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PART C

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PART C

Chancellor's (Lawson) papers:

**THE WEST GERMAN ECONOMY
1987 - 1988**

PO -CH /NL/0358

PART C

DD's : 25 Years

Philpott

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FEDERAL GERMAN ECONOMY

SUMMARY

1. CRITICISMS BY OECD AND OTHERS OF GERMAN ECONOMIC PERFORMANCE NOTED, AND IN SOME QUARTERS RESENTED. MEANWHILE, THE ECONOMY IS GROWING FASTER THAN PREDICTED AT THE START OF THE YEAR, WITH EXPORTS AT RECORD LEVELS. THE FEDERAL GOVERNMENT NONETHELESS DETERMINED TO STICK TO ITS TAX REFORM PROGRAMME, AND ATTEMPTING TO GIVE COHERENCE TO ITS ECONOMIC POLICIES.

DETAIL

2. THE PUBLICATION OF THE OECD'S REPORT ON THE FEDERAL REPUBLIC'S ECONOMY ATTRACTED WIDESPREAD ATTENTION, ESPECIALLY THE COMMENTS ON SLOWING GROWTH AND THE RECOMMENDATIONS THAT DETERMINED ACTION BE TAKEN TO IMPROVE EFFICIENCY AND SUPPLY-SIDE CONDITIONS. THE COINCIDENTAL PUBLICATION OF A COMPLIMENTARY OECD REPORT ON THE BRITISH ECONOMY, AND A SERIES OF CRITICAL ARTICLES ON GERMAN PERFORMANCE IN BRITISH AND AMERICAN PAPERS, HAVE LED TO AN OUTBREAK OF TOUCHINESS AND HURT FEELINGS. AT A CEREMONY MARKING THE 125TH ANNIVERSARY OF THE CHEMICAL COMPANY BAYER ON 25 AUGUST, CHANCELLOR KOHL DEPARTED FROM HIS PREPARED TEXT TO CRITICISE QUOTE PEOPLE WHO GIVE LECTURES IN LONDON UNQUOTE ON GERMAN PERFORMANCE WHILE IGNORING THE FEDERAL REPUBLIC'S HIGH PRODUCTIVITY, IMPROVING GROWTH RATE AND LEADING POSITION AS A WORLD EXPORTER. BUNDESBANK PRESIDENT POEHL, SPEAKING THE SAME DAY ABOUT THE RAISING OF THE DISCOUNT RATE FROM 3 PERCENT TO 3.5 PERCENT, ALSO REJECTED CLAIMS THAT THE FEDERAL REPUBLIC HAD BECOME QUOTE THE SLOW MAN OF EUROPE UNQUOTE.

3. THE ECONOMY DOES APPEAR TO HAVE BENEFITED FROM HANDS-OFF MANAGEMENT DURING THE HOLIDAY MONTH. OFFICIAL ESTIMATES EARLY IN THE YEAR OF 2 PERCENT TO 2.5 PERCENT GROWTH ARE BEING REVISED UPWARDS TO 2.5 PERCENT TO 3 PERCENT, WHILE PRIVATE ESTIMATES ARE MOSTLY IN THE 3 PERCENT TO 3.5 PERCENT RANGE. AN IMPROVED PERFORMANCE BY THE

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CONSTRUCTION INDUSTRY, ITSELF ATTRIBUTED TO MORE FAVOURABLE WEATHER THIS YEAR COMPARED WITH LAST, IS CITED AS ONE EXPLANATION FOR THE UP-TURN. EXPORTS ARE ALSO RUNNING AT RECORD LEVELS, MATCHING A HIGH PROPENSITY TO IMPORT ON THE PART OF SOME TRADING PARTNERS, NOTABLY THE UK. A SURVEY OF SME EXPORTERS SHOWS A HIGH DEGREE OF READINESS TO CUT PROFITS IN ORDER TO RETAIN OVERSEAS MARKETS AS EXCHANGE RATES BECOME LESS FAVOURABLE.

4. THE GOVERNMENT IS STICKING FIRMLY TO ITS TAX REFORM PROGRAMME, RESISTING SUGGESTIONS THAT FLOURISHING REVENUES AND NEW ESTIMATES OF BUNDESBANK PROFITS WILL MAKE THE INCREASES IN CONSUMER TAXES PLANNED FOR 1989 UNNECESSARY. AS AN EXAMPLE OF UNAVOIDABLE INCREASES ON THE EXPENDITURE SIDE THE NEED TO COPE WITH AN EXPECTED FLOOD OF REFUGEES FROM THE EAST IS QUOTED: AN EXPANSION OF THE FEDERAL HOUSING CONSTRUCTION BUDGET BY DM 750 MILLION IN EACH OF THE NEXT TWO YEARS, WITH SIMILAR CONTRIBUTIONS EXPECTED FROM THE LAENDER, HAS BEEN OFFICIALLY CONFIRMED WHILE COMMENTATORS EXPECT THE COST TO THE FEDERAL BUDGET TO TOP DM 1 BILLION EACH YEAR WHEN ALL ITEMS ARE INCLUDED.

5. IN HIS SUMMER TV INTERVIEW FROM HIS RETREAT ON THE WOLFGANGSEE BROADCAST ON 14 AUGUST, AND ON SUBSEQUENT OCCASIONS, CHANCELLOR KOHL HAS TRIED TO GIVE COHERENCE TO FEDERAL ECONOMIC POLICY BY PRESENTING TAX REFORM, REFORM OF PUBLIC PROCUREMENT, AND OVERHAUL OF THE SOCIAL SECURITY SYSTEM AS A CONSISTENT PROGRAMME DESIGNED TO ENSURE THE FEDERAL REPUBLIC'S PLACE AS A LEADING INDUSTRIAL AND EXPORTING NATION INTO THE 1990S. GIVEN THE LACK OF SKILL WITH WHICH THE ONE POTENTIALLY POPULAR ITEM ON THE LIST - TAX REFORM - WAS SOLD TO THE ELECTORATE FROM OCTOBER 1987 ON, IT REMAINS TO BE SEEN WHETHER THE GOVERNMENT WILL HAVE MORE SUCCESS IN PRESENTING THE REST OF ITS PROGRAMME (IN FACT A CONCATENATION OF PROBLEMS WHICH CANNOT BE POSTPONED ANY LONGER) IN A POSITIVE LIGHT BETWEEN NOW AND THE NEXT FEDERAL ELECTION.

MALLABY

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FACSIMILE LEADER

**British Embassy
Bonn**

Friedrich-Ebert-Allee 77

Telex: 0886 887 Telephone (0228) 234061 Fax: 0228/234070

A handwritten signature in dark ink, appearing to be 'P. M. G. Taylor'.

DATE 16 SEPTEMBER 1988

DOCUMENT CONSISTS OF FIVE PAGES PLUS LEADER

FROM E JENKINSON, FIRST SECRETARY, ECONOMIC

TO J M G TAYLOR ESQ FAXNO 01 839 2029

PS/CHANCELLOR OF THE EXCHEQUER

HM TREASURY

.....



BRITISH EMBASSY

Friedrich-Ebert-Allee 77 5300 Bonn 1

Telex 88 68 87 Telephone (0228) 23 40 61

J M G Taylor Esq
PS/Chancellor of the Exchequer
HM Treasury
LONDON
SW1

Your reference

Our reference

Date 16 September 1988

Dear Private Secretary,

1. I spoke earlier this morning to Mrs Thorpe about the Chancellor's itinerary for departure to Crete for the Informal ECOFIN Meeting this weekend. I understand that the Chancellor is leaving London at 10.30 this morning.

2. I mentioned that there had been a considerable amount of comment in the German press this morning on the subject of tax approximation. In particular, the leading financial daily in Germany, Handelsblatt, today carries an interview with the Ambassador on this subject. The newspaper carries on its front page a reference to the interview which is prominently positioned on an inside page. The front page reference particularly connects the subject with the Crete meetings. I attach a copy of the Handelsblatt interview in German, an unofficial summary translation of the part concerning tax harmonisation and a Guide to the German Press produced by the Embassy which under Item 3 gives a summary of the press comment on tax approximation this morning.

3. The Ambassador felt that the Chancellor would like to be aware of all this before he goes to Crete.

Yours

E Jenkinson

HANDELSBLATT, 16 SEPTEMBER, 1988

FRONT PAGE

Finanzminister auf Kreta

Bei dem informellen Treffen der Finanzminister der EG am kommenden Wochenende auf der Mittelmeerinsel Kreta wird der britische Schatzkanzler Lawson seine Ablehnung der EG-weiten Harmonisierung der Mehrwertsteuersätze verteidigen. In einem Gespräch mit dem Handelsblatt wies der Botschafter Londons in Bonn, Sir Christopher Mallaby, darauf hin, daß das Konzept Lawsons keine Abkehr vom EG-Binnenmarkt 92 bedeute, sondern der Versuch, das Problem mit marktorientierten Mitteln statt mit einer Verordnung aus Brüssel zu lösen (siehe Seite 12).

