one country to another. In the Scandinavian countries except Norway growth remained weak. In Switzerland and Austria it was still rapid; in Switzerland the inflationary tendencies continued to be particularly strong. In Canada the economic upswing consolidated. In Japan a revival set in, boosted by foreign demand and the drive to replenish stocks.

2. The international monetary crisis

The crisis in international monetary relations, which began in May and has considerably aggravated since 15 August, when the measures taken by the President of the United States were announced, has led to serious disruptions in the exchange rate relations between the Member States of the Community.

The cause of this crisis lay in the accelerated growth of the deficit in the overall balance of payments of the United States; this growth of the deficit in its turn stemmed mainly from speculation as reflected in massive exports of American capital and a transfer of international funds to financial centres in Europe.

US balance of payments
(in US \$'000 million)

	1968	1969	1970	1971 ¹	1st quarter 1972 ²
Goods, services, unilateral transfers	+ 1.3	+ 0.7	+ 2.2	+ 2.8	+ 0.7
Long-term capital	- 3	- 4.2	- 5.4	- 9.8	- 2.4
Short-term capital	+ 3.4	+ 6.2	- 7.5	- 15.8	- 4.0
Total	+ 1.7	+ 2.7	- 10.7	- 22.8	- 5.7

¹ Projection on the basis of seasonally adjusted figures for the first quarter.

² Seasonally adjusted.

To stem further inflows of capital into their economies, which were subjected to strong inflationary pressures, Germany and the Netherlands on 5 May ceased to support their rates of exchange at the intervention points prescribed by international agreement, thereby allowing the rates of exchange of their currencies to float. As a result, the appreciation of the mark was about 8%, and of the guilder some 5%, in the first half of August. Other Community countries (France and the Belgo-Luxembourg Economic Union) modified their exchange rate regulations to adjust them to the situation, while other European countries outside the Community (Austria and Switzerland) revalued their currencies.

Under the impact of the measures taken or announced by the United States on 15 August, the crisis became even more acute in all countries that participate in the international monetary system. In particular currency relationships between industrialized countries have been disturbed. At the moment the Community countries are operating widely differing exchange rate arrangements. While Germany has maintained the system introduced on 9 May (no change in parity and temporary suspension of the limits to fluctuation), the Benelux countries decided to float their currencies jointly but have continued to operate different arrangements from one another for capital movements. Italy allows its currency to fluctuate within fairly narrow limits; France has set up a two-tier foreign exchange market, on which trade

transactions and similar business are handled at parity and other transactions at a freely fluctuating rate.

Since 23 August, when the foreign exchange markets were reopened, the German mark has appreciated by between 7 and 8% on the rate of exchange applying before 9 May 1971; it has thus gone back to the rate it had reached before the crisis on 15 August. There has hardly been any further appreciation of the Dutch guilder, with the level of appreciation tending to stabilize at about 3% below that of the German mark. The Belgian and Luxembourg francs registered an appreciation of some 3%; their exchange rates are staying fairly steadily at the lower limit of the fluctuation margin against the Dutch guilder, i.e. 1.5% below the rate of appreciation of the Dutch guilder, with the exchange rate on the free market hardly differing from that on the official market. The Italian lira has appreciated by between 1.5 and 2%. The French franc is up against the upper intervention point on the official market, while on the market for financial transactions the deviation from parity is larger.

3. The economic situation in the Community

Up to the middle of 1971 the recovery in the world economic trend appears to have had only a moderate impact on exports to non-member

countries. In terms of value, sales by the Community to non-member countries were still going up in the first two quarters, but at a considerably slower pace than at the end of 1970. The rise in volume was very small, given the persistent price increases.

The growth of internal demand—particularly gross fixed asset formation—slowed down somewhat because the propensity of entrepreneurs to invest is being influenced by the less favourable outlook for economic growth, the fewer opportunities for self-financing, and the slight drop in capacity working.

Expenditure on residential construction remained at a fairly low level in Italy and the Belgo-Luxembourg Economic Union. In the Netherlands and Germany, on the other hand, where the number of building permits suggests that demand for new dwellings picked up in the first half of the year, it rose rather vigorously. France registered a similar trend, mainly because

of an easier credit policy and the unfreezing of additional budget funds.

Public investment was still expending appreciably in several member countries, especially Italy, where the authorities spent more on public works in order to support building activity.

Private consumers' expenditure has gone up sharply in the past few months, boosted mainly by further considerable wage increases; the only exception is Italy, where stoppages of work have dampened the rise in incomes while the propensity to save has unmistakably tended upwards.

The Community's gross domestic product has hardly risen at all since the spring. Apart from seasonal variations, industrial production in the Community has remained at much the same high level, after accelerating in the first quarter. It should be noted, however, that stoppages curtailed production in some sectors of industry

Industrial production in the Community¹

% change on preceding year²

	1969	1970	1970				1971	
			1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Community	+ 11.9	+ 6.3	+ 9.3	+ 6.2	+ 4.8	+ 4.8	+ 3.0	+ 1.4
of which :								
Germany	+ 14.1	+ 5.7	+ 8.3	+ 8.1	+ 5.6	+ 1.3	+ 5.8	+ 1.3
France	+ 14.1	+ 5.6	+ 8.5	+ 4.7	+ 4.1	+ 4.5	+ 3.1	+ 2.1
Italy	+ 2.1	+ 6.7	+ 5.6	+ 1.5	+ 4.1	+ 16.6	- 1.9	- 4.8
Netherlands	+ 12.9	+ 10.5	+ 14.9	+ 10.7	+ 9.5	+ 7.3	+ 6.8	+ 7.1
Belgium	+ 10.6	+ 5.5	+ 4.2	+ 7.9	+ 4.2	+ 5.7	+ 11.8	+ 5 ³
Luxembourg	+ 13.5	+ 0.4	+ 6.6	+ 5.1	- 1.7	- 9.0	- 8.0	- 2.0

¹ Excluding construction, food and beverages and tobacco.

² Calculated on the basis of the unadjusted indices of the Statistical Office of the European Communities.

³ Estimates.

Community trade

% change on preceding quarter¹

	1970				1971
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
Imports from non-member countries	+ 8.0	+ 7.9	- 1.0	+ 3.3	+ 2.0
Exports to non-member countries	+ 3.6	+ 7.7	+ 0.3	+ 3.7	+ 1.6
Intra-Community trade (on an imports basis)	+ 3.4	+ 8.5	+ 1.8	+ 2.3	+ 2.8

¹ On the basis of seasonally adjusted figures.

in Italy and France. In most member countries pressures on the labour market eased further.

The Community's imports from non-member countries, which had still been growing appreciably at the beginning of 1971, appear to have

risen only very modestly since the spring (seasonally-adjusted figures). In terms of volume they probably even failed to expand if allowance is made for the firmer tendency of prices for certain raw materials and the sharp rise in petroleum prices.

Consumer prices

% change during the quarter

	1970				1971	
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Germany	+ 1.9	+ 0.8	- 0.1	+ 1.3	+ 2.5	+ 1.2
France	+ 1.7 ¹	+ 1.3	+ 1.0	+ 1.1	+ 1.5	+ 1.6
Italy	+ 1.9	+ 1.3	+ 1.2	+ 0.8	+ 1.5	+ 1.0
Netherlands	+ 2.4	+ 0.9	+ 2.0	+ 0.4	+ 3.2	+ 1.9
Belgium	+ 1.3	+ 0.4	+ 0.7	+ 0.6	+ 1.8	+ 1.0
Luxembourg	+ 1.2	+ 1.2	+ 0.4	+ 1.1	+ 1.7	+ 1.0

¹ Old index.

The growth of intra-Community trade, by contrast, gathered speed in the first half of the year owing to vigorous demand for consumer goods, but may have slowed down in the summer.

The balance of trade (cif-fob, on a transactions basis) of the Community as a whole closed with a deficit; the current account, which had shown large surpluses in the past few years, probably showed a slight deficit.

Although the pressure of demand on supply eased, prices and costs continued to go up rapidly since the level of pay awards was still high while the advance of productivity slowed down.

On the Community's money markets, where strains had eased earlier on, a change in trend set in before the middle of the year. Since the end of May short-term interest rates have tended distinctly upward. The short-term funds which had entered the Community, in particular Germany, flowed out again in June. In July and at the beginning of August, however, the external balances of the monetary authorities in the Community showed a slight rise again. Interest rates nevertheless remained high, among other things because of the restrictive line of monetary policy. In several member countries public finance management also helped to reduce liquidity. In addition, short-term bank lending expended only sluggishly in most Community countries.

Demand for and supply of goods and services

	1969 ¹	1970 ^{2 4}		1971 ^{3 4}	
	At current prices in '000 million u.a. ⁵	% change on preceding year			
		Volume	Value	Volume	Value
Gross fixed asset formation	102.1	+ 8	+18½	+ 4	+10
Public current expenditure on goods and services	60.0	+ 3½	+11	+ 4	+13½
Private consumers' expenditure	252.7	+ 6½	+11	+ 5½	+11
Gross Community product	429.8	+ 5½	+12	+ 4	+10
Balance exports less imports (in '000 million u.a.) ⁵	5.3	+ 4.2		+ 3.3	

¹ Statistical Office of the European Communities; General Statistics 1971, No. 6.

² Estimates.

³ Forecasts.

⁴ Based on Community totals of the aggregates of the individual member countries at official exchange rates 1970.

⁵ 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

Note:

- (a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
 (b) The estimates and forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

B. Outlook for the months ahead

1. Outlook for world economic activity

The revival of world economic activity, under way since the end of 1970, will slow down in the closing months of 1971 as a result of the disturbances in the international monetary system and the protectionist measures taken by the United States. The continuing struggle against the inflationary tendencies that persist in many industrialized countries will also contribute to a dampening, in these countries, of economic expansion and of the growth of imports.

In the United States several factors tend to curb the growth of imports, stimulate production and exert an upward pressure on prices. These are the *de facto* revaluation of the currencies of most other industrialized countries consequent upon the suspension of the convertibility of the dollar into gold, coupled with the 10% surcharge on a large proportion of imports, the preferential tax treatment of exports, and discrimination in favour of plant and machinery made in the United States (the two last-mentioned measures still require to be approved by Congress). These factors will, however, have only a limited impact on the domestic economy since the share of foreign trade in the gross national product of the United States is comparatively small. Of the domestic measures, it is particularly the introduction of a 10% tax credit for the purchase of new machinery and equipment that is likely to contribute to a more favourable investment climate. The other budgetary and tax measures, by contrast, particularly the repeal of the excise tax on motor cars, the cut in certain types of Federal spending, and the bringing forward of the personal income tax exemptions, scheduled for 1 January 1973, to 1 January 1972, should in the aggregate have no more than a fairly limited impact.

The time which the US economy requires to respond varies with the individual measure; some of them still have to be approved by Congress and will not enter into force before 1 January 1972. There is reason to believe, however, that the 10% surcharge will affect

imports fairly rapidly and that the revival of economic activity will accelerate a little.

In the United Kingdom the advance of economic activity is likely to continue, if not accelerate, until the end of the year, in part as a result of the expansionary measures which the Government took in mid-July. In particular the increase in welfare benefits and the cuts in direct and indirect taxation should stimulate private demand.

Investment, on the other hand, cannot be expected to respond to the new reflationary measures by the end of the year; only residential construction will doubtless continue to expand sharply. The trade balance may deteriorate somewhat since recourse to foreign supply is being stepped up as a result of the faster expansion of domestic demand and the sharp rise of domestic prices.

In the rest of EFTA trends will continue to vary from country to country. In Sweden and Denmark the short-term economic outlook continues to suggest sluggish expansion. In Switzerland economic growth may slow down gradually as a result of the short-term economic policy measures taken when the franc was revalued. In Austria the business trend, though tending to slacken somewhat, will probably remain fairly buoyant. In Canada the economic upswing is likely to continue in the months ahead, despite the sharp impact on Canadian exports of the measures taken by the United States. In Japan the expected revival of economic activity may be delayed by the *de facto* revaluation of the yen and the heavier taxation of imports into the United States.

Overall, exports by the Community will already feel some impact of the *de facto* revaluation of most European currencies and the yen, and also of the protectionist measures taken by the United States. The major part of the repercussions, however, should not make themselves felt until 1972. This suggests that, contrary to original expectations, Community exports will not gather speed in the second half of 1971.

2. The likely trend of economic activity in the Community

While the growth rate of exports will probably stabilize at a comparatively low level, internal demand will doubtless not expand as vigorously as it did in the first half of 1971.

This is because in most member countries the expansion of capital spending by enterprises will become less vigorous as current projects are completed. Firms may indeed tend to put off certain capital projects for the extension of plant, particularly in view of the uncertain export outlook. Expenditure on building, on the other hand, may climb briskly, mainly as a result of lively demand for new dwellings, for the trend of building permits points to a rise in expenditure on residential construction, especially in Germany and France. This rise should more than offset the expected slowdown in the growth of expenditure on industrial building.

Private consumers' expenditure will doubtless go up appreciably, but its rate of growth may slow down somewhat at Community level, especially because of the smaller increase in total wages and salaries in several member countries.

Employment will expand more slowly, the volume of overtime working will fall and the upward movement of wage rates may slacken.

The growth of internal production in the Community will very likely be rather modest in the second half of 1971 and at the beginning of 1972; industrial output in particular is likely to slow down, especially in certain capital goods industries. The tendency for the situation on the labour markets to ease will therefore continue in most member countries. Although internal demand in the Community is losing momentum, intra-Community trade and imports from non-member countries will go up appreciably. Given the likely trend of exports, the tendency for the balance of trade to deteriorate must be expected to persist.

The continued vigour of consumer demand, the rise in unit costs and the likely changes in public service charges will push up consumer prices further.

Major economic policy measures

(1) *At the close of its meeting of 19 August 1971, the Council agreed on the following:*

"The Council of Ministers of the European Communities today examined the measures adopted by the American authorities with a view to re-establishing equilibrium in the balance of payments. The Ministers consider that the suspension of the convertibility of the dollar and the introduction of the 10% surcharge on imports have serious repercussions for international monetary stability and trade. These measures clearly show the necessity for a reform in the international monetary system, involving the readjustment of parities which would appear to be necessary, in order to guarantee freedom of trade and international payments. With this end in view, the Member States will take joint steps, through the channels of the appropriate international authorities, and in particular the International Monetary Fund, whose essential role is emphasized.

The Council, aware of the necessity of reopening the exchange markets of the Member States next Monday, agreed on the advisability of adopting measures aimed at maintaining orderly conditions in the operation of the exchange markets, pending a reform of the international monetary system. Close contact has been established with the authorities of the United Kingdom.

The Council agrees that the United States dollar rates should be established freely in some Community countries on a single exchange market, and be fixed in other countries on a two-tier exchange market.

Finally, the Council decided to instruct the Committee of Governors of the Central Banks and the Monetary Committee to follow the development of the exchange markets in the Community countries in order to put forward shortly proposals on the intervention means and techniques intended to favour a gradual reduction in the margins of fluctuation of intra-Community currencies, in such a way as to improve the operation of the agricultural common market, which is vital in order to activate the process of the formation of the economic and monetary union".

(2) *13 September: "The Council of the European Communities has re-examined the problems*

existing subsequent to the measures taken on 15 August 1971 by the United States Government.

It considers that the fundamental problem is that of the reconstruction of the international economic and monetary system, starting with the institutions which have managed it hitherto (IMF and GATT) and taking into account the needs of the developing countries.

The Council considers that it is necessary for the countries of the Community to adopt a common position on this matter, in close liaison with the countries which have applied for membership.

Having taken note of the work of the Monetary Committee and the Committee of Governors of the Central Banks, and of the communication addressed to it by the Commission on 9 September 1971, the Council has agreed that the Community's position within the Group of Ten and the IMF should be based on the following principles:

(a) The reforms to be made to the international monetary system will have to comply with the principle of fixed parities, which must be adjusted as soon as it is found that they cease to be realistic. Such a system is necessary for the security of financial operations and the growth of trade, both of which are matters of particular interest to the Community in its position as the world's leading trading unit. A satisfactory balance in international payments relations, based on the principles set out above, will only be achieved by a differentiated realignment in parity relations between the currencies of the industrialized countries. Such a realignment should embrace the currencies of all the countries concerned, including the dollar; it would have to be carried out in such a way that the distribution of the burdens of the adjustment take account of the relative economic position of those countries and of their foreseeable development.

(b) The proper functioning of an international monetary system so reformed would require the implementation of measures relating to international capital movements. Such measures could include a limited widening of the margin of fluctuation of exchange rates, so as to counter the effects of differences in rates of interest, as well as appropriate measures to discourage the

short-term capital movements which disturb stability.

(c) International liquid assets will still be constituted by gold and, increasingly, by reserve instruments collectively created and internationally managed. This implies adjustment and development of the system of special drawing rights, in conjunction with a gradual decrease in the reserve role of national currencies.

(d) It will be possible to maintain the new balance of international payments only if, in future, all countries and organized groups of countries comply, without exception, with the obligations and constraints imposed by the process of adjustment of the balance of payments and put into effect the appropriate domestic policies

(e) Within the framework of the reformed international monetary system, the IMF's authority will have to be strengthened and its opportunities for action enlarged in all the sectors for which it is competent. The Member States of the Community will have to endeavour to adopt common positions within the IMF.

Noting that IMF operations have been rendered more difficult by the recent events, the Council considers it essential that the operations of that institution should be able to continue normally through internal arrangements relating to transactions in the principal currencies used by the Fund. The continuance of the Fund's activities is of interest not only to the industrialized countries but also to the developing countries. Moreover, it would be an essential condition for the smooth operation of an exchange system specific to the Community.

The Council has also examined developments in the currency markets of the Community countries.

Noting that the proper functioning of those markets has not been seriously disturbed so far, it has expressed its satisfaction at the cooperation which has developed between the Central Banks of the Community and would like to see that cooperation continue.

Recognizing that if the present monetary difficulties were to continue for too long they would undoubtedly imperil the proper functioning of the Community, particularly of the common agricultural policy, the Council has asked the Commission to submit a special report on the

consequences of the present situation as regards the operation of the common market in agriculture and has confirmed the mandate which it gave the Monetary Committee and the Committee of Governors of the Central Banks on 19 August 1971 to seek without delay methods which would permit the stabilization of exchange relations between the countries of the Community.

The Council emphasized the gravity of the American decision to institute a 10% surtax and tax relief in favour of domestic investments and exports. Such measures prevent the formation of realistic exchange rates and impede the readjustment of parities. Furthermore, they may cause serious disturbances in international trade. The Council therefore requests the abolition of these measures."

ECONOMIC INDICATORS

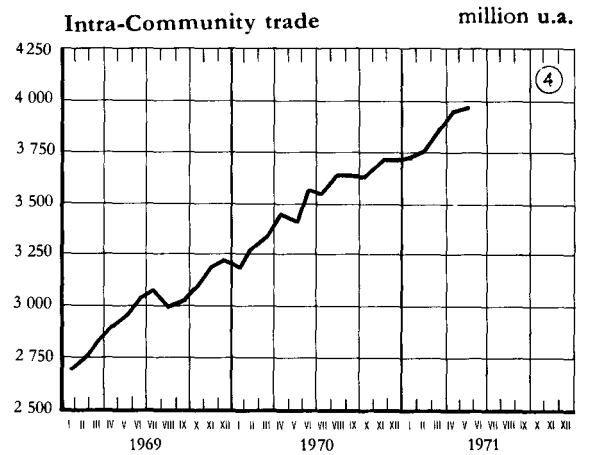
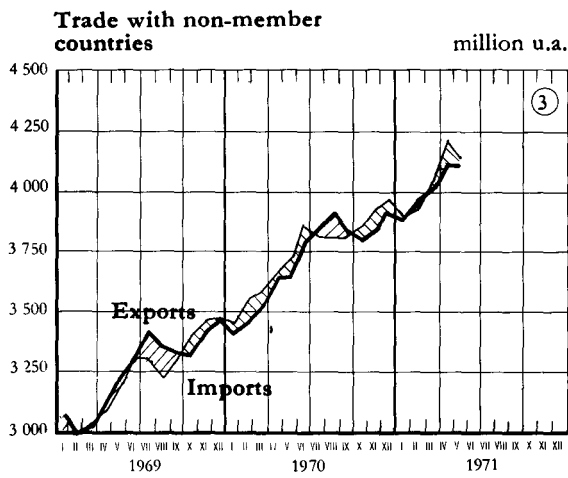
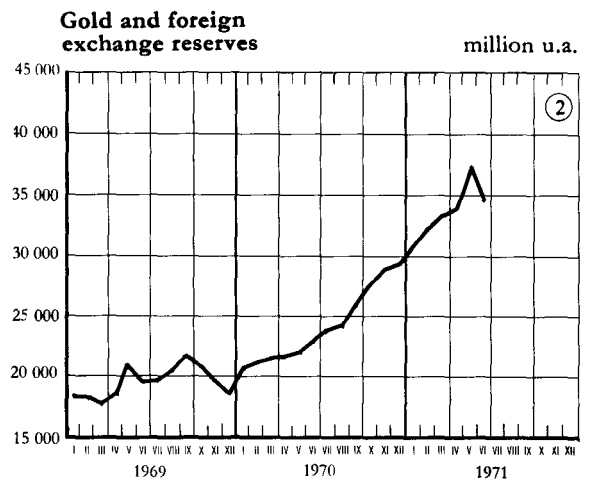
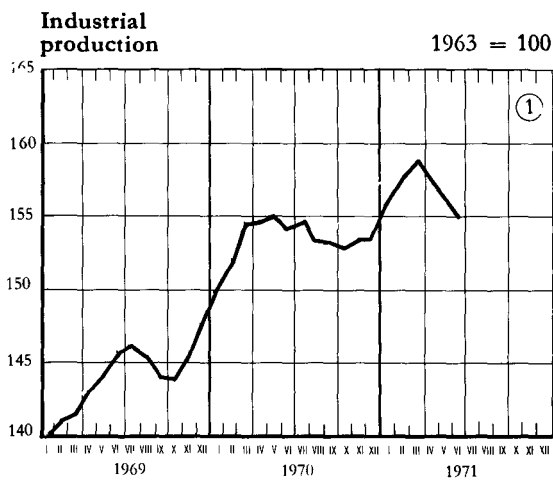


