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## World business trends

Intereconomics

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## Germany: Business Revival

In the Federal Republic the danger of a recession has been banned. The cyclical downswing, i.e. the phase of declining capacity utilisation and employment, is ending without leading to the frequently apprehended recession. The unutilised capacities and labour reserves are correspondingly small, while the price increases remain rather pronounced still. Now all important cyclical indicators are showing that in the spring of 1972 Germany's economy is at the outset of another cyclical upswing. Decisive for this turn in the trend have been the realignment of Washington, the gradually changing course of economic policy and the change in wages policy. These are the results arrived at by the Association of German Economic Research Institutes in its latest report.

### Impulses from Abroad

The improving economic climate abroad results in more favourable sales chances for the Federal Republic. This year, according to the plans known up to now, stronger impulses than had been assumed in autumn 1971 are originating from the core-budgets of the governmental units. For public investment a growth rate of 6 p.c. in real terms can be anticipated on an annual average of 1972. Housebuilding activities will on an annual average increase even more than Government investment. Equipment investments will not decline as steeply as had been indicated by the enterprises' investment planning of autumn 1971. On the whole a slightly retrograde development should

be expected until the mid of the year, probably followed by a slowly increasing cyclical growth. Higher expectations of business have led to a turn in stocks arrangements that up to the end of 1971 had contractive effects.

### Private Consumption

In the further course of the year private consumption will grow more strongly. Due alone to the repayment of the surtax imposed for cyclical reasons the development perspectives of available incomes improved distinctly. In addition future increases of standard wages to be agreed on will hardly be lower than now. There are ever clearer indications that the high growth rates of prices are opposing a further considerable reduction of wage increases. The decline in the number of employed persons has also stopped. For the second half of the year an upward tendency of wages has to be anticipated again.

### Faster Growth of GNP

According to the present prognosis GNP in real terms will increase from the first to the second half of 1972 at a current annual rate of about 6 p.c. The GNP price index will rise at a distinctly lower rate than hitherto. In the second half of the year the GNP in real terms will therefore grow somewhat more than productive capacities. The utilisation of capacities will also climb again. Together with a continuing decline of the domestic labour potential the number of unemployed will sink gradually and the employment of foreigners will continue grow-

ing. The cyclical recovery will also effect imports.

### Weakening Price Rises

In spite of a slightly increasing rise of effective wage rates, unit labour costs will grow little only due to the expected progress in productivity. This will however not lead to a noticeable flattening out of the rising tendency in prices. Particularly private consumer goods prices will not be fully effected by calming trends, since trade has made above average wage concessions which it will try to pass on. Besides prices of foods, beverages and tobacco will rise, partly due to the Brussels agricultural agreements and partly owing to increasing taxation of consumption. State controlled priced and fees will also be raised. On the whole the rise in consumer prices, that in the first half of the year is still corresponding to a current annual rate of about 5 p.c., will decline in the second half of 1972 to about 4 p.c. A stronger price increase is probably to be anticipated for building investments because of the high wage increase in the building industry.

### Economic Policy Deliberations

There is a risk that demand will again reach the limits of production capacities relatively early. Consequently cost and price increases will then accelerate quickly again. The problem of counter-measures might therefore be posed earlier than in former periods of cyclical upswing. It has to be assumed that a monetary stabilisation policy has limited possibilities only due to the valid monetary order, all the more since now

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*Compiled by the Department on Business Cycles and Statistics of the Hamburg Institute for International Economics*

the margins of fluctuation have been narrowed within the EEC. The less monetary policy can contribute to checking excessive economic activity, the more financial policy has to take over this task. In the short run a wider scope for manouvering is only given in the case of investments. But a cutting down of

expenditure will dam up the demand for public investment. The emphasis of financial policy measures should therefore be on revenues. A renewed intensification of the struggle about income distribution would force the economic policy authorities to steer towards a path of expansion that lies below the one

possible otherwise. Last but not least a successful guidance of economic activities depends on a functioning competition. In particular controls of mergers and stricter cartels regulations will be unavoidable. Finally it has to be secured that external disequilibria be avoided and not be corrected subsequently only.

### The Most Important Data of the National Account

Prognoses for 1972

	1970	1971	1972	1971		1972	
	Years			1. hf.yr.	2. hf.yr.	1. hf.yr.	2. hf.yr.
<b>Appropriation of the National Product</b>							
— in current prices — in billion DM							
Private Consumption	370.3	410.2	445.6	193.3	216.9	211.0	234.6
Government Consumption	108.2	128.8	144.8	60.0	68.8	67.1	77.7
Investment in fixed assets	181.1	202.2	212.5	93.9	108.3	98.2	114.3
equipment	82.9	90.9	90.0	44.7	46.2	42.9	47.1
buildings	98.2	111.3	122.5	49.2	62.1	55.3	67.2
Change in stocks	+12.0	+ 4.5	+ 4.5	+ 8.5	— 4.0	+ 8.1	— 3.6
External contribution	+11.2	+10.4	+13.3	+ 4.8	+ 5.6	+ 6.3	+ 7.0
Exports	157.4	171.1	183.7	83.4	87.7	88.8	94.9
Imports	146.2	160.7	170.4	78.6	82.1	82.5	87.9
Gross National Product	682.8	756.1	820.7	360.5	395.6	390.7	430.0
<b>Change in p.c. compared with the previous year</b>							
Private Consumption	10.9	10.8	8.5	11.9	9.8	9	8
Government Consumption	13.8	19.0	12.5	21.4	17.0	12	13
Investment in fixed assets	23.9	11.7	5	18.4	6.4	4.5	5.5
equipment	23.9	9.7	— 1	16.2	4.0	— 4	2
buildings	23.8	13.3	10	20.5	8.2	12.5	8.5
Exports	10.9	8.7	7.5	11.5	6.3	6.5	8
Imports	15.1	9.9	6	11.9	8.1	5	7
Gross National Product	12.0	10.7	8.5	12.0	9.6	8.5	8.5
— in prices of 1962 — Change in p.c. compared with the previous year							
Private Consumption	6.9	5.3	3.5	6.8	3.9	3.5	3.5
Government Consumption	4.3	6.1	4.5	9.0	3.6	3.5	5
Investment in fixed assets	11.5	4.0	0	9.6	— 0.6	— 0.5	1
equipment	16.7	4.4	— 3	9.7	— 0.5	— 6	0
buildings	6.7	3.6	3.5	9.4	— 0.7	5.5	2
Exports	8.1	6.2	5	8.5	4.1	4	6
Imports	15.2	9.2	5.5	10.4	8.2	6.5	4.5
Gross National Product	5.5	2.8	2.5	4.1	1.5	1.5	3.5

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