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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

August 13, 1963

Vigorous Second-Quarter Expansion In  
European Business Activity

Helen B. Junz

13 pages

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Economic developments in Europe during the second quarter were highlighted by a vigorous pick-up in industrial output in all major countries. The usual spring upswing in business activity was reinforced this year by attempts to make up for output lost during the hard winter, especially in the building and building materials industries. Even with the gains in output, the rates of wage and cost advances slowed down in Germany and the Netherlands and perhaps to a limited extent in France; in Italy, however, wages seem to be continuing to rise as rapidly as in 1962.

Revival in export demand and continued rapid growth of public demand were the main factors underlying the current expansion. Consumer demand continues to be a strong supporting factor, but it seems to be increasing at a somewhat slower rate than in past years, primarily because wage pressures are moderating and the labor force expanding only very slowly, especially in Germany and the Netherlands. In Italy and, to a lesser extent, in France and Belgium wages continue to advance, in part because wage escalation clauses relate wage increases to increases in the consumer price index. With consumer prices considerably higher in the first quarter (the price rises being largely due to the hard winter), wages have been increased permanently.

Investment continues to be the lagging factor in the over-all demand picture. However, there are some indications that the slowdown in the rate of growth in this sector is leveling out, particularly in Germany, the Netherlands, Great Britain, and perhaps in France as well. Recent French government measures to restrict credit expansion may influence investment adversely.

Although the labor market tightened again in most countries with the spring upswing, labor mobility appears to be greater than a year ago and labor is no longer being as widely hoarded as in 1962. Labor mobility and more rapidly increasing productivity are helping to moderate pressures on profits. The profit situation is judged more favorably than earlier, especially in Germany and the Netherlands. The reduced pressure on profits, coupled with the keen competitive situation prevailing in most European markets, contributed to a pronounced moderation in price increases. Except in Austria and Italy, both wholesale and export prices remained comparatively stable through the first half of 1963.

The upswing in economic activity and the determination to combat inflationary tendencies have led the authorities to tighten money markets in a number of countries, especially in Germany, Switzerland, Belgium, and more recently, in France. Changed money-market conditions account for upward pressures on short-term interest rates. At the same time, demand for long-term funds (particularly by the public authorities whose investment programs continue to grow rapidly) is also putting upward pressures on long-term rates.

The upswing in export demand, favorable business developments and the upward trends in interest rates contributed to capital flows (both those related to trade and other flows) into the continental countries other than Italy on a much heavier scale than occurred in 1962. As a result, heavy reserve accruals continued in France in the first half of the year despite a deterioration in the French trade accounts, and accruals were resumed in German reserves in the second quarter. In fact, the combined reserve accruals of France and Germany (adjusted for special transactions) in the first half of 1963 were probably as large as their gains for the entire year of 1962. This development suggests that the trend during 1962 of "a movement of the balance of payments in most European countries towards equilibrium" noted in the B.I.S. Annual Report for 1962-63 does not seem to have continued during the first half of 1963. 1/

Output and demand expand in second quarter

The upward trends in output, which had become noticeable during the second half of 1962 but were inhibited by the hard winter in Europe, were resumed in most of the continental European countries during the second quarter. In the United Kingdom, the earlier downward trend was reversed.

Table 1. Industrial Production in Selected Western European Countries  
(Index numbers, 1959=100, seasonally adjusted)

	1960	1961	1962				1963			
			I	II	III	IV	I	April	May	June
Belgium	106	111	115	116	119	119	116	118	n. a.	n. a.
France	111	117	126	127	129	131	127	133	136	n. a.
W. Germany	111	117	120	123	123	125	122	125	126	130
Italy	115	128	139	139	145	146	146	151	n. a.	n. a.
Netherlands	113	114	119	119	117	121	122	122	122	n. a.
Total EEC	112	119	124	125	126	129	128	131	n. a.	n. a.
Austria	110	115	118	116	118	118	120	120	n. a.	n. a.
Norway	111	118	121	123	124	125	126	126	133	n. a.
Sweden	106	112	113	113	114	115	115	115	n. a.	n. a.
U. K.	107	108	107	109	111	108	108	110	112	n. a.
OECD-Europe	110	115	118	121	121	122	121	123	125	n. a.

