

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.) (1989) : The economic situation in the Federal Republic of Germany, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 24, Iss. 3, pp. 149-152, <https://doi.org/10.1007/BF02928566>

This Version is available at:

<https://hdl.handle.net/10419/140189>

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.**

Demand and output in the Federal Republic rose vigorously again in the winter half-year, in part attaining the limits of capacity utilization. After six years of upswing, the economy has thus entered a phase of incipient strains, which despite continued high unemployment is making itself felt even on the labour market in increased overtime and a shortage of qualified manpower in certain branches. Thanks partly to the moderate long-term wage agreements, though, there has as yet been no wage push, otherwise typical of such phases. Though prices are rising appreciably again, this is due to external push factors, increased indirect taxes, strong demand and growing bottlenecks in capacity. Incomes are siphoned off via increased taxes and the monetary reins have been pulled tighter, so economic policy has basically switched to a course of constriction, but this has not yet impinged upon the economy.

The boom in the Western industrialized countries has led to a vigorous increase in foreign demand – above all from Western Europe – which has kept up until now. Exports have continued to grow at more or less the same rapid pace, clearly facilitated by the relatively low exchange rate of the D-Mark as against the dollar and the EMS currencies. Although real imports probably rose in the winter half-year slightly faster than exports, the Federal Republic continued to be in surplus; in fact there has even been a further increase in nominal terms.

Business investments have continued on their steep upward path, even stepping up after the turn of the year.

In addition to the investment climate, which has been conducive for some time – in particular excellent profits, good sales prospects, increased profitability of real relative to financial investments – a major contributing factor has been the capacity bottlenecks in major sectors, prompting businesses to invest more in expansion. Much increased investment in residential construction after the end of the year has not been due solely to weather conditions, but also to the generally more favourable situation in this sector. Real household incomes have hardly risen since the turn of the year, due to higher excise duties and the generally faster rise in the cost of living, so conditions for an increase in real private consumption have worsened. Nevertheless, it rose substantially in the first months of the year: consumers initially responded to the heavier tax burden by saving a significantly smaller part of their income.

Overall production kept to its steep upward path during the winter half-year, even accelerating after the turn of the year. Adjusted for weather-induced effects and measured in terms of the current annual rate, overall production grew at a rate of 3 % during the winter half-year, i.e. at a rate similar to that achieved during the summer half-year. With faster growth in output, the number of gainfully employed persons also rose at a faster rate, particularly as the manpower reserves in businesses have been largely exhausted. Unemployment took a surprising turn for the better. The number of registered unemployed diminished even faster than the figure for gainfully employed persons rose. As at the same time the growth in the potential labour force only slowed down slightly, this trend cannot be satisfactorily explained on the basis of the available data.

* 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.

The major stimulating forces behind the swift upswing in the Federal Republic of Germany will ease off only slightly in the course of the year. In view of the sustained upturn in economic activity in the major importing countries, demand from abroad will keep expanding strongly. The domestic propensity to invest has consolidated to such an extent that a sustained powerful expansion is likely. The propensity to consume looks like being resilient enough to enable consumption to continue to rise, albeit at a slower pace than hitherto, despite higher consumer prices. There is a danger of the trend in prices prompting stricter monetary measures both at home and abroad, though this will not significantly impede the development of the economy in this year due to the time lags involved.

The forecast is based on the following assumptions: demand and output in the industrialized countries will continue to grow relatively fast but at a slightly slower pace; world trade will go on expanding, only a little slower. In the course of the year, the price of crude oil will go down slightly and the price level of industrial raw materials will barely rise. The expansion of the M3 money supply will decelerate and veer towards the announced path of around 5%. Interest rates will go up slightly. The exchange rate for the D-Mark will tend towards DM 1.80 per dollar. The central rates in the European Monetary System will remain unchanged. Financial policy will keep the course indicated by the budget plans and the measures already implemented. In the further course of this year's wage round, similar agreements will be reached to those of recent negotiations, i.e. wages will rise only little above those of the past year. In important sectors, wage rates are already fixed by accords for periods of several years; there will be no additional rises in these cases.

As the year proceeds, exports will continue to generate powerful impulses. The economies of the industrialized countries will be on a definite upswing. Although this will probably slow down slightly the utilization of capacity will stay high, so that the demand for imported goods is likely to grow at a similar pace as before. The price competitiveness of German suppliers will not alter significantly for the time being. With the high utilization of capacity of German industry, in particular in the capital goods sector, and the lively growth in domestic demand, exports in certain areas are likely to be constrained by production possibilities. This will contribute to a certain deceleration of export growth. The robust expansion of aggregate demand and the high utilization of capacity in the Federal Republic indicate that real merchandise imports will carry on

rising at a brisk pace. Since real imports will grow only a little faster than real exports but at a much lower level, the trade surplus will increase slightly.

