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FRG: On the road to normalisation

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WORLD BUSINESS TRENDS

FRG: On the Road to Normalisation

The West German economy is now in a transition stage from an excessive upward trend towards normalisation. While expansion of demand is declining and partly lagging behind an extension of supply, the vigorous wage and price increases are continuing. Orders from abroad are stagnating since the beginning of the year. Domestic incoming orders did also not increase anymore since the turn of the year. Indications of slackening tension are also to be noticed in the building sector. Finally the economy's arrangements for carrying stocks contributed to a reduction of excessive demand. This is the conclusion of the recent experts' opinion of the Association of German Economic Research Institutions.

Together with a slower expansion abroad, demand for German products will grow but slightly in 1971. Up to the turn of the year the high volume of foreign orders justifies the anticipation of an almost undiminished increase of exports. After that the development of exports should be more strongly in-

fluenced by the tendency of current incoming orders. The rise of imports particularly of primary and finished products will decline. For the whole of the year the external contribution will change but little. By the end of the year it might grow again.

Levelling Growth of Investments

Already since the beginning of 1970 the demand for capital goods is slightly decreasing. Indications of an again growing propensity to invest are not to be noticed for the near future. But owing to the high backlog of orders, an—although slower—growth of capital expenditure on equipment is to be anticipated for the first half of the year. For the second half a stagnation of investment activities is supposed to occur. Due to the unusually impeded building activities in the first months of 1970, there will be a relatively high growth rate of investments in buildings in real terms: the cyclical development in this period will therefore seem to be exaggerated. The arrangements for carrying stocks will probably lead to contractive tendencies.

In 1971 the increase of government expenditure will be about the same as this year. Public capital expenditures continue to rise vigorously, though not as much as before. The expansion of government consumption, however, will accelerate, mainly due to increasing procurement of military equipment. This is being anticipated after the restraint for cyclical reasons in the preceding year. Personnel budget expenses will again grow strongly, current transfers, on the other hand, continue to increase but slightly, since the adaptation rate of social insurance pensions is still determined also by the weak wage trends during the recession of 1967.

Decline of Consumption only Later

The increase in private households' available incomes will decline noticeably only in the second half of 1971. Because at the beginning of the year the relative burdening of gross earned incomes with social contributions will decrease due to legal changes of the health insurance, net wage and salary incomes will grow as before in the first half year. In the second half of 1971, however, their growth rate will decline although not as much as gross wages and salaries, because the surtax introduced for cyclical reasons will be abolished by the

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1969	1970					
	October	January	April	July	October	Oct. 30	Nov. 13
HWHA-Index ¹ (1952-1956 = 100)	106.7	109.4	111.2	109.3	107.7	106.1	106.2
Foodstuffs	97.3	100.7	102.7	102.0	104.2	105.1	105.4
Raw materials other than foodstuffs ...	111.1	113.6	115.3	112.8	109.4	109.5	109.6
Fuels	96.5	96.5	100.4	108.8	112.5	114.0	113.6
Raw materials for consumer goods ..	93.6	93.0	92.7	93.8	91.8	92.4	92.2
Raw materials for capital goods	138.2	144.9	145.5	129.8	118.2	116.7	117.3
Reuters Index (18. 9. 1931 = 100)	543.0	558.7	568.1	564.4	557.2	559.0	553.9
Moody's Index (31. 12. 1931 = 100) ...	409.4	426.9	414.1	410.2	396.2	387.1	385.8

¹ Index compiled by the Hamburg Institute for International Economics.

middle of the year. Therefore a reduced expansion of private consumption should occur only late in 1971.

Together with this development of total demand the growth rate of total production will slow down, too. In comparison with a year earlier, for the whole of 1971 the German Economic Research Institutions anticipate a growth rate of the GNP in

real terms by about 4 p.c. This means a declining growth rate in the course of the year. With that the present exaggerated utilisation of capacities will gradually decline. The demand for additional labour will relax perceptibly, although full employment will not be jeopardised. To begin with the price climate will not cool down. Under the influence of the current wage

increases there will probably occur another all-round rise in prices, but in 1971 this upward trend in prices will distinctly abate.

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

The Most Important Data of the National Account

Prognosis for the year 1971

	1969	1970	1971	1970		1971	
	Years			1. hf.yr.	2. hf.yr.	1. hf.yr.	2. hf.yr.
Appropriation of the National Product							
	— in current prices — in billion DM						
Private Consumption	333.6	371.3	404.4	174.4	196.9	191.4	213.0
Government Consumption	93.7	105.2	120.0	48.0	57.2	54.4	65.6
Investment in fixed assets	146.2	179.3	198.0	79.7	99.6	91.4	106.6
equipment	66.9	82.7	90.5	38.4	44.3	43.7	46.8
buildings	79.3	96.6	107.5	41.3	55.3	47.7	59.8
Change in stocks	+13.5	+11.2	+ 8.5	+12.2	- 1.0	+10.5	- 2.0
External contribution	+15.2	+12.9	+12.7	+ 4.8	+ 8.1	+ 5.0	+ 7.7
exports	141.6	157.2	169.8	74.4	82.8	81.2	88.6
imports	126.4	144.3	157.1	69.6	74.7	76.2	80.9
Gross National Product	602.2	679.8	743.6	319.0	360.8	352.7	390.9
Change in p.c. compared with the previous year							
Private Consumption	10.8	11.5	9	11.8	11	10	8
Government Consumption	12.1	12	14	13.6	11	13.5	14.5
Investment in fixed assets	17.2	22.5	10.5	23.1	22	14.5	7
equipment	26.5	23.5	9.5	25.5	22	14	5.5
buildings	10.3	22	11.5	21.0	22.5	15.5	8
Exports	13.8	11	8	11.7	10.5	9	7
Imports	18.8	14	9	15.5	13	9.5	8.5
Gross National Product	11.8	13	9.5	13.2	12.5	10.5	8.5
— in prices of 1962 — Change in p.c. compared with the previous year							
Private Consumption	8.0	7.5	5	8.0	6.5	5.5	4.5
Government Consumption	4.3	2.5	4.5	2.5	3	4	4.5
Investment in fixed assets	12.1	10	5.5	9.6	10	8.5	3
equipment	22.6	15	5.5	16.6	14	9	2.5
buildings	3.9	5	5.5	2.8	6.5	8.5	3
Exports	11.9	8.5	6	9.3	7.5	6.5	5
Imports	16.2	14.5	7.5	15.7	13	8.5	6.5
Gross National Product	8.0	5.5	4	5.4	5	5	3.5

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