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The economic situation in the Federal Republic

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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.

In summer 1976 the Federal Republic's vigorous boom was replaced by a moderate upward trend. During this period industrial production exceeded but slightly the level reached in spring. The other economic sectors offset in part only the decline in speed within the industrial field. Contrary to many apprehensions the exchange rate development of the last years did not bring about a deterioration of the competitive situation for the German economy as a whole. The worldwide cyclical recovery has thus led to a vigorous stimulation of exports. Imports, after a temporary slowing down of their increase during the second quarter, have been rising speedily again since the middle of the year.

Increase in Investments Continuing

After a sluggish trend of orders, the new orders of the capital goods producers from domestic customers have risen strongly again recently. Whether this result is already indicating the start of a lasting improvement of the propensity to invest remains to be seen. Until spring 1976 the delivery of capital goods increased strongly. The expiry of time limit in connection with the investment allowance did, however, not lead to the expected enforcement of deliveries of equipments favoured by the allowance, while imports of capital goods rose briskly. With that the rise in equipment investments on the whole should have continued during the summer half-year, although at a much reduced speed. Investments in building have been rising since late summer 1975. While in the second half of 1975 public building activities still contributed to the production increase, in the course of 1976 it depended exclusively on building for business purposes and housing. The finishing trade contributed considerably to this development. This reflects the influence of the modernisation programme of August 1975.

Weak Expansion of Private Consumption

Private consumption, after rising vigorously about the end of 1975, stagnated until after the middle

of 1976. The expansion of consumption expenditures *inter alia* was limited by the fact that during the first half of 1976 wage increases exceeded but slightly the rate of inflation, the volume of employment increased hesitatingly only and the burden of taxes and contributions rose. But the consumption climate has improved distinctly during the summer months. This is shown by the results of consumer surveys and the vigorous increase in instalment-sales credits. The upward trend of prices on the consumer level has noticeably weakened since this year's spring. The cost of living price index has risen during the summer months at a slower speed than in spring. The improvement in the labour market situation, that started after the turn of the year, slackened during the summer months. The decrease in unemployment continued considerably more slowly than before. At present the number of unemployed adjusted for seasonal variation is by about 150,000 smaller than around the turn of the year 1975/76, the peak of unemployment.

Forecast: Exports Support Business Trend

The cyclical development during the summer months frequently caused doubts whether the upswing, particularly that of investments, will continue after the summer slack season. There are many indications, however, that the weakening of stimulating forces was only a temporary one. This judgement bases mainly on the fact that the conditions of an upswing are favourable now as before. But it is to be understood that the assessment of the cyclical development entails risks. Exports remain the draught-horse of the business trend. Up to the end of the year goods exports, adjusted for price and seasonal variation, will again rise vigorously after the temporary slowing down during the summer months and will expand strongly in 1977, too. This assessment corresponds,

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 last mentioned institute has stated its more cautious assessment of the economic situation in a minority opinion.

