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WORLD BUSINESS TRENDS

Federal Republic: In the Latter Phase of a Boom

Since autumn, 1969, the West German economy has been in the latter stage of a boom: while demand expansion is slowing down, prices and wages continue to rise strongly. Foreign orders in industry declined considerably after revaluation; and domestic orders stagnated. Orders on hand increased insignificantly only after the turn of the year, and their range decreased slightly; it was, however, still noticeably higher than the one registered at the peak point of the latest boom. Although the growth rate of the GNP in real terms was lower, this was due exclusively to the impediment of continuous output, which because of the early and long winter was the case particularly in building and contracting. This is the result the Association of German Economic Research Institutions (Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute) has arrived at in its latest expert report.

For the further development it is expected that the easing of the cyclical conditions which has been announced by incoming industrial orders during the last months, should become more distinct. The duration of the

easing phase and whether a period of stagnation or a new start will follow cannot be foreseen with sufficient certainty at the moment.

Export Increase Relatively Strong

Foreign orders will again increase slightly after the decrease registered as a consequence of the revaluation. But the extraordinarily high and—caused by speculative influences—forced up level of foreign orders of the time before the revaluation will not be reached again in the near future. If the pace of export expansion decreases, this will at first be due to the limited ability to deliver of West German exporters. The undiminishedly strong rise in selling prices for export goods after revaluation seems to confirm that exporters do not fear for the moment a strong injure of their foreign sales.

Investments Confined by Supply

The development of equipment investments remains at first determined by the output possibilities of the industry producing capital goods. Since foreign demand

will increase again and since a sudden drop of domestic investors' demand is not presumable, the present extremely high extent of capacity utilisation should decrease only slightly this year. The building and contracting sector will try to reduce during the next months the backlogs conditioned by the weather. The extremely strong price increases in building and contracting will last until the early summer, but then probably lessen. Wage increases in the economy as a whole will remain substantial during the course of the year. Private consumption will therefore continue to expand strongly.

Government's Contribution

Fiscal policy is characterised by increased efforts to dampen business activity. This is being tried mainly through the reduction of expenditure. But government expenditure can only be curtailed within confined limits. Government consumption will grow during this year slightly less compared with the previous year. Further reductions would have to be made above all at the expense of investment expenditures. Government investments are predominantly executed by the communities. Due to the fiscal reform, their financial basis has been widened; for this reason a very strong increase of the communities' investment expenditures is expected. Considering the presumable development of receipts and expenditures, the dampening effects that can be expected from the

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government sector will be, if at all, very insignificant only.

Continuously Strong Price Increase

When summarising the forecast, one can expect the maintenance of a high level of employment, a reasonable growth

rate of output and a high extent of capacity utilisation for the year 1970. The price enhancing forces will—in accordance with the slight easing—diminish during the course of the year, but will continue to remain quite strong. For the whole of 1970, an increase of consumer prices of nearly 4 p.c. as compared

with last year must be expected; at the middle of the year this rate will probably be exceeded.

*Compiled by the Department for
Business Trends Research of the
Hamburg Institute for International Economics*

Appropriation of the National Products

— in current prices —
in billion DM

Private Consumption	301.1	332.3	371.0	155.2	177.1	174.4	196.6
Government Consumption	83.6	93.2	103.2	42.0	51.1	47.0	56.2
Investment in fixed assets	124.8	146.9	177.1	64.6	82.3	78.9	98.2
equipment	52.9	68.0	81.8	30.6	37.4	38.2	43.6
buildings	71.9	78.9	95.3	34.1	44.8	40.7	54.6
Change in stocks	+11.0	+13.5	+ 9.0	+12.7	+ 0.8	+11.0	- 2.0
External contribution	+18.0	+15.2	+12.3	+ 6.4	+ 8.8	+ 5.7	+ 6.6
exports	124.4	141.6	153.4	66.6	74.9	73.2	80.2
imports	106.4	126.4	141.1	60.2	66.1	67.5	73.6
Gross National Product	538.5	601.0	672.6	280.9	320.1	317.0	355.6

Change in p.c. compared with the previous year

Private Consumption	5.9	10.3	11.5	9.8	10.8	12.5	11
Government Consumption	3.3	11.4	11	9.1	13.4	12	10
Investment in fixed assets	9.0	17.7	20.5	17.2	18.1	22	19.5
equipment	10.1	28.6	20.5	30.6	27.0	25	16.5
buildings	8.3	9.7	21	7.3	11.5	19.5	22
Exports	12.5	13.8	8.5	15.7	12.2	10	7
Imports	12.8	18.8	11.5	20.9	16.9	12	11.5
Gross National Product	8.9	11.6	12	10.9	12.3	13	11

— in prices of 1962 —
Change in p.c. compared with the previous year

Private Consumption	4.0	7.7	7.5	7.3	8.0	8.5	6.5
Government Consumption	- 0.9	4.1	3	3.0	5.0	3	3
Investment in fixed assets	8.0	12.8	8.5	14.8	11.2	8	8.5
equipment	10.5	24.8	13	28.3	22.0	16	10.5
buildings	6.0	3.4	4	4.1	2.8	0.5	7
Exports	13.4	11.9	6.5	14.8	9.5	8	5
Imports	14.7	16.2	11.5	18.9	13.8	12.5	10
Gross National Product	7.2	8.0	5	8.3	7.7	5.5	4.5

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