Private consumption will show only restrained growth in the further course of the year. Despite the faster increase in employment, total gross wages and salaries will grow only slightly more than last year; in net terms, they will grow even markedly slower with the full impact of progressive income tax making itself felt again. Overall, personal disposable incomes will more or less keep to their 1988 4% rate of growth. After subtracting the higher rate of price increase, real income growth will be 1% to 1½%, i.e. well under the figure for previous years. The expansion of private consumption is therefore also likely to flatten out; by how much it is difficult to estimate. There are however some indications that private households will gear their consumption primarily to longer-term income expectations and cut down on savings, in anticipation of next year's tax relief. This will probably curtail the rate of saving markedly this year, which means that the increase in consumption will be significantly higher than that in real incomes of private households. Consumer prices will rise at a current rate of about 2% in the further course of the year. In addition to imports becoming more expensive and a slightly faster increase in unit labour costs, the main determinants will be the lively aggregate demand and the capacity bottlenecks.

The propensity to invest has consolidated firmly and the investment climate remains favourable. The major factors suggesting a continued increase in expenditure on machinery and equipment this year are the following. To date, domestic demand for capital goods has been expanding. Sales prospects at home and abroad continue to be good; growth in sales will slacken only slightly. Earnings can be expected to rise appreciably again this year, further helping businesses to finance themselves from their own resources. The profitability of real investments generally remains substantially higher than that of financial investments. Capacity utilization is higher than during the peak period of 1979/80; there is increasing need for expansion investments. With an eye to the EC's single market, many businesses are trying to improve their starting position by means of modernization and rationalization. Under these circumstances, investments in machinery and equipment will expand at a similar pace to that of last year.

There is a pronounced upward trend in the construction industry. Construction work was particularly favoured by the weather in the winter months, so seasonally adjusted production will not

ECONOMIC TRENDS

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

Forecasts for the Year 1989

	1987 ¹	1988 ¹	1989 ²	1988		1989	
	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	0.8	0.6	1	0.5	0.6	1	1
Working time (per working day)	-1.0	-0.2	-0.5	0.2	-0.5	-0.5	-0.5
Working days ³	0.2	0.3	0	0.7	-0.1	0	-0.5
Total work done, per calendar month	0.0	0.7	0	1.4	0.0	0.5	-0.5
Productivity ⁴	1.9	2.8	3	2.5	3.1	2.5	3
Gross Domestic Product at 1980 prices	1.9	3.5	3	3.9	3.1	3	2.5
Appropriation of the National Product							
– at current prices –							
Change in % compared with the preceding year							
Private consumption	4.2	3.9	5	4.4	3.4	5	5
Government consumption	3.8	3.1	2	3.2	3.1	2.5	1.5
Investment in fixed assets	3.6	7.5	8.5	9.9	5.5	9	8.5
Equipment	5.6	8.4	10	7.5	9.2	10.5	10
Buildings	2.1	6.7	7.5	11.8	2.6	8	7
Exports	0.0	7.3	9.5	6.9	7.8	10.5	8.5
Imports	0.7	7.3	10	6.8	7.7	11.5	9
Gross National Product	3.9	5.0	5.5	5.2	4.9	5.5	5
– at 1980 prices –							
Change in % compared with the preceding year							
Private consumption	3.6	2.5	2	3.3	1.8	2.5	2
Government consumption	1.6	1.8	0.5	1.9	1.7	1	0
Investment in fixed assets	2.5	5.8	6	8.7	3.5	6.5	5
Equipment	5.6	7.5	7.5	6.9	8.0	8.5	7.5
Buildings	0.2	4.5	4.5	10.1	0.1	5	3.5
Exports	0.8	5.5	6	5.6	5.3	7	5.5
Imports	4.9	5.9	6	5.8	5.9	7.5	5
Gross National Product	1.8	3.4	3	3.9	3.1	3	2.5
Price Level of National Expenditure (1980 = 100)							
Change in % compared with the preceding year							
Private consumption	0.6	1.3	3	1.1	1.5	3	3
Government consumption	2.2	1.3	1.5	1.2	1.4	1.5	1.5
Equipment	0.1	0.8	2.5	0.5	1.1	2	2.5
Buildings	1.9	2.1	3	1.5	2.5	3	3
Exports	-0.8	1.8	3	1.2	2.3	3.5	3
Imports	-4.1	1.3	3.5	0.9	1.7	4	3.5
Gross National Product	2.0	1.5	2.5	1.3	1.7	2.5	2.5
Origin and Distribution of Income							
Change in % compared with the preceding year							
Gross income from employment ⁵	3.9	3.8	4	4.0	3.7	4	4
Gross wages and salaries total	4.0	3.8	4	3.9	3.6	4.5	4
Ditto per employed person	3.0	3.0	3	3.2	2.8	3.5	3
Net wages and salaries total	2.8	4.0	3	4.1	3.9	3.5	3
Gross income from entrepreneurship and property	4.0	8.5	6.5	8.7	8.3	7	6.5
Net income from entrepreneurship and property	5.5	8.5	6	8.6	8.4	6	6
Disposable income of private households	4.4	4.2	4	4.2	4.1	4.5	4