HB-Dokumentation



Die Steuerharmonisierung ist nicht zwingend nötig

HANDELSBLATT, Donnerstag, 15.9.1988
 /ay DÜSSELDORF. Die
 ngsten britischen Vorschläge
 r Harmonisierung der Mehr-
 wertsteuer in der EG stellen keine
 endwie geartete Abkehr von
 r Idee des Gemeinsamen Bin-
 nenmarktes dar. In einem Ge-
 räch mit dem Handelsblatt wies
 r britische Botschafter in Bonn,
 r Christopher Mallaby, darauf
 a, daß es vielmehr darauf an-
 komme, das Problem soweit wie
 möglich mit marktorientierten
 Mitteln zu lösen.

n der Einheitlichen Europäischen
 te, der Grundlage für die Schaffung
 s gemeinsamen Marktes, sei die
 rmonisierung der indirekten Steu-
 en, so Mallaby, nicht zwingend vorge-
 rieben; Großbritannien bestehe zu-
 m auf dem Prinzip der Einstimmig-
 it im Rat, wenn es um die Harmoni-
 rung der Mehrwertsteuersätze in
 r Gemeinschaft gehe. Die Harmoni-
 rung sei auch nicht unbedingt er-
 derlich, um das Ziel der Akte, näm-
 h die Erleichterung des Warenaus-
 usches, zu erreichen. Es sei durch-
 s möglich, wie es der britische
 hatzkanzler Lawson vor kurzem
 rgetragen habe, das bisherige Sys-
 m im Prinzip beizubehalten und
 n Ausgleich zwischen den unter-
 iedlichen Mehrwertsteuersätzen
 ateral, also zwischen dem Land des
 porteurs und dem des Importeurs,
 rzunehmen beziehungsweise zu
 rrechnen. In Verbindung mit mo-
 rnsten und rationellen Verarbei-
 gsmethoden könnte durchaus die
 älfte der bisherigen Grenzkontroll-
 en eingespart werden; schon
 hatzkanzler Lawson hatte bezwei-
 t, daß die Vorschläge der EG-Kom-
 mission, die die Harmonisierung bein-
 halten, zu höheren Einsparungen füh-
 n würden.

Botschafter Mallaby, der sein Land
 it dem Frühjahr in Bonn vertritt,
 eint, daß „der Markt“ über kurz oder
 ng automatisch eine Anpassung der
 uersätze erzwingen werde: „Wenn
 ne Regierung feststellen muß, daß
 ren Handelsunternehmen die Kun-
 n wegbleiben, weil diese auf Grund

niedrigerer Mehrwertsteuersätze im
 Ausland einkaufen, dann muß sie
 zwangsläufig überlegen, ihre eigene
 Mehrwertsteuer zu reduzieren.“ In lo-
 gischer Konsequenz gehört deshalb
 der drastische Abbau aller Restriktio-
 nen bei der Einfuhr für den persönli-
 chen Bedarf (ausgenommen bei Ta-
 bak- und Alkoholprodukten) zu den
 britischen Vorstellungen. Der Abbau
 der Grenzkontrollen für den Perso-
 nenverkehr stoße nicht auf britischen
 Widerstand, doch dürften Aspekte des
 Waffen- und Drogenschmuggels sowie
 der Terrorismusbekämpfung nicht
 außer acht gelassen werden.

Mallaby zeigt sich zufrieden über
 den Erfolg der britischen Aussteller
 auf den jetzt beendeten Modemessen
 Igedo und Igedo Dessous; nicht nur die
 Nachfrage deutscher Kunden, son-
 dern noch mehr derjenigen aus Dritt-
 ländern sei überraschend gut gewe-
 sen. Mallaby würdigte in diesem Zu-
 sammenhang das von London reali-
 sierte Programm „Focus Germany“,
 das britische Unternehmen (vor allem
 kleine und mittlere) für Exporte in die
 Bundesrepublik interessieren und
 vorbereiten soll. Dieses gezielte Ex-
 portförderungsprogramm, das im
 Frühjahr nächsten Jahres auslaufen
 wird, sei „im Vorfeld des Binnenmar-
 kes“ gerade zum richtigen Zeitpunkt
 gekommen. Zwar schlage sich der Er-
 folg dieser Bemühungen noch nicht in
 der bilateralen Handelsbilanz nieder
 — „das dauert noch rund ein Jahr“ —
 doch zeige zum Beispiel die über-
 durchschnittlich gute Besetzung der
 Informationsseminare, wie effizient
 das Programm sei.

Nach Meinung Mallabys wird es
 auch nicht im Zusammenhang mit
 dem Binnenmarkt 92 zu einer Erwei-
 terung der Europäischen Gemein-
 schaft durch Beitritte von Süd- oder
 Nordländern kommen: „Wir brauchen
 jetzt erst einmal Zeit, um die 12er-
 Gemeinschaft zu konsolidieren und
 zum Funktionieren zu bringen“, er-
 klärte er. Regelungen mit beitragswil-
 ligen Ländern — sei es die Türkei,
 Malta, Österreich oder Norwegen —
 müßten über Assoziierungsverträge
 gefunden werden. Wie lange eine sol-
 che Beitrittspause dauern könne, woll-
 te er jedoch nicht definieren.



Der Abbau der Einfuhrbeschränkungen für Güter des persönli-
 chen Bedarfs führt nach Meinung des britischen Botschafters in Bonn,
 Christopher Mallaby, automatisch zu einer Angleichung der in der
 unterschiedlichen Mehrwertsteuern — eine verordnete Harmonisierung
 sei deshalb gar nicht erforderlich. Foto: Handelsblatt-Dokumentar

HANDELSBLATT

16 SEPTEMBER, 1988

Unofficial summary translation of an interview with Sir Christopher Mallaby published in Handelsblatt on 16 September 1988

Tax Harmonisation is not absolutely necessary

The latest British proposals on EC VAT tax harmonisation do not represent any form of departure from the idea of a Single European Market. The harmonisation of indirect taxes is not prescribed in the Single European Act. The objective of the Act is the free movement of trade. The British proposals are intended to bring this about through the application of market forces. With the help of modern and efficient procedures up to half of current frontier control costs can be saved. It is believed that the market itself will enforce an approximation of tax rates. "As soon as a government realises that its firms are losing customers because of lower VAT rates abroad, it will be obliged to consider a reduction in its own VAT rate." The lifting of border controls for the free movement of people is not opposed by Britain, but aspects such as arms and drugs smuggling as well as the fight against terrorism should not be ignored.

GUIDE TO THE GERMAN PRESS

Friday 16 September 1988

Main headlines: CDU-CSU warns v. Weizsäcker against pardoning terrorists (2), DDR (1), structural fund, Hesse left out (FR), court ruling on token strikes: "last resort" (HB), Metalworking TU v. Sunday work (WAZ), Olympics (Bild), universities & record number of student applications. "more money needed" (NRZ), Walesa (2), Gorbachev on domestic reform (2).

1) CSU sharply criticises v. Weizsäcker, CDU-CSU warn against pardoning RAF terrorists, CSU warns against even thinking of it (main headlines in KSTA, SZ, front pages). Statements by CSU Sec. Huber, CDU-CSU PP domestic policy spokesman Gerster. Survivors of terrorist victims divided: Frau Schleyer opposed, S's son not, Frau v. Braunmühl supports examination of question of pardon; FDP also endorses examination, critical of CSU (front pages). Concern in Bonn...security authorities worried about timing...v.W. is obliged to examine applications (KSTA). Editorials: Idea of v.W.'s even meeting terrorists almost intolerable (FAZ). If that shocks, how would people react to pardon? (KSTA). Too early? (NRZ). Politicians speaking out of turn: wait till he decides (GA).

2) DDR, Berlin: DDR blocks visit by W. German Laender Parliament Presidents to Potsdam, no reason given; Bundestag Pres. Jenninger speaks of unfriendly act (RP Main item, front pages; Bild editorial on "biting the hand that feeds"). DDR bans ARD & ZDF TV cameras at DDR Protestant Synod today at Dessau (Welt, FAZ front pages). SPD Deutschlandpolitik Spokesman Buehler criticises "inappropriate" increase of transit lump sum paid to DDR, CDU-CSU silent (FAZ). E. German swimming Elbe shot at and injured, reaches W. side (GA, SZ, FAZ); Bonn protests shots (Welt). DDR Culture Minister Hoffmann to W. journalists: Totally new situation if anti-communism is no longer a weapon for you and anti-capitalism no longer a weapon for us. But new era not sure yet (RP: "Unusually candid talk"). Berlin Document Centre: Americans want to hand it over, Germans want to have full control over it - or do they? Historians could use it in time for FRG's 40th anniversary (Zeit p.12).

3) Europe: Just before EC finance ministers' Crete meeting, British position on VAT harmonisation is explained by British Ambassador Sir Christopher Mallaby: Recent British proposals do not mean any departure from idea of SEM; the point is rather to resolve the problem with market-orientated means as far as possible, rather than a Brussels directive. In the talk with HB, the Ambassador also says that in his view, SEM will not bring EC enlargement: Time needed first of all to consolidate the Community of 12 and get it functioning. (HB briefly notes on front page; talk itself prominently placed on inside page.)

Hauser in FR: Is some VAT alignment necessary for SEM? Finance Ministers will discuss at Crete meeting, not for first or last time. Lawson and Rocard on same line. No question - even some VAT convergence is big problem for a few EC countries. Point now is to see if political will to implement SEM exists at least among core states of EC. If GB and Denmark don't join in next step, no disaster; but if Rocard means final Paris No to VAT harmonisation, we can forget the SEM for 1992-3.

