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## World business trends

Intereconomics

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## German Economic Situation

Under the influence of the stabilisation measures and the substantial changes of exchange rates the cyclical upswing has largely come to a standstill. Strong impulses were still given by foreign demand. The propensity to invest has not grown. The domestic ordering of capital goods rather declined during the summer months, after a volatile increase in May in connection with the announcement of the stabilisation measures. Investment activities slightly fell off. Hitherto the downward tendency of economic activity was too unimportant, however, to affect wage agreements. On the contrary, due to the heavy pressure of increasing prices, wage increases were higher than at the beginning of the year. These are the results arrived at by the Association of German Research Institutes in its last report.

At present, the prognosis of next year's economic development is affected with extraordinary uncertainties: in the Federal Republic no cyclical upswing has ever been restrained so early and so energetically. Therefore the interrelations of effects which are known from former business cycles can be taken as a basis for the coming development only with great reserve. Since the turn of the year the D-Mark has been substantially revalued by the fluctuations of exchange rates. The

strength of the effects on foreign trade which will arise therefrom can only be roughly estimated.

### **Outlook: Stagnating Demand for Capital Goods**

Many factors seem to indicate that if the domestic demand for capital goods will increase at all in the near future, it will be by a negligible amount. Above all the entrepreneurs' deteriorated business expectations point to this direction. The demand for building services will probably further decrease. Though after the readmission of the 7b-tax privilege in respect of depreciation a batch of new applications of building permits can be expected, it remains doubtful whether there will be a reversal of the basic downward tendency. Industrial demand for buildings might remain on a low level in accordance with the weak propensity to invest. Merely in public building an increase of orders can be taken into account. The tendencies towards stability of prices of building services will grow stronger. Investments in stocks will rather have dampening influences.

### **Slackening Foreign Stimuli**

With the — expected — worldwide flattening of activity in capital goods the pull of foreign demand will slacken, too. Then the effects of the substantial DM-re-

valuation will also become more evident; foreign demand, however, will still be rising. As, besides, the exporters' orderbooks are well filled, exports are likely to rise far into the next year. Because of the tightening of international competitive conditions it can be expected that export prices will be raised by a smaller amount than in the current year. The increase in the volume of imported goods will slow down. In 1974, import prices will rise only slightly. Thereby it is assumed that the high price level of raw materials on the world markets will slightly ease off. On the markets for crude oil, however, due to the tight situation frequent price increases may be anticipated.

### **Tendency towards Price Stability not in Sight**

Almost stagnating investments in fixed assets, declines in stockpiling and slackening of the expansion of exports in connection with an undiminished growth of private and public consumption will cause a substantial decrease of the National Product in real terms from roughly 6 p.c. in 1973 to about 3 p.c. in 1974. The development of wage costs per unit produced leaves little hope for a tendency towards price stability in the near future. The increase of prices of imported raw materials and semi-finished goods might to a great extent cease as a price-enhancing power. The weakening of the expansion of demand in many fields will also more and more reduce the possibilities of markups on prices.

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

Thus there exist real chances of dampening the rise in prices by and by, especially in the capital goods sector where the stabilisation measures will be more effective than in the consumer goods sector. Above all services and

repairs will show further remarkable price increases, which have already been announced for the prices fixed by the authorities. Before long, food prices will probably take a dampening influence on the rise of consumer

prices while prices of industrial goods are likely to show a similar development in the later course of the year. It follows that the cost-of-living price index will rise not much slower than it did on an average in 1973.

### The Most Important Data of the National Account

Prognoses for the 2nd half of the year 1973 and the year 1974

	Billion DM				Changes in p.c. compared with the previous year			
	1972			1973	1973			1974
	1. hf.yr.	2. hf.yr.	year	1. hf.yr.	1. hf.yr.	2. hf.yr.	year	year
<b>Appropriation of the National Product</b> — in current prices —								
Private Consumption	210.5	237.2	447.7	234.6	11.4	11.5	11.5	10
Government Consumption	68.3	78.7	146.9	77.3	13.2	17	15	14.5
Investment in fixed assets	100.8	114.7	215.6	109.1	8.2	8	8	8
Equipment	44.8	47.7	92.5	47.5	6.0	7.5	6.5	14
Buildings	56.0	67.0	123.1	61.6	10.0	8	9	4
Change in stocks	+ 10.0	— 5.6	+ 4.4	+ 13.0	·	·	·	·
External contribution	+ 5.7	+ 8.6	+ 14.2	+ 9.1	·	·	·	·
Exports	89.5	99.6	189.1	107.2	19.7	16.5	18	9.5
Imports	83.9	91.0	174.9	98.1	16.9	14.5	15.5	8.5
Gross National Product	395.3	433.5	828.8	443.1	12.1	12.5	12.5	10.5
— in prices of 1962 —								
Private Consumption	155.3	170.4	325.8	161.4	3.9	4.5	4.5	4
Government Consumption	37.1	40.2	77.2	38.1	2.8	3.5	3	3.5
Investment in fixed assets	70.8	78.4	149.3	73.4	3.6	2.5	3	1
Equipment	36.2	37.7	73.9	37.5	3.8	4	4	3
Buildings	34.7	40.7	75.4	35.8	3.3	1.5	2	— 1
Change in stocks	+ 8.5	— 4.7	+ 3.8	+ 10.5	·	·	·	·
External contribution	+ 0.3	+ 3.6	+ 3.9	+ 5.1	·	·	·	·
Exports	80.4	88.1	168.5	95.0	18.1	14	16	7
Imports	80.1	84.5	164.6	89.9	12.2	11	11.5	7
Gross National Product	272.0	287.9	559.9	288.4	6.0	5.5	6	3
Price Level of National Expenditure (1962 = 100)								
Private Consumption	135.6	139.2	137.4	145.4	7.2	6.5	7	6
Government Consumption	184.3	195.9	190.3	202.9	10.1	13	11.5	10.5
Investment in fixed assets	142.3	146.2	144.4	148.7	4.5	5	5	7
Equipment	·	·	·	·	2.1	3.5	3	10.5
Buildings	·	·	·	·	6.4	6.5	6.5	5
Exports	111.3	113.0	112.2	112.8	1.3	2	2	2.5
Imports	104.7	107.7	106.2	109.1	4.2	3	3.5	1.5
Gross National Product	145.3	150.6	148.0	153.6	5.7	6.5	6.5	7

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