

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

The economic situation in the Federal Republic of Germany

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1986) : The economic situation in the Federal Republic of Germany, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 21, Iss. 3, pp. 157-160, <https://doi.org/10.1007/BF02925287>

This Version is available at:

<https://hdl.handle.net/10419/140031>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The Economic Situation in the Federal Republic of Germany

In its latest joint report on the economic situation, the Association of German Economic Research Institutes reaches the following conclusions, presented here in abridged form.¹

The economic upswing in the Federal Republic of Germany only continued at a markedly slacker rate in the winter half-year period. Both new orders and the volume of production in manufacturing industry were no higher in the spring than they had been in autumn. Decisive for this slackening off – with world trade expanding only slightly – was the appreciation of the D-mark, against the dollar in particular. However, in view of other favourable conditions, stimulatory forces can be expected to gain the upper hand once more. Domestic demand was boosted during the first few months of the current year following the decline in the price of oil on world markets and the cheapening of imports as the D-mark appreciated against the dollar. This was further added to by the first phase of the plan to lighten the tax burden.

Trends in foreign trade were influenced by the appreciation of the D-mark and the drastic fall in oil prices. What had previously been a strong increase in exports was virtually brought to a halt. The underlying trend in imports was for them to increase more strongly than exports. The trade surplus diminished in real terms. Because, however, import prices fell markedly and export prices declined relatively little, giving a substantial improvement in the terms of trade, the visible trade surplus showed a further increase in nominal terms. The current account surplus increased once more.

Private consumption expanded strongly as the purchasing power of households was given a noticeable boost from favourable movements in nominal incomes and in consumer prices. There was an acceleration in the growth of employees' incomes, primarily because the first stage of the tax reform came into effect. Private

households' disposable incomes increased overall by 6% on an annualised basis during the winter half. The pace of growth was just as high in real terms as consumer prices remained stable during the period. Investment in capital equipment, which had plateaued out in the summer of last year, has been on the increase again since the autumn. As before, the strongest increase in investment is occurring in manufacturing industry. The investment trend in the construction industry was again obscured by irregular movements attributable to weather conditions. Nevertheless, even though residential construction was still contracting right up to the end of the period, it does appear that the downward trend in construction activity is now at an end. This is suggested by developments in demand for commercial and public-sector construction.

In view of the stagnating demand from abroad and the fact that domestic demand rose only slightly, the corporate sector increased its production considerably more slowly in the winter half-year than it had in the summer. It should be borne in mind, though, that production at that time had been given an extra increase as earlier slack was made up, whereas it was depressed in the period which followed by the unusually early onset and long duration of the winter. There was a slight weakening in the increase in employment. Although the number of employed in the economy as a whole has risen by just under 350,000 since the low-point reached at the turn of the year 1983/84, only a third of the losses incurred during the recession up to that turning point have so far been recovered. The number of registered unemployed remained almost as high as ever, as the number of first-time entrants to the labour market and those returning to it from the hidden reserve were barely lower than the number of new jobs created.

Following the pause for breath during the winter half, the upswing in the Federal Republic of Germany is now set to continue. Stock-building, construction activity and

¹ Participating institutes: Deutsches Institut für Wirtschaftsforschung, Berlin; HWWA-Institut für Wirtschaftsforschung-Hamburg; Ifo-Institut für Wirtschaftsforschung, Munich; Institut für Weltwirtschaft an der Universität Kiel; Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen.

exports, all areas where weakness during the past half-year meant that overall economic expansion hesitated despite the powerful revitalisation of consumption and continuing increases in capital investment, will now rise again. This will mean that economic activity is increasing in all major areas, encouraged by the declines in oil prices and interest rates. The pace of expansion will therefore be higher this year than in the first three years of the upswing.

As usual, a number of suppositions and assumptions underlie the forecast of economic trends. The most important of these are: The increase in demand and production in both industrial countries and oil-importing developing countries will accelerate. World trade will now again expand at a higher rate of approximately 4 %. The world market price of oil will for the time being maintain a level of about \$15 per barrel. Prices of industrial raw materials will rise slightly. The D-mark's exchange rate will fluctuate around the rate of DM 2.30 to the dollar; its value will remain unchanged vis-à-vis most European currencies. Fiscal policy will largely follow the course provided for in budgetary planning. The effect of unavoidable additional expenditure will to a substantial extent be cancelled out by savings elsewhere. Expansion in the central bank money supply will be further reduced. Later in the year, the money supply will approach the upper edge of the target funnel prescribed by the Bundesbank for 1986. Wage settlements will be at slightly higher levels than was assumed last autumn. They will exceed the increases agreed the previous year by about one percentage point.

Exports, where the underlying tendency in the winter half was for hardly any increase, now ought to rise more markedly again as demand and production increase in other industrial countries. Although it is true that German suppliers have lost some of their competitive edge due to the D-mark's appreciation against the dollar and its revaluation within the European Monetary System, they will nevertheless be able to absorb some of this effect by allowing their profit margins – which had previously increased strongly – to be squeezed in order to retain market share. The fall in oil prices will have two contradictory effects on West German exports. On the one hand, the oil-exporting countries will again have lower revenues at their disposal. On the other, expansion will be stimulated in the oil-importing countries, which will therefore import more goods. All in all, the stimulatory effects of the falling oil prices will predominate.