Europe & Franco-German econ. cooperation: FAZ main leader is sceptical on latter, also generally on econ. harmonisation in Europe. In practice the Goys shrink from surrendering sovereignty: this begins with comparatively harmless issues, e.g. VAT harmonisation which is rejected not only by the British but by the French. Reason not implausible: In all countries the proverb applies: old taxes good, new ones bad. Fair to predict that no country will be willing in foreseeable future to submit to terms of European Monetary Union. When politicians refer to Europe, they mean a Europe of sovereign states. That need not be inimical to aim of a common market (Barbier).

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AND TO IMMEDIATE UKMIS NEW YORK

SIC

HURRICANE GILBERT: SITREP 151900Z

1. DA'S RECONNANSANCE (TELNO U/N OF 160010Z TO MODUK) HAS CONFIRMED THAT ALTHOUGH VERY MANY BUILDINGS AND HOMES HAVE SUFFERED DAMAGE ESPECIALLY IN THE POORER AREAS IN KINGSTON AND SETTLEMENTS IN THE EASTERN PARISHES, HANOVER AND IN THE FALMOUTH AREA, THE MAJORITY OF ACCOMMODATION IN RESIDENTIAL AREAS APPEARS TO BE INTACT OR REPARABLEVM IN SHANTY AREAS WHERE DWELLINGS ARE LESS SUBSTANTIAL, DAMAGE HAS BEEN SEVERE, AND THESE HIGH DENSITY POPULATIONS ARE IN GREAT NEED.

2. MUCH PROGRESS HAS BEEN MADE IN CLEARING STREETS AND TRUNK ROADS OF FALLEN DEBRIS, TREES ETC DUE IN LARGE MEASURE TO SELF-HELP AND COMMUNITY ORGANISATIONS. WHILST POWER LINES APPEAR IN RELATIVELY GOOD ORDER, WE KNOW FROM OTHER SOURCES THAT THE GRID HAS BEEN SEVERELY DAMAGED IN CERTAIN AREAS. WE HAVE SEEN TODAY ONLY MINOR EVIDENCE OF FLOODING OR FLOOD DAMAGE.

3. IT IS NOW BEGINNING TO APPEAR THAT ROAD COMMUNICATION IS BEING REOPENED MORE RAPIDLY THAN ANTICIPATED.

4. DAMAGE TO PUBLIC UTILITIES HAS BEEN PATCHY BUT COULD PROVE OF SOME SIGNIFICANCE. WATER PUMPING STATIONS ARE NOT YET RESTORED AND HIGHER LOCATIONS ARE NOT RECEIVING WATER. PARTIAL SERVICE HAS RESUMED IN KINGSTON BUT HANOVER AND THE COAST OF ST THOMAS AND PORTLAND HAVE ESPECIAL PROBLEMS.

5. PUBLIC HEALTH IS A CONCERN. THE AUTHORITIES APPEAR TO BE IN NO SHAPE TO DEAL WITH ANY MAJOR OUTBREAK OF DISEASE.

6. IN THESE CIRCUMSTANCES I FULLY CONCUR WITH ADVICE FRM DA AND CAPTAIN OF ACTIVE THAT PUMAS FROM BELIZE SHOULD NOT (NOT)

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

TO FCO TELNO 09 SAVING OF 19 SEPTEMBER 1988. Info. Brussels,
Luxembourg, The Hague, Paris, Rome, UKRep Brussels,
UKDEL OECD, UKMis Geneva, all Consulates-General in the
Federal Republic and West Berlin, Washington, Tokyo,
Vienna.

THE FRG ECONOMY

SUMMARY

1. Bullish mid-year report indicating broad-based growth. Private consumption boosted by implementation of tax cuts in January. Industrial confidence increasing in line with return of export demand. Growth forecast to average 2.5% into the 1990s. (Paras. 8 and 9)
2. Good Q2 figures show provisional H1 results better than expected. GNP growth of 3.9% in real terms in H1 with private consumption up 3.2%. Domestic demand up 4.6%. Net exports fell to DM 18.9 billion. Inflation estimated at 1.2%. Federal Finance Minister's budget speech drew on good figures and announced higher expected tax revenues as a result. But plans to raise consumer taxes next year remain and additional receipts will be used instead to reduce borrowing. (Paras. 10 and 11)
3. August unadjusted unemployment fell to 2.167 million (8.5%). Inflation, cost of living index, rose to 1.2% from 1% in July. (Paras. 12 to 14)
4. Ifo business climate survey fell slightly but outlook remains positive. Industrial demand high with domestic orders expanding by 3% in July. Foreign orders fell back by 2%. Production slowed by 2% after a 3% increase in June. Construction output levelled off. (Paras. 15 to 19)
5. Discount Rate raised by 0.5% to 3.5% and Lombard Rate increased by same amount to 5%. Securities repurchase rate lifted in stages to 4.25%. Growth of M3 slowed in July to 6.7%. (Paras. 20 and 21)
6. Provisional details of current account indicate surplus of DM 9.5 billion in June compared with DM 4.4 billion a year earlier. Visible trade surplus in June climbed to DM 14.2 billion. (Paras. 22 and 23)

/DETAIL

DETAIL

7. This report summarises the main developments in the economy since the last monthly report (my telno 8 Saving of 15 July).

FEDERAL GOVERNMENT'S MID-YEAR REPORT

8. The State Secretary at the Federal Economics Ministry, Schlecht, presented the mid-year report on 8 August. Summarising activity in H1 Schlecht said that there had been a broadly based recovery. Private consumption had played a dominant role boosted by the implementation of the second stage of income tax cuts in January. Orders to industry had grown steadily, production plans had been increased and the Ifo Institute's business climate surveys for the Government indicated a marked improvement in business confidence. Investment appeared to have grown particularly strongly, especially construction activity which looked certain to increase by 4% to 5% over the year after a long period of stagnation. Nevertheless, Schlecht admitted that unemployment remained too high. Although the number in employment continued to increase, various factors had contributed to a greater increase in those seeking work. On foreign trade, Schlecht said that a gradual reduction was taking place in the Federal Republic's current account surplus. Export demand had returned but imports were also expanding. Net exports as a percentage of GNP had fallen from 5.3% in 1985 to 2.9% in 1987. This year there would probably be a further reduction to between 2% and 2.5%.

9. Looking to the future, Schlecht said that consumer tax increases next year were not expected significantly to slow down economic growth. They would reduce the growth of real incomes which would also be effected by inflation rising to 2%. Any slowdown in private consumption should to be limited, however, by the carry-over effect of tax cuts this year and an expected reduction in the savings ratio. The medium term outlook was for growth to average 2.5% until the early 1990s.

PROVISIONAL Q2/H1 RESULTS

10. Provisional statistics for the economy in the first half of the year were issued on 6 September, coinciding with the budget debate in the Bundestag. They were as follows:

: % change on a year earlier (real)				
: =====				
	Q4 87	Q1 88	Q2 88	H1 88
: GNP	+ 2.4	+ 4.3	+ 3.4	+ 3.9
: Private consumption	+ 4.4	+ 4.6	+ 1.8	+ 3.2
: Government consumption	+ 1.8	+ 1.6	+ 2.1	+ 1.9
: Gross investment	+ 1.8	+11.4	+10.5	+11.0
: of which:				
: a) Machinery & equipment	+ 3.0	...	...	...
: b) Buildings	+ 0.3	+20.8	+ 3.9	+10.4
: Domestic Demand	+ 3.4	+ 5.5	+ 3.7	+ 4.6
: Exports	+ 4.2	...	...	...
: Imports	+ 7.6	...	...	...
: Net exports (DM bn)	17.68	8.24*	10.63*	18.87*

: % change on a year earlier (nominal)				
: =====				
	Q4 87	Q1 88	Q2 88	H1 88
: GNP	+ 3.9	+ 5.9	+ 5.3	+ 5.6
: Private consumption	+ 5.3	+ 5.7	+ 3.1	+ 4.4
: Government consumption	+ 4.2	+ 3.8	+ 2.5	+ 3.1
: Gross investment	+ 2.9	+11.6	+12.0	+11.8
: of which:				
: a) Machinery & equipment	+ 3.7	...	...	...
: b) Buildings	+ 2.1	+22.2	+ 5.7	+12.1
: Domestic Demand	+ 4.6	+ 6.6	+ 4.8	+ 5.7
: Exports	+ 4.7	...	...	...
: Imports	+ 7.7	...	...	...
: Net exports (DM bn)	35.23	26.60*	29.66*	56.26*

NB: ... = not released * = estimate

Inflation was estimated at 1.2% for H1. The Federal Statistical Office emphasised the provisional nature of the national accounts statistics due to continuing difficulties with the introduction of the Single Administrative Document.