TABLE 1: Basic data 1970

	Communi- nity	Ger- many	France	Italy	Nether- lands	Bel- gium	Luxem- burg
Total area ('000 sq. km.)	1 167.5	248.5	551.2	301.2	33.5	30.5	2.6
Total population ('000)	188 147	61 547	50 705	53 486	13 032	9 676	(339.8)
Density of population per sq. km.	161	248	92	178	389	317	(131.4)
Numbers in employment ('000)	74 196	27 204	20 473	18 956	4 678	3 772 ¹	(143.6)
Numbers in employment, break- down by main sector (%):							
Agriculture	13	8.8	14.2	19.4	7.3	5.1 ¹	(10.9)
Industry	44	48.7	40.6	43.3	41.2	42.5 ¹	(46.3)
Services	44	42.5	45.2	37.3	51.5	52.4 ¹	(42.8)
Share of gross domestic product (%):							
Agriculture	.	4.1 ¹	6.0	10.3	6.2	4.5	(4.1)
Industry	.	51.7 ¹	48.2	40.5	42.0	42.6	(56.9)
Services	.	44.2 ¹	45.8	49.2	51.8	52.9	(39.0)
In % of gross domestic product:							
Private consumers' expenditure	.	55.7	58.9	63.9	56.8	60.4	(55.4) ¹
Public current expenditure on goods and services	.	15.7	12.1	12.7	16.1	14.0	(10.9) ¹
Gross fixed asset formation	.	26.5	25.8	21.2	26.3	22.1	(25.5) ¹
Total exports	.	23.2	16.0	20.2	48.3	44.4	78.6 ²
Total imports	.	21.6	15.8	19.6	49.6	42.1	73.2 ²

¹ 1969 ² 1968

TABLE 2: Key indicators

	% change by volume on preceding year					Volume indices (1963 = 100)
	1966	1967	1968	1969	1970	1969
Gross Community product	+ 4.3	+ 3.2	+ 6.0	+ 7.3	+ 5.4	144
Industrial production	+ 5.0	+ 1.3	+ 8.9	+ 11.9	+ 6.3	154
Visible imports	+ 7.1	+ 0.8	+ 11.6	+ 12.6	+ 21.1	184
Private customers' expenditure	+ 4.7	+ 3.7	+ 4.9	+ 7.0	+ 6.4	143
Gross fixed asset formation	+ 4.5	+ 1.0	+ 7.4	+ 9.6	+ 8.2	152
Visible exports	+ 8.3	+ 7.6	+ 13.5	+ 7.5	+ 9.3	188
Intra-Community visible trade	+ 11.0	+ 5.7	+ 19.5	+ 22.5	+ 12.4	245
Gross product per capita	+ 3.4	+ 2.6	+ 5.4	+ 6.4	+ 4.5	135

Community

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	137	142	146	150	151	152	135	115	146	150	158	154
	1970	149	156	160	160	163	157	142	118	155	160	165	160
	1971	156	161	162	163	162	161						
Imports from non-member countries (cif, million u.a.)	1969	3 175	2 793	3 105	3 233	3 321	3 376	3 259	2 858	3 365	3 637	3 407	3 636
	1970	3 664	3 397	3 608	3 959	3 735	4 000	3 780	3 376	3 812	3 892	4 099	4 280
	1971	3 676	3 913	4 405	4 090	3 983	4 375	3 984					
Exports to non-member countries (fob, million u.a.)	1969	2 886	2 745	3 261	3 306	3 295	3 296	3 584	2 801	3 225	3 729	3 425	3 658
	1970	3 285	3 349	3 749	3 828	3 589	3 949	3 984	3 322	3 703	4 099	3 853	4 432
	1971	3 550	3 831	4 471	4 025	4 124	4 258	4 435					
Balance of trade (million u.a.)	1969	- 289	- 48	+ 156	+ 23	- 26	- 80	+ 325	- 57	- 140	+ 92	+ 18	+ 22
	1970	- 379	- 48	+ 141	- 131	- 146	- 51	+ 204	- 54	- 109	+ 207	- 246	+ 152
	1971	- 126	- 82	+ 66	- 65	+ 141	- 117	+ 451					
Intra-Community trade (million u.a.)	1969	2 696	2 727	3 057	3 043	3 013	3 101	3 157	2 415	3 089	3 554	3 144	3 242
	1970	3 140	3 284	3 604	3 782	3 247	3 861	3 655	2 949	3 719	3 900	3 847	3 830
	1971	3 369	3 786	4 459	3 967	3 951	4 160	4 063					

NOTES TO GRAPHS AND TABLES

Source : Community : Statistical Office of the European Communities (SOEC).

Germany : SOEC; Statistisches Bundesamt.

France : SOEC.

Italy : Relazione generale sulla situazione economica del Paese (1969).

Netherlands : SOEC; Ministerie van Sociale Zaken en Volksgezondheid; Centraal Bureau voor de statistiek.

Belgium : SOEC; Ministère de l'Emploi et du Travail

Luxembourg : SOEC.

Conversion into units of account (1 u.a. = 0.888671 g fine gold).

Graph 1

Three-month moving averages of the seasonally adjusted indices (excluding construction, food, beverages and tobacco).

Graph 2

Monetary authorities' reserves of gold and convertible currency, holdings in special drawing rights and reserve position in the IMF. Gross figures, i.e. including foreign liabilities. Position at end of month.

Graph 3

Three-month moving averages of the seasonally adjusted value of exports to non-member countries (fob) and imports from these countries (cif), as shown by foreign trade statistics.

Graph 4

Three-month moving averages of the seasonally adjusted value of trade between member countries, as shown by foreign statistics on imports.

Table 1

Total population at mid-year; for Germany, estimated average for year; for Italy, average for year.

Resident population in employment at mid-year; for Germany, estimated average for year; for Italy, average for year less persons temporarily working abroad.

Percentage shares of the main economic sectors at factor cost.

Percentage shares of demand aggregates and of total imports at market prices.

Table 2

Industrial production, excluding construction, food, beverages and tobacco: index of the Statistical Office of the European Communities.

Imports (cif) from non-member countries, exports (fob) to non-member countries: as shown by foreign trade statistics.

Trade between member countries, on imports basis: as shown by foreign trade statistics.

Table 3

See note to Table 2.

SITUATION AND OUTLOOK IN EACH OF THE MEMBER COUNTRIES

A. Germany

1. Developments in the summer

The business trend appears to have calmed down since the spring, with the domestic stabilization measures taken in May probably a major factor. New orders are at a high level but not expanding, managements' opinions on the business situation are less optimistic, and production and employment are hardly tending upwards any more. Wage and price rises, on the other hand, are still very vigorous, even though the most recent collective agreements brought a reduction in the rates of wage increase.

Exports have ceased to have an expansionary effect on the overall economy since the introduction of floating exchange rates. Seasonally adjusted, their value showed little if any rise between April and July, while their volume even declined. In the field of domestic demand, capital spending by enterprises slackened. While in the first quarter investment in plant and machinery had gathered speed for a while, it tended to slow down again in the subsequent months as it had been doing since mid-1970. Investment in building and construction, by contrast, continued to go up appreciably, notably in residential construction and building work for the public authorities.

The buoyant trend of consumer demand continued unabated. Public current expenditure provided quite expansionary stimuli, and private consumers stepped up their purchases sharply in the summer, especially where services are concerned. This tendency was encouraged by the continuing sharp rise in incomes, particularly from paid employment, and the expiry of the counter-cyclical surcharge on wage and income tax. The upward movement of wages is nevertheless no longer quite so fast as previously. The level of agreed wages and salaries in the economy as a whole went up by 2.3% in the second quarter, compared with 4.5% in the first quarter; in July, it was still 14% higher than a year earlier. Initially firms reacted to the relaxation of pressures mainly by cutting the

volume of overtime work, but since April the number of persons employed in industry has fallen below the level of the corresponding period of 1970. On the labour market, the tendency for the strains to ease has therefore continued. The number of unemployed rose slightly, bringing the unemployment rate to 0.7% in July, compared with 0.5% a year earlier. At the beginning of August, however, there were still three unfilled vacancies to each unemployed person.

The expansion of supply slowed down during the summer. Adjusted for seasonal variations, industrial production fell slightly in the summer months, mainly as a result of the drive to reduce high-cost overtime working. Recourse to foreign supply was still relatively vigorous, the main factor being comparatively high imports of capital goods and consumer goods.

The price trend remained distinctly upward. Consumer prices in particular again rose vigorously, while the upward thrust of industrial producer prices slackened a little. Although the foreign trade surpluses were still comparatively large, the high level of transfers in particular made the current account for the first seven months show a deficit of DM 469 million, compared with a surplus of DM 1 094 million a year earlier.

As the floating of the exchange rate put an end to liquidity inflows from abroad and the Bundesbank by mid-July had siphoned off about DM 12 000 million of liquidity by selling foreign exchange and raising minimum reserve requirements, the growth of the volume of money slowed down in year-to-year terms from 16.6% in May to 11.4% in July.

2. Outlook up to the end of 1971

The German economy has now a better chance of gradually becoming stabilized, provided the

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ¹		1971 ²	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	123.8	+ 12.6	+ 14.5	+ 9.0	+ 11.9	+ 8	+ 10½
Gross fixed asset formation	124.8	+ 12.1	+ 17.2	+ 10.7	+ 23.1	+ 4	+ 11
Public current expenditure on goods and services	84.4	+ 4.2	+ 11.7	+ 2.9	+ 12.8	+ 4½	+ 14½
Private consumers' expenditure	301.1	+ 8.0	+ 10.8	+ 7.3	+ 11.4	+ 5½	+ 10½
Gross national product	538.9	+ 8.1	+ 11.9	+ 4.9	+ 12.6	+ 3½	+ 10
Imports ³	106.2	+ 16.7	+ 19.4	+ 16.1	+ 15.9	+ 10½	+ 12

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 2/1971.

² Forecasts.

³ Goods, services and factor income.

⁴ At 1962 prices.

⁵ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

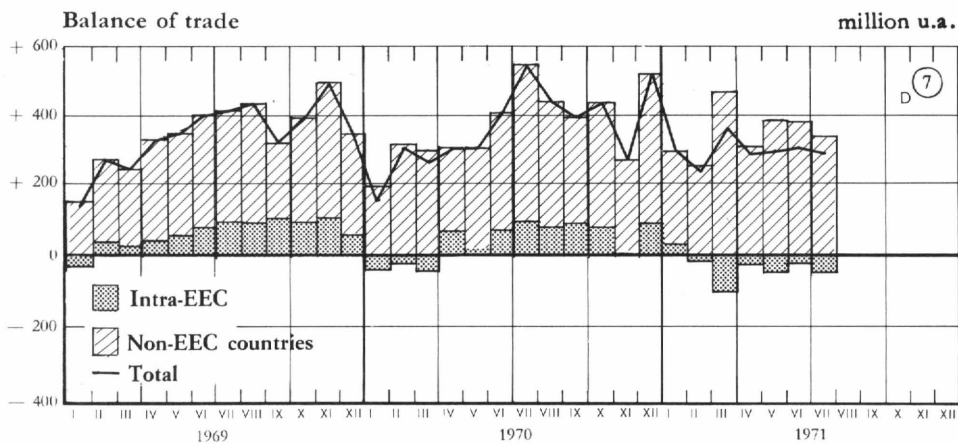
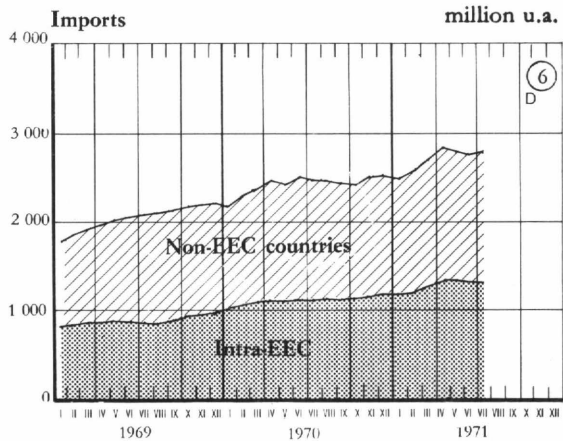
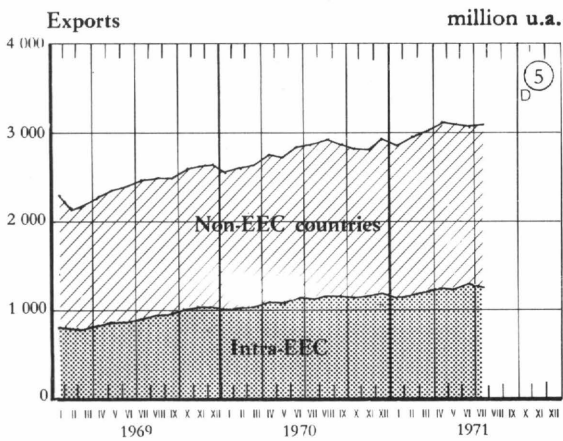
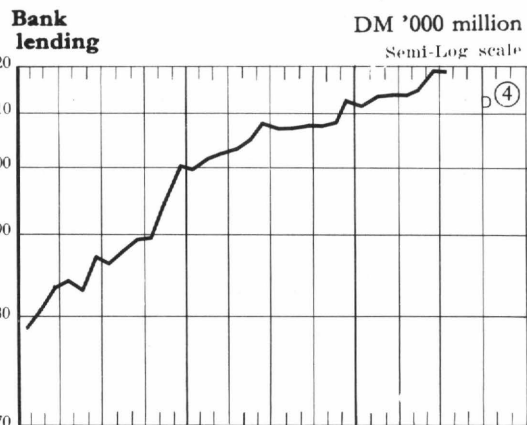
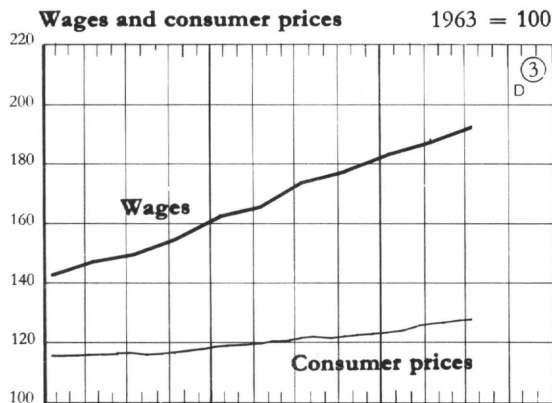
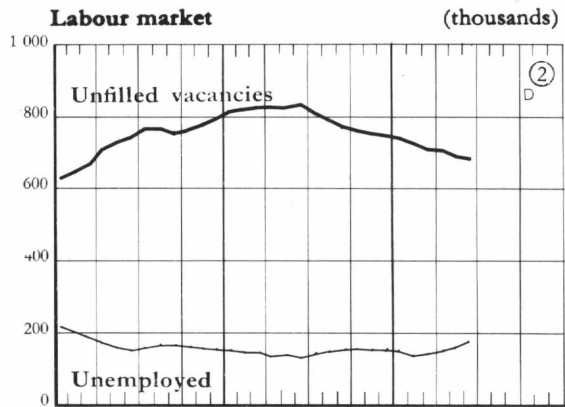
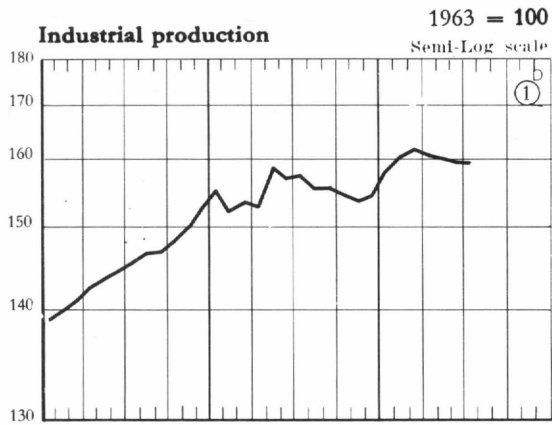
policy to moderate the expansion of domestic demand is maintained for the time being. Expenditure on consumption in particular will probably continue to climb sharply in the months ahead. Public current expenditure must still be expected to grow quite appreciably, despite the blocking of budget funds. A much more powerful factor, however, is the continuation of the very strong rise in disposable personal incomes. The very overheated investment boom of the previous years, by contrast, is likely to run down further. This is suggested not only by the results of the EEC investment surveys, according to which the rise in capital spending by industry will be down to 4% in 1971 (compared with 22% in 1970), but also by the sluggish trend of new domestic orders in some typical capital goods industries. In

addition, the measures to dampen public building activity, decided upon in May, could have an impact on actual investment disbursements of the public authorities even before the end of the year and in the early months of 1972. Residential construction, on the other hand, will probably continue to expand vigorously, to judge by the building permits issued and the extent to which finance has already been promised.

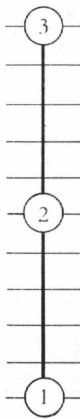
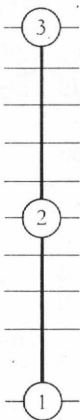
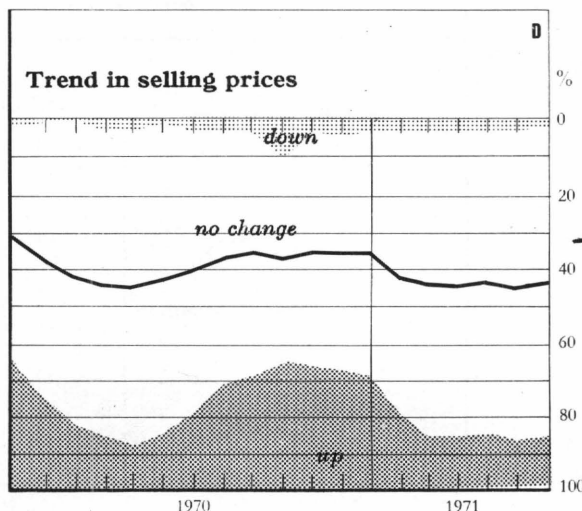
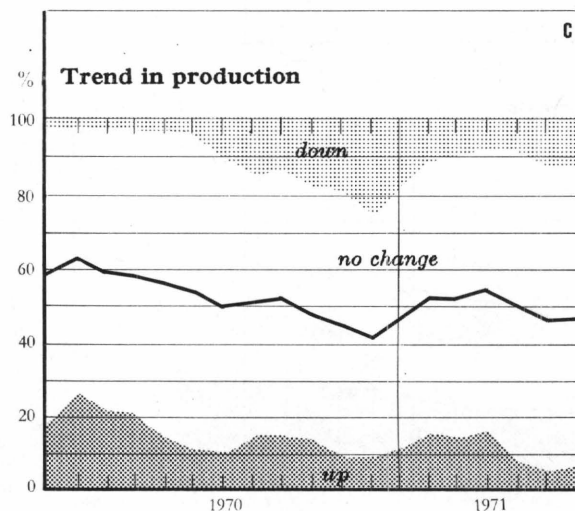
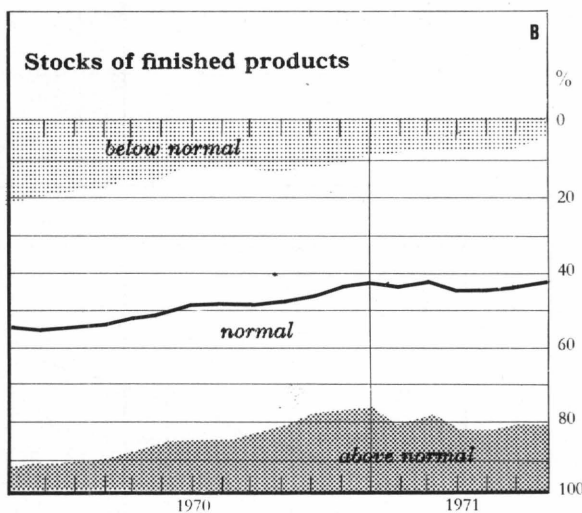
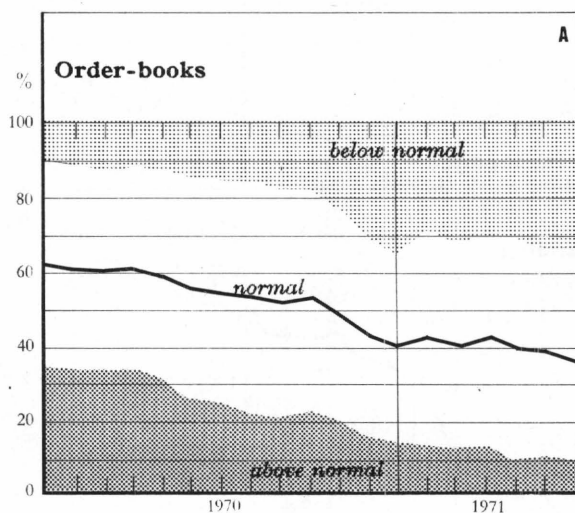
The stimuli coming from export demand are difficult to assess, given the exchange rate situation of the moment. On the one hand, exports are being impeded by the cost increases at home coupled with the exchange rate developments, and by the protectionist measures of the United States. On the other, a further revival

ECONOMIC INDICATORS

Germany



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut. GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

of world economic activity and the fall in capacity working, caused by the declining vigour of domestic demand, could lead to increased efforts to step up exports.

Given this outlook for demand, the growth of domestic production will probably be comparatively modest in the months ahead. Pressures on the labour market should therefore tend to ease further. These developments, however, will affect the trend of prices only after a certain time-lag. Consumer prices in particular may still rise fairly vigorously and current account on which the deficit on transactions with the other member countries has been increasing considerably since 1967, will as a whole probably tend to deteriorate further.

Major economic policy measures

June

(1) On 11 June the Federal Government adopted the basic points and principles for the major tax reform designed to introduce greater simplicity, clarity and social justice into tax legislation and taxation. The financial shortfall of some DM 3 700 million which the reform is expected to produce is to be met by an increase from 11 to 12% in the standard rate of value added tax. In principle total tax revenue is not to go up. The new tax legislation is to enter into force on 1 January 1974.

(2) On 23 June the Bundestag adopted the 14th law to revise social insurance pensions; under it existing social insurance pensions are being increased by 6.3% from 1 January 1972.

(3) On 30 June the Federal Government approved the "tax evasion law", which is designed to ensure more uniform taxation of transactions with abroad and improve the competitive position of capital invested abroad.

July

(1) On 19 July the Bundestag adopted a law improving rent legislation and restricting rent increase. The social clause of the Civil Code is to be extended to incorporate as a special criterion of hardship the lack of adequate alternative dwelling space and to include an obliga-

tion on the lessor to state his reasons for serving notice. In congested areas where the shortage of rented dwellings is at least 2%, special protection is introduced against notice to quit. Tenants are to be afforded greater protection under law against rack-rents through a tightening of the relevant provisions of the Criminal Code and of the Law on Penalties for Economic Offences.

(2) On 21 July the Federal Government took a decision of principle instructing the Federal Minister of Economic and Financial Affairs to prepare a draft law (cash deposit law), under which a non-interest-bearing cash deposit must be placed with the Bundesbank for funds which enterprises have raised abroad. The law is to enter into force with retroactive effect from 21 July.

August

Following the announcement of the new American economic policy measures, the foreign exchange markets remained closed from 16 to 21 August inclusive. When they were reopened, the floating of the exchange rate of the German mark was continued.

September

(1) Certain Federal railwayfares were raised by up to 20% from 1 February and some inland postage rates were raised from 1 September.