The corporate propensity to invest, if trends in domestic new orders addressed to the capital goods

industry are used as a measure, has hardly risen for some time now. Yet the conditions for capital investment are improving further: Domestic demand is increasing more strongly due to the healthy increase in the purchasing power of private households. Demand from abroad is also set to develop more favourably. Hence sales and revenue expectations are improving overall. Conditions in the financial markets for funding such investment are more favourable than they have been for a long time. Increased returns from investment in tangible assets while yields from financial assets are on the decline mean that the former has become a more worthwhile proposition in relation to the latter. As more and more companies are now producing volumes close to their capacity, expansion is becoming a more significant motive for investment. All in all, investment in plant and equipment can be expected to increase significantly in the course of 1986.

Though the bottom of the cycle in construction investment is now past, the upturn will only be a slight one in the current year. In residential construction, in fact, there will initially be a further slight decline. However, the conditions making it possible for residential construction demand to pick up have now substantially improved. Mortgage interest rates, for example, are now as low as just under 7 %, i.e. about four percentage points below the peak reached in 1981. Construction costs have hardly risen in the recent past, the price of building land has fallen and, finally, private households' real incomes have risen noticeably. The tax treatment of owner-occupied accommodation has been changed for all completions after 31st December 1986. This new ruling should have an effect on housing demand even during the current year. Given that demand for modernisation and restoration work again ought to intensify, residential construction can be expected to show a certain recovery. In the field of commercial construction, the underlying upward trend which has persisted for some time should continue. In public sector construction, too, both demand and production will increase.

Private household incomes will continue to expand rapidly as the year goes on. Contributory factors are the higher wage settlements, increasing wage drift due to supplementary agreements, and increased overtime working. With an increase of 5.5 %, gross earned incomes in the current year will be almost two percentage points higher than last year. Net earnings, because of the reduced tax burden, will increase even more rapidly. Because a number of them have been topped up, transfer incomes will also increase significantly more strongly than has recently been the

ECONOMIC TRENDS

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

Forecasts for the Year 1986

	1984 ¹	1985 ²	1986 ²	1985		1986	
	Years			1 st hf. yr. ¹	2 nd hf. yr. ¹	1 st hf. yr. ²	2 nd hf. yr. ²
Origin of National Product, in real terms							
Change in % compared with the preceding year							
Number of employed	0.1	0.7	1	0.6	0.8	1	1
Working time (per working day)	0.1	-0.4	-0.5	-0.1	-0.7	-0.5	-0.5
Working days ³	-0.2	-0.3	0	-0.9	0.3	0	0
Total work done, per calendar month	0	0	0.5	-0.4	0.4	0.5	0.5
Productivity ⁴	2.8	2.5	3	2.4	2.6	3	3
Gross Domestic Product at 1980 prices	2.8	2.5	3.5	2.0	3.0	3.5	3.5
Appropriation of the National Product							
– at current prices –							
Change in % compared with the preceding year							
Private consumption	3.3	3.7	5	2.9	4.5	5	5
Government consumption	4.1	4.3	5	4.1	4.5	5	4.5
Investment in fixed assets	3.0	1.3	5.5	0.2	2.3	7	4.5
Equipment	1.5	11.9	10	16.6	8.3	10	9.5
Buildings	4.1	-5.3	2.5	-9.2	-1.9	4.5	0.5
Exports	11.8	10.0	2.5	12.7	7.6	1.5	3
Imports	9.9	7.1	-2.5	9.3	4.9	-4.5	-0.5
Gross National Product	4.9	4.6	6.5	3.8	5.4	7	6
– at 1980 prices –							
Change in % compared with the preceding year							
Private consumption	0.8	1.7	4.5	0.7	2.7	4.5	4.5
Government consumption	2.5	2.1	2	1.4	2.7	2	2
Investment in fixed assets	0.8	-0.3	4	-1.7	0.8	5.5	2.5
Equipment	-0.5	9.3	8	13.5	16.1	8.5	7.5
Buildings	1.6	-6.2	1	-10.2	-2.7	3.5	-1
Exports	8.2	7.2	3	9.1	5.5	2.5	3.5
Imports	5.2	4.7	5.5	4.7	4.7	4.5	6.5
Gross National Product	3.0	2.4	3.5	1.9	2.9	3.5	3.5
Price Level of National Expenditure (1980 = 100)							
Change in % compared with the preceding year							
Private consumption	2.5	2.0	0.5	2.2	1.8	0.5	0.5
Government consumption	1.7	2.2	2.5	2.6	1.8	3	2.5
Equipment	1.9	2.3	1.5	2.7	2.1	1.5	2
Buildings	2.5	0.9	1.5	1.1	0.8	1	1.5
Exports	3.3	2.6	-1	3.3	2.0	-1	-0.5
Imports	4.5	2.3	-7.5	4.5	0.1	-8.5	-6.5
Gross National Product	1.8	2.1	3	1.8	2.4	3.5	3
Origin and Distribution of Income							
Change in % compared with the preceding year							
Gross income from employment ⁵	3.5	3.8	5.5	3.5	4.1	5	5.5
Gross wages and salaries total	3.0	3.7	5.5	3.4	4.0	5	5.5
Ditto per employed person	3.0	2.9	4	2.7	3.1	4	4
Net wages and salaries – total	1.7	2.3	5.5	2.2	2.5	5.5	6
Gross income from entrepreneurship and property	9.3	8.0	11.5	5.4	10.4	14	9.5
Net income from entrepreneurship and property	9.9	7.6	13	4.7	10.4	15.5	10.5
Disposable income of private households	3.8	3.8	5.5	3.6	3.9	5	6