The Most Important Data of the National Accounts

Estimates for the years 1976 and 1977

	1975	1976	1977	1976		1977	
	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	- 3.3	- 1	0.5	- 1.7	- 0.5	0.5	1
Working time (per working day)	- 1.7	0.5	0.5	0.3	1	1	0
Working days	0.1	0.5	- 0.5	1.0	0.5	- 0.5	0
Total work done, per calendar month	- 4.8	0.5	1	- 0.4	1	1	1
Productivity	1.6	5.5	4.5	6.0	5	4	5
Gross Domestic Product	- 3.3	6	5.5	5.6	6.5	5	6
2. Appropriation of the National Product							
- at current prices -							
a) Billion DM							
Private consumption	580.2	630.5	684.5	299.0	331.5	325.5	359
Government consumption	221.2	238	259.5	109.5	128.5	119	140.5
Investment in fixed assets	221.1	239.5	262.5	110.6	128.5	121.5	141
Equipment	100.6	111	124.5	52.6	58.5	58.5	66
Buildings	120.4	128	138	58.0	70	63	74.5
Change in stocks	- 4.1	+ 13	+ 22.5	+ 13.2	± 0	+ 17	+ 5.5
External contribution	+ 25.3	+ 23	+ 26	+ 12.3	+ 11	+ 12	+ 14
Exports	294.0	334.5	385	159.9	175	184.5	201
Imports	268.8	311.5	359	147.6	164	172.5	186.5
Gross National Product	1,043.6	1,144	1,255	544.5	599.5	595	660
b) Change in p.c. compared with the preceding year							
Private consumption	8.9	8.5	8.5	9.1	8.5	9	8
Government consumption	11.6	7.5	9	7.9	7	8.5	9.5
Investment in fixed assets	- 1.3	8	9.5	7.7	8.5	10	9.5
Equipment	6.2	10.5	12	11.8	9	11	13
Buildings	- 6.8	6.5	7.5	4.3	8.5	9	6.5
Exports	- 1.6	14	15	11.6	16	15.5	15
Imports	3.8	16	15.5	14.5	17	17	14
Gross National Product	4.7	9.5	9.5	9.5	10	9.5	10
- at prices of 1962 -							
a) Billion DM							
Private consumption	346.5	360	374	171.8	188	179.5	195
Government consumption	87.0	89.5	91.5	43.0	46.5	44	48
Investment in fixed assets	133.3	141	149	66.0	75	70	79
Equipment	69.6	75	81	36.1	39	39	42.5
Buildings	63.7	65.5	67.5	29.9	36	31	36.5
Change in stocks	- 2.7	+ 8.5	+ 14.5	+ 8.7	± 0	+ 11	+ 3.5
External contribution	+ 12.5	+ 13	+ 15	+ 6.6	+ 6	+ 6.5	+ 9
Exports	204.9	228.5	253	110.9	117.5	122.5	131
Imports	192.4	216	238	104.3	111.5	116	122
Gross National Product	576.6	611.5	644.5	296.0	315.5	310.5	334
b) Change in p.c. compared with the preceding year							
Private consumption	2.6	4	4	3.8	4	4.5	3.5
Government consumption	3.9	3	2.5	3.5	2	2	3
Investment in fixed assets	- 4.1	5.5	6	5.8	5.5	6	5.5
Equipment	0.4	8	8	9.5	6.5	7.5	8.5
Buildings	- 8.6	3	3	1.6	4.5	4.5	2
Exports	- 8.7	11.5	11	10.7	12.5	10.5	11
Imports	0.8	12	10.5	11.7	12.5	11	9.5
Gross National Product	- 3.2	6	5.5	5.9	6.5	5	6
3. Price Level of National Expenditure (1962 = 100)							
Change in p.c. compared with the preceding year							
Private consumption	6.1	4.5	4.5	5.2	4	4	4.5
Government consumption	7.4	4.5	6.5	4.3	5	6	6.5
Investment in fixed assets	3.0	2.5	3.5	1.8	3	3.5	3.5
Equipment	5.8	2.5	4	2.1	2.5	3.5	4
Buildings	2.1	3	4.5	2.6	4	4.5	4
Exports	7.7	2	4	0.8	3	4.5	3.5
Imports	3.0	3.5	4.5	2.4	4	5	4
Gross National Product	8.1	3.5	4	3.4	3.5	4	4

on the one hand, to the expectation of a continuous cyclical upswing in the western trade partner countries; on the other hand, it is supported by the particularly steep increase in external demand for capital goods that occurred during the last months. Owing to the cessation of the effects of the investment allowance on purchases of capital goods and the slackening of impulses relating to the primary products inventory cycle, import growth will slow down.

Increasing Propensity to Invest

So far the development of capital expenditure on equipment was essentially marked by the investment allowance; henceforth its endogenous determinants will be decisive. True, the available indicators of the demand for capital goods do not yet give an unambiguous picture; however, the framework conditions — pressure of foreign demand, rising profitability and utilisation of productive capacities — point to a growing propensity to invest. In some cases bottlenecks in capacity may already soon induce capital-widening projects². For the time being, however, the rationalisation motive and the replacement of capital goods will certainly dominate investment decisions. The economic policy measures for the promotion of building activity secure an expansion of capital expenditure on building up to mid 1977. Thereupon a slackening may be expected unless the autonomous demand expands in time.

Private Consumption Supports Upswing

The increase in disposable incomes will slightly accelerate in 1977. The saving ratio will decline once more: True, another decline in the proportion of saving of the disposable income is hardly

² In this context Ifo-Institut anticipates a slower stimulation of the propensity to invest than the other three institutes.

to be expected; in 1977, however, the saving ratio will be co-determined by a significant special influence, namely the release of savings which had been fixed for longer periods. With DM 20 bn they will be twice as high as in 1976, and of them several billions of D-Marks will be used for consumption purposes. A further deceleration of the increase in consumer prices does not seem likely. Through the increase in taxes on tobacco and liquor the level of the cost of living index for all private households will be raised by 0.5 p.c. at the beginning of the next year. Because of the relatively small carry-over at the end of 1976 the rate of price increase will, on an annual average for 1977, with 4 to 4.5 p.c. still be a little lower than in 1976.

Number of Employed only Slowly Increasing

Due to the trend of demand described above the level of production will rise at a current rate of 5.5 p.c. in 1977. On an annual average the national product in real terms will expand by the same percentage rate. This means a significant improvement of the utilisation of the overall productive capacity. At present it is difficult to assess to what extent the higher demand for labour will be met through an increase in the number of over-hours or of employed persons. In any case the number of employed will show only a modest increase. If allowing for the other determinants, such as the migration of foreigners, the demographic development, etc., the number of unemployed will certainly not fall below 800,000. In the course of the coming year the decline will only slightly accelerate since the number of gainfully employed foreigners will, with the lasting improvement of the labour market situation, hardly diminish any further. At the seasonal low point the number of unemployed would — under the above assumptions — amount to about 700,000 (1976: about 900,000).

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