(2) On 10 September the Federal Government approved the draft of the 1972 Federal budget and the Federal finance plan for 1971-75. At a total volume of DM 106 600 million, the draft budget for 1972 is 8.4% higher than the estimates for 1971, which, adjusted for certain differences in the method of computation, totalled DM 98 400 million; if the prospective level of actual disbursements in 1971 (about DM 97 300 million) is taken as a basis, the increase is 9.5%. The borrowing requirement for 1972 is some DM 5 000 million. The average annual growth of expenditure from 1971 to 1975 was fixed at 7.5%. In addition to the basic budget, a contingency budget totalling DM 2 500 million was approved in case general economic activity in 1972 should slacken in such a way as to jeopardize the aims of sec. 1 of the law to promote economic stability and growth.

Germany

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					1963=100
Gross national product	+ 2.9	- 0.3	+ 7.2	+ 8.1	+ 4.9	141
Industrial production	+ 2.5	- 2.4	+ 9.5	+ 10.4	+ 5.7	149
Total imports	+ 2.6	- 1.3	+ 14.6	+ 16.7	+ 16.1	200
Private consumers' expenditure	+ 3.7	+ 0.6	+ 4.0	+ 8.0	+ 7.3	141
Public current expenditure on goods and services	+ 2.1	+ 3.3	- 0.1	+ 4.2	+ 2.9	118
Gross fixed asset formation	+ 0.9	- 8.4	+ 8.0	+ 12.1	+ 10.7	145
Total exports	+ 10.7	+ 8.5	+ 13.0	+ 12.6	+ 9.0	198
Gross national product per head of population	+ 1.8	- 0.7	+ 6.6	+ 6.9	+ 3.7	134
Gross national product per person in employment	+ 3.2	+ 2.7	+ 7.0	+ 6.2	+ 3.5	139
	% change by value on preceding year					
Gross income per employee	+ 7.5	+ 3.4	+ 6.7	+ 9.6	+ 15.0	178

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million units of account	+ 1 613	+ 4 063	+ 4 488	+ 3 906	+ 3 156
as percentage of GNP	+ 1.3	+ 3.3	+ 3.3	+ 2.5	+ 1.7
Unemployment rate	0.6	1.7	1.2	0.7	0.5
Prices to private consumers (% change on preceding year)	+ 3.5	+ 1.7	+ 1.8	+ 2.5	+ 3.8

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1968 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 12.5	+ 8.0	+ 14.3	+ 16.9	+ 17.7	234	84 195	100.0
Intra-EEC	+ 18.0	+ 9.4	+ 18.7	+ 23.9	+ 13.7	252	13 738	40.2
To non-EEC countries	+ 10.6	+ 7.2	+ 12.9	+ 12.8	+ 17.0	223	20 456	59.8
Exports of food, beverages and tobacco								
Total	- 2.0	+ 26.9	+ 21.8	+ 27.0	+ 27.6	370	1 066	3.1
Intra-EEC	+ 6.6	+ 61.2	+ 32.8	+ 31.0	+ 16.6	522	579	1.7
To non-EEC countries	- 7.3	+ 2.6	+ 9.4	+ 21.6	+ 43.7	275	487	1.4
Exports of raw materials, fuel and power								
Total	+ 7.1	+ 1.3	+ 10.7	+ 4.2	+ 19.0	156	1 946	5.7
Intra-EEC	+ 8.5	+ 1.5	+ 10.6	+ 5.4	+ 20.3	169	1 213	3.5
To non-EEC countries	+ 5.0	+ 0.4	+ 11.5	+ 2.4	+ 16.9	150	732	2.2
Exports of semi-finished and finished industrial goods								
Total	+ 13.8	+ 6.6	+ 15.9	+ 17.5	+ 17.7	239	31 183	91.2
Intra-EEC	+ 13.9	+ 4.7	+ 21.6	+ 25.8	+ 18.7	261	11 946	34.9
To non-EEC countries	+ 11.3	+ 7.6	+ 13.0	+ 13.0	+ 16.5	226	19 237	56.3
Visible imports								
Total	+ 3.2	- 3.7	+ 16.1	+ 23.7	+ 19.6	229	29 816	100.0
Intra-EEC	+ 4.2	- 1.0	+ 21.7	+ 30.0	+ 21.8	305	13 238	44.4
From non-EEC countries	+ 2.5	- 5.4	+ 12.5	+ 19.3	+ 17.9	191	16 588	55.6
Imports of food, beverages and tobacco								
Total	+ 2.4	- 4.2	+ 3.7	+ 16.7	+ 14.3	179	4 954	16.6
Intra-EEC	+ 6.8	+ 0.1	+ 11.9	+ 26.8	+ 12.6	239	2 303	7.7
From non-EEC countries	- 0.1	- 6.9	- 1.9	+ 9.0	+ 15.9	147	2 651	8.9
Imports of raw materials, fuel and power								
Total	+ 2.8	- 0.6	+ 15.8	+ 12.2	+ 13.6	184	6 617	22.2
Intra-EEC	+ 8.1	+ 9.4	+ 18.1	+ 23.3	+ 18.5	258	1 417	4.8
From non-EEC countries	+ 1.3	- 2.5	+ 15.3	+ 9.7	+ 12.3	171	5 200	17.4
Imports of semi-finished and finished industrial goods								
Total	+ 3.6	- 5.0	+ 21.1	+ 31.4	+ 23.5	274	18 246	61.2
Intra-EEC	+ 2.8	- 3.0	+ 25.4	+ 32.0	+ 24.8	236	9 514	31.9
From non-EEC countries	+ 4.3	- 6.9	+ 16.8	+ 30.7	+ 22.1	229	8 732	29.3

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	138.9	141.8	144.1	142.7	145.9	146.4	144.6	150.6	146.1	148.7	157.6	153.6
	1970	155.4	145.8	159.9	153.1	164.7	151.7	156.8	158.0	161.9	155.1	155.5	153.3
	1971	164.3	162.6	159.4	161.0	160.7	157.3	158.5					
New orders received (1963 = 100)	1969	163.0	161.6	166.2	169.3	168.0	166.1	176.6	174.8	177.6	179.6	171.9	170.9
	1970	176.6	185.3	179.5	184.3	169.0	182.4	178.5	176.1	180.3	173.6	177.6	185.2
	1971	178.5	181.2	196.9	187.6	183.0	187.1	186.2					
Unemployed (1 000)	1969	197.0	203.3	186.8	156.0	161.6	170.7	177.6	176.2	166.4	160.7	148.0	149.4
	1970	156.1	132.5	152.5	121.2	134.6	142.8	156.2	161.0	163.1	165.0	159.9	131.1
	1971	157.7	124.6	161.5	161.0	174.4	184.0	191.2	201.6				
Construction: permits for residential construction (1 000)	1969	43.4	47.2	44.8	45.6	47.2	48.1	48.4	45.6	47.0	49.5	48.7	44.1
	1970	48.3	50.7	46.0	52.4	47.3	51.5	55.4	54.4	54.5	49.4	50.6	46.7
	1971	49.8	55.9	55.9	56.3	58.6	61.6	57.7					
Private consumers' expenditure: department store turnover (1963 = 100)	1969	164.1	155.7	162.3	159.4	170.5	167.0	170.1	173.2	176.7	180.5	177.9	176.9
	1970	184.7	174.9	185.3	180.6	185.5	198.3	202.8	190.6	200.4	203.2	197.7	201.0
	1971	212.3	200.1	207.1	209.5	211.4	219.9	226.0					
Consumer prices (1963 = 100)	1969	115.1	115.4	115.5	115.7	115.9	116.2	116.1	115.8	116.1	116.5	117.0	117.6
	1970	119.1	119.3	119.8	120.1	120.3	120.7	120.7	120.6	120.6	121.2	121.8	122.3
	1971	123.5	124.3	125.3	125.9	126.3	126.7	127.2	127.1				
Visible imports (million u.a.)	1969	1 933	1 880	1 974	2 071	2 091	2 038	2 144	2 045	2 122	2 391	2 125	2 197
	1970	2 338	2 463	2 375	2 631	2 349	2 606	2 536	2 345	2 507	2 530	2 574	2 579
	1971	2 372	2 833	2 922	2 801	2 711	2 873	2 972					
Visible exports (million u.a.)	1969	2 073	2 155	2 219	2 403	2 380	2 445	2 558	2 478	2 456	2 736	2 616	2 480
	1970	2 498	2 767	2 639	2 935	2 650	3 016	3 083	2 787	2 883	2 965	2 844	3 104
	1971	2 720	3 125	3 293	3 092	3 060	3 234	3 396					
Balance of trade (million u.a.)	1969	+ 140	+ 276	+ 245	+ 332	+ 360	+ 407	+ 414	+ 434	+ 335	+ 395	+ 492	+ 354
	1970	+ 159	+ 304	+ 264	+ 304	+ 301	+ 410	+ 547	+ 442	+ 376	+ 435	+ 270	+ 525
	1971	+ 348	+ 242	+ 371	+ 291	+ 349	+ 361	+ 390					
Official gold and foreign exchange reserves (million u.a.)	1969	7 722	7 560	7 280	7 807	10 591	9 108	9 129	9 697	11 128	9 640	7 741	5 981
	1970	6 455	6 618	6 765	6 893	7 219	8 215	9 378	9 643	10 700	11 283	12 961	13 009
	1971	13 411	14 253	15 202	16 137	18 401	16 095	16 405	16 116				
Money supply (DM '000 million)	1969	89.2	89.2	90.7	90.3	91.5	92.2	93.2	94.3	94.3	93.7	95.0	93.2
	1970	96.1	95.9	97.5	96.6	97.1	97.8	99.7	99.5	99.2	98.4	100.6	101.9
	1971	103.8	104.3	105.8	106.9	109.7	109.5	112.9					

Germany

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

Graph 1

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 2

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

Graph 3

Wages and consumer prices: index of average hourly gross earnings in industry (including construction); cost-of-living index (all households) at middle of month, not adjusted for seasonal variations.

Graph 4

Bank lending: short-term loans to business and private customers within the country; position at end of month, not adjusted for seasonal variations.

Graph 5

Exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 6

Imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 7

Balance of trade: difference in terms of value between exports and imports, seasonally adjusted.

Table 1

Gross national product at market prices.

Industrial production: value added by industry (including small workshops).

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

Table 2

Balance exports less imports, as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of total labour force (annual averages); source: Statistisches Bundesamt and Bundesanstalt für Arbeit.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

Exports fob, imports cif. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

New orders received: manufacturing industry (excluding food, beverages and tobacco); seasonally adjusted value index.

Unemployed: position at end of month, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

Consumer prices: cost-of-living index (all households), not adjusted for seasonal variations.

Imports cif, exports fob; value, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: monetary authorities' reserves of gold and convertible currency, holdings in special drawing rights and reserve position in IMF. Figures are given gross, liabilities to abroad not having been deducted. Position at end of month.

Money supply: notes and coin in circulation (excluding cash holdings of credit institutions) and sight deposits of domestic non-banks (excluding public authorities' deposits with the Bundesbank); position at end of month, adjusted for seasonal variations.

B. France

1. Developments in the summer

At the moment the French economy is again experiencing a buoyant trend of demand, limited elasticity of production and relatively strong inflationary pressures.

The strongest stimuli are provided by demand from households, whose incomes are climbing rapidly as employment grows and the upward movement of wages accelerates. In the past few months private consumers' expenditure in terms of money has probably risen at an annual rate of some 12%. At the same time entrepreneurs continue to step up their fixed investment since sales are good and finance is comparatively easy to obtain. The INSEE investment survey carried out in June suggests that in 1971 the respondents from private industry will step up their capital spending by 14%. Investment by the public authorities and expenditure on residential construction are even expanding at a distinctly faster pace. The trend of export demand is also expansionary.

Apart from temporary stoppages due to strikes, industrial production is growing pretty vigorously, especially in the consumer goods industries. According to the monthly INSEE index, total output in June was 5.1% higher than a year earlier. The business surveys show, however, that in certain important sectors of industry a shortage of technical capacities and skilled labour continues to inhibit the growth of production.

With the labour market again under increasing strain, it is easier to obtain pay awards that considerably outstrip productivity gains. In trade and industry the rise in hourly wages in the first half of the year reached 5.5%, a rate not recorded in any half-year since the beginning of 1958 if the direct consequences of the events of May 1968 are disregarded. So far prices too have continued to climb very sharply this year. This was the result of the persistent rise in costs and the greater vigour of demand. From March to June industrial producers' prices went up at a pace equivalent to an annual increase of between 5.5 and 6%. All in all the cost of living—as measured by the INSEE index of

295 items—rose by 3.6% in the first seven months, and in July was 5.6% higher than a year earlier.

About the middle of the year the buoyancy of demand began to be reflected in the trend of the trade balance. Until then imports had gone up comparatively slowly and had even stood still at times, so that, with exports expanding steadily, the visible trade account on an fob/fob basis produced surpluses; of late, however, the pressure to import has increased. The current account is presumably in deficit, owing to substantial net expenditure on services and unrequited transactions. In the summer months the overall balance of payments nevertheless showed bigger surpluses, notably as a result of larger inflows of short-term funds that were partly speculative. The gross gold and foreign exchange reserves of the monetary authorities, which in the second quarter had gone up by a mere \$164 million, rose by \$498 million in July alone.

Domestic liquidity is increasing, not only because of larger inflows of foreign exchange but above all because of the very rapid expansion of lending to business and private customers. At the end of June the volume of loans outstanding was 23.1% larger than a year earlier. Although since the spring the Government's handling of the budget has, if anything, tended to curtail liquidity, the volume of money showed a further considerable rise; at the end of June, it was 19.2% up on a year earlier.

2. Outlook up to the end of 1971

All indications are that demand will remain very buoyant in the coming months. Households' expenditure on consumption in particular will probably continue to climb vigorously. There is reason to expect not only persistent sharp wage rises, increased employment, continued improvement of welfare benefits and larger amounts withdrawn by self-employed persons from their business, but also stabilization of the propensity to save, as long as the inflationary climate cannot be made to cool down

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ¹		1971 ²	
	At current prices (in FF '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	89.8	+ 17.9	+ 22.9	+ 17.0	+ 25.9	+ 7½	+ 10½
Gross fixed asset formation	157.0	+ 10.1	+ 17.3	+ 7.4	+ 14.7	+ 6	+ 11½
Public current expenditure on goods and services	79.5	+ 4.4	+ 12.3	+ 3.8	+ 11.1	+ 3½	+ 11½
Private consumers' expenditure	385.5	+ 6.7	+ 14.0	+ 4.3	+ 9.7	+ 6	+ 11½
Gross national product	629.8	+ 7.7	+ 16.2	+ 6.0	+ 12.0	+ 5½	+ 11
Imports ³	89.3	+ 22.5	+ 28.1	+ 8.5	+ 18.8	+ 8½	+ 11½

¹ Rapport sur les Comptes de la Nation 1970, Ministère de l'Économie et des Finances.

² Forecasts.

³ Goods, services and factor income.

⁴ At 1963 prices.

⁵ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

significantly. With promising sales opportunities, free capacity in short supply and wage costs climbing persistently, the investment activity of entrepreneurs is likely to remain rather lively, particularly since firms will hardly have any difficulties in obtaining finance as the economy is very liquid. Investment spending by the Government and expenditure on residential construction will anyway rise at a faster pace.

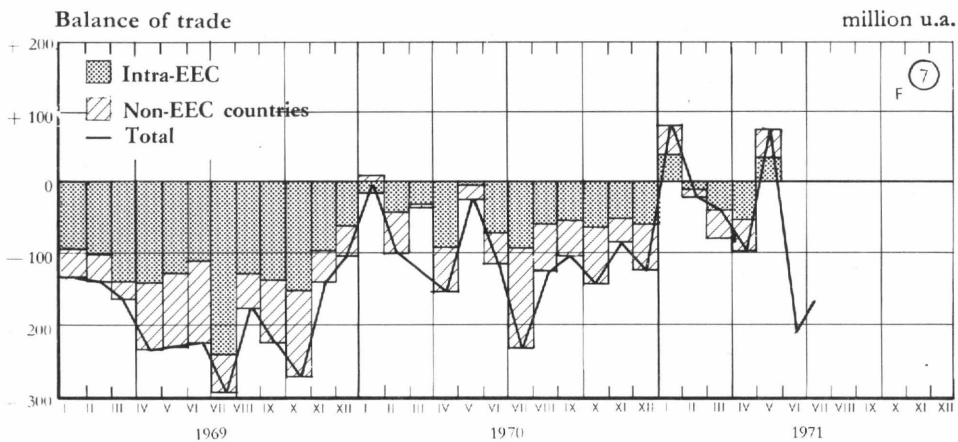
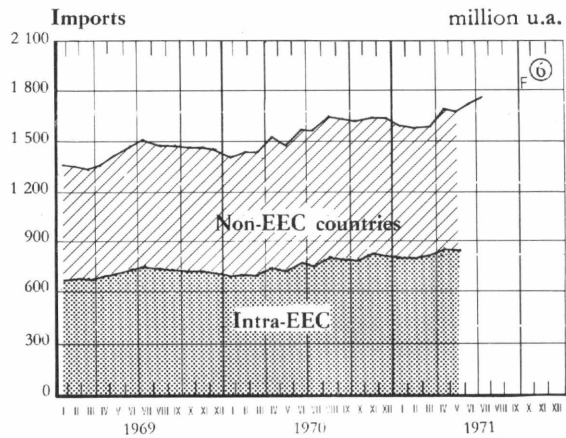
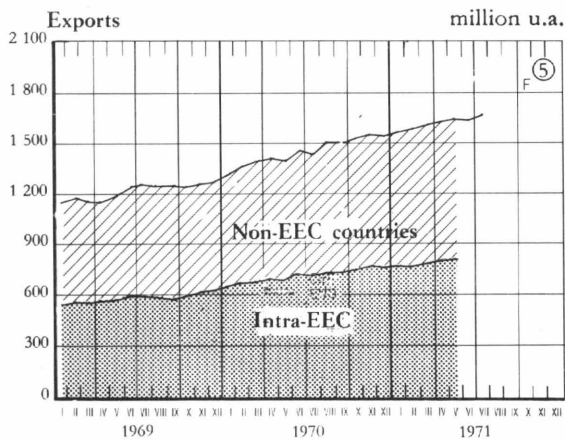
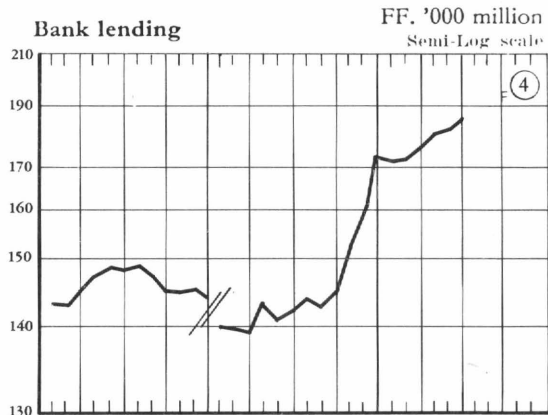
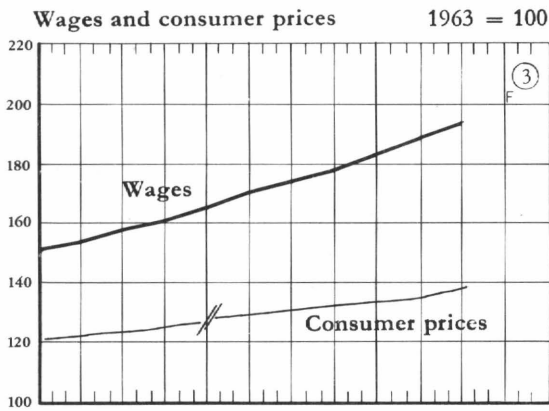
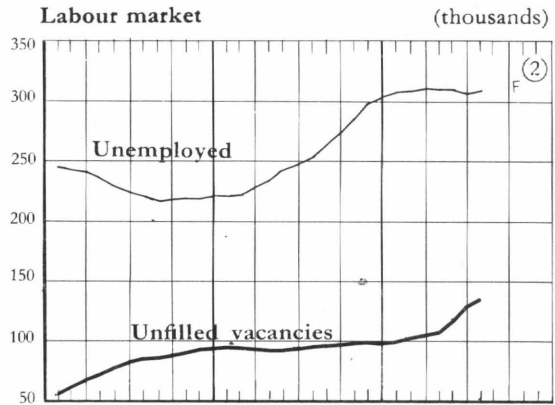
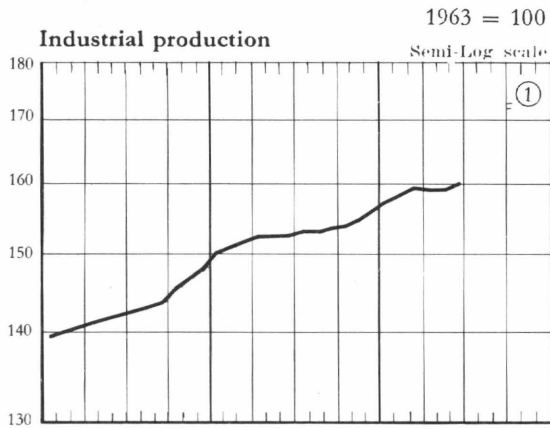
As regards export demand, there is hardly any reason to expect that the measures taken by the US Administration in mid-August to redress the balance of payments will have direct inhibiting effects, given the pattern of exports to the United States and the comparatively small im-

portance of the American market for the French economy. Moreover, any such effects are likely to be outweighed by the shifts that have occurred so far in the exchange rate relationships on the international foreign exchange markets, shifts which, at least where the trend is concerned, have strengthened France's competitive position and are therefore, if anything, providing an additional boost to exports to the countries other than the United States, particularly in continental Europe.