Source: Organization for Economic Cooperation and Development and National Statistics.

Industrial production expanded vigorously during the second quarter, except in the Netherlands and Austria, where it remained reasonably stable. (See Table 1.) By April 1963, in all countries except Belgium, the fourth quarter 1962 level of industrial output had been regained, and in most cases exceeded. Partial data for May and June indicate that the upward trend

1/ Bank for International Settlements Thirty-Third Annual Report, 1962-63, (Basle: 10 June 1963) p. 10.

continued in those months, probably at a fairly rapid rate. This fact is somewhat obscured for France and Italy, where first quarter output was not only curtailed by the frost, but also by strikes, making for unusually large increases in the industrial production index in April over the first quarter average. The combined production index (after seasonal adjustment) for the European OECD countries in April was 2.3 per cent above the last quarter 1962 level and 3.5 per cent above the comparable year-ago figure. Germany, France and Italy all were about 2 per cent above the fourth-quarter 1962 level, and the U.K. was up 5 per cent; by contrast, the Netherlands and the Scandinavian countries were only fractionally higher.

Within the European economies, the investment goods industries appear to continue to lag; the chemical, motor vehicles and electrical equipment industries contributed most to the recent growth in output. In addition, there appears to have been a revival in the textile industry.

Table 2. Continental Europe: Changes in Demand Factors, 1959, 1961-62  
(in percentages of total increase in demand)

	<u>1959</u>	<u>1961</u>	<u>1962</u>
Private consumption	35.6	52.4	50.0
Public consumption	9.1	9.1	11.8
Residential construction	6.8	3.5	3.3
Plant and equipment	13.7	24.5	15.8
Inventory change	- 0.8	-11.2	- 2.6
Net exports	<u>35.6</u>	<u>21.7</u>	<u>21.7</u>
Total GNP	100.0	100.0	100.0

Source: Bank for International Settlements, Thirty-Third Annual Report, p.4.

The upswing in economic activity reflected the revival in export demand, a continued rapid growth of public demand and somewhat more slowly expanding private consumption demand. (See Table 2.) Thus the continuing expansionary shift in demand factors, which has become apparent since 1961, has been carried into 1963; prior to 1961, exports and investment in plant and equipment were the major expansionary factors. During 1961, exports became less important but the growth in private consumption accelerated. (See Table 2.) In 1962, although the growth in private spending continued strong, public consumption became the fastest growing factor in the over-all European demand situation.

#### Slowdown in growth rate in 1962

During 1962, the rate of economic expansion, as measured by GNP, slowed down in most countries. Only France, Denmark, and Belgium registered a quickening in their rate of economic growth in terms of changes in yearly averages from the preceding year. The slowdown was only fractional in the Netherlands, but the rate of growth was cut approximately in half in Austria, Norway, and Sweden and there was virtual stagnation in the United Kingdom. For continental Europe as a whole the rate of growth dropped from 5.6 per cent in 1961 to 4.7 per cent in 1962. (See Table 3.)

**Table 3. Supply and Use of Resources in Selected Western European Countries**  
(1961, 1962, 1963, Estimates)  
( per cent change in volume from preceding year)

