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Federal Republic:Relaxation Without Stabilisation

Intereconomics

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WORLD BUSINESS TRENDS

Federal Republic: Relaxation Without Stabilisation

In the Federal Republic, the relaxation process of business activity has continued during the winter half-year 1970/71. On the production side this tendency was overshadowed by special weather influences: the mild winter made it possible for the building and constructing industry to maintain a very high level of seasonal production. Conditions in the labour market have continued to ease, but this has not yet shown effects on prices and wages. These are the results which the Association of German Economic Research Institutions (Arbeitsgemeinschaft deutscher Wirtschaftswissenschaftlicher Forschungsinstitute) has arrived at in its latest expert report.

High Increase of Consumer Prices

The actual number of incoming orders in industry has not diminished since late autumn 1970. The range of industrial order reserves has also not continued to decrease since the turn of the year. The growth rate of imports continued almost as before. Prices of private consumption have gone up acceleratively during the winter half-year. In March the con-

sumer price index of all private households surpassed last year's value by 4.5 p.c.

Contractive Investment Demand

The development of industry's propensity to invest, which at the time is rather unstable, will be decisive for the future course of business activity. A restriction of equipment investment in industry may mean that the investment volume could decline in the whole of trade and industry. A slow-down is even more probable in demand for industrial building and constructing than in equipment investment. On the other hand, house building and contracting should continue to expand. The growth of total public expenditure for building and contracting will reach 15 p.c. in 1971 and will thus remain distinctly under the rate of increase in 1970.

Expansive Foreign and Consumer Demand

Although it is to be expected that the continuing cooling of Western Europe's business climate will be reflected in the incoming of foreign orders, a continuous increase in foreign deliveries is to be counted on

due to the high order reserves. The growth of average export prices should go on, since neither the domestic nor the foreign prices and costs situation should change decisively. State consumption, which at the beginning of the year jumped up considerably because of wage increases in public administration, will continue to expand. Private consumption will also expand only a little slower.

Production Growth Decreasing Again

Due to the expected demand development, production growth should again decline. Production in the industrial sector should hardly expand at all; the same applies for building and contracting. Trade and service production should continue to expand strongly as a result of private consumption growth. Real GNP will under these assumptions expand during the course of the year with a yearly rate of about 2.5 p.c.; for the whole of 1971 an increase of about 3.5 p.c. is expected vis-à-vis last year.

Increase of Consumer Prices to Continue

The continuing relaxation in the labour market will no doubt have a damping effect on the development of earnings. Due to growing competition on the markets for goods one can also expect a slow down in price increases. But this will be true only for the production side.

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

WORLD BUSINESS TRENDS

Consumer prices will continue to go up by 4.5 p.c. as compared to last year. This will be partly due to the fact that quite a number of administered prices will increase, in order to counterbalance the worsened earnings situation in public corporations because of growing costs.

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	371.5	408.6	174.4	197.1	193.2	215.4
Government Consumption	94.3	106.4	121.8	48.3	58.1	55.1	66.7
Investment in fixed assets	146.2	180.0	198.7	79.6	100.4	91.4	107.3
equipment	66.9	81.8	87.8	38.8	43.1	42.7	45.1
buildings	79.3	98.2	110.9	40.8	57.3	48.7	62.2
Change in stocks	+13.8	+ 9.6	+ 4.8	+13.1	— 3.5	+ 9.5	— 4.7
External contribution	+14.9	+11.6	+13.3	+ 4.6	+ 6.9	+ 5.8	+ 7.5
Exports	141.7	158.5	174.5	74.7	83.8	83.5	91.0
Imports	126.8	147.0	161.2	70.1	76.9	77.7	83.5
Gross National Product	602.8	679.0	747.2	320.0	359.0	355.0	392.2
Change in p.c. compared with the previous year							
Private Consumption	10.8	11.4	10	11.8	11.0	11	9.5
Government Consumption	11.7	12.8	14.5	13.7	12.0	14	15
Investment in fixed assets	17.2	23.1	10.5	23.0	23.2	15	7
equipment	26.5	22.3	7.5	26.8	18.5	10	4.5
buildings	10.3	23.8	13	19.7	26.9	19	8.5
Exports	14.5	11.9	10	12.0	11.8	11.5	8.5
Imports	19.4	15.9	9.5	15.8	16.0	11	8.5
Gross National Product	11.9	12.6	10	13.4	12.0	11	9
— in prices of 1962 — Change in p.c. compared with the previous year							
Private Consumption	8.0	7.3	5.5	8.1	6.7	6	4.5
Government Consumption	4.2	2.9	4	2.6	3.2	4	4
Investment in fixed assets	12.1	10.7	3	10.5	10.9	6.5	0.5
equipment	22.6	15.1	2	18.9	11.7	4	0
buildings	3.9	6.7	4.5	2.2	10.2	9.5	1
Exports	12.6	9.0	8	9.7	8.4	9	7
Imports	16.7	16.1	8.5	16.2	16.1	10.5	6.5
Gross National Product	8.1	4.9	3.5	5.9	3.9	4	3

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