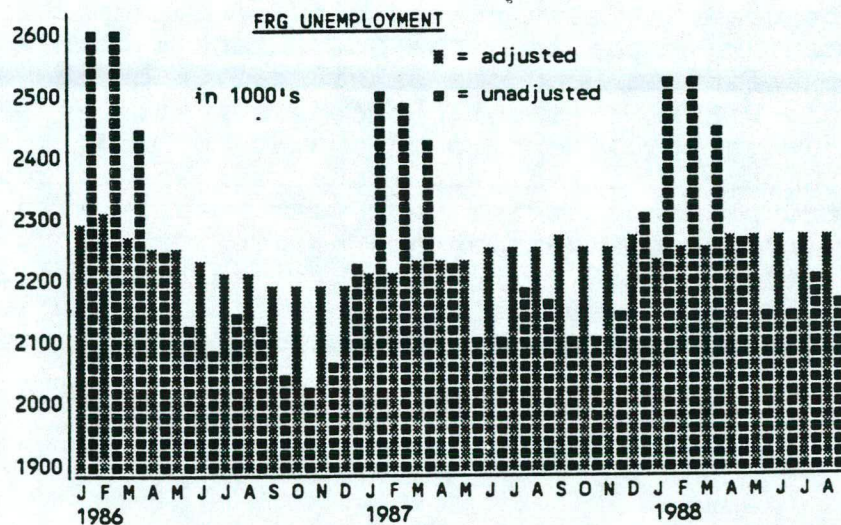
BUDGET DEBATE

11. The budget debate, traditionally the first major debate of the political season, took place in the lower House, the Bundestag, on 6 September. Against an opposition weakened by the resignation the previous day of its veteran finance spokesman, and with the strong H1 results at his fingertips, the Federal Finance Minister was in confident form. In his key note speech he forecast real growth of 3% GNP this year and announced that the increased economic activity would result in additional tax revenue of some DM 1.5 billion over the year. Stoltenberg warned against lapsing into "naive optimism", however, and criticised the "handout mentality" which had led to calls for the additional revenue to be used to delay plans to raise consumer taxes in 1989. Stoltenberg emphasised the Government's commitment to budgetary consolidation and the stabilisation of the debt interest ratio within the public sector budget. He said that the Federal borrowing requirement would amount to DM 37.7 billion this year. Stoltenberg admitted that industrial and agricultural subsidies were planned to rise next year, mainly as a result of an increase in the coal subsidy and agricultural income support measures agreed by the EC. But he stressed that the 1990 tax reform would eliminate substantial subsidies in the form of tax relief and that by 1992 the Government intended to reduce total subsidies by 20% to DM 13.5 billion. Stoltenberg called for continued expenditure discipline in the public sector.

12. Unadjusted unemployment in August fell by 32,200 to 2,167,109 or 8.5%, an increase on a year earlier of only 2,500. The seasonally adjusted figure, which had stagnated in the preceding three months, also recorded a significant fall - down by 13,000 to stand at 2,254,000. Franke, President of the Federal Labour Office, described the figures as "relatively favourable". The picture on the employment front has also brightened with July figures showing an increase in the number of people employed of 148,000 compared to a year earlier after 139,000 in June. The rise in demand for labour is also reflected in the number leaving the register (313,100) in August, some 6 per cent more than a year earlier. Short-time working also eased markedly but this was largely due to the holiday period. The number of vacancies at the end of August rose only marginally on the July level but remains well up on a year earlier.

* FRG UNEMPLOYMENT *			

	Aug 87	Jul 88	Aug 88
a) Unemployment total ...	2,164,618	2,199,266	2,167,109
- Rate (%)	(8.6%)	(8.6%)	(8.5%)
b) Adjusted total	2,248,000	2,267,000	2,254,000
c) Short-time working ...	175,094	159,300	133,386
d) Unfilled vacancies ...	177,425	199,276	199,759
e) Total men in a)	1,119,201	1,135,860	1,112,339
f) Total women in a)	1,045,417	1,063,406	1,054,770



PRICES

13. In August the annual rate of inflation, cost of living index, rose to 1.2 per cent having fallen back to 1 per cent in July. Month-on-month prices rose 0.1 per cent. The moving average for the year so far remains at 1 per cent. Consensus forecasts for inflation in 1989 suggest an acceleration to over 2 per cent.

14. The retail price index in August fell for the second consecutive month with the annual increase unchanged at 0.5 per cent. Wholesale prices were 1 per cent up on a year earlier. The annual increase in industrial producer prices fell back to 1.4 per cent in July after 1.6 per cent in June. Import prices in July were 0.7 per cent up on June to stand 0.9 per cent higher than a year earlier. The annual rise in export prices reached 2.8 per cent after 2.5 per cent in June. Agricultural producer prices, available for June only, rose 1.5 per cent on their May level, to stand 1.1 per cent down on a year earlier.

PRICES 1980=100

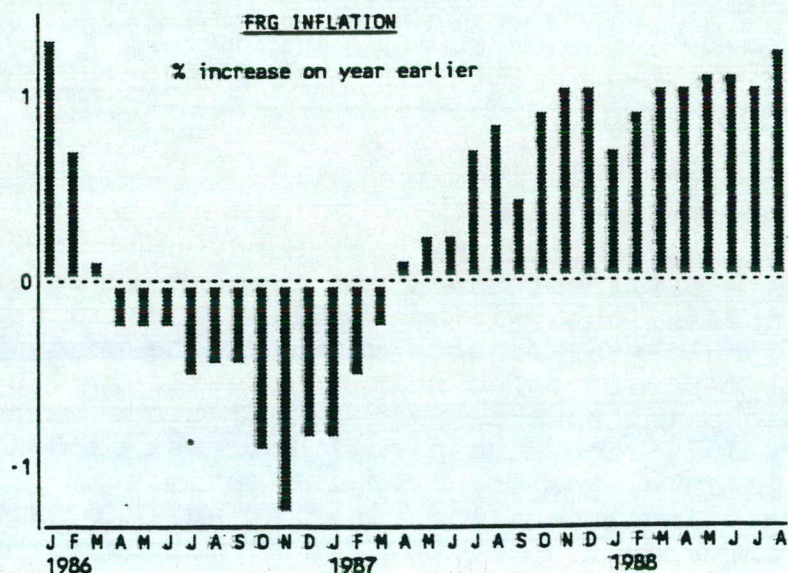
	Cost of living	Industrial producer prices**	Agricultural producer prices	Retail prices	Import prices	Export prices
	=====	=====	=====	=====	=====	=====
1987 May	121.1	94.7	93.9	118.2	94.4	115.4
Jun	121.3	94.8	93.8	118.2	94.9	115.5
Jul	121.3	95.1	92.3	118.0	95.3	115.7
Aug	121.2	95.2	92.9	117.8	95.5	115.8
1988 May	122.4	96.0	91.4*	118.7	94.6	117.8
Jun	122.6	96.3	92.8*	119.0	95.5	118.4
Jul	122.5	96.4	.	118.6	96.2	118.9
Aug	122.6	.	.	118.4	.	.

% change on a year earlier:

1988 Jan	+ 0.7	+ 0.1	+ 1.8	+ 0.4	- 1.0	+ 1.1
Feb	+ 0.9	+ 0.4	- 0.1	+ 0.5	+ 0.1	+ 1.2
Mar	+ 1.0	+ 0.6	- 1.6	+ 0.4	- 0.3	+ 1.5
Apr	+ 1.0	+ 1.3	- 3.1	+ 0.6	- 0.1	+ 1.9
May	+ 1.1	+ 1.4	- 2.7*	+ 0.4	+ 0.2	+ 2.1
Jun	+ 1.1	+ 1.6	- 1.1*	+ 0.7	+ 0.6	+ 2.5
Jul	+ 1.0	+ 1.4	.	+ 0.5	+ 0.9	+ 2.8
Aug	+ 1.2	.	.	+ 0.5	.	.

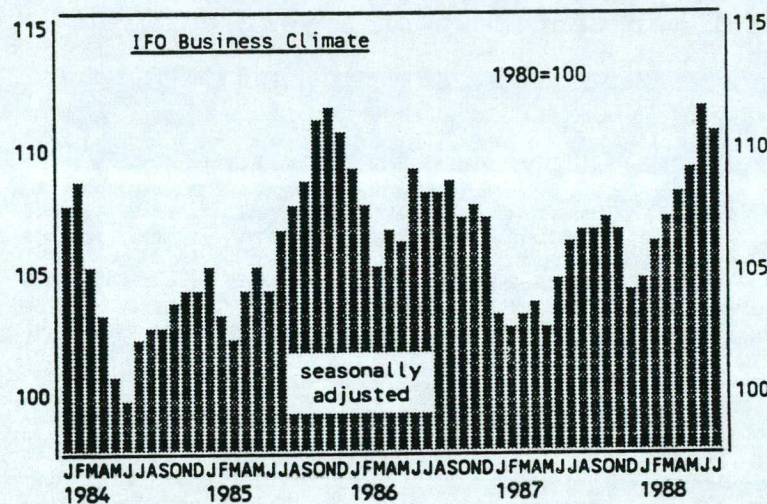
* = provisional

**= 1985=100



IFO SURVEY

15. Although the July Ifo survey of the business climate recorded the first decline this year, the overall situation was still regarded as favourable with order books up and export prospects remaining positive. The construction sector continues to signal improvement. Despite the slight fall in July, the indicator remains near the peak level registered during the current upswing. In the capital goods sector stock levels are described as tight although optimism on the exports front waned slightly. In the basic and producer goods sector order backlogs are high accompanied in some areas by supply difficulties, with strong foreign demand in the coming months expected to place a strain on low stocks. The consumer goods sector reports moderate growth in demand but does not envisage any increase in output over the next three months.