		Resources		Utilization			
		GNP	Imports	Consumption		Gross fixed Investment	Exports
				Private	Public		
Belgium	61	3.2	6.6	3.1	1.1	2.7	7.6
	62	4.0	8.5	3.5	6.0	2.0	9.0
	63	3.0	4.5	3.5	2.5	0.5	5.0
France	61	4.5	7.5	5.8	3.4	10.0	6.1
	62	5.8	10.6	6.9	2.3	7.5	2.5
	63	4.5	6.5	6.0	1.5	5.0	4.5
West Germany	61	5.5	8.4	7.0	7.8	9.7	3.6
	62	4.1	10.9	5.7	11.2	4.5	4.9
	63	3.5	5	4.5	6	4.5	2.5-3
Italy	61	8.8	15.2	7.0	5.5	11.5	16.9
	62	6.1	15.2	6.6	5.3	8.9	11.6
	63	5.0	13.0	6.0	5.5	7.0	6.0
Netherlands	61	2.7	6.9	4.5	2.9	7.1	3.1
	62	2.5	6.0	4.5	2.9	3.5	5.5
	63	3.5	6.0	4	2.5	-1.0	6.5
Austria	61	5.2	4.3	6.5	2.7	8.1	5.4
	62	2.3	5.9	5.8	1.4	-2.1	9.0
Denmark	61	4.1	4.8	6.4	5.9	7.3	4.5
	62	4.7	12.5	6.1	5.6	9.3	5.3
Norway	61	6.1	9.8	6.3	4.2	12.2	6.6
	62	3.3	5.3	3.1	5.7	8.3	5.8
	63	4	3-4	3	6	8.3	6
Sweden	61	6.0	0.6	5.5	5.2	6.1	3.9
	62	3.4	5.2	3.1	5.9	4.5	6.9
	63	4.5	4.0	4.0	5.5	4.5	3
Switzerland	61	6.6	22.1	11.0	5.4	17.4	6.6
	62	6.0	9.9	7.3	7.8	12.7	6.0
United Kingdom	61	3.0	0.6	1.7	5.8	8.5	3.5
	62	0.2	1.7	1.4	2.2	-2.0	2.1
	63	3	3	2.5	5.5	0.5	2.5
Above Continental European Countries plus Finland	61	5.6	9.3	6.5	5.1	10.4	6.4
	62	4.7	9.4	5.7	6.7	6.1	5.9

Source: Bank for International Settlements, Annual Report 1962; U.N. Economic Commission for Europe; National statistics.

Supply difficulties in such areas as construction (where almost everywhere demand continued to outrun capacity), and a slackening in demand for investment goods were uniformly the causes for the slower growth rates in 1962 on the continent. The main expansionary factors were private and public consumption. For continental Europe as a whole, they increased by 5.7 per cent and 6.7 per cent respectively in 1962 and in the United Kingdom by 1.4 per cent and 2.2 per cent.

For 1963, declines in the annual average rate of growth are expected for France and Belgium, and a further decline is estimated for Germany and Italy. For the Netherlands, Norway and Sweden, on the other hand, a somewhat faster rate of expansion is foreseen.

With virtually full employment now achieved and the labor force growing only slowly in Europe, increases in disposable income will be closely related to wage increases. Because these are moderating in most countries, private consumption is expected to grow at a slower rate this year than in 1962, except for Great Britain and Sweden, where measures had been taken to stimulate private demand.

#### Labor market strains reappear

The recent pick-up in output brought about more than seasonal reductions in unemployment in most countries. (See Table 4.) Accordingly, strains reappeared in the labor market, although they were not as great in the Netherlands, Germany, Switzerland and Austria as they were in 1962. Increases in employment continue to slow down because of the exhaustion of labor reserves (including in France and the Netherlands, repatriates from Algeria and New Guinea). There are indications now that labor is utilized more efficiently and there appears to have been an increase in labor mobility, with the fastest growing industries also adding faster to their labor force; apparently industries experiencing demand difficulties are no longer as anxious as earlier to hoard labor. In addition, a large proportion of recent investment has been for modernization rather than expansion purposes and is paying off in increasing labor productivity. The increase in labor productivity is providing a larger share of the growth in output. After slowing down in the first half of 1962, it grew faster toward the end of the year; this trend has continued into 1963. (See Table 5.)

**Table 4. Unemployment in Selected European Countries**  
(seasonally adjusted monthly averages, thousands)

	1961	1962				1963		
		I	II	III	IV	I	May	May Job vacancies
Belgium	88	60	44	41	39	39	34	19
France	112	97	96	115	98	99	97	46
Germany	161	144	152	142	143	195	174	515
Italy	1,407	1,224	1,147	1,119	1,144	1,144	1,037	n. a.
Netherlands	31	28	30	33	32	38	31	122
Austria	69	67	61	60	68	78	65	45
Denmark	10	11	8	6	12	23	14	n. a.
Norway	13	13	16	16	18	18	15	24
Sweden	21	23	24	23	23	29	21	a/45
United Kingdom	377	428	476	543	568	734	610	190

a/ March.

Source: Organization for Economic Cooperation and Development.

