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The Economic Situation in the Federal Republic

This article offers an extract of the findings published in the latest joint expertise on the Federal Republic's economic situation undertaken by the Association of German Economic Research Institutes¹.

The cyclical impetus that at the beginning of the year seemed to signal a lasting stimulation of demand and production has soon abated. During the summer months new orders booked by industry in terms of volume declined even: Domestic orders reduced noticeably while foreign orders hardly increased anymore. Production in industry decreased slightly, in the building trade strongly. GNP in real terms stagnated, while private consumption after a prolonged stagnation recently rose somewhat again. Capital expenditure on equipment dropped steeply in real terms. In the field of housing and business building investments continued declining, too. Public investment in building, however, increased strongly. The export surplus in real values was, in the second and third quarters of the calendar year, even higher than in the preceding half-year.

Actual Wages Expanded Less than Before

The rise in unemployment and part-time work remained hitherto without noticeable effects on the development of standard wages. Regarding the actually paid hourly wages, however, the expansion seems to have weakened distinctly, because more and more piecework and overtime bonuses ceased and payment over and above the agreed scale at least did not rise to the same extent any more as standard wages. Incomes of employed wage and salary earners increased more slowly also because employment declined more steeply. The disposable income of private households expanded still further at the same rate as before, since in the middle of the year social insurance pensions were raised strongly and the Stabilisation Levy ceased. The payment of unemployment benefits balanced somewhat the lower wage payments conditional on the employment situation.

The apprehended acceleration of consumer price increases did not occur. That their increase even slackened somewhat is to be traced back mainly to the ample supply of foodstuffs.

Hypotheses of the Forecast

Due to lacking data the forecast for the coming year is based on the following hypotheses: Countries in deficit will neither take protectionist measures nor intensify their restrictive line, public authorities will handle their budgets according to the recommendations of the Finance Planning Council and the German Federal Bank will ease moderately its tight money policy, wage policy will turn to a course in line with the requirements of employment policy and price policies will make allowance for this. On the basis of these hypotheses the following development may set in: The cyclical downward trend will continue until spring, GNP will stagnate up to then, i.e. the utilisation of capacities will decline still further and unemployment will keep growing. However, in the further course of the year a cyclical stimulation should come about.

Tax Reform Supports Private Consumption

So far, it is true, only public authorities give unambiguous signals for expansion. The Tax and Children's Allowances Reform will promote private households' purchasing power considerably. Although uneasiness about jobs will damp the buyers' propensity to purchase for quite a while yet, the income increases will stimulate private consumption considerably. True, though, the change in the cyclical trend will not be achieved by an increase in consumption alone. Above all it requires a strengthening of investment activities. Hitherto there are no indications of a rapid change in the investment climate. Domestic demand for capital goods is still declining and so far existing plans indicate only a suspended propensity to invest.

¹ Participating Institutes: German Institute for Economic Research, Berlin, Hamburg Institute for International Economics, Ifo Institute for Economic Research, München, Institute for International Economics at Kiel University, Rhenish-Westphalian Institute for Economic Research, Essen.

So far one important prerequisite to a thorough change in the investment climate is still missing: a strong rise in profits. In 1975 they will probably grow, but it is doubtful whether the extent will suffice to induce entrepreneurs to increase their investment activities, particularly after a prolonged phase of shrinking profit margins. To begin with the reduction of equipment investment should probably continue and change only gradually into an increase, whose intensity, however, is still uncertain. Against a quick stimulation of the propensity to invest we may put the fact that the growth of foreign demand has weakened during the last months. Current demand for housing lies still distinctly below the present production level, therefore production will keep shrinking for the time being. This reduction will continue to impede the finishing industry particularly.

Unemployment Continues Rising

The reduction of employment will for the present continue at the same rate and unemployment will keep growing, because during the next months a stimulation of production is not to be anticipated. Moreover, during the winter months many wage earners generally lose their jobs temporarily due to inclement weather, therefore during the coming winter the seasonal peak of the number of unemployed will reach one million. Only during the second half of 1975 the situation in the labour market will relax. Unemployment will remain high, even if a larger number of foreign workers whose contracts expire return to their homelands.

Responsiveness of Wages Required

It is still uncertain to which extent dullness in sales in many sectors and growing unemployment will influence collective wage agreements at the beginning of 1975. After all, there appears to be a

growing discernment of the fact that at present high wage increases would not bring any advantages for the employed but endanger jobs. The forecast bases on the assumption that wage developments, differently from this year's beginning, will react on the changed situation of the national economy and that wage increases will remain distinctly below 10 p.c. Even then actual wages per hour on an annual average for 1975 will exceed the annual average of 1974 by more than 10 p.c. This is to be explained mainly with the fact that the level of actual wages at the end of 1974 will be noticeably higher than on annual average, a consequence of graduated increases (in the metal-using industries on November 1) and reduced working time (public authorities on October 1). The net wages per hour will, due to the relief through the Tax and Children's Allowances Reform, rise by even 1.5 percentage points more than gross wages.