	1980=100	1984	1985	1986	1987	1988	1989
January		107.7	104.9	109.2	102.9	104.6	
February		108.4	102.8	107.5	102.4	105.9	
March		105.2	102.2	105.1	103.0	107.0	
April		103.1	104.0	106.4	103.7	107.9	
May		100.3	104.9	106.0	102.9	108.9	
June		99.4	104.1	108.8	104.6	111.3	
July		102.2	106.7	108.0	106.1	110.5	
August		102.3	107.6	108.1	106.6		
September		102.5	108.4	108.5	106.3		
October		103.4	111.2	107.0	107.2		
November		104.0	111.3	107.3	106.7		
December		103.8	110.3	106.9	103.8		

Seasonally adjusted

Source: Ifo

PRIVATE CONSUMPTION

16. Q2 GNP figures confirm the continued robustness of private consumption as a pillar of the present economic upturn. Although Q2 demand slipped slightly in seasonally adjusted terms on the high Q1 level, half-year figures show private consumption 3.2% higher in real terms compared to a year earlier. Other related indicators also point upwards with retail trade turnover in the period January-July recording a real increase of 3.1%. Despite a 2.9% decline in July, the mood remains optimistic. The GfK consumer climate index has also risen steadily over recent months. The confusion sown by the fiscal debate before the summer break has settled and the mood is described as stable at a high level.

NEW ORDERS

17. Industrial demand in July maintained the high level achieved in June. Domestic orders remained buoyant, rising by 3 per cent, while foreign orders slipped back 2 per cent. The two-monthly comparison, June/July on April/May, shows overall new orders advancing 2 per cent with domestic orders up 4 per cent and foreign demand up 0.5 per cent. With the exception of the basic and producer goods sector, where orders fell by 1 per cent, all major sectors recorded an increase in demand. Orders were particularly lively in the capital goods sector (+ 4.5 per cent) while consumer goods orders also experienced a marked rise (+ 1.5 per cent). Compared to the corresponding two-month period a year earlier overall demand was 7.1 per cent higher in volume terms, with domestic demand also up 7.1 per cent and foreign demand 6.9 per cent higher. On this comparison capital goods orders showed a rise of 9.7 per cent, basic and producer goods orders were 4.1 per cent higher and orders for consumer goods rose by 3.6 per cent.

NEW ORDERS 1980=100

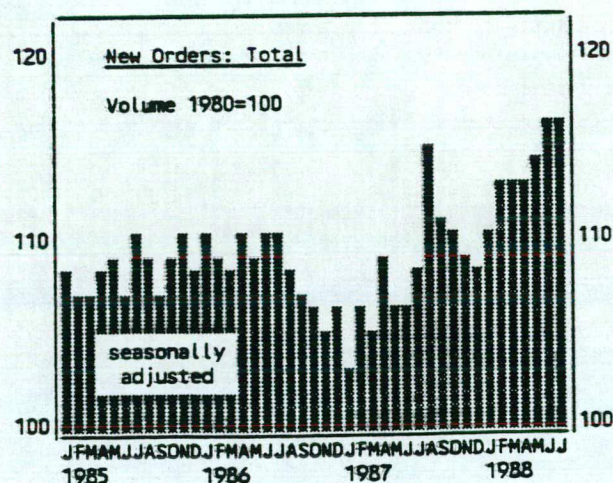
Seasonally adjusted

	Total		Domestic		Foreign	
	Value	Volume*	Value	Volume	Value	Volume
1987 Apr	128	109	119	100	149	126
May	126	106	118	99	144	122
Jun	126	106	116	98	148	125
Jul	128	108	119	100	148	125
1988 Apr	136	113	124	103	162	134
May	138	114	126	104	164	136
Jun	140	116	129	106	166	137
Jul(p)	142	116	132	109	163	134

Quarterly

Q187	124	104	116	97	141	119
Q287	127	107	117	99	147	124
Q387	132	111	123	103	153	129
Q487	131	109	120	100	154	129
Q188	134	112	123	103	157	131
Q288	138	114	126	105	164	136

* = at constant prices
p = provisional

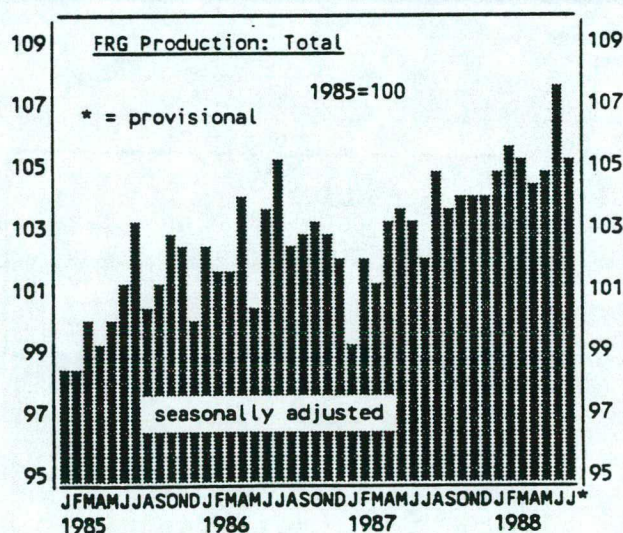


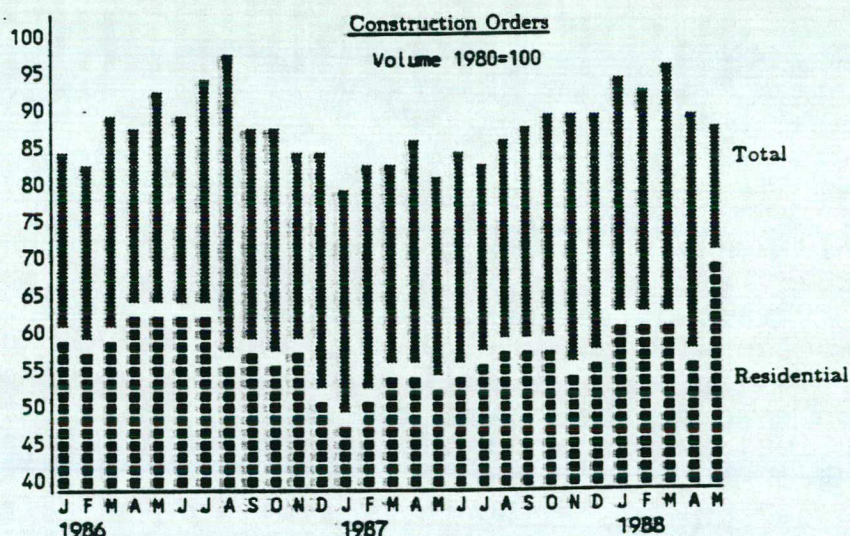
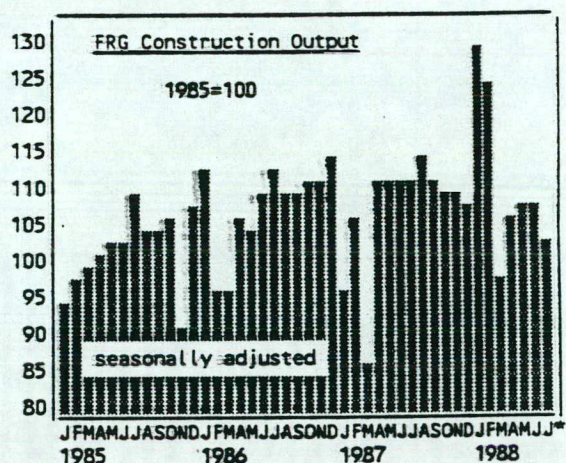
PRODUCTION

18. Following the upsurge in output in June, with revised figures showing a 3% rise over May, provisional production figures for July reveal a 2% drop. However, the holiday period tends to distort these figures, favouring the June result and dragging down the July outturn. Manufacturing output recorded a 2.5% fall, while construction activity eased sharply (- 5%). The two-monthly comparison, June/July on April/May indicated a seasonally adjusted increase of 2% in overall output. Manufacturing output was also 2% higher with output of both consumer goods and basic and producer goods up 2.5% and capital goods production up 1.5%. Compared to the corresponding two-month period a year earlier, overall output was 3.7% higher with the strongest increase reported in the basic and producer goods sector (+ 5.7%), followed by consumer goods (+ 4.8%) and capital goods (+ 4.5%).