#### Wage and price pressures not as pronounced

The slight relaxation of the tight labor situation, the continuing admonitions by the authorities that inflationary tendencies will endanger future economic growth and a stiffening of employer attitudes toward wage demands have contributed to a moderation in wage increases.

Except in Italy and France, hourly wage rates during the first half of 1963 increased at a much slower rate than they did in 1962. (See Table 7.) In addition, the movement toward reducing the work week seems to be moderating. With productivity also increasing, unit costs are stabilizing and helping to relieve pressures on profit. This tendency had already become apparent during the second half of 1962, as may be seen from Table 6.

**Table 6. Hourly Wage Rates in Manufacturing in Selected Western European Countries** (per cent change from preceding year)

	1960	1961	1962				1963	
			I	II	III	IV	I	II
Austria	6.3	6.6	5.0	6.3	4.1	4.1	4.1	a/2.6
France	7.0	8.3	8.0	8.4	8.2	8.6	8.9	8.8
Germany	6.6	7.5	11.2	13.1	8.7	8.6	5.9	n. a.
Italy	4.7	4.5	6.5	8.7	12.9	13.4	15.0	b/16.2
Netherlands	8.9	5.7	8.6	9.0	7.6	11.0	10.2	b/ 8.9
Switzerland	3.5	4.3	5.8	5.8	6.6	6.6	5.5	n. a.
United Kingdom	5.3	5.0	2.7	2.7	4.1	4.1	3.3	a/ 3.3

a/ May.      b/ April.

Source: Organization for Economic Cooperation and Development.

Table 5. Western Europe: Wage and Productivity  
in selected Western European Countries 1959-62  
(Index numbers, corresponding period of previous year=100)

	1959	1960	1961		1962 <sup>1/</sup>		
			First Half	Second Half	First Half	Second Half	
<u>Austria</u>							
Output per worker	106	107	102	100	101	103	
Weekly earnings <sup>2/</sup>	103	107	110	109	107	108	
Wage costs	97	100	108	110	106	105	
<u>Denmark</u>							
Output per man-hour	106	102	104		103		
Hourly earnings	108	107	112		110		
Wage costs	102	105	108		108		
Price of manufactures	99	102	102		101		
<u>France</u>							
Output per man-hour	107	109	105	103	106	107	
Hourly earnings	106	107	108	108	108	109	
Wage costs	99	98	103	105	102	101	
Price of manufactures	107	104	104	102	101	101	
<u>West Germany</u>							
Output per man-hour	108	108	106	105	106	108	
Hourly earnings	106	110	111	110	113	110	
Wage costs	98	102	105	105	106	102	
Prices of manufactures	99	101	102	101	101	101	
<u>Netherlands</u>							
Output per worker	107	110	102	98	101	102	
Weekly wage rates <sup>3/</sup>	102	109	105	103	106	108	
Wage costs	95	99	103	105	106	105	
Prices of manufactures	100	100	100	101	100	100	
<u>Norway</u>							
Output per worker	107	107	104	105	103	103	
Hourly earnings	109	104	104	110	112	107	
Wage costs	102	97	100	105	109	104	
Prices of manufactures	100	102	99	101	102	100	
<u>Sweden</u>							
Output per man-hour	105	107	105	105	102	105	
Hourly earnings	104	106	110	108	106	109	
Wage costs	99	100	104	102	104	103	
Prices of manufactures	100	102	103	102	102	103	
<u>United Kingdom</u>							
Output per worker	106	98	99	99	100	103	
Weekly earnings	105	107	106	105	103	104	
Wage costs	99	109	107	106	103	101	
Prices of manufactures	100	102	102	102	102	102	

<sup>1/</sup> Preliminary.

<sup>2/</sup> Includes building.

<sup>3/</sup> All economic sectors.

Source: United Nations; International Financial Statistics.

The reduced pressures on profits and the keen competitive situation prevailing in most markets contributed to a moderation in price increases. Rising imports (encouraged in Italy and France by government policies) have helped to widen supplies and to restrain price rises. Consequently, wholesale prices, except in Italy, have been comparatively stable. (See Table 7.)

In the area of manufactured goods, where the bulk of Europe's export goods are to be found, prices have advanced even less than wholesale prices, reflecting a willingness of producers to absorb higher costs and, in the Common Market countries, the effects of increased competition from reduced tariffs within the E.E.C. As a result, the unit value indexes of exports have tended to be even more stable than the wholesale prices of manufactured products, except in Italy and France. (See Table 8.)

