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## The economic situation in the FRG

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# WORLD BUSINESS TRENDS

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## The Economic Situation in the FRG

The cyclical relaxation process that in spring had got stuck started going again with the release of the DM-exchange rate and the Federal Government's domestic programme of May, 1971. In particular the foreign markets reacted on the de-facto revaluation of the D-mark following the floating of the exchange rate with a distinct restraint in orders. The export of goods, however, continued growing, although at a lower rate. Industrial home-market orders also declined, though only from the middle of the year on and not so much as those from abroad. The propensity to invest, whose downward movement had stopped at the turn of the year, weakened during the last months. The rise in capital expenditure on equipment stopped. In the building market demand seems to have passed its peak. These are the results to which *Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute* (Association of German Economic Research Institutions) has arrived at in its latest expert report.

The general cyclical easing is being more and more distinct-

ly reflected on the labour market: since summer the number of workers and employees is declining, and this is not without influence on wage developments. The increase of the available total income declined noticeably. With that also consumer expenditure expanded more slowly. Consumer prices—as measured by the cost-of-living index—have continuously increased at a current annual rate of about 6 p.c. during the second and third quarters of the calendar year.

The entrepreneurs' propensity to invest will be decisive for the cyclical trend in 1972. It is to be anticipated that the currently declining development of domestic orders for capital goods will continue during the next months. At present the extent and the duration of this decline cannot be foreseen.

### **Weak Expansion of Foreign Demand**

The further development of foreign demand is considerably uncertain, particularly after the price increases of exports since the beginning of the float. The

prognosis assumes that in the next months exports will grow only slightly — if at all. This anticipation is also supported by the fact that in important partner countries the cyclical expansion is slowing down further, and that the uncertainty about the future development of the DM-exchange rate is impeding the export trade.

In 1972 government expenditure—at any rate under conditions of the cyclical status-quo—will expand less than in 1971, although more than provided for in the budgetary plans. For private consumer expenditure an increase by 6.5 p.c. after 11 p.c. in 1971 is to be expected. Since consumer prices, on an annual average, will rise only slightly less than this year, consumption in real terms will expand only little by about 2 p.c.

### **Hardly Any Growth, but Price Increases**

During most of the next year GNP in real terms will not grow due to an only slightly expanding total demand. Perhaps towards the end of the year a renewed small growth seems to be possible. On an annual average this development will still result in a GNP growth rate of 1 p.c. vis-à-vis the preceding year, while industrial production will fall noticeably. The growing insecurity of jobs will effect the

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atmosphere of wage negotiations. However, the continuing price increases make it difficult for the trade unions to return to wage agreements in conformity with stability. The cost-of-living index will probably rise by 4.5 p.c. on an annual average, since in the beginning of 1972 the backlog will amount to 2.5 p.c. and some indirect taxes will be raised.

## The Most Important Data of the National Account

Prognoses for the 2nd half of 1971 and for 1972

	1970		1971		1970	1971	1972
	1. hf.yr.	2. hf.yr.	1. hf.yr.	2. hf.yr.	Years		
Appropriation of the National Product							
— in current prices —							
in billion DM							
Private Consumption	173.2	197.5	193.6	217.2	370.7	410.8	436.6
Government Consumption	49.2	59.0	58.3	67.5	108.2	125.8	139.5
Investment in fixed assets	79.3	101.8	93.1	108.9	181.1	202.0	203.6
equipment	38.4	44.5	44.4	47.6	82.9	92.0	87.2
buildings	40.8	57.3	48.8	61.3	98.2	110.0	116.4
Change in stocks	+15.4	— 4.2	+ 8.8	— 5.6	+11.2	+ 3.2	+ 1.1
External contribution	+ 4.5	+ 6.5	+ 4.7	+ 7.3	+11.0	+12.0	+17.3
Exports	75.1	82.7	83.7	89.6	157.8	173.3	183.3
Imports	70.6	76.3	79.0	82.4	146.9	161.4	166.0
Gross National Product	321.6	360.5	358.5	395.3	682.1	753.8	798.1
Change in p.c. compared with the previous year							
Private Consumption	10.6	11.3	11.8	10	11.0	11	6.5
Government Consumption	13.9	13.7	18.4	14.5	13.8	16.5	11
Investment in fixed assets	22.5	24.9	17.5	7	23.9	11.5	1
equipment	25.7	22.4	15.4	7	23.9	11	— 5
buildings	19.7	26.9	19.5	7	23.8	12	5.5
Exports	12.4	10.2	11.5	8.5	11.3	10	6
Imports	16.3	14.9	11.9	8	15.6	10	3
Gross National Product	13.9	12.3	11.5	9.5	13.0	10.5	6
— in prices of 1962 —							
Change in p.c. compared with the previous year							
Private Consumption	6.7	6.9	6.8	4	6.8	5.5	2
Government Consumption	3.3	5.1	8.6	4.5	4.3	6.5	4.5
Investment in fixed assets	10.6	13.0	8.8	0	11.9	4	— 3
equipment	19.3	16.3	9.0	2	17.7	5.5	— 7
buildings	2.2	10.2	8.6	— 2	6.7	2.5	1
Exports	10.0	6.9	8.5	5.5	8.4	7	4
Imports	6.6	14.9	10.4	7.5	15.7	9	2
Gross National Product	6.6	4.2	4.1	2	5.4	3	1

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