PRODUCTION 1985=100						
	Total	Manufacturing sector	Basic & producer goods	Capital goods	Consumer goods	Construction
	=====	=====	=====	=====	=====	=====
1987 Apr	103.0	103.4	98.6	106.3	103.4	110.0
May	103.6	103.4	99.7	105.9	104.1	110.0
Jun	102.7	102.4	98.9	104.9	102.9	110.3
Jul	101.8	101.7	99.8	102.5	102.6	109.8
1988 Apr	104.1	104.8	102.3	106.7	105.2	104.7
May	104.4	105.4	103.2	107.3	105.3	107.4
Jun	107.4	108.3	104.8	111.1	108.8	107.1
Jul*	105.0	105.8	105.8	105.6	106.8	102.0
Quarterly						
Q187	100.8	100.9	96.8	103.1	102.3	94.7
Q287	102.8	102.8	99.0	105.3	103.2	110.1
Q387	103.2	103.1	100.4	104.8	103.9	111.2
Q487	103.9	104.0	101.1	106.3	103.9	108.6
Q188	105.0	105.0	103.6	106.1	105.9	115.9
Q288	105.2	105.9	103.4	108.2	106.4	106.3

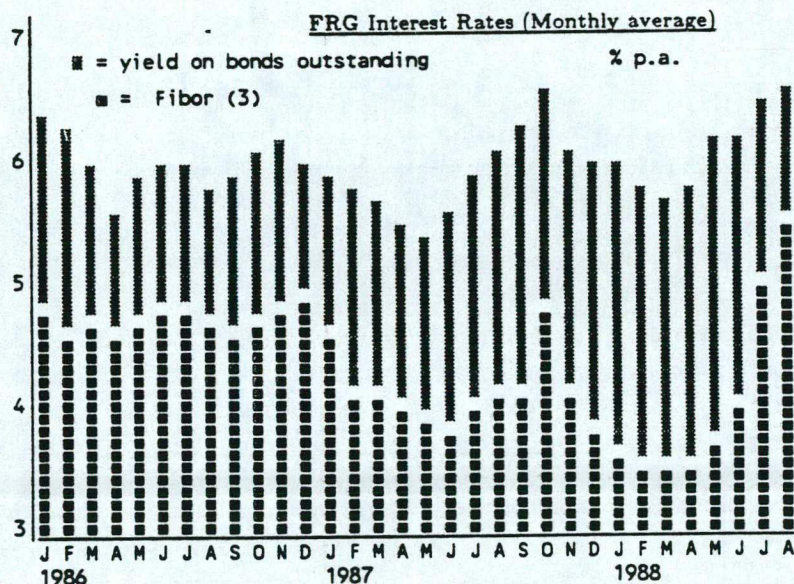
* = provisional



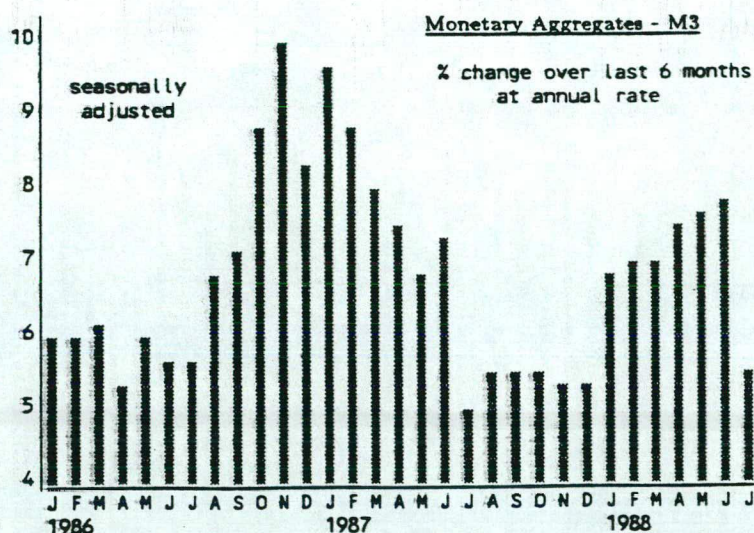


MONETARY

20. There has been considerable activity on the interest rate front during the summer although the dust now seems to have settled. Despite the rise in the Discount Rate on 1 July from its historic low of 2.5% to 3%, pressure on the DM continued with the \$ climbing steadily towards DM 1.90. Pointing to the inflationary dangers stemming from dearer imports and faced with continued excessive monetary expansion, the Bundesbank decided at the end of July to raise the Lombard rate from 4.5% to 5%, having already pushed up the fixed rate on securities repurchase agreements from 3.75% to 4%. The rise in the \$ continued unabated, reaching a high of DM 1.9205 on 10th August (21% up on its level at the start of the year) following the surprise increase in the US discount rate from 6% to 6.5%. After further increases in the repurchase rate to 4.25%, the Bundesbank, in a move coordinated with other European central banks, hoisted the Discount Rate to 3.5% with effect from 26th August. The \$ has since slipped back and market rates, which had also been fuelled by inflationary fears with the yield on public sector bonds reaching 6.64% towards the end of August, have gone into reverse. The three-month interbank rate (Fibor) peaked at 5.45% in mid-August but has since eased to 5%.



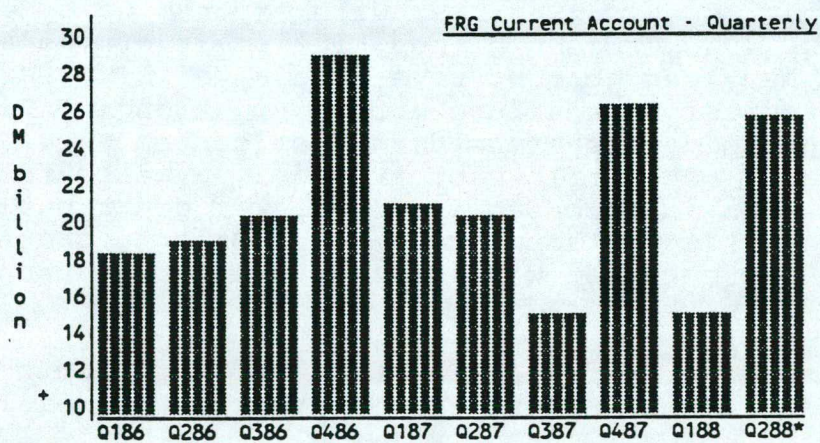
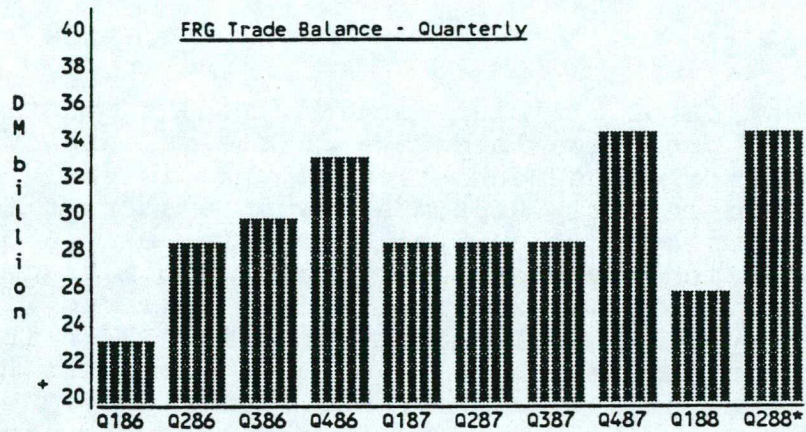
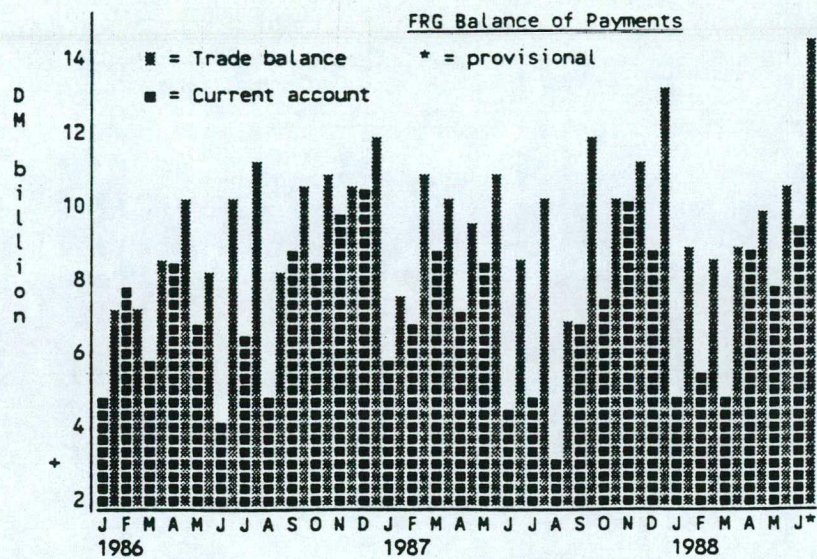
21. The rapid monetary expansion seen in the first half of the year came to a halt in July. The M3 monthly mean (calculated by taking the average of end-of-month levels in June and July) recorded a seasonally adjusted annual increase over Q4 1987 of 6.7% after 7.4% in June, for the Bundesbank a welcome deceleration towards the target corridor of 3-6%. Compared to the end of July 1987 M3 was 6 per cent higher while M2 was also up by 6 per cent and M1 by 10 per cent. Private sector credit was relatively weak in July although it remained the main-spring of monetary expansion. Over the last twelve months total private sector credit has risen by 5%.