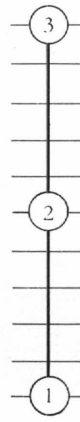
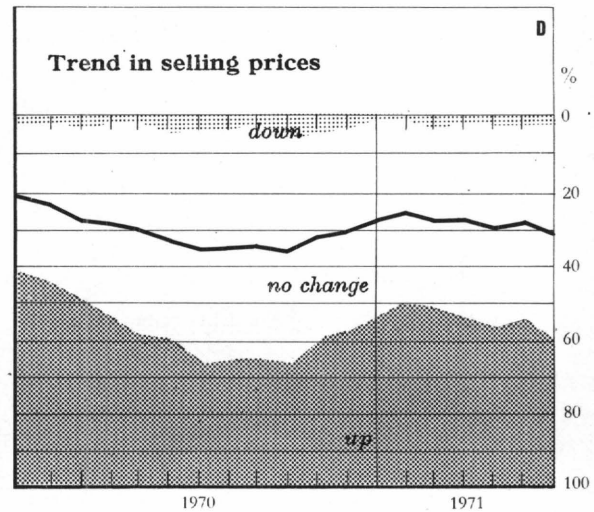
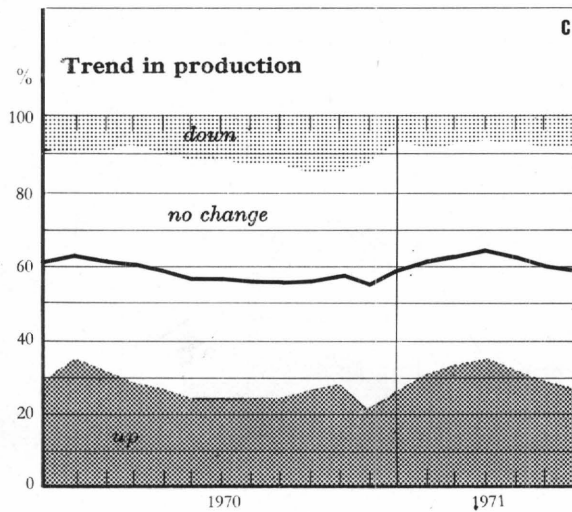
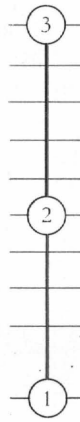
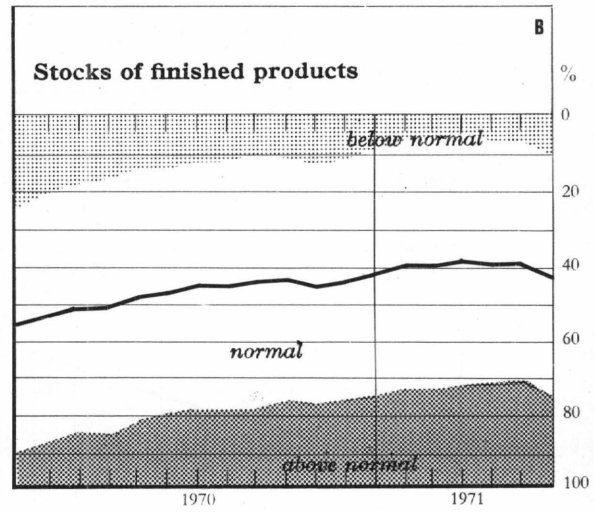
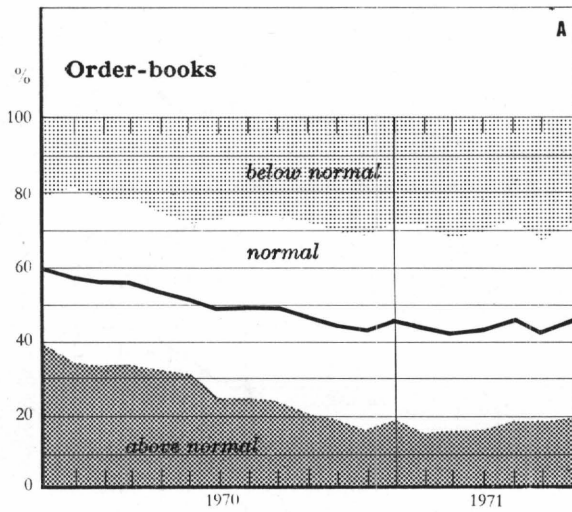
Overall demand will meet a volume of domestic supply that offers less scope for flexible expansion than hitherto. The degree of capacity utilization is already exceptionally high, particularly in the consumer- and export-oriented

ECONOMIC INDICATORS

France



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in France by INSEE.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

sectors, and there is reason to fear that the strains on the labour market will increase since the manpower reserves available do not have the right skills and live too far away from where they are needed. In the circumstances, the wage and price rise cannot, for the time being, be expected to slow down rapidly or appreciably, while the propensity to import is likely to rise.

Major economic policy measures

June

(1) Halfway through the month the Government decided to raise by 1.5% the basic salaries of officials and other employees in public administration, last put up on 1 January 1971 by 1.7%.

(2) In the middle of the month the National Assembly adopted the draft of a law approving the VIth Plan (1970-1975).

(3) At the end of the month seven firms specified by name and manufacturers of handling and lifting gear who had increased their selling prices without prior approval by the authorities, or by more than they were authorized, were obliged by decree to reduce them to the level of 1 June 1971 or in some cases to between 1 and 4% below that level. At the same time the Ministry of Economics and Finance warned all firms which have concluded so-called "programme contracts" with the Government or come under the arrangements for so-called "contractual price freedom", that a price freeze would be ordered if they made unjustified price increases. The prefects in vacation areas were instructed to tighten price supervision, particularly for food and for hotel and camping services.

July

(1) The statutory minimum wage (SMIC) was increased, as of 1 July, by 4.6% to FF 3.85 per hour, in other words by a rate higher than stipulated under the law of 2 January 1970 on the minimum growth wage (about 3%).

(2) Rents for certain categories of old dwellings were raised by up to 17% as at 1 July.

(3) Certain postage rates, particularly those for commercial mail items, were put up with effect from 1 July.

(4) Customs formalities were simplified with effect from 1 July. For private travellers it is now sufficient to declare goods orally if their dutiable value does not exceed FF 2 500. Firms, under certain circumstances, will no longer be required to present goods for inspection by the customs.

(5) In an effort to curb the unusually rapid expansion of credit and counteract the liquidity-raising effect of the inflow of short-term funds from abroad, the Banque de France with effect from 1 July increased compulsory minimum reserves: the rate for sight deposits was raised from 9.25% to 10.25%, for time deposits from 4.25% to 5.25% and for loans outstanding from 0.50% to 1.50%, while the rules for computing the latter were tightened. This should reduce bank liquidity by over FF 2 000 million. At the same time, however, the obligation of banks to purchase medium-term bills was lowered from 16% to 14% of customers' deposits. This measure, which releases some FF 2 700 million worth of rediscountable paper, was intended notably to improve the structure of interest rates and prevent pressures on the money market from increasing.

August

(1) Family allowances were increased by 5.3% with effect from 1 August.

(2) Gas rates were put up by between 4.5 and 5.5% as of 1 August. A new schedule of electricity rates entered into force on the same date. In addition, at the beginning of August it was announced that Paris transport rates would be raised with effect from 20 August.

(3) The increase, on 1 August, in the prices of cereals (wheat 11.4%, oats 8.8%, maize 4.2%), oilseeds (10.3%) and sugarbeet (10.3%) completed the process whereby the level of domestic farm prices was adjusted to the Community level, as made necessary by the devaluation of the franc in August 1969. At the same time, however, a special levy was imposed on these products for the benefit of the social security scheme for farmers and the agricultural welfare funds in order to siphon off part (about FF 220 million) of the "devaluation

benefit" (about FF 1 300 million) arising from this price increase.

(4) In view of the continuing rapid growth of the volume of money, the Banque de France with effect from 5 August further raised the compulsory reserves to be held by the banks and other financial institutions: the rate for deposits was increased from 10.25% to 12.25%, for time deposits from 5.25% to 6.50% and for loans outstanding from 1.50% to 3%. This was estimated to reduce liquidity by some FF 4 000 million.

(5) Exchange controls were eased appreciably at the beginning of August. The currency allowance for travellers was increased to FF 3 500 in foreign currency (previously FF 2 000) per person, and the restriction to two journeys per year was removed. For travellers, on business, the foreign currency allowance of FF 400 per day will be granted for a maximum of 20 days, instead of 10 days previously. Improvements were made in the possibilities for importers to obtain forward cover for raw material purchases and down-payments on plant and machinery. The ceilings on current transfers abroad were raised. In addition, the authorizations required for direct investment abroad are to be granted more liberally.

(6) To stem the inflow of foreign exchange, which had increased considerably in the preceding weeks as international monetary unrest was reviving, commercial banks were forbidden by the Banque de France to increase their foreign liabilities beyond the level of 3 August. Foreign exchange arising from speculative transactions must be refused and only foreign exchange from commercial transactions may be accepted. Accordingly the banks on 9 August ceased to pay interest on new sight deposits (for a period of less than 91 days) of non-residents. In addition, in mid-August the banks were authorized to grant French currency loans to non-residents provided forward cover in foreign exchange was obtained for the amount involved.

(7) On 9 August the Government paid back to the International Monetary Fund, ahead of schedule, the amount of \$233.8 million representing the balance of the debt of \$985 million contracted in 1969 through drawings on the Fund. At the same time France fully reconstituted its gold tranche of \$375 million, which it

had used in 1968. Of the total of \$608.8 million, \$191 million was paid in gold acquired for this purpose from the US Treasury.

(8) Following the announcement by the US Administration, on 15 August, of sweeping measures to redress the balance of payments, the Paris foreign exchange and gold markets, like most international foreign exchange and gold markets, remained closed from 16 to 22 August.

(9) On 23 August a system of multiple exchange rates was introduced. First, there is an officially quoted exchange rate based on the hitherto existing parity of FF 5.554 to the dollar; it applies to all commercial transactions (merchandise trade and related transport and insurance services, as well as current payments by governments and government authorities), and is referred to as the commercial franc. Second, there is a free rate of exchange for all other transactions (particularly tourism and capital movements), referred to as the financial franc. Third, there is also a free exchange rate for the purchase of foreign securities; this is referred to as the "devises-titre" or securities franc. To safeguard the working of this triple exchange market, exchange controls were tightened appreciably, particularly the controls relating to imports and exports and entries in the accounts of non-residents.

September

(1) At the beginning of September the Government decided to increase the basic salaries of officials and other employees in public administration by 2.8% from 1 October. This brought the increase granted since the beginning of the year to 6%.

(2) In mid-September employers' associations declared their readiness to support the Government's proposed campaign against rising prices (the "plan anti-hausse"), under which the increase in the general price level was not to exceed 2% in the next six months. Industrialists undertook to hold down their price increases on finished goods to an average of not more than 1.5% between 1 October 1971 and 1 April 1972. The distributive trades agreed not to make any percentage change in their profit margins during this period. In return the Government will, until 1 April 1972, refrain

from raising such taxes, charges and public utility rates as have to be paid by the business community. Firms which do not sign the relevant agreements with the Government will in future have to apply for prior authorization from the authorities if they wish to increase their prices (industry) or will have to see their profit margins frozen at their current absolute level (distributive trades).

(3) In mid-September the Government approved the finance bill for 1972. With aggregate expenditure increasing by 9.7%,

which is somewhat more than the expected rise in the value of gross domestic production, and an estimated growth of revenue of the same order, the budget is balanced. The main rise in spending is in non-military capital expenditure, which is to go up by 14.5%, while non-military administrative expenditure is budgeted to grow by just under 9%, and military expenditure by 8%. With earlier plans for tax relief largely abandoned, the increase in revenue reckoned on is 15.6% from income tax, 6.3% from corporation tax and 9.6% from value added tax.

France

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					1963=100
Gross national product	+ 5.6	+ 5.0	+ 4.6	+ 7.7	+ 6.0	148
Industrial production	+ 7.4	+ 4.6	+ 4.7	+ 9.8	+ 7.1	157
Total imports	+ 13.9	+ 8.0	+ 12.8	+ 22.5	+ 8.5	215
Private consumers' expenditure	+ 4.8	+ 5.4	+ 5.5	+ 6.7	+ 4.3	143
Public current expenditure on goods and services	+ 2.3	+ 4.1	+ 5.1	+ 4.4	+ 3.8	129
Gross fixed asset formation	+ 8.4	+ 6.1	+ 6.6	+ 10.1	+ 6.6	176
Total exports	+ 8.4	+ 7.5	+ 10.0	+ 17.0	+ 17.0	213
Gross national product per head of population	+ 4.7	+ 4.2	+ 3.8	+ 6.8	+ 5.1	139
Gross national product per person in employment	+ 4.8	+ 4.6	+ 4.6	+ 5.8	+ 4.4	140
	% change by value on preceding year					
Gross income per employee	+ 6.1	+ 6.7	+ 11.6	+ 12.0	+ 9.4	181

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	+ 344	+ 446	+ 101	- 792	+ 558
as percentage of GNP	+ 0.3	+ 0.4	+ 0.08	- 0.6	+ 0.4
Unemployment rate	1.4	1.8	2.1	1.7	1.7
price index of private consumers' expenditure (% change on preceding year)	+ 3.0	+ 2.8	+ 4.9	+ 6.8	+ 5.2

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1963=100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 8.3	+ 4.5	+ 11.4	+ 17.4	+ 18.8	219	17 676	100.0
Intra-EEC	+ 12.0	+ 2.0	+ 16.0	+ 30.6	+ 20.9	278	8 606	48.7
To non-EEC countries	+ 5.8	+ 6.3	+ 8.2	+ 7.5	+ 16.8	182	9 070	51.3
Exports of food, beverages and tobacco								
Total	+ 7.5	+ 2.9	+ 19.8	+ 20.8	+ 6.0	216	2 711	15.3
Intra-EEC	+ 19.4	+ 6.0	+ 26.6	+ 41.9	+ 1.7	341	1 626	9.2
To non-EEC countries	- 2.0	- 0.1	+ 12.8	- 3.3	+ 13.2	140	1 085	6.1
Exports of raw materials, fuel and power								
Total	+ 7.3	- 3.7	+ 1.6	+ 10.6	+ 11.7	149	1 390	7.9
Intra-EEC	+ 7.4	- 3.7	+ 0.9	+ 19.9	+ 13.7	134	926	5.2
To non-EEC countries	+ 7.2	- 3.6	+ 2.6	- 3.5	+ 7.9	107	464	2.7
Exports of semi-finished and finished industrial goods								
Total	+ 8.7	+ 6.1	+ 11.1	+ 17.5	+ 22.5	230	13 575	76.8
Intra-EEC	+ 11.2	+ 2.3	+ 16.2	+ 29.0	+ 28.7	287	6 054	34.3
To non-EEC countries	+ 7.2	+ 8.5	+ 8.1	+ 10.2	+ 18.0	199	7 521	42.5
Visible imports								
Total	+ 14.6	+ 4.5	+ 12.5	+ 27.7	+ 9.8	217	18 913	100.0
Intra-EEC	+ 20.8	+ 10.7	+ 23.1	+ 31.3	+ 6.5	205	9 252	48.9
From non-EEC countries	+ 10.5	+ 0.2	+ 4.4	+ 16.7	+ 13.2	173	9 661	51.1
Imports of food, beverages and tobacco								
Total	+ 8.4	- 2.6	+ 2.7	+ 19.6	+ 6.8	158	2 453	13.0
Intra-EEC	+ 1.3	+ 16.6	+ 31.8	+ 33.4	+ 3.9	296	814	4.3
From non-EEC countries	+ 10.3	- 7.4	- 6.4	+ 13.5	+ 8.4	128	1 639	8.7
Imports of raw materials, fuel and power								
Total	+ 5.9	+ 0.3	+ 3.6	+ 10.6	+ 4.5	136	4 202	22.2
Intra-EEC	+ 9.5	- 2.3	+ 14.2	+ 11.4	+ 8.7	146	730	3.9
From non-EEC countries	+ 5.3	+ 0.3	+ 1.7	+ 10.5	+ 3.7	134	3 472	18.3
Imports of semi-finished and finished industrial goods								
Total	+ 22.0	+ 9.0	+ 19.6	+ 30.3	+ 12.4	300	12 258	64.8
Intra-EEC	+ 25.0	+ 12.0	+ 23.3	+ 33.3	+ 6.5	323	7 703	40.7
From non-EEC countries	+ 17.7	+ 4.4	+ 13.3	+ 24.6	+ 23.9	261	4 550	24.1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	144.1	140.5	139.4	142.2	142.0	132.5	145.4	139.4	143.9	145.5	143.4	150.0
	1970	154.8	152.9	152.3	150.7	145.5	137.7	151.7	145.1	154.7	152.2	150.7	154.1
	1971	157.8	157.0	150.0	152.1	149.1	(152)						
Number of persons seeking employment (1 000)	1969	242.7	237.9	231.0	224.1	221.4	215.5	217.5	218.1	217.4	218.4	216.6	218.7
	1970	220.7	227.3	233.0	241.5	246.0	251.3	261.1	271.1	285.0	297.4	307.3	306.6
	1971	315.7	313.0	312.5	312.1	313.0	(314)	(320)					
Construction: building permits issued for housing (1 000)	1969	51.0	46.9	44.1	46.6	50.5	51.9	56.2	50.0	58.1	53.6	39.1	49.8
	1970	42.1	50.9	48.3	49.4	45.8*	56.9	44.7	46.6	51.3	38.9	39.3	
	1971												
Private consumers' expenditure: turnover of department stores (1963 = 100)	1969	146.3	139.2	143.0	139.0	150.9	138.6	146.1	153.4	137.5	143.0	144.1	147.9
	1970	153.2	141.1	139.9	138.7	142.3	141.2	144.8	145.2	141.7	157.0	143.1	160.3
	1971	162.1	152.1	149.8	149.8								
Consumer prices (1963 = 100)	1969	121.1	121.5	122.1	122.7	123.2	123.6	124.2	124.5	125.1	125.9	126.5	126.9
	1970	123.0	128.6	129.0	129.8	130.1	130.7	130.9	131.4	132.0	132.5	133.0	133.4
	1971	134.2	134.8	135.4	136.2	137.1	137.6	138.3					
Visible imports (million u.a.)	1969	1 362.4	1 316.9	1 272.8	1 469.6	1 460.5	1 472.9	1 573.9	1 379.4	1 462.7	1 539.1	1 374.1	1 404.4
	1970	1 431.9	1 485.5	1 404.5	1 666.4	1 431.7	1 692.3	1 661.3	1 626.9	1 673.9	1 629.1	1 655.4	1 673.3
	1971	1 485.0	1 611.2	1 720.4	1 731.9	1 571.5	(1840)	(1862)	(1851)				
Visible exports (million u.a.)	1969	1 229.1	1 179.0	1 107.7	1 237.3	1 231.6	1 249.7	1 282.3	1 203.4	1 240.2	1 266.9	1 237.7	1 298.9
	1970	1 421.0	1 385.0	1 369.4	1 510.7	1 319.4	1 577.1	1 428.6	1 505.2	1 566.9	1 490.4	1 570.4	1 550.5
	1971	1 566.7	1 590.9	1 637.6	1 634.1	1 648.2	(1631)	(1707)	(1827)				
Balance of trade (million u.a.)	1969	- 133.3	- 137.9	- 165.1	- 231.8	- 228.9	- 223.2	- 291.6	- 176.0	- 222.5	- 272.2	- 136.4	- 105.5
	1970	- 10.9	- 100.5	- 35.5	- 156.7	- 22.3	- 115.2	- 232.7	- 121.7	- 107.0	- 138.7	- 85.0	- 122.8
	1971	+ 81.7	- 20.3	- 82.8	- 97.8	+ 76.7	(-209)	(-155)	(-24)				
Official gold and foreign exchange reserves (million u.a.)	1969	4 215	4 125	3 986	3 774	3 636	3 610	3 594	3 781	4 006	3 913	3 989	3 833
	1970	3 885	3 957	3 961	4 032	4 142	4 282	4 492	4 546	4 576	4 617	4 789	4 789
	1971	5 007	5 057	5 140	5 211	5 277	5 304	5 802	6 847				
Money supply (FF '000 million)	1969	207.9	210.6	212.6	214.5	211.4	212.4	212.4	213.3	213.6	211.8	213.2	209.2
	1970	204.6	205.8	207.5	209.1	208.1	208.4	209.4	211.3	212.8	219.7	223.8	227.1
	1971	227.7	231.8	234.5	234.0	(237.4)	(240.9)						

France

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated). Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

Graph 1

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 2

Labour market; series adjusted for seasonal variations; three-month moving averages; position at end of month; unemployed — number of persons seeking employment.

Graph 3

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices for 1969 and 1970: 259 items; from January 1971 new index of 295 items.

Graph 4

Bank lending; source: Conseil National du Cr dit; short-term loans (up to 2 years) from monetary institutions to business and private customers; position at end of month.

Graph 5

Exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 6

Imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 7

Balance of trade: difference in terms of value between imports and exports, seasonally adjusted.

Table 1

Source: "Rapport sur les comptes de la Nation 1970". Minist re de l' conomie et des Finances.

GNP at market prices (new series on 1962 basis).

Industrial production: value added by industry.

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

Table 2

Source: "Rapport sur les comptes de la Nation 1970". Minist re de l' conomie et des Finances.

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed (persons available for and seeking employment, estimated on the basis of the number of job applicants, in the light of the latest population census) as percentage of the total domestic labour force.

Consumer prices: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Number of persons seeking employment: position at end of month, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: turnovers by value, constant samples; adjusted for seasonal variations.

Consumer prices: national index of 259 items in 1969 and 1970; new index of 295 items since January 1971.

Imports cif, exports fob, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and convertible currency held by the Banque de France and the Fonds de Stabilisation des changes, position at end of month.

Money supply: fiduciary circulation (total notes and coin in circulation, excluding notes and coin held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with the Post Office giro or with public accountants, plus sight deposits relating to the activities of certain financing institutions in metropolitan France. Position at end of month, adjusted for seasonal variations.

C. Italy

1. Developments in the summer

Economic activity was, on the whole, still weak at the beginning of the summer. In contrast to the situation last year, however, this was attributable not only to difficulties connected with the factors of production (reluctance on the part of workers to do overtime and shift work, reductions in the working week under collective agreements, stoppages due to strikes, etc.) but in large measure also to a slowdown in demand.

Visible exports in terms of value, however, were if anything tending more distinctly upwards as Italian firms stepped up their export efforts and were able to sell at more competitive prices than firms from certain other countries. In the second quarter, the increase over a year earlier was 8.2%. Exports of services, by contrast, appear to have been sluggish.

As regards domestic demand, capital spending was distinctly weak, particularly in residential construction, where the downward tendency persisted. Apart from expenditure on public works, which went up rapidly, other types of building investment likewise showed a downward tendency.

Investment in plant and machinery was also sluggish if anything, particularly spending by medium-sized and small firms. The deterioration in the profit situation over the last year and a half, the fall in capacity working and the general psychological climate were probably the main reasons for the lack of vigour in corporate investment.

Expenditure on consumption appears to have risen comparatively little. Disposable incomes tended to go up as a result of a further increase in hourly wages and, in the first quarter, a sharp rise in the salaries of public officials. But a fall in the number of persons employed in industry, particularly in building, and the loss of income due to stoppages had a dampening effect on consumption.

As regards supply in terms of volume, industrial production and, though in smaller measure,

visible imports tended to decline, particularly in the field of plant and machinery. According to the ISTAT index, industrial production in the second quarter was 4.3% lower than a year earlier. Visible imports as reflected in foreign trade statistics were still a little higher than a year before (2.5%), but in terms of volume they too had fallen.

Prices continued to rise. The official indices show that in July wholesale prices were 3.7% and consumer prices 4.9% higher than the same month last year.

Despite the lack of vigour of domestic demand, reflected in a slight improvement in the balance on current account (on a cash basis), the surplus on the overall balance of payments fell in the second quarter, owing to diminishing net inflows of capital. Official gold and foreign exchange reserves showed virtually no change between the end of March and the end of June since the commercial banks exported money on a substantial scale.

With the cash transactions of the Treasury in particular having a liquidity-raising effect, the volume of money continued to expand very vigorously. In June, it was 22.7% higher than a year earlier. On the capital market, the downward movement of interest rates registered since mid-1970 ceased in May and has not started again even though the Banca d'Italia has resumed support purchasing.