Consumer prices, on the other hand, have risen considerably in most countries. A large part of the recent rise was due to higher food and fuel prices caused by the harsh winter. With these prices declining seasonally, consumer prices appear to have been stabilizing in the second quarter. However, the underlying trend is still upward. Administrative price increases which affect rents and public services and rising costs of private services are pushing the price level up. In general, higher prices for food and services account for most of the total retail price rise; prices for manufactured goods have remained comparatively stable.

#### Foreign trade expanded in second quarter

Foreign trade in Western Europe was impeded both by the harsh winter and by the U.S. dock strike during the first quarter of 1963. But trade started expanding again in March and has been rising since. (See Table 8.)

Exports in April and May were well above the fourth quarter 1962 level for all countries except Austria and Italy. Exports of the European OECD countries, seasonally adjusted, rose by 6.3 per cent between the fourth quarter of 1962 and May 1963; exports of the EEC countries rose by 10.4 per cent, and of the EFTA countries by only 5.1 per cent. Italy's exports were 2-1/2 per cent lower in April-May than in the fourth quarter but those of other EEC countries were up sharply: for the Netherlands by 13.7 per cent, and for both France and Germany by 10.9 per cent. Within the EFTA countries, Britain's exports, after having been stable through the last three quarters of 1962, rose by 6.6 per cent between the fourth quarter of 1962 and May 1963.

A large part of the export rise was due to intra-European trade, but there have also been signs of a revival of trade with the non-OECD countries, especially with Africa and Latin America. This was particularly noticeable in May, when exports to Africa rose by 7.6 per cent above the fourth quarter, 1962 level and those to Latin America by 16.6 per cent.

A further pick-up in export demand is reflected in expanding export order books in most countries except Italy. Thus, the outlook for exports is favorable.

Table 7. Price Indexes, Selected Western European Countries  
1959-1962

(Index numbers, 1959=100)

	1960	1961	1962				1963	
			I	II	III	IV	I	May
<u>Austria</u>								
Consumer prices	102	106	109	112	111	110	112	114
Food	102	104	108	115	112	109	114	116
Wholesale prices	99	101	104	108	109	105	105	105
Export prices	--	--	--	--	--	--	--	--
Import prices	--	--	--	--	--	--	--	--
<u>Belgium</u>								
Consumer prices	100	101	102	103	103	103	104	a/ 104
Food	99	101	101	103	103	102	104	103
Wholesale prices	102	101	102	103	101	103	105	104
Industrial prod.	102	102	101	101	100	101	102	102
Export prices	100	102	101	101	99	99	102	102
Import prices	102	100	99	98	96	97	100	100
<u>Denmark</u>								
Consumer prices	101	105	109	111	112	117	118	121
Food	101	103	108	110	111	115	117	122
Wholesale prices	102	104	103	105	104	105	108	108
Export prices	99	97	98	98	98	100	108	108
Import prices	102	102	101	102	103	100	102	102
<u>France</u>								
Consumer prices	104	109	110	112	112	114	116	a/ 119
Food	102	106	110	111	113	114	118	118
Wholesale prices	102	104	107	108	106	108	110	a/ 106
Export prices	105	104	105	103	105	104	106	b/ 106
Import prices	104	101	101	101	100	101	103	b/ 101
<u>Germany</u>								
Consumer prices	101	104	106	108	108	108	111	a/ 111
Food	101	102	105	109	108	105	111	111
Wholesale prices	101	103	104	104	104	104	104	a/ 104
Industrial prod.								
Export prices	101	102	101	101	101	101	101	101
Import prices	100	96	94	95	94	95	94	92
<u>Italy</u>								
Consumer prices	102	104	107	109	110	112	113	117
Food	101	102	104	105	106	109	113	114
Wholesale prices	101	101	103	104	104	106	108	109
Export prices	104	100	100	99	100	100	104	--
Import prices	99	96	97	97	96	96	97	--
<u>Netherlands</u>								
Consumer prices	103	105	106	108	108	108	112	113
Food	102	103	106	108	108	106	114	113
Wholesale prices	97	97	97	99	96	97	99	b/ 99
manuf. prod.	100	100	100	100	100	102	102	b/ 102
Export prices	99	97	98	100	96	98	100	--
Import prices	100	99	98	98	97	97	100	--

