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The situation of the west German economy

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GERMAN PRISM

The Situation of the West German Economy

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.

Since late summer 1975 the economic trend in the Federal Republic of Germany has been characterized by a fast recovery from the deepest recession after World War II. Within six months industrial production increased so much that about two-thirds of its decline during the recession could be made up again; the performance of the other economic sectors also showed a substantial increase. The labour market situation improved, too. While in the beginning the stimulation was due to measures of fiscal and monetary policies, by now self-accelerating expansionary forces become gradually visible.

Goods exports have shown a fast increase since autumn 1975. With the lasting recovery of business activity in the Western industrialized countries foreign demand for German goods will grow further. In 1976 goods exports, as a whole, should be by 8.5 p.c. higher than those of the preceding year.

In addition to exports, measures by the authorities concerned with economic policies have contributed to surmounting the recession. The fiscal measures, that had been adopted some time ago, had strong expansive effects particularly in the winter half year. Thus the programme of August stimulated the demand for building services. The investment allowance, too, had a heavy impact on investment activity during the last months.

Several falls in the bank rate, relaxations of minimum reserve requirements as well as open market purchases in the bond market contributed substantially to strengthening the enterprises' and private households' demand for credit during the second half-year. The public authorities continued to borrow heavily. Together with total borrowings, note and coin circulation and bank deposits showed an accelerated expansion during the second half of 1975. The Bundesbank's target of expanding the monetary base by 8 p.c. in the course of the year was exceeded significantly.

The trend of investment activity for 1976 is determined primarily by the expiration of the period within which the capital goods for which the investment allowance is granted must be delivered. Similar to the end of 1975, investments in equip-

ment will, due to this time limit, show an accelerated increase during the first half year.

A rising propensity to invest may be expected also for the further course of the year. Investment in stocks of goods — in the initial phase of the upswing a particularly important factor for the upward trend — is likely to grow further.

The demand for building services was also heavily rising in the second half of 1975, the different measures of economic policies being decisive for this trend. The investment allowance had a particularly strong impact on the demand for buildings for trade and industry. In the aggregate, building output will in 1976 be by 2 p.c. higher than in the preceding year.

Especially during the last months of 1975 business activity was strongly stimulated by private consumption. Owing to the smaller risk of losing employment the consumers' inclination to buy showed a certain recovery. Since, in addition, the prices of goods and services rose at a lower rate than before, a marked increase in private consumption could be registered. Taken altogether, the private households' disposable income will, according to estimates, rise by 6.5 p.c. In consequence of the improved expectations of employment as well as of the low interest rates for consumer credits, private consumption will, on an annual average, show a steeper increase than the disposable income.

Up to the end of 1975 the increase of imports was concentrated on rising supplies of primary and finished products. Only after the turn of the year a noticeable increase in imports of raw materials and semi-finished goods came about. On an annual average, goods imports in real terms will exceed those of 1975 by roughly 10 p.c. Adjusted for price, the surplus in goods trade will slightly fall.

A vigorous growth of GNP in real terms is, on an annual average for 1976, indicated if only because

¹ Participating Institutes: Deutsches Institut für Wirtschaftsforschung, Berlin, HWWA-Institut für Wirtschaftsforschung-Hamburg, IFO-Institut für Wirtschaftsforschung, München, Institut für Weltwirtschaft an der Universität Kiel, Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen.