2. Outlook up to the end of 1971

The outlook for the second half of 1971 as outlined below is based on the double assumption that the actual productive potential will soon start rising again vigorously as a result of a thorough-going, lasting relaxation of strains in industrial relations, and that demand will resume faster growth, notably as a result of the reflationary measures taken by the Government and, more particularly, an improvement in entrepreneurs' propensity to invest. Should these two assumptions, though perfectly feasible, fail to come true, there is a danger that the actual trend

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ¹		1971 ²	
	At current prices (in Lit '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	9 119	+ 13.8	+ 15.9	+ 6.0	+ 11.6	+ 6½	+ 9½
Gross fixed asset formation	9 322	+ 8.0	+ 14.7	+ 3.8	+ 15.3	- 2	+ 2
Public current expenditure on goods and services	6 382	+ 3.3	+ 8.3	+ 3.2	+ 7.1	+ 4½	+ 15
Private consumers' expenditure	30 066	+ 6.3	+ 9.4	+ 8.0	+ 13.2	+ 4½	+ 10
Gross national product	47 280	+ 5.9	+ 10.3	+ 5.1	+ 11.7	+ 3	+ 8
Imports ³	7 689	+ 20.6	+ 21.5	+ 17.2	+ 22.0	+ 4½	+ 10

¹ "Relazione generale sulla situazione economica del Paese (1970)".

² Forecasts.

³ Goods, services and factor income.

⁴ At 1963 prices.

⁵ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

will be very unsatisfactory and deviate considerably from the guide figures of the third Medium-term Economic Policy Programme.

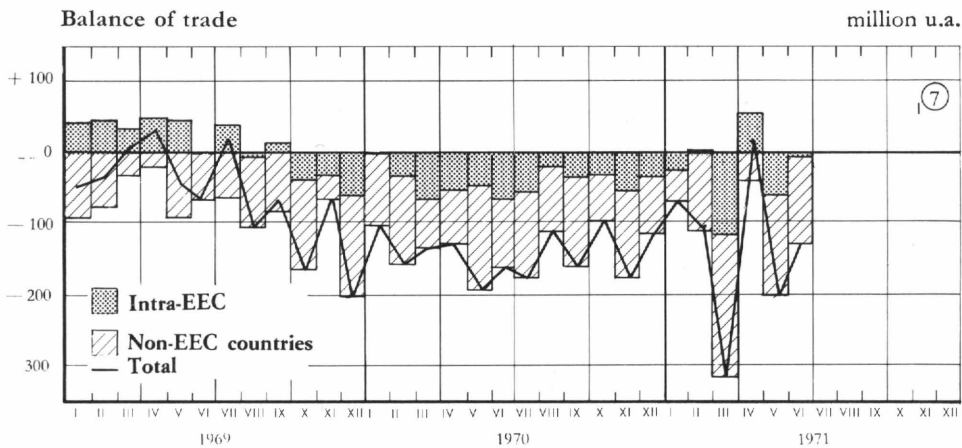
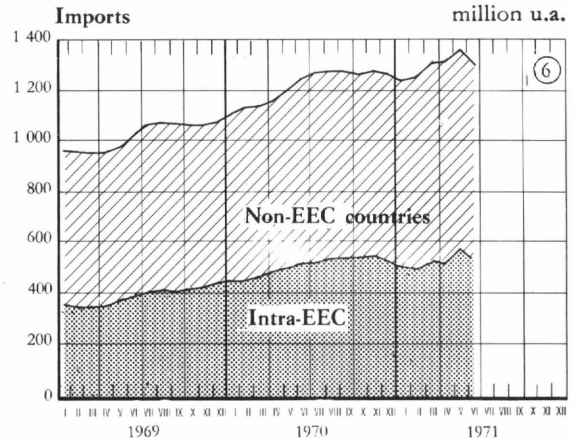
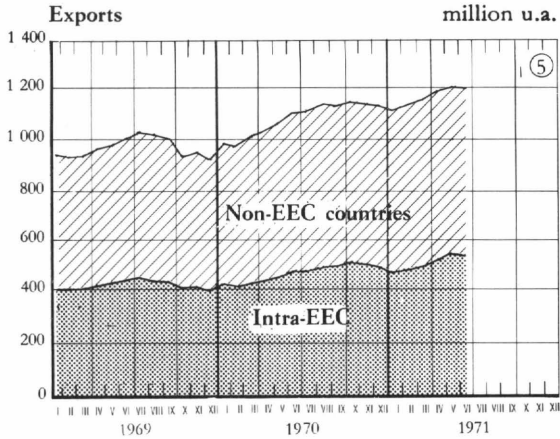
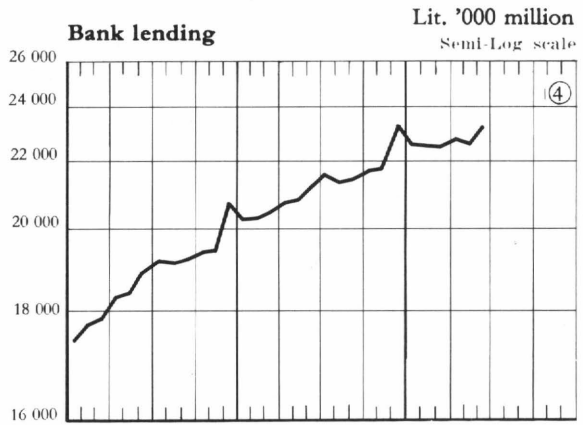
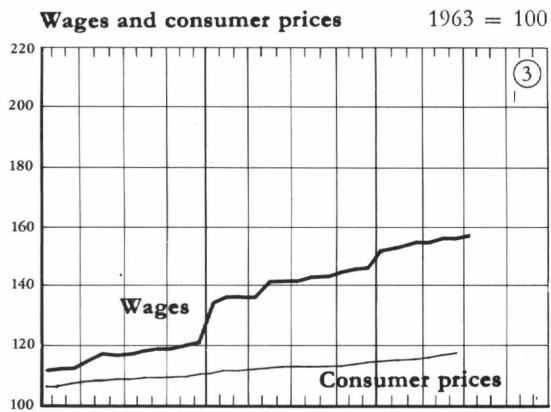
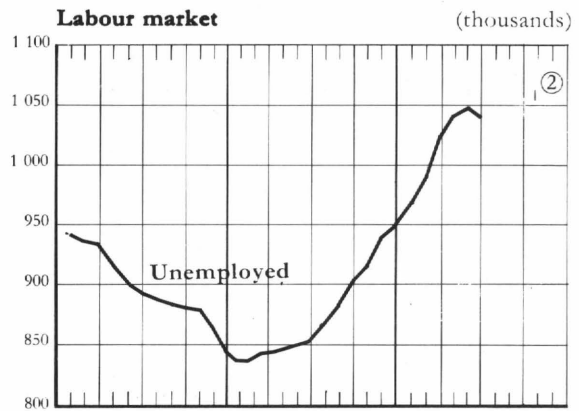
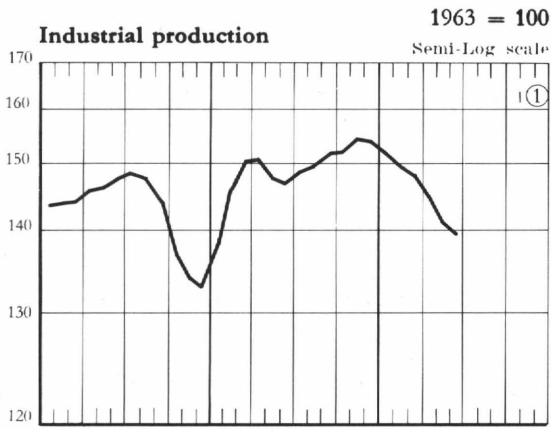
All in all, visible exports are still likely to increase in the months ahead, despite the commercial policy measures taken in August by the United States Administration, and despite the effective devaluation of the dollar. Although exports to the United States must be expected to be hampered considerably, particularly those of footwear, textiles and motor cars, this may be offset by a simultaneous improvement in the competitive position of Italian products on other exports markets, which take 90% of Italy's total visible exports.

Domestic demand will show a pronounced upward tendency. Building investment, however, will probably still exert an inhibiting influence for some time yet, despite the vigorous expansion of public works. The other types of capital spending and consumption, by contrast, are likely to pick up significantly.

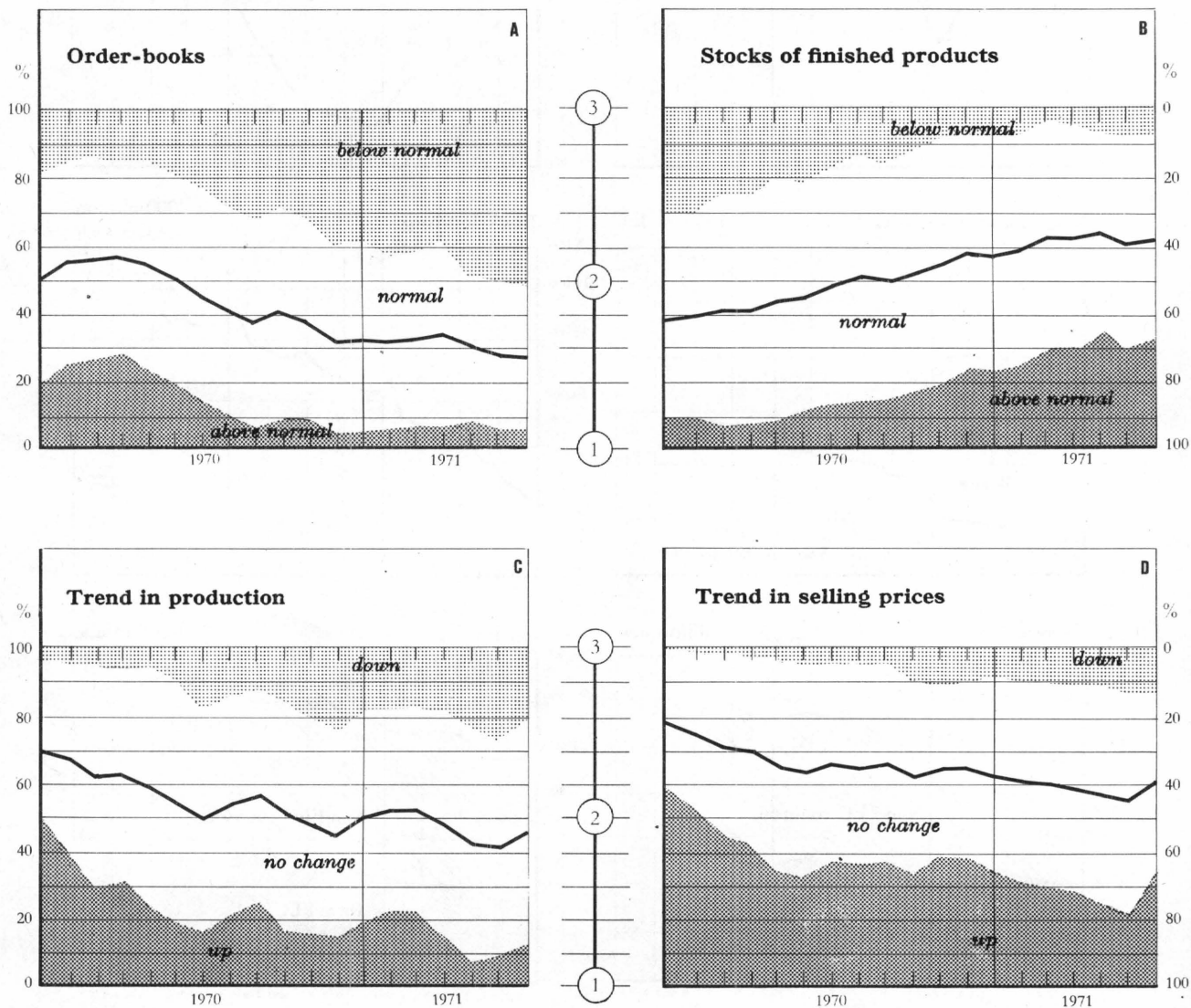
Numerous factors may promote entrepreneurs' propensity to invest; these are the improvement in the psychological climate and in the economic outlook owing to the expected return to normal of relations between the two sides of industry, the more expansionary outlook for export and domestic demand, the need to rationalize under the pressure of costs and competition, and the

ECONOMIC INDICATORS

Italy



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Italy by ISCO-Mondo Economico.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

promotion of investment by official economic policy, particularly the proposal to Parliament to bring forward the turnover tax relief for new investment. The six-monthly EEC investment surveys suggest that the potential readiness to invest is very strong, at least in the larger industrial firms.

The expansion of private consumers' expenditure is likely to be appreciably helped by a resumption of the rise in the level of employment, a probably slightly greater propensity to spend, and the tendency to make as many purchases as possible before the value added tax system is introduced.

On these assumptions, production would be able to follow the faster rise of demand without unduly heavy strains. The upward thrust of prices may nevertheless gain in vigour since many firms will probably seek to take advantage of the more lively expansion of demand to pass on to prices at least part of the unusually rapid cost increase of the past few years. Price rises will also be facilitated by what has happened so far on the foreign exchange markets, provided the current exchange rate relationships are roughly maintained. The expansion of imports will probably accelerate considerably. All in all, the conditions determining equilibrium will therefore remain fairly precarious so that there will still be a need for great flexibility in short-term economic policy.

Major economic policy measures

July

(1) *With ministerial authorization, newspaper prices were put up by some 12% with effect from 1 July, following an increase of nearly 15% on 1 March.*

(2) *At the beginning of the month, entry into force of several decree laws adopted by the Government on the grounds of short-term economic policy requirements and in the meantime ratified by Parliament with minor amendments. In addition to laying down credit policy measures (subsidies in the form of grants and interest rebates) to support investment activity in the crafts, industry and commerce, granting certain aids to agriculture and increasing from*

Lit. 100 000 million to Lit. 150 000 million the revolving fund for financing applied research in industry, set up in autumn 1968, these decree laws lay down that the Government is to take over a further share of the social contributions payable by enterprises. In detail, the arrangements applying since August 1968 to craft and industrial enterprises in southern Italy are extended until the end of 1980 (according to the date of recruitment of the personnel, the Government takes over the firm's social security contributions to the tune of 10 or 20% of wages and salaries covered by social security); these arrangements are extended in that the share to be borne by the Government is increased to 30% where the contributions are in respect of workers recruited after 1 August 1971; until the end of June 1972, all craft and industrial enterprises in Italy which do not employ more than 500 workers have their social security contributions equivalent to 5% of wages and salaries taken over by the Government (for enterprises employing between 300 and 500 workers, however, calculations are based on 300 times the wage and salary bill per person employed).

The increase in Government expenditure due to these measures is estimated at some Lit. 250 000 million for 1971 and Lit. 210 000 million for 1972, of which Lit. 130 000 million and Lit. 150 000 million respectively are social security contributions taken over by the Government. Virtually all the increase in Government spending will be financed through borrowing.

(3) *At the end of the month the Parliament decided to increase the endowment capital of the state-owned industrial groups IRI and ENI by Lit. 900 000 million and Lit. 290 000 million respectively.*

(4) *At the end of the month the budget estimates for 1972 were submitted. Revenue, excluding proceeds from loans floated, is to go up by 9.7% (compared with 11.1% in the 1971 budget), and expenditure excluding redemption of debts is to grow by 11.5% (10.9%); the deficit is Lit. 1 956 000 million (as against Lit. 1 559 000 million in 1971). The share of current expenditure in total budget expenditure goes up further, and the part of Government expenditure to be financed initially outside the budget rises again (from Lit. 877 000 million to Lit. 986 000 million).*

With these expenditures and the further vigorous rise in the deficit of the state-owned enterprises taken into account, the budget deficit for 1972 becomes Lit. 4 150 000 million (compared with Lit. 3 255 000 million).

August

(1) After discussing the draft law on tax reform, which has still to be adopted by the First Chamber of Parliament, the Senate approved at the beginning of the month the rules on the tax treatment of fixed investment and stocks during the phase of transition to the value added tax system. Under these rules, the turnover tax

(IGE) payable on fixed investment and stock-building during the last six or four months prior to the introduction of the new tax system will be deductible from future VAT liability.

(2) Following the announcement of the balance-of-payments measures taken by the US Administration on 15 August, the margin within which the exchange rate of the lira may fluctuate against the US dollar was widened but the official gold parity was maintained. The Banca d'Italia instructed the Italian commercial banks to eliminate their adverse net foreign exchange position (\$123 million at the end of June) by 15 September.

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 5.9	+ 6.8	+ 6.0	+ 5.9	+ 5.1	142
Industrial production	+ 7.4	+ 8.7	+ 8.7	+ 7.0	+ 6.4	151
Total imports	+ 13.7	+ 12.6	+ 7.5	+ 20.6	+ 17.2	189
Private consumers' expenditure	+ 6.8	+ 7.1	+ 4.7	+ 6.3	+ 8.0	145
Public current expenditure on goods and services	+ 3.2	+ 4.3	+ 4.1	+ 3.3	+ 3.2	129
Gross fixed asset formation	+ 4.0	+ 11.8	+ 7.7	+ 8.0	+ 3.8	122
Total exports	+ 13.2	+ 6.7	+ 15.4	+ 13.8	+ 6.0	225
Gross national product per head of population	+ 5.1	+ 6.0	+ 5.4	+ 5.1	+ 4.8	132
Gross national product per person in employment	+ 7.4	+ 5.7	+ 6.0	+ 7.0	+ 4.6	144
	% change by value on preceding year					
Gross income per employee	+ 7.9	+ 8.5	+ 7.1	+ 8.8	+ 13.7	188

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	+ 1 723	+ 1 235	+ 2 274	+ 1 963	+ 637
as percentage of GNP	+ 2.7	+ 1.8	+ 3.0	+ 2.4	+ 0.7
Unemployment rate	3.9	3.5	3.5	3.4	3.1
consumer prices (% change on preceding year)	+ 2.9	+ 3.0	+ 1.6	+ 2.9	+ 4.8

Italy

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 11.7	+ 8.3	+ 17.0	+ 15.2	+ 12.6	262	13 207	100.0
Intra-EEC	+ 12.8	+ 3.3	+ 20.9	+ 22.2	+ 13.6	316	5 060	42.9
To non-EEC countries	+ 11.0	+ 11.6	+ 14.5	+ 10.5	+ 11.9	232	7 547	57.1
Exports of food, beverages and tobacco								
Total	+ 1.5	+ 4.7	- 3.7	+ 15.6	+ 9.2	160	1 098	8.3
Intra-EEC	+ 0.4	- 1.7	- 1.3	+ 21.4	+ 5.7	179	582	4.4
To non-EEC countries	+ 2.8	+ 12.4	- 6.1	+ 9.3	+ 13.4	142	516	3.9
Exports of raw materials, fuel and power								
Total	+ 10.6	+ 9.1	+ 14.1	+ 1.4	+ 10.3	209	990	7.5
Intra-EEC	+ 21.5	+ 15.9	+ 14.7	- 2.0	+ 9.6	287	366	2.8
To non-EEC countries	+ 5.2	+ 5.3	+ 13.7	+ 3.6	+ 10.6	131	624	4.7
Exports of semi-finished and finished industrial goods								
Total	+ 13.4	+ 8.8	+ 20.0	+ 16.7	+ 13.2	236	11 119	84.2
Intra-EEC	+ 14.6	+ 3.2	+ 25.4	+ 24.9	+ 15.0	352	4 712	35.7
To non-EEC countries	+ 12.6	+ 12.4	+ 16.7	+ 11.5	+ 11.9	252	6 407	48.5
Visible imports								
Total	+ 16.7	+ 12.9	+ 4.3	+ 21.4	+ 19.4	197	14 865	100.0
Intra-EEC	+ 21.6	+ 21.5	+ 9.1	+ 29.9	+ 27.4	248	6 140	41.3
From non-EEC countries	+ 14.4	+ 8.8	+ 1.8	+ 16.6	+ 14.3	172	8 725	58.7
Imports of food, beverages and tobacco								
Total	+ 9.7	+ 0.7	+ 8.5	+ 14.9	+ 18.0	139	2 409	16.3
Intra-EEC	+ 13.5	+ 26.6	+ 29.0	+ 26.8	+ 20.9	397	954	6.4
From non-EEC countries	+ 8.7	- 6.4	+ 0.9	+ 9.2	+ 8.1	143	1 545	10.4
Imports of raw materials, fuel and power								
Total	+ 15.1	+ 13.7	+ 1.0	+ 13.0	+ 11.8	180	4 663	31.4
Intra-EEC	+ 18.2	+ 14.2	- 3.0	+ 20.6	+ 16.6	219	697	4.7
From non-EEC countries	+ 14.6	+ 13.6	+ 1.7	+ 11.8	+ 11.0	174	3 966	26.7
Imports of semi-finished and finished industrial goods								
Total	+ 22.0	+ 18.8	+ 8.6	+ 31.0	+ 27.1	213	7 704	51.8
Intra-EEC	+ 24.2	+ 22.3	+ 8.1	+ 32.4	+ 30.8	234	4 480	30.2
From non-EEC countries	+ 19.4	+ 14.5	+ 9.2	+ 29.0	+ 22.2	188	3 215	21.6

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	141.7	143.7	145.0	147.8	144.9	149.4	150.0	142.5	137.4	131.7	132.1	133.5
	1970	148.9	153.6	149.0	148.6	145.5	146.4	152.3	149.5	152.6	152.6	157.9	150.6
	1971	147.5	151.5	144.6	137.8	140.5	140.3						
Unemployed (1 000)	1969	931.3	937.5	918.7	898.4	883.0	890.9	884.3	876.2	872.9	864.5	843.2	834.1
	1970	843.1	840.2	848.2	849.0	853.0	860.9	881.0	895.8	925.4	935.7	959.9	955.3
	1971	995.1	1 017.8	1 063.5	1 044.7	1 038.4	1 043.3						
Construction: permits for residential construction (1 000)	1969	31.5	21.3	19.0	21.4	21.8	22.8	21.8	22.6	25.8	25.3	24.5	24.4
	1970	23.4	22.3	22.1	25.3	25.0	24.8	24.9	21.6	23.3	24.5	24.1	33.4
	1971	21.0	21.0	22.3	27.7								
Private consumers' expenditure: department store turnover (1963 = 100)	1969	154.9	153.3	161.5	162.6	181.5	162.8	172.6	180.4	183.3	177.0	169.2	180.2
	1970	182.3	180.9	195.7	173.6	169.4	195.2	196.9	197.0	202.0	215.3	189.3	197.9
	1971	195.0	196.1	192.9	210.1	196.2							
Consumer prices (1963 = 100)	1969	119.9	120.1	120.6	121.1	121.4	211.8	123.1	122.9	123.1	123.4	124.1	124.6
	1970	125.1	126.1	126.6	127.2	127.7	128.0	128.2	128.4	129.2	129.3	130.8	131.3
	1971	131.8	132.3	132.8	133.2	134.0	134.1	134.5	134.7				
Visible imports (million u.a.)	1969	974.8	981.3	929.1	991.1	1 041.9	1 073.9	1 089.2	1 063.3	1 060.6	1 061.0	1 073.4	1 109.1
	1970	1 168.4	1 124.4	1 137.3	1 245.2	1 247.1	1 313.9	1 305.5	1 263.7	1 294.4	1 274.5	1 307.4	1 249.1
	1971	1 167.9	1 325.8	1 490.9	1 174.5	1 452.2	1 281.4						
Visible exports (million u.a.)	1969	927.0	952.3	937.8	1 024.5	1 000.3	1 007.9	1 067.3	957.1	994.7	897.0	1 006.6	908.5
	1970	1 066.0	967.2	1 004.0	1 118.5	1 057.0	1 155.4	1 129.5	1 149.1	1 134.2	1 179.4	1 133.9	1 132.0
	1971	1 097.0	1 219.5	1 173.2	1 196.1	1 250.5	1 155.4						
Balance of trade (million u.a.)	1969	- 47.8	- 29.0	+ 8.7	+ 33.4	- 41.6	- 66.0	- 21.9	- 106.2	- 65.9	- 164.0	- 66.8	- 200.6
	1970	- 102.4	- 157.2	- 133.3	- 126.7	- 190.1	- 153.5	- 176.0	- 114.6	- 160.2	- 95.1	- 173.5	- 117.1
	1971	- 70.9	- 106.3	- 317.7	+ 21.6	- 201.7	- 126.0						
Official gold and foreign exchange reserves (net million u.a.)	1969	4 727	4 636	4 493	4 571	4 366	4 514	4 582	4 636	4 547	4 566	4 668	4 696
	1970	4 457	3 943	3 947	3 923	4 368	4 233	4 130	4 226	4 411	4 776	4 903	5 271
	1971	5 652	5 836	5 994	6 167	6 091	5 993	6 016	6 461				
Money supply (Lit. '000 million)	1969	20 440	20 379	20 836	20 845	21 282	21 558	21 590	21 681	22 138	22 351	22 831	24 388
	1970	23 839	24 122	24 689	24 689	25 538	26 117	26 522	26 660	27 247	27 811	28 452	31 108
	1971	30 416	30 120	30 534	31 007	31 455	32 085	32 645					

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated). Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

Graph 1

Industrial production: excluding construction, food, beverages and tobacco; series adjusted for seasonal variations; three-month moving averages.

