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Germany: Back on the Expansion Trail

With almost all the economic data up to the end of last year now at hand it is possible to clear up one of the uncertainties which made it difficult to determine the basic trend in the Federal Republic: The "summer pause" was really only a pause in the upward trend. The real GNP has risen vigorously in the fourth quarter. According to the German Federal Bank's calculations it was — adjusted for seasonal variation — 1.5 p.c. up on the third quarter; the difference in the number of working days is taken into account here. This corresponds to an annualized growth rate of 6 p.c. and merits more attention than it has yet received. At the very least it disposes of a worry which — if substantiated — would rightly have cast a shadow on the expectations in industry and commerce, subdued as they were already. In view of the connection between expectations, dispositions and eventual results in regard to economic progress continued "near-stagnation" would have been a matter for concern.

Sustainable Upswing ...

The evidence for a speeding-up of the cyclical expansion since last autumn is significant for prognostic purposes. As long as expansionary forces of this magnitude are seen at work, it can be assumed that the upswing is sustainable. There is thus a chance of stronger deployment of that most important part of the self-propelling forces — the private investments. Even now however there is no

certainty yet about these. Some of the parameters with a bearing on investment decisions have evoked uncertainty, especially in the last few weeks. This is particularly true of the round of wage negotiations which make employers probably even more wary about their medium-term earnings prospects. The outcome of the wage negotiations as so far known will cause unit wage costs to rise more steeply than presupposed in most 1977 forecasts. It is virtually impossible to predict how far this will affect profits or price stability. Even a relatively tight "monetary framework" does not predetermine pricing attitudes although it may influence them. The growing leanings towards trade protectionism as evidenced recently by "Buy national" slogans and — in Great Britain for instance — public calls for discrimination against German exports are also conducive to uncertainty. On the other hand, there are positive developments: Industry is once again using its capacity at a seasonally adjusted rate of 83.5 p.c. (according to Ifo Munich); the low in the summer of 1975 was about 76 p.c.

... Makes Stronger Investment Rise Possible

The parameter changes alone do not permit definite conclusions about the future trend of investments but the indicators of the propensity to invest available now reveal a relatively favourable picture. There was a distinct improvement in domestic ordering of the engineering industry and the investment goods section of the electrotechnical

industry in the last months of the past year; this assessment however is provisional, for experience shows the order-intake statistics to be liable to major revisions. The demand for commercial and industrial construction services has also increased substantially, to go by the contracts placed. Another indicator of the propensity to invest is, finally, provided by the imports of "genuine" investment goods which have risen strongly. So, all in all, the propensity to invest is increasing, although still not very strongly.

Among the cyclical "weak spots" is not only the propensity to invest in industry and commerce but the investment activity in the public sector. The gross investments by the state were last year already 5.5 p.c. lower, in real terms, than in the preceding year. The indicators at hand show a strong recovery of public sector orders for civil engineering work but the demand for above-surface buildings — measured by the volume covered by new building licences — has fallen fast. The consequent demand shortfall in what is in any case a "neuralgic" industry is in the present phase of the economic cycle a high price to pay for the gradual consolidation of public finances. The investment programme now adopted as part of a forward-looking growth and environmental policy does in some way re-schedule the priorities but even if the trend improves soon the public investments in the current year will probably on average again be slightly lower than in the preceding year.

Higher Capacity Loading Not Enough

Whether the propensity to invest and investment activities will increase as required — for medium-term considerations con-

cerning the quality and size of the production apparatus rather than under short-term aspects of their contribution to demand expansion — depends, as has been said, upon the persistence of the forces making for an upswing. There is no doubt that the process of expansion will go on in the next months. The orders received in the home market and abroad and the foreseeable trend of disposable incomes make a continuing uptrend over the short term certain. In concrete terms this means, above all, that over the first half of 1977 the real level adjusted for seasonal variation of exports will rise

strongly — at an annualized rate of 8–10 p.c. — and private consumption appreciably — by 4 to 5 p.c. The plant capacity utilization rate will thus rise further. These movements are indispensable requisites of an improvement of the propensity to invest. They must however be supported by sufficiently optimistic expectations on the part of the investors. As a result of such an improvement alone can the slow increase in industrial investments — which the orders received ensure for the next months — be expected to gather momentum and provide a solid foundation for the upswing.

latory measures taken on the financial front since last autumn are increasingly effective. The new budget for the fiscal year starting in April has also the aim of furthering the expansion although it may encounter delays during its passage through Parliament. The demand may also receive impulses from external developments. Signs of an export revival are supported by the improved economic outlook in the USA in particular.

... for a Faster Upswing

Considering further that, as the oil prices have not been raised as much as feared and the December elections are out of the way, two elements which tended to retard business dispositions are no longer operative, the conditions for a faster improvement of the propensity to invest have greatly improved, the more so as the profit situation in industry and commerce has evidently recovered substantially compared with the recession trough. Although the rate of plant utilization is still rather low, industrial investment activities may thus be expected to in-

Japan: Impulses for Upswing Growing Stronger Again

Following the flattening of the cyclical upswing in the summer half of 1976 signs of a reinvigorated expansion began to show towards the end of the year. The industrial production in particular increased notably. The impulses for the revival seem to have come from the home market. At present it is still impossible to say what part was played in this by private consumption and investments in industrial plant. Industrial inventories on the other hand have clearly grown at a faster rate, possibly in anticipation of the impulses of the pump-priming efforts which became operative from November. Pursuit of a more expansionary economic policy has become easier because the upsurge of prices on the producer level has greatly slackened.