BALANCE OF PAYMENTS

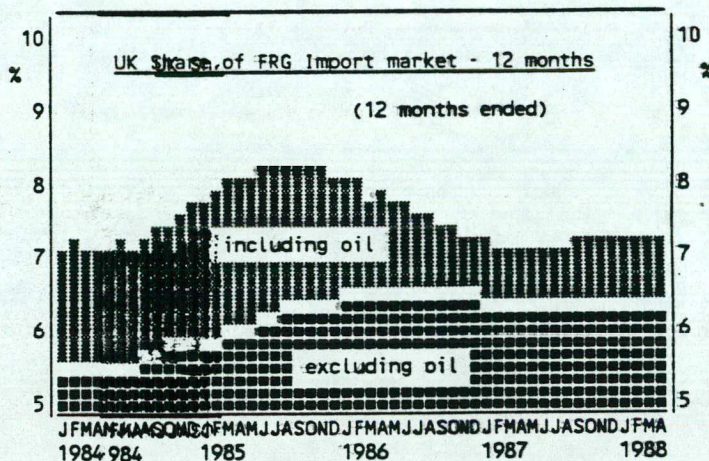
22. The modification of official foreign trade statistics continues to cause considerable delays in the release of comprehensive balance of payments figures. Provisional results for June, published in early September, show a sharp rise in the current account surplus to DM 9.5 billion after DM 7.6 billion in May and DM 4.4 billion a year earlier. The visible trade surplus climbed to a massive DM 14.2 billion in June compared with DM 10.3 billion in May and DM 8.3 billion in June 1987. These figures are accompanied, however, by a caveat from the Bundesbank which suggests that the figures have been bloated by the delays in completing customs returns. The 19.5 per cent rise in exports on a year earlier is thus also probably overstated. Nevertheless, figures for the first half of the year show the visible trade surplus up to DM 59.2 billion, DM 3.5 billion higher than in the corresponding period a year earlier with exports up by 4.8 per cent and imports 4.4 per cent higher. The start of the holiday season saw the services account revert to a deficit (DM 2.8 billion) with tourist expenditure abroad up strongly. Dividend payments to non-resident shareholders also contributed to the rise. In contrast, net outflows of transfer payments fell back to only DM 1.1 billion as a consequence of lower contributions to the EC. Half-year figures show an overall current account surplus of DM 40.2 billion compared with DM 40.6 billion in the first half of 1987.

23. The net foreign reserves of the Bundesbank declined sharply in both June and July as a result of concerted Central Bank intervention on foreign exchange markets.



PERIOD: 12 months ended: APRIL 1988

24. In the twelve months to the end of April 1988 FRG imports from the UK totalled DM29.2 billion, 7.1 per cent of total FRG imports. A year earlier the market share had been 7.0 per cent. While total FRG imports rose by 2.7 per cent on the preceding twelve month period, imports from the UK recorded a 3.5 per cent increase. FRG oil imports from the UK rose by 11 per cent year-on-year with the UK share of total oil imports up from 30.5 per cent to 31.2 per cent. Excluding oil, total FRG imports rose by 2.5 per cent, while non-oil imports from the UK were up by 2.1 per cent with the UK share of the non-oil import market slipping marginally to 6.1 per cent.



25. FRG exports to the UK over the period rose by 6 per cent year-on-year against a rise of 1.9 per cent in total FRG exports so that the proportion of FRG exports destined for the UK climbed from 8.6 per cent to 8.9 per cent.

26. The trade gap in favour of the FRG rose from DM 16.2 billion to DM 17.9 billion.

MALLABY

FRAME ECONOMIC

ECDC(1)

FRG: STATISTICAL SUMMARY

	1986	1987	%change	Seasonally adjusted			% change on prev	
				Q1 87	Q4 87	Q1 88	qtr/month	y
.EXPENDITURE ON GNP (DM bn)								
(current prices)								
) Gross National Product	1,948.8	2,023.2	3.8	497.6	515.5	525.4	1.9	5.6
) Private consumption	1,081.1	1,119.6	3.6	271.7	286.1	287.1	0.3	5.7
) Government consumption	382.1	396.8	3.8	96.7	100.1	100.7	0.6	4.1
) Fixed capital formation	376.8	388.4	3.1	92.7	99.0	103.3	4.3	11.4
- Machinery & Equipment	161.4	168.7	4.5	42.0	42.2	43.0	1.9	2.4
- Construction	215.4	219.7	2.0	50.7	56.8	60.3	6.2	18.9
) Change in stocks	-3.1	8.6		7.8	3.1	n/a		
) Exports of goods & services	636.3	636.6	0.0	154.7	164.5	n/a	n/a	n/a
) Imports of goods & services	524.4	526.8	0.5	126.0	137.3	n/a	n/a	n/a
) Net exports	111.9	109.8		28.7	27.2	n/a		
.EXPENDITURE ON GNP (DM bn)								
(constant prices)								
) Gross National Product	1,618.4	1,645.6	1.7	405.7	417.2	423.0	1.4	4.3
) Private consumption	903.5	931.3	3.1	227.4	237.0	237.8	0.3	4.6
) Government consumption	322.9	327.9	1.5	81.3	82.5	82.8	0.4	1.8
) Fixed capital formation	324.9	330.6	1.8	79.3	83.8	87.5	4.4	10.3
- Machinery & Equipment	135.9	141.3	4.0	35.3	35.2	36.0	2.3	2.0
- Construction	189.0	189.3	0.2	44.0	48.6	51.5	6.0	17.0
) Change in stocks	0.8	7.9		5.5	3.0	14.9		
) Exports of goods & services	544.4	548.8	0.8	133.7	141.2	n/a	n/a	n/a
) Imports of goods & services	478.1	500.9	4.8	121.5	130.3	n/a	n/a	n/a
) Net exports	66.3	47.9		12.2	10.9	n/a		
. DISTRIBUTION OF NATIONAL INCOME								
) National Income	1,513.4	1,571.4	3.8	386.5	399.6	410.5	2.7	6.2
) Gross wage & salary income	1,041.3	1,080.7	3.8	264.5	274.2	276.8	0.9	4.7
- as % of National Income	68.8%	68.8%		68.4%	68.6%	67.4%		
) Gross entrepreneurial & property income	472.2	490.7	3.9	122.0	125.4	133.7	6.6	9.6
- as % of National Income	31.2%	31.2%		31.6%	31.4%	32.6%		
.INCOME OF HOUSEHOLDS								
a) Gross wages & salaries	867.7	900.9	3.8	220.9	228.4	231.0	1.1	4.6
b) Disposable income	1,246.3	1,292.6	3.7	316.8	329.1	330.2	0.3	4.2
c) Savings as a % of b)	13.4	13.4		14.2	13.1	13.1		
1980=100								
5.PRODUCTIVITY								
a) In the economy as a whole								
i) GNP per working person (1980 prices)	111.2	112.3	1.0	110.9	113.8	115.1	1.1	3.8
ii) wage and salary costs per production unit	113.3	115.5	1.9	114.6	115.5	115.0	-0.4	0.3
1985=100								
b) In industry				May 87	Apr 88	May 88		
i) output per employed person	101.0	101.0	0.0	101.0	103.0	103.0	0.0	2.0
ii) wage and salary costs per production unit	104.0	107.0	2.9	107.0	108.0	108.0	0.0	0.9
Jul 87 Jun 88 Jul 88								
6.INDUSTRIAL PRODUCTION								
a) Total	102.3	102.6	0.3	101.8	107.4	105.0	-2.2	3.1
b) Manufacturing industry	102.5	102.7	0.2	101.7	108.3	105.8	-2.3	4.0
i) Producer goods	99.4	99.3	-0.1	99.8	104.8	105.8	1.0	6.0
ii) Capital goods	104.5	104.9	0.4	102.5	111.1	105.6	-5.0	3.0
iii) Consumer goods	102.3	103.3	1.0	102.6	108.8	106.8	-1.8	4.1
c) Construction	106.4	106.0	-0.4	109.8	107.1	102.0	-4.8	-7.1
1980=100								
7.NEW ORDERS (volume)								
a) Total	108.0	108.0	0.0	108.0	116.0	116.0	0.0	7.4
i) Capital goods	113.0	111.0	-1.8	110.0	120.0	124.0	3.3	12.7
ii) Consumer goods	100.0	101.0	1.0	102.0	107.0	105.0	-1.9	2.9
b) Domestic	101.0	100.0	-1.0	100.0	106.0	109.0	2.8	9.0
i) Capital goods	107.0	105.0	-1.9	105.0	111.0	119.0	7.2	13.3
ii) Consumer goods	94.0	95.0	1.1	95.0	100.0	98.0	-2.0	3.2
c) Foreign	123.0	125.0	1.6	125.0	137.0	134.0	-2.2	7.2
i) Capital goods	123.0	122.0	-0.8	119.0	134.0	132.0	-1.5	10.9
ii) Consumer goods	135.0	137.0	1.5	140.0	147.0	150.0	2.0	7.1

