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World business trends

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German Economic Situation

The West German economy registers a vigorous boom, which proceeds in equal step with cyclical developments in other industrial countries. Since last autumn demand has grown exuberantly, headed by the expansion of orders from abroad. Recently the private households' inclination to buy has also increased. Under the impression of growing demand and orders in hand the enterprises quickly planned higher investments. This applies not only to equipments but also to buildings. With their production the enterprises reacted very fast to the acceleration of the demand expansion. At the beginning of the year the extent of utilisation of capacities matched again the longer-term average. But due to the low manpower reserves tensions in the labour market are noticeable already now. These are the results arrived at by the Association of German Research Institutes in its last report, which was formulated still before the announcement of the last stabilisation programme.

Prospect: Fast Rising Investment Activities

In the further course of 1973 the general economic development will be marked by a continuously vigorous boom. Regarding the propensity to invest the motive of rationalisation will be more and more accompanied by the endeavour to expand production plants. This applies not only to industry. A strong expansion of investment is to be anticipated mainly with regard to public utilities, trade and private services. Equipment investments

in real terms will expand vigorously. On an annual average they will exceed the previous year's level by 8 to 9 p. c. The enhanced placing of orders by public authorities, particularly by municipalities and rural communities, is favouring above all civil engineering, whose capacities were so far utilised to a small extent only. As regards buildings supply bottlenecks will characterise the future situation. The considerable backlog of demand for housing is to be added to the expanding demand of the enterprises and the state. A growth rate of more than 6 p. c. vis-à-vis 1972 can be estimated for total investment in buildings in real terms.

Continuing Strong Impulses from Abroad

Considerable stimulating effects will as usual originate from foreign demand. If in spring developments should be somewhat pent-up, this would probably be only in reaction to the forced deliveries during the winter half-year. In the later course of the year the expansion of goods exports will, however, be impeded by the declining elasticity of supply. Expenditure for public consumption will increase more strongly than provided for in the Federal Government's annual projection. Private consumer spending will also accelerate distinctly.

Together with the strong increase in demand the overall economic production will grow exuberantly. Between spring and the end of the year GNP in real terms should expand at a

current annual rate of about 7 p. c. The growth rate of production capacities will not keep up with demand in real terms. The growing domestic production will stimulate purchases of raw materials, semi-finished and primary products from abroad. A further stockpiling should be added to the current demand. The investors, too, will avail themselves more than hitherto of the supply of foreign capital goods. The economy's demand for manpower will increase, but there are only low reserves in the domestic labour market. On an annual average of 1973 more than 200,000 additional foreign workers will probably be required.

Higher Rise in Prices

In spite of the DM revaluation the speed of price increases will not decline but accelerate. The DM revaluation will, however, prevent still higher price increase rates, that would have to be expected otherwise. Possibilities of passing on of cost increases seem still to exist for exports. The revaluation should weaken only temporarily the tendencies for prices to rise which could be noticed most recently. On the other hand — and differently from the situation after former revaluations — no decisive price dampening influences should originate from import prices. Higher import prices, accelerating wage unit costs and the enterprises' efforts to keep or maintain their profit margins will lead to a strengthening of the upward trend in prices, all the more so since the development in demand does not require any restraint in the enter-

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prises' price policy. In almost all fields of private consumption higher price increases are to be anticipated, above all regarding services and manufactured goods. Only for food prices a noticeable flattening out of the

rising trend may be expected due to the probably bigger supply. Owing to the great weight of these goods this development will have effects strong enough to cause a declining rate of increase also in the total index.

Nevertheless in the second half-year the current price increase rate will not fall below 6 p. c. In comparison with a year earlier this means an increase rate of 6.5 p.c. after 7 p.c. during the first half-year.

The Most Important Data of the National Account

Prognoses 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	409.6	448.5	499.6	210.4	238.1	233.5	266.1
Government Consumption	130.7	147.1	166.9	68.3	78.8	77.6	89.3
Investment in fixed assets	203.1	214.5	241.4	100.9	113.7	110.7	130.7
Equipment	91.1	92.5	103.3	44.8	47.7	48.5	54.8
Buildings	112.0	122.1	138.1	56.1	66.0	62.2	75.9
Change in stocks	+ 5.3	+ 5.1	+11.3	+10.6	— 5.5	+12.5	— 1.2
External contribution	+10.2	+13.3	+13.6	+ 5.4	+ 7.9	+ 6.5	+ 7.1
Exports	173.1	188.3	218.0	89.7	98.6	104.3	113.7
Imports	162.9	175.0	204.4	84.3	90.7	97.8	106.6
Gross National Product	758.9	828.5	932.8	395.6	432.9	440.8	492.0
Change in p.c. compared with the previous year							
Private Consumption	11.0	9.5	11.5	9.3	9.6	11	12
Government Consumption	19.8	12.6	13.5	12.7	12.5	13.5	13.5
Investment in fixed assets	12.2	5.6	12.5	7.0	4.4	9.5	15
Equipment	9.9	1.5	11.5	0.3	2.6	8	15
Buildings	14.1	9.0	13	13.0	5.7	11	15
Exports	9.2	8.8	16	6.3	11.1	16.5	15.5
Imports	10.5	7.4	17	6.1	8.6	16	17.5
Gross National Product	10.7	9.2	12.5	9.3	9.0	11.5	13.5
— in prices of 1962 —							
Change in p.c. compared with the previous year							
Private Consumption	5.6	3.5	4.5	3.7	3.3	3.5	5
Government Consumption	7.3	4.4	4	4.6	4.2	4	4
Investment in fixed assets	4.5	1.9	7.5	2.5	1.3	5.5	9
Equipment	4.8	0.3	8.5	— 1.1	1.7	6	11
Buildings	4.3	3.4	6.5	6.4	1.0	5	7.5
Exports	6.5	7.6	12.5	4.8	10.3	14	11.5
Imports	9.8	8.1	12.5	9.0	7.3	11.5	14
Gross National Product	2.7	2.9	6	2.4	3.4	5.5	7

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