(continued)

Table 7. Price Indexes (continued)

	1960	1961	1962				1963	
			I	II	III	IV	I	May
<u>Norway</u>								
Consumer prices	101	103	107	107	110	110	112	a/ 111
Food	99	101	105	108	111	110	112	110
Wholesale prices	101	102	103	103	104	104	104	a/ 104
Producer goods	100	101	103	102	102	102	101	a/ 101
Export prices	100	99	98	99	98	97	96	b/ 101
Import prices	101	100	99	99	98	98	99	b/ 101
<u>Sweden</u>								
Consumer prices	103	106	109	111	112	112	112	114
Food	107	109	114	120	121	120	123	124
Wholesale prices	104	106	107	107	107	108	108	110
Manufactures	103	106	106	108	109	109	110	b/ 110
Export prices	103	104	102	101	100	100	100	101
Import prices	100	98	97	97	97	97	98	99
<u>Switzerland</u>								
Consumer prices	102	104	107	108	109	109	110	a/ 111
Food	101	103	107	109	110	110	111	111
Wholesale prices	101	101	103	104	105	106	108	a/ 108
Export prices	--	--	--	--	--	--	--	--
Import prices	101	100	101	102	101	103	106	a/ 107
<u>United Kingdom</u>								
Consumer prices	101	104	107	110	109	109	111	111
Food	99	101	102	107	105	103	108	109
Wholesale prices (manufactures)	101	104	105	106	106	107	107	107
Export prices	102	103	104	104	104	105	106	b/ 106
Import prices	101	99	98	98	97	98	99	b/ 100

a/ June

b/ April

Source: Organization for Economic Cooperations and Developments; International Financial Statistics; national statistics.

Table 8. Foreign Trade: Selected European Countries, 1961-June 1963  
(Seasonally adjusted, monthly averages, million U.S. dollars)

	1961	1962				1963	
		I	II	III	IV	I	II
<u>Belgium-Luxembourg</u>							
Exports	326	359	359	367	366	362	a/ 406
Imports	347	357	382	366	391	374	a/ 407
Balance	-21	2	-23	1	-25	-12	a/ -1
<u>France</u>							
Exports	602	620	602	609	624	619	704
Imports	557	576	587	639	663	661	724
Balance	45	44	15	-30	-40	-42	-20
<u>Germany</u>							
Exports	1,057	1,080	1,110	1,129	1,117	1,101	1,198
Imports	912	989	1,019	1,021	1,041	1,045	1,080
Balance	146	91	91	108	76	56	118
<u>Italy</u>							
Exports	351	381	397	391	408	404	a/436
Imports	438	479	481	525	561	561	a/632
Balance	-87	-98	-84	-134	-154	-158	-196
<u>Netherlands</u>							
Exports	359	375	390	379	386	385	a/433
Imports	426	453	442	449	442	464	a/496
Balance	-67	-78	-52	-71	-56	-79	a/-63
<u>EEC Total</u>							
Exports	2,695	2,815	2,857	2,875	2,901	2,871	a/3,177
Imports	2,680	2,854	2,911	3,000	3,099	3,106	a/3,339
Balance	15	-39	-54	-125	-198	-235	a/ -162
<u>Other OECD Continent</u>							
Exports	884	902	920	912	978	953	929
Imports	1,196	1,295	1,282	1,360	1,400	1,285	1,415
Balance	-312	-393	-362	-448	-422	-332	-486
<u>United Kingdom</u>							
Exports	896	892	934	932	930	949	976
Imports	1,026	1,022	1,052	1,077	1,051	1,049	1,109
Balance	-130	-130	-118	-145	-121	-100	-133
<u>Total OECD Europe</u>							
Exports	4,475	4,609	4,711	4,719	4,809	4,773	5,082
Imports	4,902	5,171	5,245	5,437	5,550	5,440	5,863
Balance	-427	-562	-534	-718	-741	-667	-781

a/ April/May average.

Source: Organization for Economic Cooperation and Development.