¹Based on data from the Federal Statistical Office (cf. Wirtschaft und Statistik, No. 3/1989) and own calculations.

²Own forecasts; rates of change for 1989 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.

retain this high level during the further course of the year, but there will be a sharp improvement on last year. Residential construction is on a vigorous upturn. Based on building permits, incoming orders and orders on the books, demand, which gained momentum at the start of last year, will go on expanding strongly. Prospects look good for commercial and industrial building, too. In the public sector, a similar expansion to last year is probable, because the financial situation of local governments has improved. Building investments as a whole in this year will thus once again rise faster than overall production, hence stimulating the economy.

Employment will make greater strides this year than last. The further vigorous growth of demand and production will exacerbate the manpower shortage existing in certain sectors. With the high utilization of productive capacity productivity growth can be expected to flatten out, so that the expansion of production will require increasingly more manpower. Moreover, the shorter working week will lead to the recruitment of additional workers in view of the encouraging business outlook. The potential labour force will presumably grow at a rate similar to that registered in 1988. On the whole, the increases in labour supply and employment will be more or less the same, so the number of unemployed will not alter significantly in the course of the year.

In this, the seventh consecutive year of the upswing, the global signs of strain, characteristic for phases of high-level economic activity, are unmistakable. With rapidly climbing demand, supply bottlenecks play an increasing role. Costs and prices have entered an upward phase in many countries, to which the central banks have responded by switching policy. For the coming year we can therefore expect a less vigorous increase in economic activity than in 1989. Since

however the cost and price upswell in general is reasonably modest in comparison to previous phases of economic boom in the industrialized countries and the central banks therefore see no reason to tighten their policies drastically, the speed of the expansion will probably not be reduced to any major extent. For the Federal Republic of Germany, the slight slowdown in the growth of demand and production in the industrialized countries will mean marginally worse external trading conditions. Decisive for domestic conditions will be the question of whether the Bundesbank sees the need to tighten its monetary policy once again. It is assumed here that this will not be the case. As of the beginning of 1990, the third phase of tax cuts will enter into effect, which will deprive the state of some DM 25 billion in revenue.

With weakening impulses from abroad – real net exports are on the decline – overall economic growth will once more rely to a greater extent on domestic demand. Foremost here is private consumption which will show a steeper increase than in 1989, due above all to tax relief. The expansion of investment in machinery and equipment will probably slow down tangibly, due to the inhibiting effect of monetary policy and a modest drop in capacity utilization. In all though, the propensity to invest seems to be much more resilient than in the first years of the economic upswing. GNP growth is expected to decelerate noticeably in the course of the next year, although on an annual average there should still be an increase of roughly 2½ %. Annual average employment is likely to be once more well up on the preceding year, but the number of jobless, given the continued sizable enlargement of the potential labour force, will probably stay at the same level as in 1989. There will be no major change in the rate of price increase as compared to 1989.

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

Raw Materials and Groups of Materials	1988		1989					
	AA ²	April	January	February	March	April	5.5.	19.5.
Total index ^P	143.4	152.9	154.5	152.4	161.4	166.9	161.6	160.2
Total, excl. energy raw materials	150.2	148.3	160.4	157.1	159.6	157.5	156.1	152.9
Food, tropical beverages	108.6	101.2	114.6	111.9	113.2	111.5	111.6	111.7
Industrial raw materials	181.8	184.2	195.3	191.5	194.9	192.6	190.0	184.2
Agricultural raw materials	191.6	200.6	192.7	190.1	191.0	192.2	190.8	186.6
Non-ferrous metals	216.4	205.9	258.6	245.3	250.6	240.8	234.8	223.6
Energy raw materials ^P	139.5	155.6	151.1	149.6	162.5	172.4	164.8	164.5

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