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World business trends

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WORLD BUSINESS TRENDS

German Economic Situation

In the Federal Republic of Germany the cyclical downswing continued until the turn of the year. The partly clear downward trend of demand within the country had negative influences on production which, however, were extensively compensated for by the development of exports. During the winter half-year GNP in real terms remained roughly constant. Under the impression of the oil crisis the Government last December cancelled nearly all of the stabilisation measures which had become effective in May 1973. Enterprises saw reason for a significant reduction of employment which was certainly not only due to their little optimistic sales expectations but also to rising costs. The increase in living costs by 7.5 p.c. vis-à-vis the preceding year, that had been registered during the first months of this year, might be remarkably exceeded in the near future. These are the results arrived at by the Association of German Research Institutes in its latest report.

Rising Investment Activity

While some time ago there was still reason for being anx-

ious about a further decline of economic activity which might even end up in a recession, at present there are first signs of a turn of the cyclical tendency. It is, however, still an open question whether a cyclical upswing — i.e. a rising utilisation of productive capacity — will come about already in 1974 or whether the expansion will fall short of the growth of productive capacity. There are indications for a rising propensity to invest. On a yearly average, capital expenditures on equipment in real terms, though, might only slightly surpass the corresponding value of the preceding year. As to expenditures on building, a significant decrease in the field of housing and a stagnation of buildings for trade and industry can be expected. On the other hand, public building orders during the last months showed a steep increase, having a distinct stimulating impact on building activity.

Accelerated Growth of Imports

Even more than public investment, government expenditures on goods and services will contribute to the expansion of total

demand. Disposable incomes of private households will rise more speedily in the course of the year. However, since the upward movement of prices will accelerate, too, the increase in private consumption, measured in real values, will be rather modest. In spite of the well-filled order books, exports will not grow at the same high rate as they did during the last months. In connexion with the continuing rise in economic activity within the country, the volume of imports will also grow faster. This is valid above all for imports of raw materials and pre-products. Although the export surplus will slightly diminish, it will, on a yearly basis, still be significantly higher than in 1973.

Further Decline in Employment

According to these assumptions about the elements of demand, GNP in real terms will in 1974, on a yearly average, increase by 2.5 p.c. Production which during the winter half-year was to a far-reaching extent absorbed by exports, will increasingly be able to rely on domestic demand. The rise in manufacturing activity will first

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

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1973				1974		
	March	June	Sept.	Dec.	March	March 29	April 11
HWHA-Index * (1952-1956 = 100)	152.8	172.2	195.7	228.5	296.2	310.8	308.5
Foodstuffs	146.6	168.7	188.7	200.9	246.5	247.4	248.0
Raw materials other than foodstuffs ...	155.9	173.8	199.2	238.9	320.2	341.4	337.6
Fuels	141.5	154.2	155.0	220.2	426.9	468.7	468.5
Raw materials for consumer goods ..	171.9	178.9	222.2	213.9	188.3	188.8	192.3
Raw materials for capital goods	159.4	190.1	227.9	274.6	302.4	316.8	304.5
Reuter's Index (18. 9. 1931 = 100)	875.6	975.0	1193.5	1355.1	1422.1	1386.9	1360.4
Moody's Index (31. 12. 1931 = 100)	510.0	559.5	646.6	685.5	745.7	733.0	721.4

* Index compiled by the Hamburg Institute for International Economics. On dollar-basis.

WORLD BUSINESS TRENDS

not be sufficient to prevent a further decline in employment. After the substantial wage increases at the beginning of the year, effective hourly earnings will, on a yearly average for

1974, rise by 13 p.c. In order to counter the narrowing of profit margins, enterprises will – with growing success – try to raise their prices. The strongest tendency of prices to rise will be

registered in the field of industrial consumer goods since the substantial increases in prices of their pre-products have as yet not been fully passed on to buyers.

The Most Important Data of the National Account

Prognoses for the year 1974

	1972 ¹	1973 ¹	1974 ²	1973 ¹		1974 ²	
	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	447.7	494.6	545.5	234.9	259.7	257	288.5
Government Consumption	146.9	169.7	196.5	77.9	91.8	90	106.5
Investment in fixed assets	215.6	226.8	243.5	108.0	118.8	112	131.5
Equipment	92.5	96.6	106	47.1	49.4	49.5	56.5
Buildings	123.1	130.2	138	60.9	69.3	62.5	75
Change in stocks	+ 4.4	+ 9.6	+ 8	+ 12.5	— 2.9	+ 10	— 2
External contribution	+ 15.2	+ 25.5	+ 21	+ 11.9	+ 13.7	+ 11.5	+ 9.5
Exports	190.1	226.3	266.5	107.9	118.5	129.5	137
Imports	174.9	200.8	245	96.0	104.8	118	127
Gross National Product	829.7	926.2	1015	445.2	481.0	480.5	534
Change in p.c. compared with the previous year							
Private Consumption	9.5	10.5	10	11.3	9.8	9.5	11
Government Consumption	12.5	15.5	16	14.1	16.7	16	16
Investment in fixed assets	6.1	5.2	7.5	7.1	3.5	3.5	10.5
Equipment	1.5	4.4	9.5	5.2	3.7	4.5	14.5
Buildings	9.9	5.8	6	8.7	3.4	3	8
Exports	9.1	19.1	17.5	19.5	18.7	20	15.5
Imports	8.0	14.8	22	14.5	15.1	23	21.5
Gross National Product	9.2	11.6	9.5	12.5	10.9	8	11
— in prices of 1962 — Change in p.c. compared with the previous year							
Private Consumption	3.7	3.1	1.5	4.0	2.3	1	1.5
Government Consumption	4.4	4.4	3.5	3.7	5.1	4	3.5
Investment in fixed assets	1.9	0.5	— 0.5	2.9	— 1.6	— 3.5	2
Equipment	— 0.1	1.8	1	3.5	0.1	— 3	4.5
Buildings	3.9	— 0.6	— 2	2.2	— 3.1	— 4	0
Exports	7.8	16.4	10	18.2	14.8	12	8
Imports	8.2	10.0	5.5	12.4	7.8	3.5	7.5
Gross National Product	3.0	5.3	2.5	6.1	4.5	2	3

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