

Gehrtz, Gerald

Article — Digitized Version

Economic activity: The present situation

Intereconomics

Suggested Citation: Gehrtz, Gerald (1974) : Economic activity: The present situation, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 10, pp. 325-326, <https://doi.org/10.1007/BF02929232>

This Version is available at:

<https://hdl.handle.net/10419/139093>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Economic Activity: The Present Situation

by Gerald Gehrtz, Hamburg *

Measured, as usual, in terms of utilisation of capacities, the economy of the Federal Republic of Germany is still in a phase of cyclical downswing. The hopes for an early reanimation of the propensity to invest which were still widespread in spring and which were founded on the increased number of orders for capital goods that came in during the first quarter of 1974, have not materialised. At the time, there might rather have occurred partly exaggerated reactions to the slackening of some restrictive measures by the Federal Government last December as well as to the recognizable end of the "oil crisis". In any case orders for investment goods have, until summer, shown a substantial decrease.

Steady Demand for Manufactures

Domestic demand for products of the processing industry altogether (food products, coffee, tea, chocolate, etc., not included) has not yet grown: adjusted for price and seasonal variation, a 5 p.c. decrease of incoming orders was registered vis-à-vis last January. At the same time foreign demand has lost its dynamism; during the summer there was no further increase. It might have been the cyclical downswing which was registered in nearly all western industrialised countries rather than the increase of prices for German products abroad which took a dampening influence on the volume of orders. However, in the mid-year, foreign orders were — adjusted for seasonal variation — still higher than sales abroad; consequently the number of foreign orders rose again until June. Taken as a whole, domestic and foreign demand for industrial goods were then by 2.5 p.c. lower than at the beginning of the year.

Differentiated Domestic Demand

During the summer domestic demand for industrial products showed heavily diverging tendencies, although most branches suffered slight losses. A considerable decrease was registered in mechanical engineering; until mid-year orders had diminished roughly by 8 p.c. vis-à-vis the be-

ginning of the year (figures adjusted for price and seasonal variation). Last but not least, the substantial decline of building activity might have contributed to this development. In contrast to the situation some months ago, demand for industrial consumer goods has not further decreased but stagnated during the summer. Favourable as before was the backlog of orders of the chemical industry which, during the same period, could again register an increment of orders. In the textile industry the number of incoming orders showed no further decrease since the beginning of the year; apparently adjustments of the buyers' stocks have since then not played such an important role as before. Obviously, the decrease of orders for goods of the processing industry has not before July led to a slight decline of orders in hand. In June the cushion of orders, measured in terms of monthly production, was still as high as it had been at the beginning of the year.

Further Decrease of Capacity Utilisation

The development of industrial production has largely adapted itself to the cautious placing of orders and — adjusted for seasonal variation — slightly diminished. There were no spectacular discrepancies between the different industries. The development of the motorcar industry kept itself within this framework, too. It seems as if here the cyclical trough is reached now. In the chemical industry there was a slight increase of production. Since, taken altogether, productive capacity has grown while manufacturing activity has slightly fallen at the same time, the utilisation of the processing industry's capacities clearly decreased. According to the Ifo-Institute¹, it reached in July only 80.5 p.c. after it had in April still amounted to 83 p.c. Though the July value was the lowest one since 1967, it still surpasses that year's lowest point (April 1967: 76.5 p.c.) by 4 percentage points. It must be taken into consideration, however, that during this summer school holidays and vacation shutdowns concen-

* The Hamburg Institute for International Economics.

¹ Ifo-Institute for Economic Research, Munich.

trated more on July than in previous years; thus all findings for this month may overdo in downward direction. In accordance with the slight production cuts the number of persons employed in industry was also further reduced. During the first half year it shrunk by 160,000 — not adjusted for seasonal variation — and thus lay in June by 2.3 p.c. under the previous year's level. One year ago another 50,000 workers had been engaged during this period. Only the chemical industry — where employment was growing also during the summer months — was clearly in contrast to the general development.

Slower Rise of Industrial Producer's Prices

When leaving consumer goods out of account, the rise of industrial producer's prices has decelerated until summer. In the aggregate, prices of goods of the processing industries rose by 0.9 p.c. between May and July. From March until May they had still increased by 1.7 p.c. Particularly the prices of products of the basic materials and investment goods industries showed a slackening tendency to rise; this may indicate that the effects of the forced increases of energy and raw materials prices during the "oil crisis" are now gradually abating. That the producers of investment goods at last raised their prices by lower percentages, is not surprising in view of the generally further weakening propensity to invest. Especially weak was the upward movement of prices of foodstuffs and coffee, tea, chocolate, etc.; in July they were hardly higher than at the beginning of the year. This may also be a consequence of the reduction of prices of several agricultural products. Against this, the increase of industrial wage costs might have continued

until now. During the first half year wage costs per unit of output have risen markedly faster than during the same period of the last four years. With a strong reduction of employment and only a slight decline of output, productivity (output per man-hour) has shown a further increase which, however, was substantially surpassed by the upward trend of wages. The margins within which producers could pass cost increases on to buyers were — due to the cautious demand — relatively narrow. Taking all determinants into consideration, it may be expected that the current tendency of prices to rise will, at least, not strengthen again until the turn of the year.

Shifts in the Structure of Demand

Prospects for the development of demand for manufactured goods will, during the next months, be characterised by shifts between domestic and foreign influences. In view of the cyclical upswing in most of the important trade partner countries, no sensible stimuli can be expected from foreign demand. To what extent the modest demand from the industrialised countries can be compensated by heavily increased orders from the mineral oil and raw materials producing countries, is still an open question. On the other hand, the tax reductions, which will become effective on January 1, 1975, might already in advance take a stimulating influence on the industry's dispositions. Thus it would be possible that a part of the enterprises build up stocks as a precaution. Whether these stimuli will, however, take a lasting effect, depends last but not least on the signals which are given by economic policy. In any case, the trade-off between price stability and high employment will remain.

Indicators of Industrial Activity
Changes from quarter to quarter, in p.c., adjusted for seasonal variation

	1973				1974		
	I	II	III	IV	I	II	III ¹
Incoming orders, processing industry							
Domestic	1.8	— 1.0	— 7.2	— 1.7	0.7	— 1.0	— 1.0
Foreign	3.3	1.3	3.9	2.3	— 0.8	± 0.0	0.5
Industrial output							
Investment goods	3.7	0.4	2.1	1.4	— 2.1	— 0.8	— 1.0
Consumer goods	2.1	— 0.8	— 1.4	— 2.1	± 0.0	1.0	1.0
Utilisation of capacities ²							
Processing industry total	1.2	0.6	— 1.5	— 0.6	— 2.1	— 1.1	— 3.0
Persons employed in the industry ³	— 0.1	0.2	0.7	— 0.3	— 1.6	— 0.8	— 0.5
Industrial producer's prices ³							
Products of the processing industry total	2.3	1.9	1.7	1.9	6.6	3.4	1.5
Products of industries producing investment goods	2.2	1.6	0.8	0.8	4.1	3.5	1.5
Products of industries producing consumer goods	2.8	2.4	1.9	1.3	5.1	3.0	2.5

¹ Estimated figures for the third quarter of 1974. ² According to Ifo-Institute for Economic Research, Munich. ³ Not adjusted for seasonal variation.

Source: Federal Statistical Office, Wiesbaden, and computations of the Hamburg Institute for International Economics.