Graph 2

Labour market: number of registered unemployed; series prepared by the Ministero del Lavoro e della Previdenza Sociale and adjusted for seasonal variations by the Statistical Office of the European Communities; three-month moving averages.

Graph 3

Wages and consumer prices: source ISTAT. Agreed minimum wages in industry (excluding family allowances).

Graph 4

Bank lending: source Banca d'Italia. Short-term loans to business and private customers; position at end of month.

Graph 5

Exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 6

Imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 7

Balance of trade: difference in terms of value between exports and imports, seasonally adjusted.

Table 1

Source for 1969 and 1970: Relazione generale sulla situazione economica del Paese (1970).

GNP at market prices.

Industrial production : value added by industry at factor cost.

Total exports and imports : goods, services and factor income.

Gross income per employee : income from paid employment (not including social insurance contributions borne by the State).

Table 2

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of labour force (annual average); source ISTAT.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST) : food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unemployed: series provided by the Ministero del Lavoro e della Previdenza Sociale, adjusted for seasonal variations by the Statistical Office of the European Communities.

Construction: dwellings authorized in the provincial capitals and in other communes of 20 000 or more inhabitants; figures adjusted for seasonal variations.

Private consumers' expenditure: value index of department store turnovers, adjusted for seasonal variations.

Consumer prices: unadjusted index.

Imports cif, exports fob, adjusted for seasonal variations.

Balance of trade; difference between values of exports and imports, seasonally adjusted.

Official gold and foreign exchange reserves (net); source Ufficio Italiano dei Cambi; position at end of month.

Money supply: notes and coin in circulation excluding cash holdings of the credit institutions other than the post office giro, deposits of residents with the banks (at less than one months' call), special assets of the Treasury and non-residents' holdings in the post office giro; position at end of month.

D. Netherlands

1. Developments in the summer

Since the beginning of the summer the conditions determining equilibrium appear to have been deteriorating again. With the temporary wage freeze lifted, substantial wage increases were granted under new collective agreements. The expansion of spending by households therefore gathered speed.

The upward tendency of exports, on the other hand, slackened further, mainly because demand from the other member countries lost in vigour. The trend of fixed investment, which until the spring had benefited from unusually good weather that permitted a vigorous expansion of expenditure on building, was also increasingly affected by the declining propensity of entrepreneurs to invest.

While until the spring a certain shortage of factors of production and the high level of stocks of finished products in certain sectors had been having an inhibiting effect on the growth of domestic supply, this effect has virtually disappeared in the past few months. In May and June, industrial production rose at an annual rate of about 7%. The rationalization efforts made by enterprises to neutralize the rise in production costs have nevertheless supported the tendency, apparent since the end of 1970, for the pressures on the labour market to ease. The unemployment rate (number of unemployed as a percentage of the labour force, adjusted for seasonal and fortuitous variations) was 1.5% in July, compared with 1.2% a year earlier.

Although imports climbed further and in the spring exceeded, on an adjusted basis, the exceptionally high level of late 1970, domestic prices continued their very pronounced rise. In July, the consumer price index was 7.6% higher than a year earlier. The pressure of excess demand led to further deficits on current account. The inflow of capital from abroad has slackened since the guilder was allowed to float. The official net gold and foreign exchange reserves of the Central Bank, which from the beginning of the year to May had gone up by Fl. 1 074 million, have since that time been declining again.

The easing of pressures that had set in on the money and capital markets did not continue until August, to judge by the rise in interest rates subsequent to the floating of the guilder. This was largely the result of the measures that had been taken to stem the inflow of short-term funds and of the open-market operations which the Central Bank has resumed for the first time since 1964.

2. Outlook up to the end of 1971

Implementation of the new restrictive measures contemplated by the Government formed after the April elections should have hardly any appreciable impact on the outlook for the Dutch economy until the end of the year.

The export outlook is heavily influenced by the uncertainty in international monetary relations, the effects of the protectionist measures of the United States and the fresh rise in wage costs. Exports will probably rise only slightly, despite the gradual revival of world business activity and the likely expansion of available production capacities.

The recent trend of major components of domestic demand may continue. While the expansion of gross fixed asset formation will slow down further owing to the effect on corporate spending of shrinking profits, consumer demand is likely to go on rising vigorously, particularly since in the second half of the year disposable incomes from paid employment are expected to increase more rapidly.

In the circumstances, the growth of production as a whole is unlikely to slow down to any significant extent, though this does not exclude a slackening of expansion in certain sectors, particularly capital goods. On the labour market, which is very sensitive to any deterioration in the investment climate, pressures may ease further.

The conditions determining equilibrium will probably remain precarious. Forced up by the heavy pressure of costs domestic prices will continue to rise at a lively pace in the next few months. The main fear is that following the

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ¹		1971 ²	
	At current prices (in Fl. '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	42.16	+ 15.7	+ 17.8	+ 13.7	+ 18.8	+ 8½	+ 12
Gross fixed asset formation	24.08	+ 0.5	+ 7.2	+ 7.2	+ 15.3	+ 7	+ 14
Public current expenditure on goods and services	14.41	+ 2.2	+ 1.5	+ 5.5	+ 13.2	+ 3	+ 14
Private consumers' expenditure	51.99	+ 4.3	+ 10.7	+ 7.4	+ 11.5	+ 5	+ 11
Gross national product	91.68	+ 5.7	+ 11.7	+ 5.6	+ 10.5	+ 4½	+ 11
Imports ³	41.59	+ 14.7	+ 18.5	+ 15.0	+ 22.5	+ 7½	+ 12

¹ Centraal Bureau voor de Statistiek.

² Forecasts.

³ Goods, services and factor income.

⁴ At 1963 prices.

⁵ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

removal of wage and price controls at the end of July, the movement of consumer prices may remain distinctly upward. The current account, in part influenced by further purchases of aircraft, will probably continue in deficit until the end of the year, even if there were an improvement in the terms of trade.

Major economic policy measures

June

(1) *Non-residents forbidden by the Nederlandsche Bank to switch from balances on convertible guilder accounts into treasury bonds or bank acceptances denominated in Dutch currency.*

(2) *The statutory annual leave for wage and salary earners was extended by one week.*

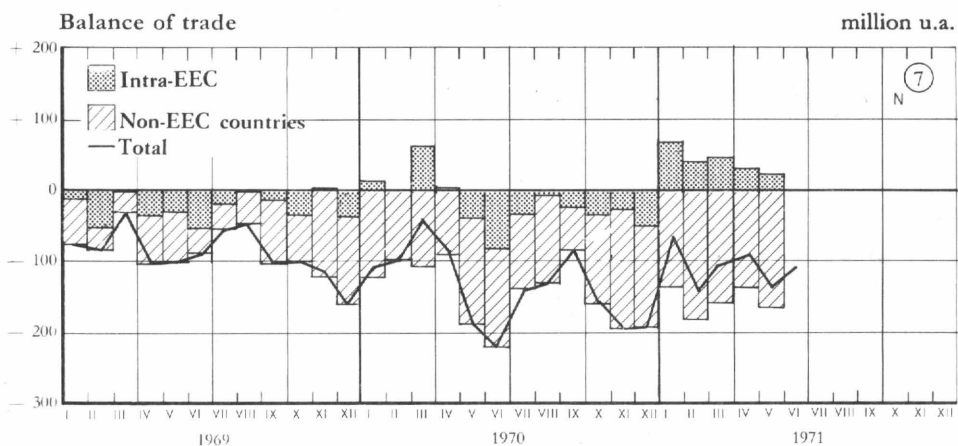
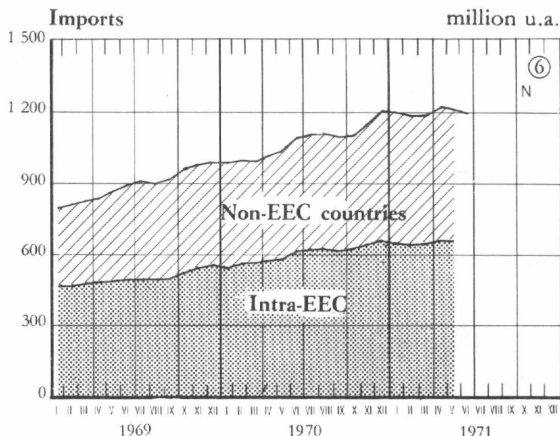
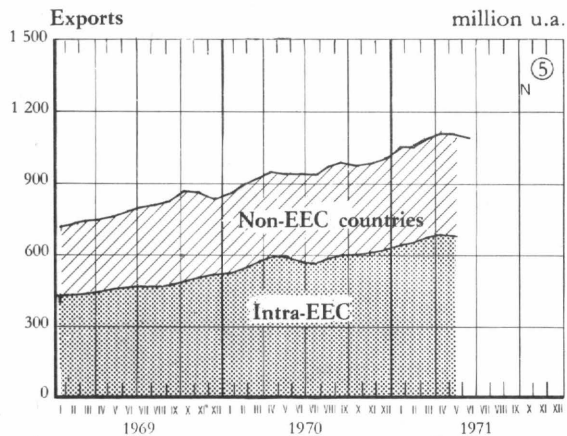
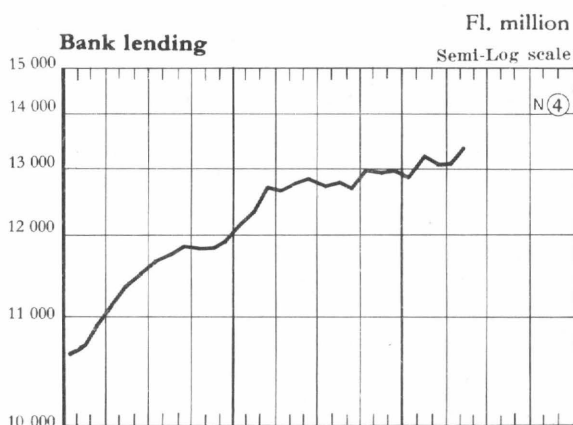
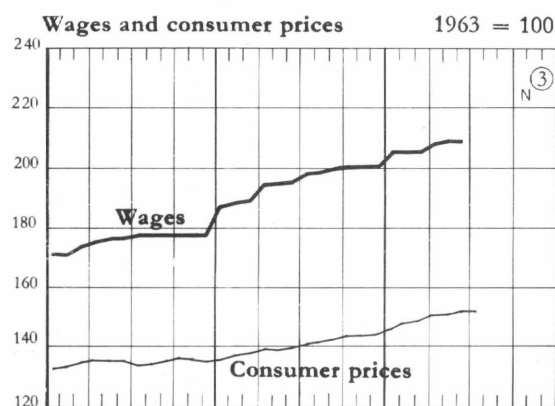
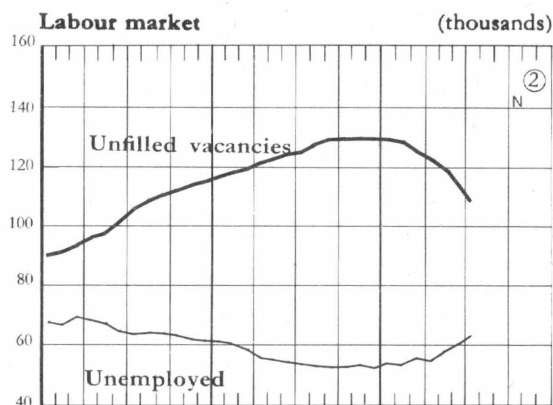
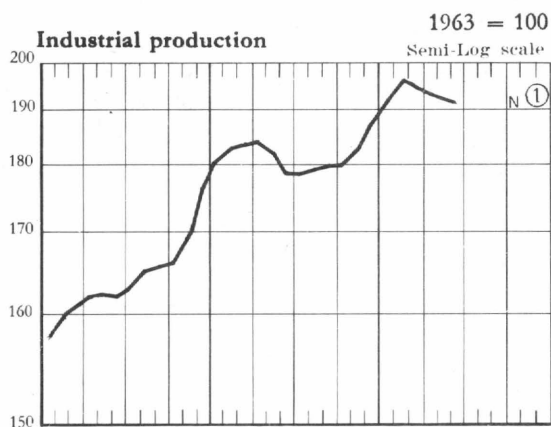
(3) *Postal and telephone charges were increased.*

July

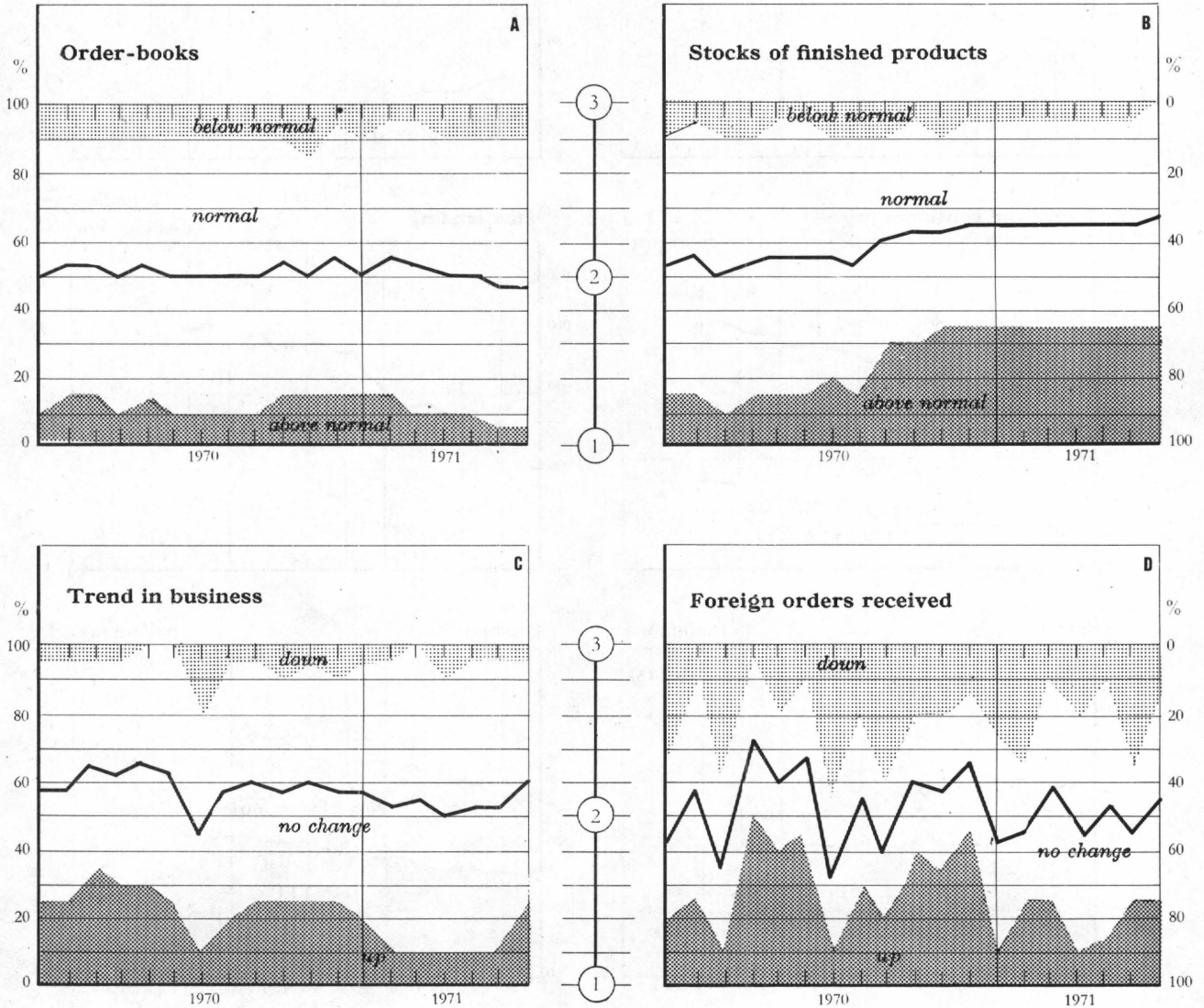
(1) *The law on the Property Formation Fund (Wet bezitsvormingsfonds) entered into force. This Fund may, for example, grant social loans, free of charge, of up to Fl. 2 400 to finance the purchase or construction of a dwelling.*

(2) *The statutory minimum wage was raised by 6%.*

(3) *Rents for the more expensive types of single family house were exempted from the rent freeze.*



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Source : Business survey of the Centraal Bureau voor de Statistiek.

Note : The survey includes construction but not paper, petroleum, non-metallic minerals.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

(4) *The Central Government and the provincial and local authorities suspended the recruitment of new staff .*

August

(1) *The new Government formed after the elections held at the end of April submitted its economic policy programme to the Parliament. While reaffirming its intention to come to grips with the inflationary tendencies, particularly by curbing the rise in public spending and passing on to the beneficiaries the cost of certain government services, the new Government proposed to pursue a concerted price and wage policy by means of general measures. In particular the intention is to promote residential construction and better regional distribution of productive investment.*

(2) *The period of compulsory school attendance was extended from eight to nine years.*

(3) *With effect from 26 August the Nederlandsche Bank lowered the discount rate for promissory notes and the interest rate for current account advances and loans against securities from 6.5% to 6%. The discount rate for promissory notes serves as a basis for the fixing of the banks' debtor interest rates.*

(4) *Social insurance pensions and grants were exempted from taxation in 1971.*

(5) *To improve industrial relations, the Government lifted the price control measures adopted on 3 November 1970 and extended on 9 March 1971. The measures taken on 9 December 1970 to restrain wage increases ("loonpauze") were also abolished.*

(6) *The system of premiums for investments made by enterprises in certain provinces of the country was abolished, while the incentives for industry to set up in the development areas in the north of the country were strengthened.*

(7) *The gold and foreign exchange markets were closed from 16 to 22 August. They were reopened on 23 August, after the Benelux countries had concluded an agreement linking the Belgian and Luxembourg francs and the guilder on the basis of the parity relationship obtaining on 9 May. The fluctuation in the exchange rates of the francs and the guilder was limited to 1.5% on either side, while the mar-*

gins of fluctuation against the other currencies were suspended.