Gradual Slowing-down of Price Increases

If these assumptions on wage developments prove right the pressure of labour costs will diminish noticeably and, in addition, there will be a slowing-down of other cost increases, particularly of raw material costs. On the other hand, enterprises will probably make use of the increase in sales in order to expand again their profit margins and therewith consolidate the financial basis for additional investments. In the aggregate, only a gradual slowing down of the price increases can be anticipated. This is particularly valid for the cost-of-living index, since it is doubtful whether the supply of foodstuffs will be as plentiful as in this year. In comparison with the preceding year the increase of consumer prices will amount to about 6.5 p.c. in 1975, slowing down somewhat in the course of the year. (For the most important data of the national accounts see p. 358.)

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

The Most Important Data of the National Accounts

Estimates for the 2nd half of 1974 and for 1975

	1973	1974	1975	1974		1975	
	Years			1. hf.yr.	2. hf.yr.	1. hf.yr.	2. hf.yr.
1. Origin of National Product, in real terms							
Change in p.c. compared with the preceding year							
Number of employed	0.2	-1.5	-1.5	-1.0	-2	-2	-1
Working time (per working day)	-0.6	-1	-1	-0.7	-1	-1	-0.5
Working days	-0.1	0	0	-0.8	0.5	0	0
Total work done, per calendar month	-0.4	-2.5	-2	-2.5	-2.5	-3	-1
Productivity	5.7	4	4.5	4.0	4	4.5	4.5
Gross Domestic Product	5.3	1	2.5	1.4	1	1.5	3
2. Appropriation of the National Product							
- at current prices -							
a) Billion DM							
Private consumption	496.8	533.5	586.5	253.0	280.5	279	307
Government consumption	168.6	194	217	89.0	105	99.5	117.5
Investment in fixed assets	230.0	228.5	238	108.5	120	109	129
Equipment	96.5	95	102	45.4	49.5	48	54
Buildings	133.6	133.5	136	63.1	70.5	61	75
Change in stocks	+ 9.6	+ 2	+ 6.5	+ 7.4	- 5.5	+ 9.5	- 3
External contribution	+ 25.3	+ 44	+ 50	+ 20.7	+ 23.5	+ 26	+ 24
Exports	226.2	303	343	142.7	160.5	166	177
Imports	200.8	259	293	122.0	137	140	153
Gross National Product	930.3	1,002	1,098	478.6	523.5	523	575
b) Change in p.c. compared with the preceding year							
Private consumption	10.2	7.5	10	6.6	8	10.5	9.5
Government consumption	15.1	15	12	15.5	15	11.5	12
Investment in fixed assets	5.8	-0.5	4	-0.8	-0.5	0.5	7.5
Equipment	4.3	-1.5	7.5	-3.6	0	5.5	9.5
Buildings	6.9	0	2	1.3	-1	-3	6.5
Exports	18.9	34	13	32.5	35.5	16.5	10.5
Imports	14.9	29	13.5	27.1	30.5	15	12
Gross National Product	11.5	7.5	9.5	7.0	8.5	9.5	10
- at prices of 1962 -							
a) Billion DM							
Private consumption	337.8	338	348.5	162.1	176	167.5	181
Government consumption	79.9	82.5	85	39.5	43	40.5	44.5
Investment in fixed assets	152.1	141	139	68.3	72.5	65	74
Equipment	75.3	69	70	34.1	35	33.5	36.5
Buildings	76.8	71.5	69	34.3	37.5	31.5	38
Change in stocks	+ 7.9	+ 0	+ 5	+ 5.4	- 5	+ 7.5	- 2.5
External contribution	+ 16.0	+ 39	+ 37	+ 19.1	+ 20	+ 18	+ 19
Exports	196.8	228.5	239	112.5	116	117.5	121.5
Imports	180.8	189.5	202	93.3	96	99.5	103
Gross National Product	593.8	600.5	614.5	294.4	306.5	298	316
b) Change in p.c. compared with the preceding year							
Private consumption	2.9	0	3	-1.1	1	3.5	3
Government consumption	4.0	3.5	2.5	4.0	3	2	3
Investment in fixed assets	1.1	-7.5	-1.5	-7.2	-7.5	-5	2
Equipment	2.0	-8	1	-9.0	-7.5	-1.5	3
Buildings	0.3	-6.5	-3.5	-5.4	-7.5	-8.5	1
Exports	16.2	16	4.5	17.6	14.5	4.5	5
Imports	9.8	4.5	7	3.6	6	6.5	7
Gross National Product	5.3	1	2.5	1.3	1	1.5	3
3. Price Level of National Expenditure (1962 = 100)							
Change in p.c. compared with the preceding year							
Private consumption	7.0	7.5	6.5	7.7	7	6.5	6.5
Government consumption	10.7	11	9	11.0	11.5	9.5	9
Investment in fixed assets	4.6	7	5.5	6.9	7.5	6	5.5
Equipment	2.2	7	6.5	6.0	8	7	6
Buildings	6.6	7	5.5	7.0	7	6	5.5
Exports	2.3	15.5	8	12.6	18	11.5	5.5
Imports	4.6	23	6	22.6	23.5	8	4.5
Gross National Product	5.9	6.5	7	5.7	7	8	6.5