Signs of Improving Exports

The external situation is still marked by high export surpluses. That they doubled in 1976 as a whole is however a reflection mainly of the develop-

ment in the first half of the year with its explosive export expansion. In the second half the growth of exports proceeded much more slowly — according to nominal figures adjusted for seasonal variation; in volume terms they even declined — whereas the imports showed a strong increase. At the beginning of the current year foreign trade turnovers adjusted for seasonal variation obviously increased strongly. Pre-covering of oil requirements was a temporary factor on the import side; for the recovery of the exports on the other hand the rapid rise of lending by letters of credit suggests that it was of a more durable nature.

Outlook: Improved Prospects ...

The expansion in the final months of last year does not prove that the forces making for an upswing are now clearly in the ascendant. The demand indicators in the various sectors are not well-defined although there seem to be good grounds for some optimism. The stimu-

Economic Indicators

(Changes in p.c.)

	1974	1975	1976 ^a
Gross national product	- 1.2	2.1	5.5
Industrial production ¹	- 3.1	- 11.0	13.4
Unemployment rate ³	(1.4)	(1.9)	(2.0)
Machinery orders	- 5.2	- 21.0	14.0
Export volume	16.0	1.8	22.0
Import volume	- 0.7	- 13.9	12.0
Balance of trade surplus (US \$ bn)	(1.4)	(5.0)	(9.7)
Consumer prices	24.4	11.8	9.3
Wholesale prices	31.3	3.0	5.5
Export prices	33.7	- 2.9	1.4
Import prices	66.3	7.6	3.5
External value of yen ⁴	- 7.0	- 2.4	2.6
Monthly earnings	27.2	14.8	12.5
Unit wage costs ⁵	28.7	22.3	- 3.2

^a Partly estimated. ¹ Excl. building and energy industries. ² Private domestic orders to the major producers (excl. ships). ³ In p.c. of gainfully employed persons. ⁴ Effective exchange rate. ⁵ Manufacturing industry.

crease. The same holds good for the public investments and, especially, house-building. The consequent employment and income stimuli improve the prospects for a more marked expansion also of private consumption; in this respect however the coming round of wage negotiations, the future price policy of private industry and the con-

sumers' shopping propensities still engender a great deal of uncertainty. Taken together, the demand trends make an appreciably faster rise of production likely but owing to the low starting level at the turn of last year the annual average growth of the real GNP in 1977 will probably not exceed the 5.5 p.c. recorded for last year.

world cotton stocks will probably fall by the beginning of the next harvest season in August to 17.6 mn bales which is equivalent to three months' world consumption only, while six months' stocks is considered normal. Moreover, the prospects for a marked increase of world cotton production in the 1977/78 season have faded. The cotton acreage outside the USA will probably increase by 4 p.c., according to a US Department of Agriculture estimate, but because of adverse weather conditions the acreage in the USA will probably not be enlarged significantly. Assuming unchanged yields per hectare, the total 1977/78 cotton crop is thus unlikely to increase much.

The further development of world cotton consumption will depend essentially upon the strength of the forces supporting a cyclical upswing under the impact of the incentive measures in several industrial countries. If these prove successful, the consumption of cotton will recover in 1977/78. But spectacular price advances should not be expected even if this happens because the manufacturers will make even greater use of synthetic fibres.

Raw Material Markets

Cotton Dearer Again

In the world cotton markets the price decline observed in the autumn of 1976 was superseded in recent weeks by a recovery. The New York price of medium long staple cotton has risen from 65.70 c/lb in mid-January 1977 to 80 c/lb which is 33 p.c. above the March 1976 level.

Cotton Consumption Down

The change in prices is all the more remarkable because according to the latest information of the International Cotton Advisory Committee the world consumption of cotton will in the current 1976/77 season be 1 mn bales down to 63 mn bales. The recession is to be attributed chiefly to the cyclical lull in important consumer countries. Moreover, the substitution of

synthetic fibres for cotton has been encouraged by the relatively high level of the cotton prices. The 1976/77 world cotton production on the other hand is likely to fall short of consumption by about 4 mn bales even if it rises by 8 p.c. to 59 mn bales as is expected. Since the stocks in the exporting countries were sharply lower at the beginning of the season in August 1976, the total 1976/77 cotton supply will thus be even lower than the 1975/76 one. This being the statistical position, cotton prices are likely to stay in the next months at their present level.

Supply Position Tight

The relative stringency of supplies will not change greatly in the coming 1977/78 season. The

Compiled by the Department on Business Cycles and Statistics of HWWA-Institut für Wirtschaftsforschung-Hamburg.

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

Index and commodity group	1976				1977		
	February	May	August	November	February	March 4	March 18
HWWA-Index * (1952-1956 = 100)	273.4	287.4	291.8	294.2	313.9	323.0	334.7
Foodstuffs	200.9	223.9	219.9	226.4	264.5	286.6	303.6
Raw materials other than foodstuffs ...	308.4	318.1	326.4	326.8	337.7	340.6	349.7
Fuels	495.8	492.6	494.2	499.4	522.6	522.8	545.5
Raw materials for consumer goods ..	184.4	195.2	218.3	225.6	216.5	221.3	223.9
Raw materials for capital goods	204.2	226.0	231.1	222.0	234.0	238.4	238.3
Reuter's Index (18. 9. 1931 = 100)	1,222.9	1,444.4	1,469.8	1,552.7	1,630.3	1,699.8	1,749.4
Moody's Index (31. 12. 1931 = 100)	777.0	821.7	818.8	816.7	907.2	952.8	969.0

* Index compiled by HWWA-Institut für Wirtschaftsforschung-Hamburg. On Dollar-basis.