September

(1) *Old-age pensions were raised by about 6% with retroactive effect from 1 August. A similar increase was made in family allowances and invalidity pensions, backdated to 1 July.*

(2) *To stem the inflow of capital from abroad, the monetary authorities instituted a "closed circuit" for the purchase by non-residents of debentures denominated in guilders. Under this rule, such purchases can only be made with guilders accruing through the sale by non-residents of other debentures denominated in guilders.*

(3) *The measures to restrain short-term lending by the commercial and agricultural banks and the post office to the private sector were extended for the months of September and October. The growth rate of the volume of credit permitted in the closing quarter of 1970. This is the same as the guide figure applying in the same months of the previous year.*

(4) *With a view to forestalling an unduly heavy inflow of capital from abroad and supporting the effectiveness of the credit controls, the Nederlandsche Bank lowered the discount rate on 15 September from 5.5 to 5%.*

(5) *On the opening of the ordinary session of the Netherlands Parliament the authorities stressed the need to return as rapidly as possible to lasting economic equilibrium. The budget estimates for 1972 constitute an effort in this direction even though they provide for a rise in expenditure (15.3%) that considerably exceeds the expected growth of the gross national product in terms of money (10.7%). Despite new tax increases, particularly the rise from 3% to 5% of the counter-cyclical surcharge, the budget deficit is likely to grow from Fl. 2 100 million in 1971 to Fl. 2 300 million in 1972. A comparison of the figures planned for 1972 with those likely to be achieved for 1971 shows that in 1972 expenditure should rise by 8.3% and revenue by 12.7%, while the budget deficit should fall from Fl. 3 400 million in 1971 to Fl. 2 300 million in 1972. The authorities expect that, unlike in 1971, the 1972 deficit will be financed exclusively through borrowing on the capital market.*

Netherlands

TABLE 1 : Key indicators

	1965	1966	1967	1968	1970	1970
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 2.6	+ 5.8	+ 6.6	+ 5.7	+ 5.6	148
Industrial production	+ 5.9	+ 5.7	+ 10.6	+ 8.2	+ 7.4	170
Total imports	+ 7.3	+ 6.7	+ 13.5	+ 14.7	+ 15.0	210
Private consumers' expenditure	+ 3.4	+ 5.2	+ 6.9	+ 4.3	+ 7.4	148
Public current expenditure on goods and services	+ 1.6	+ 2.8	+ 2.3	+ 2.2	+ 5.5	119
Gross fixed asset formation	+ 8.5	+ 8.1	+ 11.0	+ 0.5	+ 7.2	174
Total exports	+ 5.2	+ 7.8	+ 12.5	+ 15.7	+ 13.7	201
Gross national product per head of population	+ 1.2	+ 4.6	+ 5.5	+ 4.5	+ 4.3	136
Gross national product per person in employment	+ 1.8	+ 6.1	+ 5.7	+ 4.3	+ 4.3	139
	% change by value on preceding year					
Gross income per employee	+ 11.1	+ 9.2	+ 8.7	+ 11.1	+ 11.4	212

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	- 135	+ 23	+ 158	+ 102	- 38
as percentage of GNP	- 0.6	+ 0.1	+ 0.6	+ 0.4	- 1.2
Unemployment rate	1.0	2.0	1.9	1.5	1.2
prices to private consumers (% change on preceding year)	+ 5.4	+ 3.4	+ 2.3	+ 6.1	+ 3.8

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 5.6	+ 7.9	+ 14.5	+ 19.6	+ 18.3	238	11 789	100
Intra-EEC	+ 5.3	+ 6.7	+ 19.7	+ 25.1	+ 22.0	276	7 312	62.0
To non-EEC countries	+ 6.0	+ 9.4	+ 8.2	+ 12.1	+ 12.7	193	4 478	38.0
Exports of food, beverages and tobacco								
Total	+ 0.3	+ 9.9	+ 15.9	+ 15.4	+ 18.5	216	2 738	23.2
Intra-EEC	- 0.2	+ 9.6	+ 22.1	+ 19.6	+ 22.8	204	1 902	16.1
To non-EEC countries	+ 1.0	+ 10.5	+ 6.1	+ 7.8	+ 9.8	153	836	7.1
Exports of raw materials, fuel and power								
Total	- 0.4	+ 10.1	+ 12.8	+ 20.0	+ 31.8	232	2 164	18.4
Intra-EEC	- 0.7	+ 10.7	+ 22.5	+ 26.0	+ 34.8	265	1 353	11.5
To non-EEC countries	- 0.1	+ 9.5	+ 1.7	+ 11.7	+ 27.2	192	811	6.9
Exports of semi-finished and finished industrial goods								
Total	+ 9.7	+ 6.6	+ 14.4	+ 21.1	+ 14.5	254	6 887	58.4
Intra-EEC	+ 9.8	+ 4.5	+ 17.8	+ 27.5	+ 17.9	291	4 057	34.4
To non-EEC countries	+ 9.6	+ 9.0	+ 10.6	+ 13.4	+ 10.0	215	2 831	24.0
Visible imports								
Total	+ 7.5	+ 4.0	+ 11.5	+ 17.3	+ 23.0	224	13 395	100
Intra-EEC	+ 8.7	+ 5.0	+ 13.2	+ 19.2	+ 22.1	243	7 484	55.9
From non-EEC countries	+ 6.0	+ 2.9	+ 9.5	+ 15.0	+ 24.1	205	5 911	44.1
Imports of food, beverages and tobacco								
Total	+ 3.9	+ 11.3	+ 9.7	+ 19.0	+ 13.5	205	1 686	12.6
Intra-EEC	+ 8.8	+ 22.7	+ 28.1	+ 49.4	+ 5.1	405	607	4.5
From non-EEC countries	+ 2.5	+ 7.6	+ 3.2	+ 5.4	+ 18.8	161	1 079	8.1
Imports of raw materials, fuel and power								
Total	+ 0.9	+ 5.2	+ 8.6	+ 13.8	+ 24.3	194	2 747	20.5
Intra-EEC	+ 7.7	+ 9.9	+ 4.8	+ 3.0	+ 7.1	155	475	3.5
From non-EEC countries	- 0.9	+ 3.9	+ 9.7	+ 16.9	+ 28.7	205	2 272	17.0
Imports of semi-finished and finished industrial goods								
Total	+ 10.5	+ 2.2	+ 12.8	+ 18.1	+ 24.5	248	8 962	66.9
Intra-EEC	+ 8.8	+ 3.3	+ 12.9	+ 18.1	+ 25.3	252	6 402	47.8
From non-EEC countries	+ 14.7	- 0.3	+ 12.6	+ 18.1	+ 22.5	239	2 560	19.1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	155.9	158.5	159.8	159.0	161.3	163.9	167.1	165.0	166.8	169.0	175.5	177.7
	1970	179.9	182.1	183.2	180.4	176.9	176.9	184.7	178.9	180.1	185.7	186.1	183.8
	1971	197.8	196.8	194.9	193.2	189.8	191.8						
Unemployed (1 000)	1969	67.1	67.4	70.0	67.7	66.0	65.1	66.2	66.3	64.4	63.1	62.2	65.4
	1970	60.3	56.7	56.7	55.3	56.7	56.1	53.4	53.8	55.1	55.3	54.7	54.1
	1971	57.9	53.3	58.1	57.4	60.8	64.4	65.5	63.1				
Construction: permits for residential construction (1 000)	1969	9 371	11 105	11 384	11 543	11 211	9 373	9 347	13 402	9 680	9 330	10 339	12 187
	1970	10 030	9 728	11 386	10 730	10 668	11 735	15 533	12 208	12 762	12 058	9 720	9 611
	1971	12 396	8 949	10 586	13 578	10 806	10 809						
Private consumers' expenditure: department store turnover (1963 = 100)	1969	170	186	194	195	209	196	197	210	202	171	211	229
	1970	208	208	214	213	225	216	227	221	228	210	216	254
	1971	217	229	225	235	232							
Consumer prices (1963 = 100)	1969	132.3	133.4	134.4	135.6	135.4	135.4	134.2	134.9	135.8	136.4	136.2	136.1
	1970	136.6	137.9	139.3	139.9	139.8	140.5	140.9	142.3	143.8	143.8	143.8	143.9
	1971	145.3	147.4	148.5	150.4	150.8	151.3	151.6	153.0				
Visible imports (million u.a.)	1969	815	846	833	881	914	885	923	908	974	1 014	964	1 029
	1970	1 001	1 049	995	1 079	1 115	1 053	1 135	1 105	1 117	1 133	1 262	1 255
	1971	1 103	1 220	1 278	1 201	1 170	1 235						
Visible exports (million u.a.)	1969	744	768	796	779	814	825	864	850	875	913	848	873
	1970	899	952	945	993	928	968	991	971	1 035	977	1 069	1 064
	1971	1 044	1 082	1 165	1 107	1 041	1 139						
Balance of trade (million u.a.)	1969	- 71	- 78	- 37	- 102	- 100	- 60	- 59	- 58	- 99	- 101	- 116	- 156
	1970	- 102	- 97	- 50	- 86	- 187	- 85	- 144	- 134	- 82	- 156	- 193	- 191
	1971	- 59	- 138	- 113	- 94	- 129	- 96						
Official gold and foreign exchange reserves (million u.a.)	1969	1 892	1 937	1 954	1 981	2 046	1 965	2 031	1 999	2 005	2 502	2 235	2 090
	1970	2 216	2 096	2 108	2 046	2 018	2 038	2 181	2 267	2 359	2 622	2 593	2 552
	1971	2 359	2 552	2 685	2 594	2 592	2 499	2 412	2 285				
Money supply (million u.a.)	1969	6 055	6 071	6 052	6 071	6 177	6 201	6 194	6 236	6 235	6 436	6 410	6 472
	1970	6 506	6 523	6 649	6 699	6 819	6 774	6 925	6 973	7 058	7 120	7 200	7 215
	1971	7 485	7 539	7 690	7 898	8 206	7 974						

Netherlands

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

Graph 1

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 2

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

Graph 3

Wages and consumer prices: indices of gross hourly earnings in industry (excluding mining, quarrying and construction); index of agreed wages. Cost-of-living index, source: CBS.

Graph 4

Bank lending: short-term bank loans, not adjusted for seasonal variations; position at end of month.

Graph 5

Exports fob. Series adjusted for seasonal variations; three-month moving averages.

Graph 6

Imports cif. Series adjusted for seasonal variations; three-month moving averages.

Graph 7

Balance of trade: difference in terms of value between imports and exports, seasonally adjusted.

Table 1

GNP at market prices.

Industrial production: value added by industry.

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment, including employers' share of social insurance contributions.

Table 2

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of the civilian labour force in employment. Source: CBS.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco.

Unemployed: end-of-month figures, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

Consumer prices: cost of living index, not adjusted for seasonal variations.

Imports cif, exports fob; values, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange in the Nederlandsche Bank at end of month.

Money supply: notes and coin in circulation excluding cash holdings of monetary institutions, plus sight deposits with banks; position at end of month, adjusted for seasonal variations.

E. Belgo-Luxembourg Economic Union

Belgium

1. Developments in the summer

After gathering speed at the beginning of 1971, economic growth has slowed down again in the past few months, mainly because the expansion of export demand has been slackening.

The trend of domestic demand remained distinctly upward. While corporate investment reflected a certain measure of caution on the part of entrepreneurs and investment in industrial building slackened more and more, consumption by households, which had been very sluggish immediately after the introduction of the value added tax, appears to have been expanding faster, for disposable incomes continued to grow very rapidly. In April hourly wages in industry were 12.4% higher than in the same month of 1970.

In the past few months the growth of domestic supply has slowed down, especially in the basic materials industries. In April the INS index of industrial production was 8% up on the level of a year earlier. The total number of hours worked rose less sharply than hitherto. The number of unemployed ceased to decline around the middle of the year; in July 1971 it represented, adjusted for seasonal variations, about 1.8% of the working population.

Imports, particularly of finished goods, continued to grow fairly rapidly.

The measures which the authorities have taken to prevent an unduly sharp upsurge of prices after the introduction of value added tax still help to keep the rise in the cost-of-living index down to a relatively slow pace: in August 1971 the index was 4.3% higher than a year earlier. The rise in the overall level of domestic prices, however, was no doubt sharper than is suggested by the movement of the cost-of-living index.

The unmistakable tendency for the trade balance (on the basis of foreign trade statistics) to deteriorate has not in recent months been accompanied by a similar trend on current account, which in the second quarter closed with

a surplus of Bfrs. 12 100 million. The monetary events in the neighbouring countries brought about in May an appreciably faster rise in the gold and foreign exchange reserves of the monetary authorities. The situation returned to normal again, however, after the authorities had taken measures to curb the inflow of foreign capital.

This development, coupled with the continued vigour of public sector demand for capital, led to a temporary interruption, until August, of the easing of pressures recorded on the money and capital markets up to April.

2. Outlook up to the end of 1971

General economic activity is likely to continue at a high level until the end of 1971, even though the expansion of overall demand may slacken further. The expected upswing of world business activity will have a comparatively small impact on Belgian exports to non-member countries, mainly because of the poor outlook for exports to the United States owing to the protectionist measures taken by the US Administration. In addition, the slight slowdown that is likely in the expansion of intra-Community trade will presumably also affect exports from the Belgo-Luxembourg Economic Union.

Given the recent trend of order books, particularly in industry, the growth of production will be rather modest. The pressures on the labour market may therefore ease.

Domestic prices will continue to rise fairly sharply, despite a considerable growth still of imports and greater elasticity of domestic supply. In particular the persistent rise in production costs may be reflected more distinctly in the cost-of-living index.

These tendencies for exports and imports suggest that the surpluses on current account will diminish.

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ²		1971 ³	
	At current prices (in Bfrs '000 million)	% change on preceding year					
		Volume ⁵	Value	Volume ⁵	Value	Volume ⁶	Value
Exports ⁴	422.0	+ 15.6	+ 21.1	+ 11	+ 15½	+ 9	+ 9
Gross fixed asset formation	218.2	+ 7.1	+ 11.4	+ 10	+ 16	+ 5	+ 11½
Public current expenditure on goods and services	144.0	+ 7.5	+ 12.2	+ 5	+ 10	+ 4½	+ 12
Private consumers' expenditure	660.7	+ 5.5	+ 7.7	+ 5½	+ 9	+ 4	+ 10
Gross national product	1 036.9	+ 6.5	+ 10.3	+ 5½	+ 10	+ 4	+ 9½
Imports ⁴	418.8	+ 15.8	+ 19.8	+ 10½	+ 15	+ 8½	+ 11

¹ Institut national de Statistique (INS).

² Estimates.

³ Forecasts.

⁴ Goods, services and factor income.

⁵ At 1963 prices.

⁶ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

Major economic policy measures

June

Maximum prices were fixed for domestic electrical appliances.

July

(1) Telephone charges were raised by about 9%.

(2) Pensions were raised by 5%.

(3) Under the social programme, every person employed in public administration was paid a non-recurrent supplement of at least Bfrs. 7 500.

(4) The statute of the industrial promotion office (*Office de promotion industrielle*) and the rules according to which it is to operate were published.

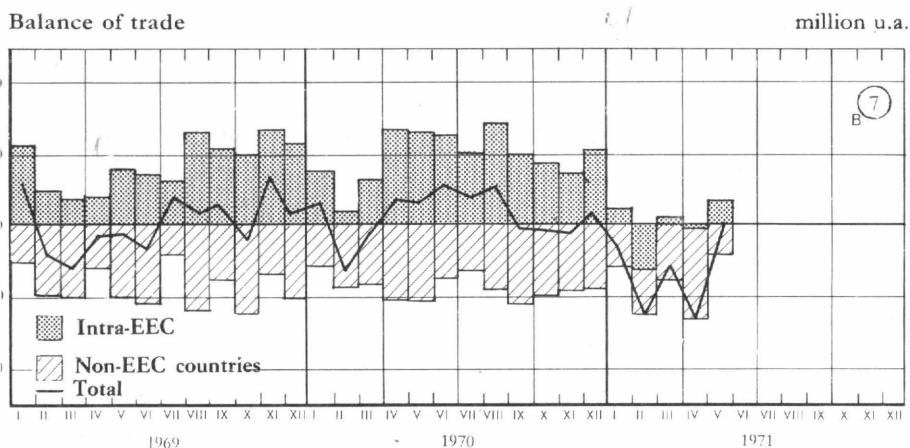
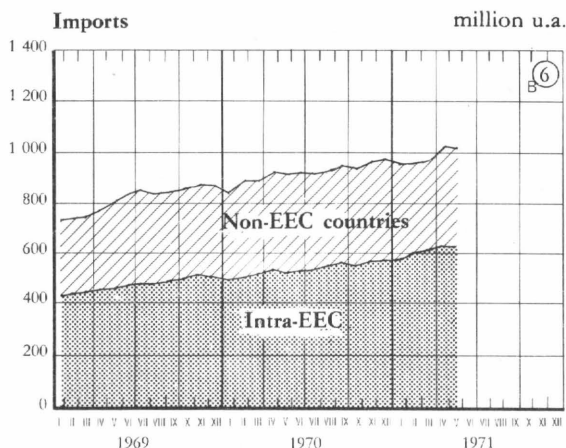
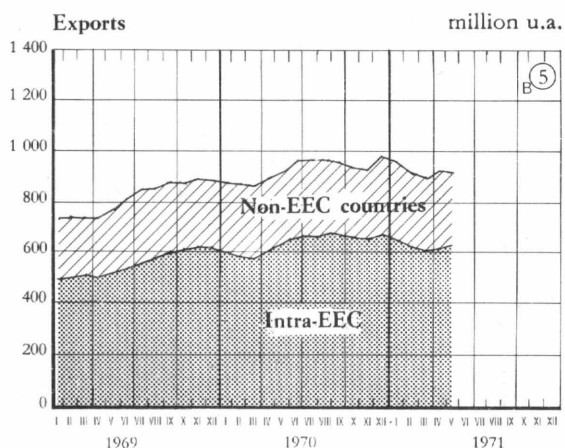
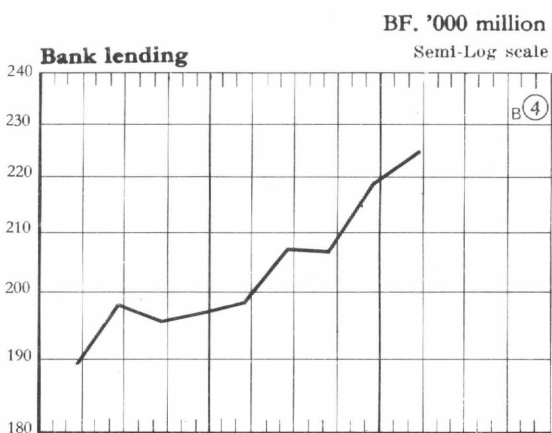
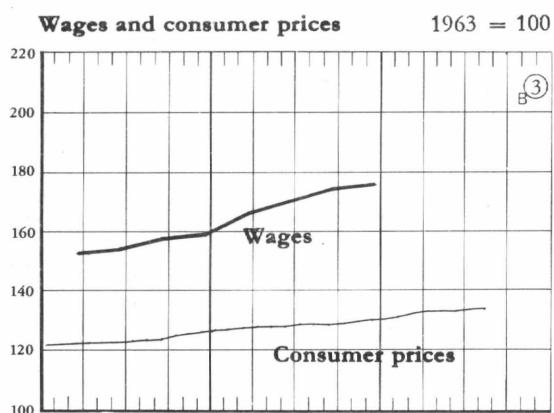
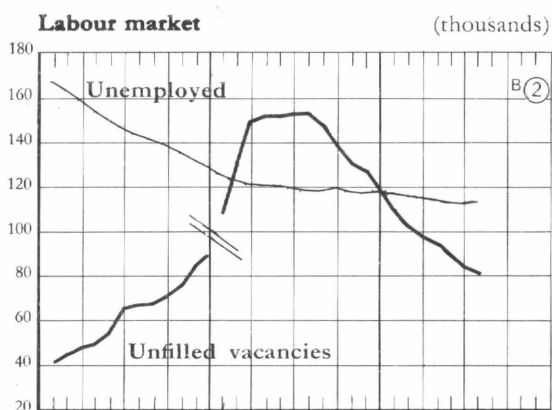
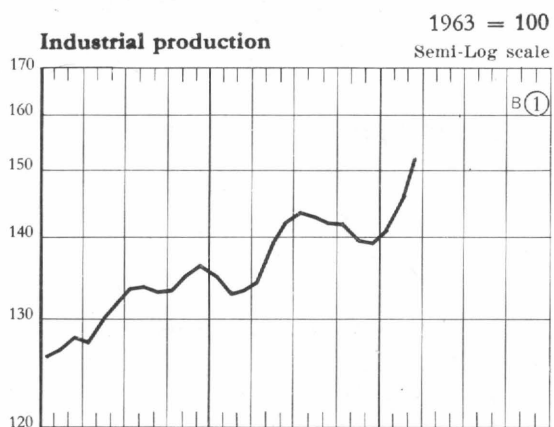
(5) The bill on the medium-term economic programme ("Main lines of the plan for 1971-75") was tabled.

August

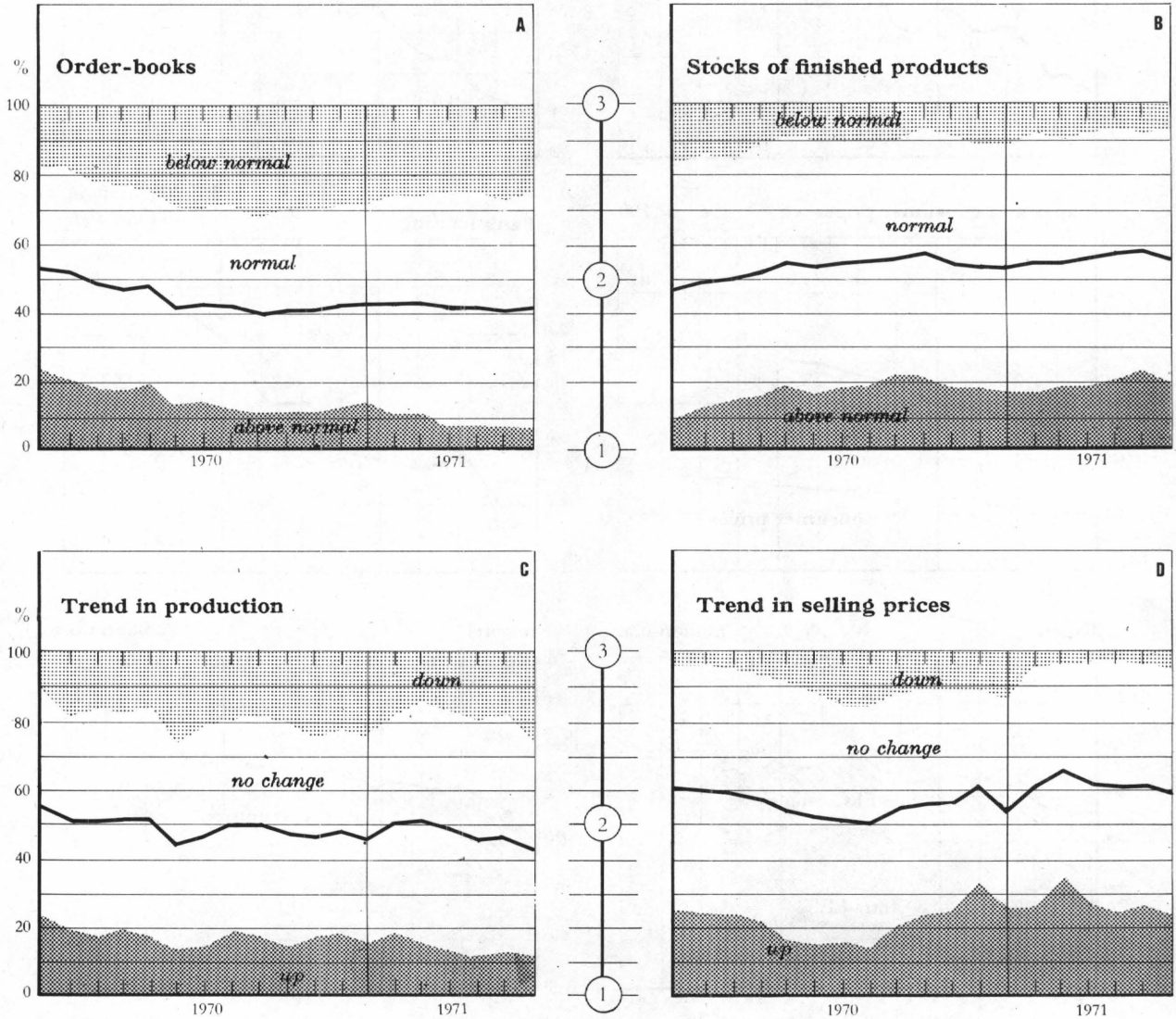
(1) The gold and foreign exchange markets were closed from 16 to 22 August. They reopened on 23 August and began operating in conformity with an agreement between the

ECONOMIC INDICATORS

Belgium



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Belgium by the National Bank.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

Benelux countries under which the Belgian and Luxembourg francs and the guilder were linked to each other by a rate of exchange corresponding to their parity relationship. The margin of fluctuation between these currencies was reduced to what it was before 9 May, namely 1.5% on either side. The two central banks granted each other credit lines. The margins of fluctuation of the exchange rates against other currencies were suspended until further notice, but the monetary authorities reserved the right to intervene to limit exchange rate fluctuations, particularly with a view to preserving the competitive position of the two countries' economies. The two-tier foreign exchange market was maintained in the Belgo-Luxembourg Union.