The Most Important Data of the National Accounts

Estimates for 1976

| | 1974 | 1975 | 1976 | 1975 | | 1976 | |
|--|--------|---------|-------|-----------|-----------|-----------|-----------|
| | 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 | - 1.9 | - 3.2 | - 1 | - 3.3 | - 3.1 | - 2 | 0 |
| Working time (per working day) | - 1.1 | - 1.7 | 1 | - 2.4 | - 1.0 | 0.5 | 1 |
| Working days | - 0.2 | 0.1 | 0.5 | - 0.1 | 0.2 | 1 | 0.5 |
| Total work done, per calendar month | - 3.2 | - 4.8 | 0.5 | - 5.8 | - 3.9 | - 0.5 | 1.5 |
| Productivity | 3.9 | 1.4 | 5 | 0.8 | 2.0 | 6 | 4 |
| Gross Domestic Product | 0.6 | - 3.5 | 5.5 | - 5.0 | - 2.0 | 5.5 | 5 |
| 2. Appropriation of the National Product | | | | | | | |
| - at current prices - | | | | | | | |
| a) Billion DM | | | | | | | |
| Private consumption | 532.9 | 577.7 | 625 | 273.5 | 304.2 | 296.5 | 328.5 |
| Government consumption | 198.0 | 221.4 | 238.5 | 101.3 | 120.1 | 109.5 | 129 |
| Investment in fixed assets | 223.9 | 219.3 | 235.5 | 102.7 | 116.6 | 110 | 125.5 |
| Equipment | 94.8 | 99.8 | 110.5 | 47.1 | 52.7 | 52.5 | 57.5 |
| Buildings | 129.1 | 119.5 | 125 | 55.6 | 63.9 | 57.5 | 68 |
| Change in stocks | + 1.1 | - 2.8 | + 18 | + 5.4 | - 8.2 | + 17 | + 1 |
| External contribution | + 39.8 | + 24.8 | + 18 | + 14.4 | + 10.5 | + 9 | + 9 |
| Exports | 298.9 | 239.4 | 326.5 | 143.2 | 150.1 | 156 | 170.5 |
| Imports | 259.1 | 268.5 | 308.5 | 128.9 | 139.7 | 147 | 161.5 |
| Gross National Product | 995.7 | 1,040.4 | 1,135 | 497.3 | 543.1 | 542 | 593 |
| b) Change in p.c. compared with the preceding year | | | | | | | |
| Private consumption | 7.5 | 8.4 | 8 | 8.2 | 8.6 | 8.5 | 8 |
| Government consumption | 17.7 | 11.8 | 7.5 | 12.5 | 11.3 | 8 | 7.5 |
| Investment in fixed assets | - 2.1 | - 2.1 | 7.5 | - 4.2 | - 0.1 | 7 | 7.5 |
| Equipment | - 1.8 | 5.3 | 10.5 | 3.8 | 6.7 | 12 | 9.5 |
| Buildings | - 2.3 | - 7.5 | 5 | - 10.1 | - 5.1 | 3 | 6.5 |
| Exports | 31.4 | - 1.8 | 11.5 | 0.0 | - 3.6 | 9 | 13.5 |
| Imports | 27.9 | 3.6 | 15 | 4.3 | 3.0 | 14 | 15.5 |
| Gross National Product | 7.4 | 4.5 | 9 | 4.2 | 4.8 | 9 | 9 |
| - at prices of 1962 - | | | | | | | |
| a) Billion DM | | | | | | | |
| Private consumption | 337.8 | 345.2 | 357.5 | 165.4 | 179.8 | 171 | 186.5 |
| Government consumption | 83.9 | 86.7 | 88.5 | 41.4 | 45.3 | 42.5 | 46 |
| Investment in fixed assets | 139.1 | 132.4 | 137.5 | 62.4 | 70.0 | 65 | 72.5 |
| Equipment | 69.4 | 69.2 | 73.5 | 33.0 | 36.2 | 35.5 | 38 |
| Buildings | 69.7 | 63.2 | 64.5 | 29.4 | 33.8 | 29.5 | 35 |
| Change in stocks | + 0.8 | - 1.7 | + 12 | + 3.7 | - 5.4 | + 11.5 | + 0.5 |
| External contribution | + 33.5 | + 12.3 | + 10 | + 6.7 | + 5.6 | + 5.5 | + 4.5 |
| Exports | 224.4 | 204.5 | 221 | 100.2 | 104.2 | 107 | 114 |
| Imports | 190.9 | 192.2 | 211 | 93.5 | 98.4 | 101.5 | 109.5 |
| Gross National Product | 595.0 | 574.8 | 605.5 | 279.6 | 295.2 | 295 | 310.5 |
| b) Change in p.c. compared with the preceding year | | | | | | | |
| Private consumption | 0.2 | 2.2 | 3.5 | 1.9 | 2.4 | 3.5 | 4 |
| Government consumption | 4.7 | 3.3 | 2 | 3.8 | 2.9 | 2.5 | 1.5 |
| Investment in fixed assets | - 8.1 | - 4.8 | 4 | - 7.8 | - 2.0 | 4.5 | 3.5 |
| Equipment | - 7.9 | - 0.3 | 6 | - 3.1 | 2.4 | 7.5 | 4.5 |
| Buildings | - 8.3 | - 9.3 | 2 | - 12.6 | - 6.2 | 0.5 | 3 |
| Exports | 13.3 | - 8.9 | 8 | - 11.1 | - 6.6 | 6.5 | 9.5 |
| Imports | 4.8 | 0.7 | 9.5 | - 0.4 | 1.6 | 8.5 | 11 |
| Gross National Product | 0.4 | - 3.4 | 5.5 | - 5.0 | - 1.9 | 5.5 | 5 |
| 3. Price Level of National Expenditure (1962 = 100) | | | | | | | |
| Change in p.c. compared with the preceding year | | | | | | | |
| Private consumption | 7.3 | 6.1 | 4.5 | 6.2 | 6.0 | 5 | 4 |
| Government consumption | 12.3 | 8.2 | 5.5 | 8.4 | 8.1 | 5.5 | 6 |
| Investment in fixed assets | 6.6 | 2.9 | 3.5 | 3.8 | 2.0 | 2.5 | 4 |
| Equipment | 6.7 | 5.6 | 4.5 | 7.1 | 4.2 | 4 | 4.5 |
| Buildings | 6.6 | 2.0 | 3 | 2.8 | 1.2 | 2.5 | 3.5 |
| Exports | 15.9 | 7.7 | 3 | 12.5 | 3.2 | 2 | 4 |
| Imports | 22.0 | 2.9 | 4.5 | 4.7 | 1.3 | 5 | 4.5 |
| Gross National Product | 6.9 | 8.2 | 3.5 | 9.7 | 6.8 | 3.5 | 4 |

