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Germany: Stronger Expansion

In the second and third quarters of 1972 the economic situation in the Federal Republic of Germany was marked by a suspended upward tendency. Simultaneously the utilisation of industrial capacity has not increased and a considerable rise in the backlog of orders could not be noticed. Consumer expenditure of private households increased strongly again. The expansion of demand on the building-market has continued in the last months. Up to now the demand for equipment-investments has grown at a low rate. The noticeable upward tendency of foreign demand—after an interruption in the middle of the year—has continued. The expansion of government expenditure has not continued to decline in the summer halfyear. Simultaneously the public revenue has grown more strongly and may exceed the budget appropriation for this financial year. These are the results arrived at by the Association of German Economic Institutes in its latest report.

Higher Investments

The prognosis for 1973 does not assume a change in cyclical policy. The essential moment for the cyclical upswing will be an increase in the propensity to invest. The assumption of a rapidly upward moving demand for capital goods is supported by the entrepreneurs' plans to invest. For equipment investments in real terms of all economic sectors an increase by 7 p.c. is to be expected in 1973. On the building-sector

total investments in real terms will probably expand at a rate of nearly 4 p.c. A further improvement of expectations by the entrepreneurs will surely stimulate arrangements for carrying stocks.

Exports and World Trade

The cyclical uprise will be supported by foreign demand in the next months. Expansive influences are to be expected from further improvements of the cyclical process in a number of importing countries, from the expansion of the EEC and the Free-Trade-agreements with the rest of the EFTA-countries. The increase in exports will be considerably slower than in the upswing of the last economic cycle; for this time the German exporters will probably not have such an advantage in price competition as they had in the last cycle.

Consumer expenditure will also expand more rapidly in 1973. There is a particular risk that the expected budgetary surplus may lead to an expansion of public expenditure. In 1973 GNP in real terms will rise at a steady annual rate of about 6 p.c. Within the next year the growth rate will accelerate, although compared with the preceding year there will be only an increase of nearly 5 p.c. The assumption of a "normal" winter 1972/73 in this prognosis reduces the growth rate because of last year's mild, production favouring winter. With the faster expansion of demand and production the growth of imports will also accelerate again. The tendency towards a reduced

external contribution, which was already to be seen in the second and third quarters of 1972, will continue during the next year. The net position on goods and services including net current transfers should become adverse.

High Price Increases

The increase of consumer prices will slow down a little, although this will be only a result of the fact that a lower rate of price increases in foodstuffs is assumed. All the other consumer goods and private services will probably register a higher rate of price rises. Compared with the year before the cost-of-living index of 1973 will probably rise by a total of 5.5 p.c., i.e. this year's rate.

The Institutes are hoping that economic policy actions will influence the development of prices and costs in such a way that the forecasted undesirable trend will not take place. It is the opinion of the Institutes in Essen, Hamburg and Kiel that the problem of stabilisation in this situation cannot be solved only by monetary or fiscal policy, but that a comprehensive stabilisation programme is necessary. In this programme the limits for the expansion of demand have to be so fixed that full-employment will only be guaranteed if employers and employed act in accordance with stabilisation.

In a situation of high inflation rates stabilisation can only be obtained gradually. Indispensable precondition of a success is an efficient covering against

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

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external influences. As at present the main problem is an elastic defence against external distortions, a flexible exchange rate would be most suitable. The Institutes in Berlin and Munich hold another opinion

mainly concerning the external safeguard of a stabilisation policy. From their point of view measures in the field of exchange rate policy are neither necessary nor useful for the foreseeable future. Because of

price- and costs-relations with foreign countries external inconveniences would not be of pressing importance at present. For the time being questions of external protection arise only for monetary policy.

The Most Important Data of the National Account

Prognoses for the 2nd half of 1972 and for 1973

	1971	1972	1973	1972		1973	
	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	409.1	446.8	490.3	210.6	236.2	231.1	259.2
Government Consumption	130.7	148.1	168.4	68.5	79.6	77.9	90.5
Investment in fixed assets	202.9	217.5	239.8	101.1	116.4	108.8	131.0
equipment	90.9	93.5	102.5	45.1	48.4	48.7	53.8
buildings	112.0	124.0	137.3	56.0	68.0	60.1	77.2
Change in stocks	+ 6.0	+ 6.9	+13.4	+10.0	— 3.1	+13.5	— 0.1
External contribution	10.1	9.8	7.4	5.1	4.5	3.5	3.9
Exports	173.0	185.5	206.1	89.6	95.9	98.5	107.6
Imports	163.0	176.0	198.7	84.6	91.4	95.0	103.7
Gross National Product	758.8	828.8	919.3	395.2	433.6	434.8	484.5
Change in p.c. compared with the previous year							
Private Consumption	10.9	9	9.5	9.4	9	9.5	9.5
Government Consumption	19.8	13.5	13.5	13.1	13.5	13.5	13.5
Investment in fixed assets	12.1	7	10.5	7.2	7	7.5	12.5
equipment	9.7	3	9.5	1.0	4.5	8	11
buildings	14.1	10.5	10.5	12.9	9	7.5	13.5
Exports	9.1	7	11	6.3	8	10	12
Imports	10.5	8	13	6.5	9.5	12.5	13.5
Gross National Product	10.7	9	11	9.1	9.5	10	11.5
— In prices of 1962 —							
Change in p.c. compared with the previous year							
Private Consumption	5.5	3.5	4	4.0	3	3.5	4.5
Government Consumption	7.3	4	3.5	4.1	4	3.5	3.5
Investment in fixed assets	4.5	3.5	5.5	3.2	3.5	3.5	7.5
equipment	4.7	1.5	7	— 0.3	3.5	5.5	8
buildings	4.3	5.5	4	7.1	4	1.5	6.5
Exports	6.4	5.5	8.5	4.7	6.5	7	10
Imports	9.7	9	10	9.7	8.5	9	10.5
Gross National Product	2.8	2.5	5	2.2	3	4	6

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