(2) All products coming under the rules of the common market in agriculture and a number of industrial products that incorporate these agricultural products were made subject to a licensing arrangement so as to enable the system of compensatory amounts fixed at Community level to be applied to imports from and exports to countries other than Benelux countries.

(3) Publication of a law modifying the system linking salaries, wages and social transfer payments in public administration to the consumer price index.

(4) The powers of control of the Belgo-Luxembourg Exchange Office were strengthened.

(5) Publication of a law giving the Minister of Economics additional price control powers and enabling him in particular to prescribe maximum

prices and accounting rules and, in case of infringement, to order the temporary closure of an establishment.

(6) Income tax rates were adjusted to ease the impact of the progressive tax scale on rising money incomes.

September

(1) Increases in railway rates, averaging 5.4%, entered into force on 1 September. Reduced rates ("Social" rates) were raised and the rates for the refund of transport costs by employers were accordingly adjusted.

(2) A selective reduction was made in the export tax with effect from 1 October. This is expected to entail a loss of tax revenue of about Bfrs. 400 million.

(3) The Central Bank withdrew its recommendations of 24 March and 3 June by which it had invited the commercial banks to limit their net foreign exchange positions and to cease paying interest on deposits that exceed the amounts authorized.

(4) With effect from 30 September 1971 the Banque Nationale removed the ceiling applied since May 1969 to lending to the private sector. In the preceding months the volume of actual lending had already been a good deal below the permitted ceiling. In addition, the discount rate was cut from 6% to 5.5% with effect from 23 September, given the abundance of short-term funds on offer.

Belgium

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 2.9	+ 4.0	+ 3.5	+ 6.7	+ 6.1	139
Industrial production	+ 4.9	+ 2.2	+ 4.0	+ 9.2	+ 5.7	146
Total imports	+ 8.2	+ 3.4	+ 13.3	+ 15.9	+ 9.8	190
Private consumers' expenditure	+ 3.3	+ 2.8	+ 5.7	+ 5.9	+ 3.9	133
Public current expenditure on goods and services	+ 3.9	+ 5.9	+ 4.6	+ 6.5	+ 4.5	141
Gross fixed asset formation	+ 6.4	+ 2.6	- 2.4	+ 5.6	+ 6.9	141
Total exports	+ 4.0	+ 6.7	+ 11.6	+ 15.9	+ 14.1	196
Gross national product per head of population	+ 2.2	+ 3.4	+ 3.1	+ 6.4	+ 5.7	134
Gross national product per person in employment	+ 2.5	+ 4.5	+ 3.6	+ 5.0	+ 5.5	134
	% change by value on preceding year					
Gross income per employee	+ 8.9	+ 7.1	+ 6.4	+ 8.4	(+ 11.3)	(179)

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	- 48	+ 176	+ 58	+ 182	+ 784
as percentage of GNP	- 0.3	+ 0.9	+ 0.3	+ 0.8	+ 3.1
Unemployment rate	1.7	2.3	2.8	2.3	1.9
prices to private consumers (% change on preceding year)	+ 4.1	+ 2.5	+ 2.3	+ 2.6	+ 2.8

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 5.2	+ 3.0	+ 16.0	+ 23.3	+ 15.2	240	11 591	100
Intra-EEC	+ 6.1	+ 3.2	+ 18.5	+ 29.5	+ 16.9	270	7 946	68.6
To non-EEC countries	+ 3.9	+ 2.5	+ 11.7	+ 12.1	+ 11.6	192	3 645	31.4
Exports of food, beverages and tobacco								
Total	+ 8.4	+ 18.8	+ 15.5	+ 21.8	+ 19.6	294	932	8.0
Intra-EEC	+ 5.4	+ 25.7	+ 24.6	+ 27.1	+ 16.9	338	778	6.7
To non-EEC countries	+ 17.1	+ 1.3	- 13.4	- 1.8	+ 35.3	175	154	1.3
Exports of raw materials, fuel and power								
Total	+ 0.5	- 2.4	+ 13.4	+ 21.4	+ 0.1	143	841	7.3
Intra-EEC	+ 1.5	- 3.6	+ 10.8	+ 21.3	+ 4.6	146	524	4.5
To non-EEC countries	- 1.0	- 0.5	+ 17.4	+ 21.7	- 6.4	137	317	2.7
Exports of semi-finished and finished industrial goods								
Total	+ 7.7	+ 2.3	+ 16.4	+ 23.6	+ 15.9	257	9 818	84.7
Intra-EEC	+ 9.8	+ 1.9	+ 18.7	+ 30.3	+ 17.4	289	6 644	57.3
To non-EEC countries	+ 4.2	+ 2.9	+ 12.8	+ 11.8	+ 12.6	209	3 174	27.4
Visible imports								
Total	+ 12.6	0	+ 16.1	+ 19.9	+ 13.6	222	11 347	100
Intra-EEC	+ 15.4	- 0.6	+ 14.8	+ 25.3	+ 16.4	249	6 877	58.8
From non-EEC countries	+ 9.1	+ 0.6	+ 17.8	+ 13.3	+ 9.8	192	4 670	41.2
Imports of food, beverages and tobacco								
Total	+ 8.1	+ 10.0	+ 2.8	+ 14.9	+ 17.1	221	1 357	12.0
Intra-EEC	+ 10.6	+ 11.8	+ 24.0	+ 23.3	+ 20.4	324	772	6.8
From non-EEC countries	+ 6.4	+ 8.6	- 13.1	+ 5.8	+ 13.1	156	585	5.2
Imports of raw materials, fuel and power								
Total	+ 1.1	- 2.1	+ 22.8	+ 11.3	+ 11.7	175	2 450	21.6
Intra-EEC	+ 5.2	- 5.5	+ 17.6	+ 15.3	+ 12.0	176	876	7.7
From non-EEC countries	- 1.3	- 0.2	+ 25.7	+ 9.1	+ 11.5	174	1 574	13.9
Imports of semi-finished and finished industrial goods								
Total	+ 18.3	- 1.1	+ 16.7	+ 24.2	+ 13.6	245	7 540	66.4
Intra-EEC	+ 18.4	- 1.1	+ 13.0	+ 28.0	+ 16.8	260	5 029	44.3
From non-EEC countries	+ 18.1	- 1.2	+ 23.6	+ 17.9	+ 7.9	219	2 511	22.1

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	129.3	128.4	130.5	129.8	133.8	132.6	133.2	134.2	130.8	133.5	139.6	132.5
	1970	131.0	135.3	137.0	129.6	138.5	131.1	136.4	139.3	139.2	144.2	137.5	135.7
	1971	143.0	156.0	147.8	147.9	140.1							
Unemployed (1 000)	1969	96.4	94.5	90.6	88.2	86.4	84.9	83.5	81.7	80.6	78.6	76.3	75.9
	1970	72.4	72.5	72.4	72.1	71.3	69.9	71.7	70.9	70.6	70.4	69.8	70.8
	1971	69.9	68.4	67.5	66.8	66.9	67.7	70.2	71.2				
Construction : permits for residential construction (1 000)	1969	3 365	3 296	3 542	3 870	3 784	4 072	4 195	3 741	4 012	3 462	3 637	3 465
	1970	3 397	3 125	2 620	3 346	2 497	2 507	2 655	2 876	2 963	2 776	2 899	3 121
	1971	3 351	2 170	2 040									
Private consumers' expenditure : department store turnover (1963 = 100)	1969	144	138	145	142	155	145	144	153	146	154	149	155
	1970	157	155	157	156	160	162	163	155	164	179	165	190
	1971												
Consumer prices (1963 = 100)	1969	121.44	121.96	122.62	122.95	123.32	123.65	124.10	124.28	124.64	125.14	125.70	126.20
	1970	126.73	127.12	127.85	128.33	128.35	128.40	129.07	129.34	129.30	129.53	129.91	130.12
	1971	130.81	131.83	132.39	133.07	133.40	133.68	134.50	135.01	135.96			
Visible imports (million u.a.)	1969	778	738	776	813	834	841	902	812	870	896	831	872
	1970	843	942	893	1 023	862	930	1 025	891	981	955	986	1 025
	1971	909	991	1 049	1 050	962	994	1 042					
Visible exports (million u.a.)	1969	843	700	737	754	829	840	866	855	910	880	911	879
	1970	881	883	892	1 004	905	1 009	999	999	986	938	982	1 036
	1971	886	878	1 006	862	972	1 081	992					
Balance of trade (million u.a.)	1969	+ 65	- 38	- 39	- 59	- 5	- 1	- 37	+ 43	+ 40	- 16	+ 80	+ 7
	1970	+ 37	- 59	- 1	- 20	+ 43	+ 79	- 26	+ 108	+ 4	- 16	- 4	+ 11
	1971	- 22	- 113	- 44	- 187	+ 10	+ 87	- 50					
Official gold and foreign exchange reserves (million u.a.)	1969	1 898	1 890	1 880	1 950	2 000	2 024	2 032	2 100	2 106	2 202	2 200	2 232
	1970	2 240	2 232	2 250	2 270	2 178	2 196	2 280	2 302	2 360	2 406	2 458	2 250
	1971	2 318	2 326	2 310	2 370	2 546	2 324	2 434					
Money supply (million u.a.)	1969	7 395	7 538	7 505	7 500	7 522	7 570	7 489	7 534	7 482	7 566	7 533	7 585
	1970	7 719	7 768	7 864	7 905	7 898	7 908	7 987	7 912	7 990	8 068	8 017	8 229
	1971	8 474	8 454	8 413	8 489	8 626	8 713	8 824					

Belgium

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

Graph 1

Industrial production: excluding construction, food, beverages and tobacco; series adjusted for seasonal variations; three-month moving averages.

Graph 2

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

Graph 3

Wages and consumer prices (not adjusted for seasonal variations): agreed wages for manual workers, all branches, source: Ministère du Travail et de l'Emploi; consumer prices, source: Ministère des Affaires Économiques.

Graph 4

Bank lending: advances by the banking system, not adjusted for seasonal variations; position at end of month.

Graph 5

BLEU exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 6

BLEU imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 7

BLEU balance of trade: difference between seasonally adjusted values of imports and exports.

Table 1

GNP at market prices.

Industrial production : value added by industry.

Total exports and imports : goods, services and factor income.

Gross income per employee : income from paid employment (including employer's share of social insurance contributions).

Table 2

Balance exports less imports : as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of the civilian labour force in employment.

Price index : price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

BLEU: Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unemployed: end-of-month figures, adjusted for seasonal variations.

Construction: seasonally adjusted number of residential buildings authorized.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

Consumer prices: not adjusted for seasonal variations.

BLEU: Imports cif, exports fob; figures adjusted for seasonal variations.

BLEU: Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange held by the monetary authorities; position at end of month.

Money supply: notes and coin in circulation, excluding cash holdings of the credit institutions other than the Post Office giro; residents' sight deposits (up to one month) with banking institutions; the special Treasury accounts and sums held by non-residents with the Post Office giro; position at end of month, adjusted for seasonal variations.

Luxembourg

1. Developments in the summer

The expansion of overall demand has continued in the past few months, even though the revival of export demand experienced since the beginning of the year has unmistakably lost some of its vigour. With deliveries of iron and steel products to the United States no longer running at the high level to which they had been sent by exceptional circumstances, exports have come under the dampening influence of the persistently sluggish trend of world demand for steel.

As regards the trend of domestic demand, investment activity has hardly slackened, mainly because the propensity to invest of industrial enterprises has proved comparatively strong and because demand in residential construction is beginning to pick up. Furthermore, public current expenditure on goods and services continued to expand rapidly. The slowdown in the rise of personal incomes had an inhibiting effect on the growth of private consumers' expenditure despite a reduction in direct taxation.

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ²		1971 ³	
	At current prices (in Lfrs '000 million)	% change on preceding year					
		Volume ⁵	Value	Volume ⁵	Value	Volume ⁵	Value
Exports ⁴	31 689	+ 13.0	+ 22.0	+ 1½	+ 13½	- 3½	- 5
Gross fixed asset formation	8 960	+ 16.0	+ 24.7	+ 17½	+ 30	+ 8	+ 15
Public current expenditure on goods and services	4 625	+ 2.1	+ 5.7	+ 1½	+ 12	+ 2½	+ 11
Private consumers' expenditure	23 146	+ 5.0	+ 7.4	+ 8	+ 13	+ 4½	+ 9
Gross national product	38 729	+ 7.0	+ 15.0	+ 3½	+ 12	+ 1	+ 3½
Imports ⁴	29 901	+ 13.0	+ 18.1	+ 8½	+ 21	+ 1	+ 3

¹ Service central de la statistique et des études économiques (STATEC), Luxembourg.

² Estimates.

³ Forecasts.

⁴ Goods, services and factor income.

⁵ At preceding year's prices.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

Consequently the tendency for domestic production to pick up has slackened distinctly. Industrial production in June was shown by the STATEC index still to be 0.5% down on the corresponding 1970 figure. Pressures on the labour market have slightly eased.

Prices continued to increase briskly. The rise in consumer prices, however, slackened somewhat during the second quarter; in August, the index was 4.6% higher than a year earlier.

2. Outlook up to the end of 1971

The period up to the beginning of 1972 is not very likely to see a basic change in the trend of export demand. Given the deterioration of the prospects for exports to the United States, visible exports will probably not rise above the level of the first half of the year. The improvement in the partner countries' demand for steel which the return to normal of stocks of steel products is expected to bring about is hardly likely to materialize before the end of the year.

Domestic demand in money terms may still expand considerably, mainly owing to persistent corporate demand for capital goods and to the incipient pick up of residential construction. Another point is that there will be further wage increases when some major collective agreements come up for renewal at the beginning of 1972. Moreover, disposable personal incomes will continue to rise more rapidly than gross incomes on account of the adjustment of income tax rates to the movement of the consumer price index.

All in all the underlying growth of supply in real terms will probably be very limited in the next few months, and the pressures on the labour market may ease further. Domestic prices will very likely climb less rapidly than

in the first half of the year, even though the monetary measures taken since May in a number of neighbouring countries may entail a rise in import prices.

Major economic policy measures

June

(1) *The guaranteed minimum wage was raised from Lfrs. 7 547 to Lfrs. 7 656 a month.*

(2) *The Caisse d'Epargne introduced measures to promote saving for building purposes.*

July

A savings scheme for building purposes was set up to promote the acquisition of property through the provision of premiums, grants and, where appropriate, a redemption guarantee from the State.

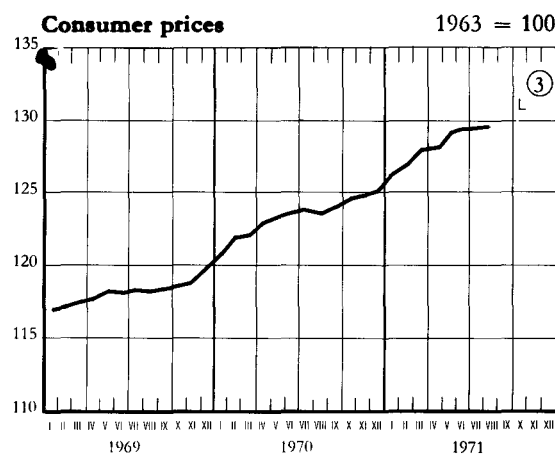
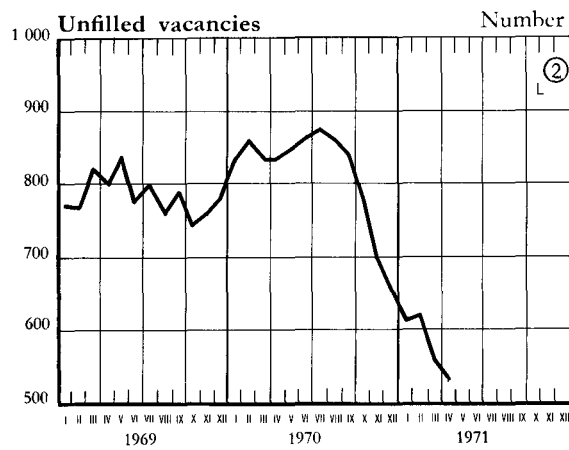
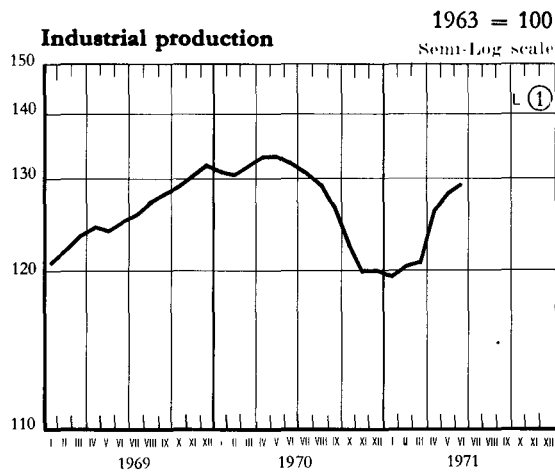
August

Retail prices were fixed for milk and butter.

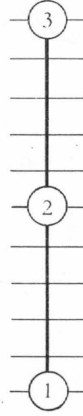
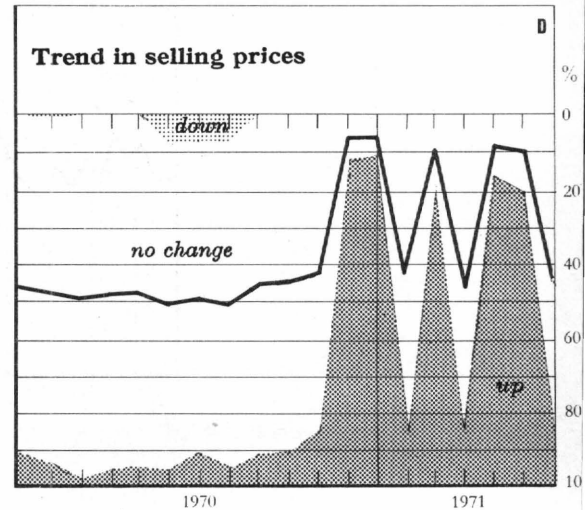
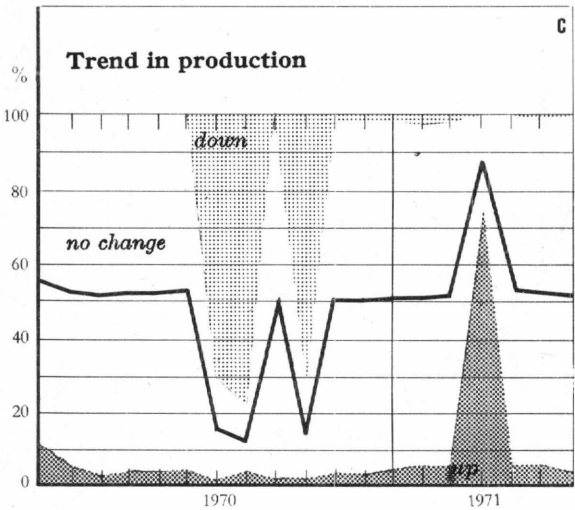
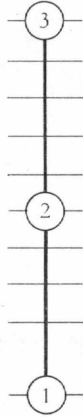
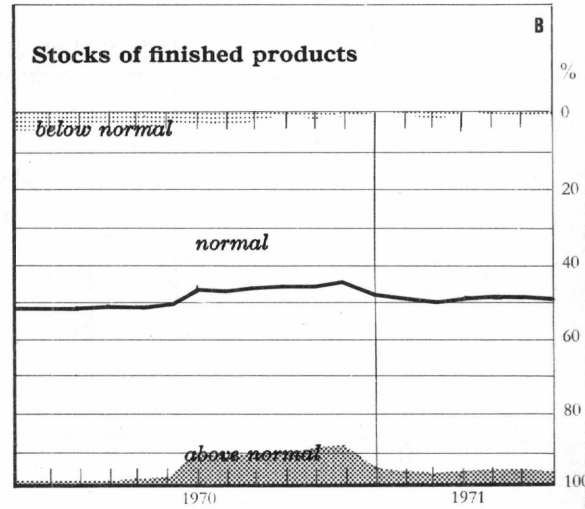
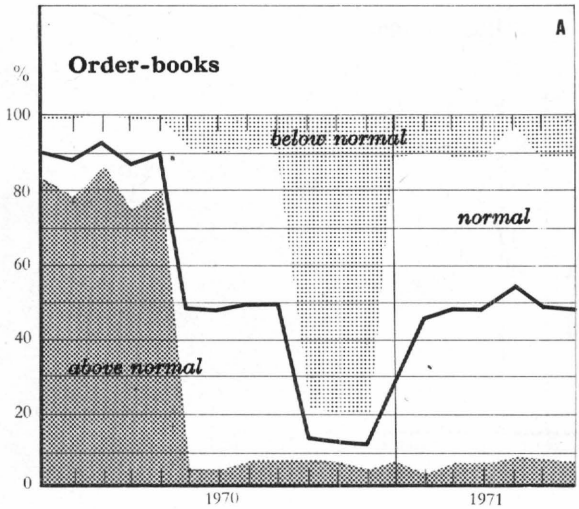
September

The draft law on the 1972 budget was tabled. With expenditure planned to rise by 8.6% under the ordinary budget and fall by 2.1% under the extraordinary budget, the increase in total expenditure is estimated at 7.5%. Infrastructure investment is likely to expand further as special funds come into play. With the growth in real gross national product in terms of value estimated at 5%, the total increase in revenue is expected to be 7.2%; the budget provides for the grant of various tax reliefs and the maintenance at 2% of the reduced VAT rate for essentials. An estimated Lfrs. 850 million will have to be borrowed, compared with Lfrs. 900 million in 1971.

ECONOMIC INDICATORS



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Grand Duchy of Luxembourg by STATEC.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".

TABLE 1 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	123.6	123.2	125.3	124.8	122.7	127.1	125.9	127.6	130.5	129.6	133.6	132.0
	1970	129.0	132.2	135.8	133.1	133.2	130.7	128.8	128.6	122.5	116.0	121.0	122.7
	1971	116.0	124.3	124.9	129.6	130.0	127.8						
Unfilled vacancies	1969	822	735	860	803	812	796	856	721	739	763	803	844
	1970	850	871	765	850	887	866	886	837	750	740	643	629
	1971	556	646	477	423								
Construction : permits for residential construction	1969	16	23	11	20	11	58	26	27	15	35	27	20
	1970												
	1971												
Consumer prices (1963 = 100)	1969	116.96	117.08	117.30	117.57	118.08	117.94	118.26	118.11	118.31	118.39	118.77	120.03
	1970	121.21	121.98	122.21	122.74	123.38	123.72	124.20	123.84	124.35	124.74	124.95	125.23
	1971	126.06	126.91	128.04	128.15	129.09	129.37	129.48	129.62				

Luxembourg

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Graph 1

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 2

Unfilled vacancies: adjusted for seasonal variations; three-month moving averages.

Graph 3

Consumer prices; source: STATEC.

Table

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unfilled vacancies: seasonally adjusted end-of-month figures.

Construction: seasonally adjusted number of residential buildings authorized.

Consumer prices: not adjusted for seasonal variations.