of the steep increase of production during the winter months. Industrial production adjusted for seasonal variation was – according to preliminary results – by 6 to 7 p.c. higher this February than on an annual average for 1975. The statistical ascertainment of economic activity around the turn of the year, however, suffers from uncertainties caused by the recent readjustments. For this reason alone the growth rate of real GNP of 5.5 p.c. as shown in the table can only be interpreted as the marking of an order of magnitude.

On the labour market there are distinct indications of an improving situation. With barely half a million the number of part-time workers was in February only half as big still as a year ago. The number of employed persons has only slightly still declined during the last months. The number of vacancies rose slightly. The number of unemployed seasonally dropped distinctly for the first time in March. At the end of March it amounted to about 1.1 million, corresponding to an unemployment ratio of 5 p.c. To begin with the further reduction of unemployment will still be more determined by such events as e.g. the remigration of foreigners and the early recourse to the old age pension than by a rising number of employed persons. In many sectors part-time work will be further reduced and working hours extended before additional workers are taken on. A stronger increase in the number of employed will be registered only after several months.

The wage agreements for 1976 together with an again vigorous productivity increase permit a stabilisation of the enterprises' costs. In most sectors the expansion of demand meets with a very elastic supply in view of the underutilisation of capacities. Thus the pressure of competition remains strong and should narrowly limit the enterprises' chances to increase prices. Above all, at the consumer stage price development will, besides, be influenced by some special factors.

Prices of foodstuffs should not continue rising as strongly as hitherto. In addition, important prices regulated by public authorities, e.g. rail and post charges, will not be increased. On an annual average the rise in consumer prices will turn out at 4.5 p.c. and thus be noticeably smaller than in 1975.

In the aggregate the present boom phase brings about a renewed approach to the basic objectives of the Federal Stability and Growth Law which had been missed for a long time (price-level stability, adequate growth, full employment and an equilibrium in foreign trade and payments). A further approach is, however, only be obtainable if former mistakes of the economic policy authorities and parties to collective wage agreements will be avoided. The wage settlements, having become operative since last autumn, together with the given economic skeleton conditions, for 1976 created essential prerequisites to an improvement of the private economy's propensity to invest. Now a restraint of enterprises with regard to price rises is required in order to avoid a renewal of the income distribution struggles.

Although together with a continuing cyclical recovery tax revenues will rise more strongly it would be a mistake to anticipate of this cyclically conditioned development of revenues a solution of the problem of the "structural" public deficit. Therefore special measures for a reorganisation of state finances have not become superfluous.

The German Federal Bank's task of keeping the process of price stabilisation going will become more difficult with the progressing upswing. Thus it will be even more important that the Bank sticks to its monetary policy objective of allowing the monetary base to grow only by 8 p.c. on an annual average for 1976. Because of the high carry-over at the end of 1975 the rate of expansion must be distinctly below 8 p.c. in the course of 1976.

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