¹Based on data from the Federal Statistical Office (cf. Wirtschaft und Statistik, No. 3/1986) and own calculations.

²Own forecasts; rates of change for 1986 rounded off.

³Only half of the change of the number of working days has been allowed for.

⁴Real Gross Domestic Product per hour worked.

⁵Including employers' social security contributions.

case. In overall terms, the nominal increase in disposable incomes – a good 5½% – will be substantially higher than it was in 1985. Because of the virtually stable prices, the real increase is hardly lower than the nominal one. The acceleration in income growth will have its effect on saving behaviour. Private households can be expected to set aside a portion of their additional income for replenishing their savings. On the other hand, the decline in interest rates is a factor counteracting an increase in the propensity to save. On balance, though, influences generating an increase in the savings ratio will undoubtedly predominate. Real private consumption will expand strongly overall this year. On the basis of the assumptions made concerning dollar exchange rates and oil prices, any further reductions in consumer prices can only be expected to the extent that the easier cost burden has not yet been passed on to the consumer. These effects will continue to have some influence beyond mid-year. The increase in consumer prices, therefore, will be moderate in total during the remainder of the year, even though unit wage costs are rising more strongly than they did last year.

The stronger expansion of domestic demand already under way, the renewed increase expected in demand from abroad and the readiness to carry higher stocks all lead to the expectation that the weakness in aggregate production will be overcome during the coming months. The national product will then increase more strongly than has so far been the case during the present cyclical upswing. All the signs are that this upswing will also continue in 1987. As the economic situation strengthens, one can presume that the demand for additional labour will increase more rapidly this year than last year. To add to this, there will be an increasing labour requirement as a result of legislative measures and agreements between trade unions and employers. Overall, the number of employed persons will increase by approximately 300,000 during the year, that is to say

markedly more strongly than last year. For the first time since 1979, unemployment will fall both during the course of the year and in terms of a year-on-year average. Although the potential labour force will presumably increase no less strongly than during the past year, this growth will nevertheless lag well behind the growth in the number of persons actually in work. Moreover, it can be assumed that approximately 50,000 people – on an annual average: 30,000 – will make use of the “58-years rule” for the unemployed, thus disappearing from the unemployment statistics. Under these circumstances the seasonally adjusted number of registered unemployed can be expected, as the year goes on, to fall by another 150,000 reaching 2.15 million by the year-end. This year's average will then be 2.23 million, compared with 2.30 million in 1985. The hidden reserve of labour will again diminish.

As demand and production rise more strongly, imports will increase more rapidly, a trend further encouraged by the fall in the price of many imported goods due to exchange rate movements. The powerful fillip to imports will no longer come from domestic demand for capital goods alone, but will also flow from increasing private consumption. During the year, the prospect is that imports will increase about twice as much as exports. The real surplus in the visible trade balance, therefore, will be markedly reduced. The terms of trade, on the other hand, will be substantially improved looking at the year as a whole. As a result, the nominal trade surplus in 1986 ought to increase by about DM 30 billion to reach approximately DM 100 billion. Although the deficit in the “invisibles” account will again increase to some extent, and the transfer account will close the year noticeably deeper in the red than in the previous year – primarily due to higher payments to the EC – the 1986 current account surplus, at approximately DM 60 billion, will nevertheless be about DM 20 billion higher than last year's.

HWWA Index of World Market Prices of Raw Materials¹
(1975=100)

Raw Materials and Groups of Materials	1985		1986					
	AA ²	December	January	February	March	April	16. 5.	23. 5.
Total index	197.3	198.5	196.2	177.4 ^P	174.5 ^P	148.6 ^P	130.8 ^P	129.9 ^P
Total, excl. energy raw materials	112.5	116.6	119.8	119.1	121.3	120.0	119.1	116.8
Food, tropical beverages	106.9	114.2	120.5	117.3	119.1	115.7	113.8	110.3
Industrial raw materials	116.8	118.4	119.2	120.5	123.0	123.3	123.1	121.8
Agricultural raw materials	112.4	117.8	120.1	123.5	127.1	128.3	131.2	130.1
Non-ferrous metals	131.5	128.4	126.9	125.1	128.8	128.7	124.8	123.5
Energy raw materials	246.7	246.4	240.8	211.5 ^P	205.5 ^P	165.2 ^P	137.7 ^P	137.4 ^P

¹ On dollar basis. - ² Annual Average. ^P Provisional (due to incomplete data on oil prices).