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The economic situation in the federal republic

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world trade to a quantitatively significant extent. But even the impending intensification of this development is unwelcome since it impairs the increase in productivity, supports upward movements of costs and prices, and dampens the entrepreneurial expectations in the export indus-

tries. The preservation of jobs in "import-damaged" sectors which the protectionists have in mind would then be accompanied by losses of jobs in other sectors which would soon get the ascendancy if this tendency should make headway.

The Economic Situation in the Federal Republic

Since spring economic growth has almost stopped in the Federal Republic of Germany. Overall economic production hardly increased any more. The utilisation of technical production capacities dropped and the increase in employment was replaced by a reduction. The number of unemployed — adjusted for seasonal variation — has been rising again since spring. Since June it is bigger than a year ago. The unemployment ratio remained at a level of about 4.5 %. The upward trend of prices continued declining, but as the increase of unit wage costs remained strong the diminution of the rise in prices happened to a large extent to the detriment of incomes from entrepreneurial activities and property.

Stagnating Equipment Investments

At the beginning of the year orders for equipment goods, in particular for machinery, declined distinctly and did not recover since. This reflects the unfavourable expectations regarding profitability damped by the weakness of demand and the rising costs of enterprises. Equipment investments in real terms have been stagnating since spring. Until summer building investments had been supported by the measures promoting commercial and residential buildings as far as they had been finished up to the middle of the year. Thereupon production probably declined. Public building investments have fallen back up to now. Orders for residential and commercial buildings are rising but tardily from the trough into which they sagged after the boom in orders initiated by the counter-cyclical measures of autumn 1975. Orders for owner-occupied houses however increase quite distinctly. In addition public agencies placed more orders than before.

Unsteady Expansion of Private Consumption

Up to the middle of the year private consumption increased only a little bit faster than available incomes although at the beginning of the year funds became available in substantial amounts under bonus savings contracts. The rising turnovers of retail trade, the growing demand of private house-

holds for credits and the reports of consumer goods fairs indicate, however, that the private households' propensity to consume has cheered up noticeably after the middle of the year. Relevant impulses originated probably also from funds which became available under bonus savings contracts in the middle of the year.

Hardly Any External Impulses

The external impulses that last year promoted the economic development considerably have been fading strongly during the last months together with the slackening of the cyclical recovery in almost all Western countries. The volume of orders from abroad rather declined, goods exports hardly increased any more. At first mainly the supplies of capital goods and consumer goods were affected by the weak demand abroad. During the last months also exports of basic materials and production goods hardly increased any more. The imports of goods had to begin with reacted too strongly on the downward tendency in the Federal Republic, i.e. by a reduction. Correspondingly they have recovered during the last months.

Outlook: Hesitating Expansion

The stagnation of production during the summer months and the, if anything, declining demand raise the question whether the Federal Republic's cyclical recovery lasting for two years has been replaced by a lasting downward trend. This can be excluded with some certainty. This assessment is supported by the fact that remedial measures of financial and monetary policy have already been introduced in the Federal Republic. And, in addition, in important European partner countries the downswing will probably be stopped. On the other hand, however, a rapid and vigorous recovery is not very probable. The uncertainties concerning the profitability chances of capital investments are still too great. This applies all the more as with the unfavourable cyclical development the cost pressures on enterprises have increased distinctly. And there are still political and institutional obstructions which oppose the full

The Most Important Data of the National Accounts of the FR Germany

Estimates for the Second Halfyear 1977 and the Year 1978

	1976	1977	1978	1977		1978	
	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	— 0.9	— 0.5	— 0.5	— 0.2	— 0.5	— 0.5	— 0.5
Working time (per working day)	0.3	— 0	— 0	0.0	— 0.5	— 0.5	0
Working days	0.7	— 0.5	— 0	— 0.3	— 0.5	0.5	— 0.5
Total work done, per calendar month	0.1	— 1	— 1	— 0.5	— 1	— 1	— 1
Productivity	5.5	4	3.5	3.7	4	3.5	4
Gross Domestic Product	5.6	3	3	3.2	2.5	2.5	3

2. Appropriation of the National Product — at current prices — Change in p.c. compared with the preceding year

Private consumption	8.2	7.5	7	6.5	8	7.5	6
Government consumption	5.8	6	7.5	4.7	7.5	7.5	7.5
Investment in fixed assets	8.5	6.5	7.5	8.6	5	5	9.5
Equipment	11.1	7	6.5	8.3	5.5	4.5	8.5
Buildings	7.0	6.5	7.5	8.8	4.5	5	10
Exports	14.1	6	8	7.0	5	7.5	8
Imports	16.3	6.5	8.5	8.5	4.5	8	9
Gross National Product	9.1	6.5	7	6.5	7	7	7

— at prices of 1970 — Change in p.c. compared with the preceding year

Private consumption	3.6	3	2.5	2.5	4	3.5	2
Government consumption	2.4	1.5	2.5	0.0	2.5	3	2.5
Investment in fixed assets	5.0	3	3.5	4.6	1.5	1	5
Equipment	7.2	3.5	3.5	4.3	2.5	1.5	5
Buildings	3.7	2.5	3.5	4.8	0.5	1	5.5
Exports	11.1	4	5.5	4.9	3.5	5	5.5
Imports	10.6	4	6	4.7	3.5	6.5	5.5
Gross National Product	5.7	3	3	3.0	2.5	2.5	3