Imports for June were probably influenced by the further 10 per cent cut in the Common Market internal tariffs on July 1 (reckoned off the pre-EEC tariff base, which means a reduction of approximately 20 per cent from currently prevailing levels), while some external tariffs also were adjusted. The very low June figure for French imports and the relatively low one for Germany may well be a reflection of this fact.

Imports into Europe from non-OECD countries, after remaining little changed from mid-1962 until March 1963, have been rising also, and in May were 2.5 per cent above the fourth quarter 1962 level. This in part reflects a slight strengthening of raw material prices and will allow producer countries in turn to expand their import demand. But most of the rise in over-all imports of the individual countries came from European and North American sources, and helped to hold down price rises for manufactured goods.

#### Government actions to restrain cost advances

The authorities in many European countries have become increasingly concerned about the inflationary tendencies in their economies and there now clearly appears to be a trend towards more restrictive monetary policies than had prevailed in 1962.

In Germany, this is not an active policy but the result of the authorities allowing market factors to tighten the banks' liquidity position. In France, steps have been taken to slow down credit expansion. In Denmark, the Government introduced a sweeping income stabilization program in March and in Sweden (after the government earlier had taken various reflationary measures in 1962) bank rate was raised from 3-1/2 to 4 per cent on June 14 in order to head off excessive demand. Bank rate was also raised in Belgium from 3-1/2 to 4 per cent on July 18, reflecting the tighter money market conditions and the authorities' concern about the expansion of credit. In Italy, a more restrictive policy also appears to be in the offing.

Only in Great Britain, the Netherlands and Austria have the authorities taken steps to facilitate credit expansion. In Britain this was part of a sweeping reflationary program following a cut in Bank rate from 4-1/2 to 4 per cent on January 8; in Austria the discount rate was cut from 5 to 4-1/2 per cent on June 27 and credit availability was eased in an effort to stimulate private investment demand, even though the authorities remain sensitive to the inflationary pressures still prevailing in the Austrian economy; the Netherlands discount rate was lowered from 4 to 3-1/2 per cent on January 5 and credit restrictions were lifted in recognition of the fact that the volume of credit extension no longer made a restrictive policy necessary.

The government actions to combat inflationary tendencies combined with market factors generally operating in a period of business recovery have been reflected in an upward pressure on short-term interest rates. In June call money rates in Germany, Switzerland, Belgium and also the United Kingdom were well above the preceding year's levels. In addition, there also has been pressure on long-term rates, partly because the public authorities themselves have been active borrowers in the long-term market in order to finance extensive investment programs.

Official reserve accruals heavy in 1963

The favorable foreign trade picture, the general revival in confidence in the future economic growth of Europe, and the relatively high interest rate structure have served to bring foreign funds into a number of Continental countries. The inflow of funds was especially heavy during the second quarter, when the official reserves of the EEC countries rose by \$624 million. (See Table 9.) For the first half of 1963, the rise in official reserves for all European countries amounted to \$802 million as compared with only \$395 million for the comparable 1962 period. As a result of the favorable balance of payments, European currencies have generally traded well above par in foreign exchange markets during most of 1963.

Table 9. Western Europe: Changes in Official Reserves 1961-June 1963

	<u>1961</u>	<u>1962</u>		<u>1963</u>		
		<u>Jan. - June</u>	<u>July - Dec.</u>	<u>Jan. - June</u>	<u>Jan. - March</u>	<u>April - June</u>
Belgium-Luxembourg	+235	- 54	+ 19	+141	+107	+ 34
France	+869	+545	+126	+647	+388	+259
Germany	-195	-310	+214	+252	+ 1	+251
Italy	+339	-180	+202	-123	-115	- 8
Netherlands	- 27	+ 80	- 52	+ 95	+ 7	+ 88
Total EEC	+1,221	+ 81	+509	1,012	386	+624
Switzerland	+435	- 54	+167	-164	-234	+ 70
Other continent	+599	+253	+309	+ 47	- 22	+ 71
Total Continental Europe	+2,255	+280	+985	+895	+130	+765
United Kingdom	+ 85	+115	-630	- 93	+ 8	-101
Total Europe	+2,340	+395	+355	+802	+138	+664

Source: International Financial Statistics.