3. Price Level of National Expenditure (1970 = 100) Change in p.c. compared with the preceding year

Private consumption	4.4	4	4	3.9	4	4	4
Government consumption	3.3	5	4.5	4.6	5	4.5	5
Equipment	3.6	3.5	3	3.8	3	3	3.5
Buildings	3.2	4	4.5	3.9	4	4.5	4.5
Exports	2.7	1.5	2.5	2.0	1.5	2	2.5
Imports	5.2	2	2.5	3.6	1	1	3.5
Gross National Product	3.2	4	4	3.4	4	4	4

Origin and Distribution of Income Change in p.c. compared with the preceding year

Gross income from waged work	7.1	7	6	7.5	6.5	6	6
Gross wage and salary total	6.5	7	6	7.6	6.5	6	6
ditto per employed person	7.0	7	6	7.3	6.5	6.5	6
Net wage and salary total	3.8	6	5.5	5.9	6	5.5	5
Gross income from entrepreneurship and property	15.4	5	7.5	2.7	6.5	8	7.5
Net income from entrepreneurship and property	13.7	1	13	— 4.3	5.5	14	12
Disposable income of private households	6.4	7	7	6.6	7.5	8	6.5

effectiveness of the Federal Government's stimulation programmes. Under these circumstances it would probably be a mistake to hope for an early and distinct increase in the propensity to invest. As to its expenditures the Government has taken steps into the right direction with the medium-term investment programme and the raising of the budget estimates for 1978. The renunciation of tax revenues is a further contribution to a stimulation.

Slight Stimulation of the Propensity to Invest

The tax reductions benefit to a great extent the enterprises; they improve the investment conditions. The propensity to invest is also encouraged by the tax relief for private households which contributes to an improvement of the sales chances. Low interest rates are another stimulation. But these favourable conditions are opposed by the investors' uncertain expectations regarding foreign demand and the result of the next general wage increase. The medium-term investment programme will above all promote public investments in building and commercial building. Negative influences on building activities are still anticipated from delays caused by environment protection stipulations, citizens' initiatives and judicial decisions. During 1978 the measures for the support of the building industry's business trend and the demand for owner-occupied houses stimulated by low interest rates should lead to a considerable increase in building investments.

Private Consumption Supporting Production

Private consumption rising since the middle of the year will be the first important component for the stimulation of production: The effects of funds becoming available under bonus savings contracts and the tax relief will stimulate consumption. After the Christmas business, which will probably be also characterized by earlier buying in anticipation of the increase of the value added

tax, the rise in consumption should slow down. The withdrawal effect of the value-added tax will also dampen consumption. Only in the further course of the year wage increase and tax relief together will effect a brisk expansion of private consumption.

It will, however, be less significant than in the second half of the present year, since in 1978 only a smaller amount of savings under the Federal Government's bonus scheme will be released and the increase in pension payments has been postponed to January 1979. Due to the further dragging cyclical trend in most of the Western industrialised countries only a slight increase of exports is to be expected for the time being. The stimulating measures which have been adopted or announced in numerous West European countries will only gradually lead to increased imports of German goods. Altogether, exports will grow at about the same rate as world trade. Imports will continue to grow only slightly.

No Improvement of the Labour Situation

On an annual average for 1978 the real National Product should grow at a rate of about 3 % and thus be as weak as in 1977. This will probably be achieved without any expansion in employment; a further reduction of the working time and the number of employed persons is possible. Particularly in industry and in building and civil engineering the number of employed should still decline. As against that, parts of the private services sector and the territorial authorities will hire additional labour. The number of unemployed persons in 1978 will, on an annual average, probably be higher than in 1977. The low degree of capacity utilisation, a still stabilisation-oriented monetary policy as well as influences emanating from world market prices will also in future keep the scope for domestic price increases rather narrow; as in 1977, consumer prices can be expected to rise in 1978 by almost 4 %.

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

Index and commodity group	1976	1977					
	October	January	April	July	October	Nov. 4	Nov. 18
HWWA-Index * (1952-1956 = 100)	292.8	307.1	333.6	316.8	304.1	308.3	312.2
Fuels	219.4	251.3	310.3	273.4	237.1	249.6	262.5
Raw materials for consumer goods ..	328.1	334.0	344.8	337.8	336.4	336.6	336.1
Fuels	499.6	519.6	545.7	541.4	550.9	552.1	552.2
Raw materials for consumer goods ..	224.5	213.8	220.0	197.3	180.2	178.3	177.2
Raw materials for capital goods	226.2	228.9	227.5	228.3	226.6	227.3	226.7
Reuter's Index (18. 9. 1931 = 100)	1,530.0	1,596.7	1,733.5	1,537.3	1,491.9	1,467.8	1,486.5
Moody's Index (31. 12. 1931 = 100)	807.7	877.6	945.4	869.9	824.3	822.7	846.6

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