	1986	1987	%change					
				Aug 87	Jul 88	Aug 88	% change on prev month	
				Unadjusted				
8. UNEMPLOYMENT (1000's)								
a) i) unemployed	2,228.0	2,228.8	0.0	2,164.6	2,199.3	2,167.1	-1.5	0.1
ii) as a % of the working population	9.0	8.9		8.6	8.6	8.5		
b) Short-time workers	197.4	278.0	40.8	175.1	159.3	133.4	-16.3	-23.8
c) Vacancies	154.8	171.0	10.5	177.4	199.3	199.8	0.3	12.6
				1980=100				
9. PRICES								
a) Cost of living of all private households	120.7	121.0	0.2	121.2	122.5	122.6	0.1	1.2
b) Retail prices	117.3	117.8	0.4	117.8	118.6	118.4	-0.2	0.5
				Jul 87	Jun 88	Jul 88		
c) Wholesale prices	108.8	104.7	-3.8	104.6	106.3	105.8	-0.5	1.1
d) Producer prices of (1985=100) industrial products	118.2	115.6	-2.2	95.1	96.3	96.4	0.1	1.4
e) Export prices	116.8	115.5	-1.1	115.7	118.4	118.9	0.4	2.8
f) Import prices	101.0	94.4	-6.5	95.3	95.5	96.2	0.7	0.9
				Apr 87	Mar 88	Apr 88		
Terms of Trade	112.2	116.4	3.7	116.2	114.0	114.1	-0.1	-1.8
				DM bn				
				Jun 87	May 88	Jun 88		
10. BALANCE OF PAYMENTS								
a) Visible trade								
i) exports	526.4	527.0	0.1	42.1	47.6	50.3	5.7	19.5
ii) imports	413.7	409.5	-1.0	33.8	37.3	36.1	-3.2	6.8
iii) balance	112.7	117.5		8.3	10.3	14.2		
b) Supplementary trade items	-1.5	-0.9		0.2	0.0	-0.9		
c) Services	0.9	-7.8		-2.2	0.6	-2.8		
d) Transfers	-27.0	-28.4		-1.9	-3.3	-1.1		
e) Current account	85.1	80.4		4.4	7.6	9.4		
11. NET FOREIGN RESERVES (+/-)	2.8	31.9		-1.2	-2.9	-7.9		
				Jul 87	Jun 88	Jul 88		
				Seasonally adjusted				
12. MONEY STOCK (change in year/month)								
M1	24.7	27.0		1.3	4.7	1.6		
M2	34.3	35.5		-0.1	2.2	1.9		
M3	65.7	62.6		2.9	4.8	-0.5		
				Unadjusted				
13. MONETARY CAPITAL FORMATION	69.8	70.7		1.2	1.9	-0.3		
				Aug 87	Jul 88	Aug 88		
14. INTEREST RATES								
a) Yield on bonds outstanding (public sector) (%pa)	5.9%	5.8%		6.0%	6.4%	6.5%		
b) Bank Rates: (previous level)								
Since 26.08.88 Discount Rate: 3.5% (3.0)								
Since 29.07.88 Lombard Rate: 5.0% (4.5)								
				Apr 87	Mar 88	Apr 88		
15. FRG/UK TRADE (DM million)								
a) FRG Imports from UK	29,757.7	29,211.6	-1.8	2,708.8	2,769.0	2,318.5	-16.3	-14.4
- UK Share of total	7.2%	7.1%		7.7%	6.7%	6.9%		
b) FRG Exports to UK	44,599.6	46,141.4	3.5	4,305.0	4,509.3	4,011.2	-11.0	-6.8
- UK Share of total	8.5%	8.8%		9.7%	9.0%	9.3%		
c) FRG/UK Trade Balance (FRG deficit = -)	14,841.9	16,929.8		1,596.2	1,740.3	1,692.7		
				Aug 87	Jul 88	Aug 88		
16. EXCHANGE RATES								
a) DM/£	3.184	2.941	-7.6%	2.967	3.145	3.204	1.9%	8.0%
b) DM/\$	2.171	1.798	-17.2%	1.858	1.844	1.887	2.3%	1.6%

Sources: Federal Statistical Office, Wiesbaden;
Deutsche Bundesbank, Frankfurt - ajm
Discrepancies in totals due to rounding 109/22

FRG: DETAILED STATISTICAL ANNEX

	<u>Table</u>
Gross National Product (Real)	1a
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Economic Section
British Embassy, Bonn

Date: 19/09/88

Table 1a

FRG - EXPENDITURE ON GNP (Real)

Values in DM million (1980 prices)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Capital Mach.& Eq't =====	Formation Buildings =====	Change in Stocks =====	Net Exports =====	Exports (of goods & services) =====	Imports =====
<u>Annual</u>									
1981	1,485,300	836,380	303,290	121,810	197,880	-10,700	36,640	456,730	420,090
1982	1,471,000	825,230	300,740	113,590	189,290	-9,600	51,750	471,450	419,700
1983	1,498,900	839,600	301,440	119,900	192,540	-1,500	46,920	469,010	422,090
1984	1,548,100	852,290	308,820	119,360	195,540	5,500	66,590	511,110	444,520
1985	1,579,600	866,420	315,300	130,530	184,550	-1,500	84,300	545,360	461,060
1986	1,618,400	903,490	322,880	135,850	189,040	, 900	66,240	544,360	478,120
1987	1,645,600	931,340	327,920	141,300	189,260	7,900	47,880	548,790	500,910
<u>Quarterly</u>									
1985 Q2	387,600	211,950	77,000	30,690	50,050	-3,800	21,710	135,940	114,230
Q3	403,100	215,880	77,800	30,790	52,540	10,000	16,090	136,370	120,280
Q4	412,400	235,790	85,020	41,430	48,530	-24,100	25,730	141,060	115,330
1986 Q1	382,100	210,960	77,060	28,770	33,390	12,800	19,120	132,890	113,770
Q2	401,100	224,160	79,270	33,830	51,250	-2,200	14,790	138,650	123,860
Q3	412,200	224,610	80,240	31,610	53,290	11,100	11,350	133,940	122,590
Q4	422,700	244,510	86,230	41,640	51,110	-21,000	20,210	140,740	120,530
1987 Q1	390,300	216,470	79,020	30,600	32,430	20,100	11,680	132,360	120,680
Q2	403,900	229,370	80,160	34,010	51,440	-2,200	11,120	134,730	123,610
Q3	418,900	231,160	81,110	33,780	54,170	11,000	7,680	134,700	127,020
Q4	432,500	254,340	87,630	42,910	51,220	-21,000	17,400	147,000	129,600
1988 Q1	406,700	226,350	80,420	...	38,920	...	8,240*	...	...
Q2	417,000	232,450	81,960	...	53,640	...	10,630*	...	...

Source: Federal Statistical Office, Wiesbaden

... = not available

* = estimate

Table 1a (cont)

FRG - EXPENDITURE ON GNP (Real)

% CHANGE ON A YEAR EARLIER (real)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Fixed Capital Formation =====	of which:	Mach.& Eqp't =====	Buildings =====	Exports (of goods & services) =====	Imports =====
<u>Annual</u>									
1980	1.5	1.2	2.6	2.8		2.6	2.9	5.3	3.7
1981	0.0	-0.5	1.8	-4.8		-4.3	-5.1	8.2	-1.2
1982	-1.0	-1.3	-0.8	-5.3		-6.7	-4.3	3.2	-0.1
1983	1.9	1.7	0.2	3.1		5.5	1.7	-0.5	0.6
1984	3.3	1.5	2.4	0.8		-0.5	1.6	9.0	5.3
1985	2.0	1.7	2.1	0.1		9.4	-5.6	6.7	3.7
1986	2.5	4.3	2.4	3.1		4.1	2.4	-0.2	3.7
1987	1.7	3.1	1.6	1.7		4.0	0.1	0.8	4.8
<u>Quarterly</u>									
1985 Q3	3.0	2.9	3.0	1.8		4.2	0.2	9.1	5.7
Q4	1.7	3.0	2.3	0.5		7.6	-4.1	1.6	4.2
1986 Q1	1.7	3.5	2.2	2.0		4.3	0.2	-1.4	-1.6
Q2	3.5	5.8	2.9	5.5		9.7	2.6	2.0	8.4
Q3	2.3	4.0	3.1	1.9		2.5	1.3	-1.8	1.9
Q4	2.5	3.8	1.4	3.1		0.5	5.3	0.4	5.5
1987 Q1	2.1	2.8	2.5	1.4		6.4	-2.9	-0.3	6.5
Q2	0.7	2.4	1.1	0.4		0.5	0.4	-1.9	0.5
Q3	1.6	3.0	1.0	3.6		6.9	1.7	0.8	4.7
Q4	2.3	4.0	1.6	1.5		3.0	0.2	4.4	7.5
1988 Q1	4.2	4.6	1.8	n.a		n.a	20.0	n.a	n.a
Q2	3.4	1.8	2.1	n.a		n.a	3.9	n.a	n.a

Source: Federal Statistical Office, Wiesbaden

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Table 1b

FRG - EXPENDITURE ON GNP (Nominal)

Values in DM million (Current prices)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Capital Formation Mach. & Buildings Eqp't =====		Change in Stocks =====	Net Exports =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1981	1,545,100	887,850	318,160	127,650	207,590	-11,400	15,250	482,110	466,860
1982	1,597,100	918,050	326,190	124,900	201,990	-11,500	37,470	517,540	480,070
1983	1,680,400	964,160	336,210	135,600	208,220	-1,800	38,010	524,830	486,820
1984	1,769,900	1,003,570	350,230	137,580	217,050	6,600	54,870	590,780	5,359,610
1985	1,845,600	1,040,970	365,550	153,850	206,950	-1,400	79,680	646,950	567,270
1986	1,948,800	1,081,140	382,140	161,380	215,370	-2,100	111,870	636,280	524,410
1987	2,023,200	1,119,640	396,760	168,670	219,660	8,700	109,770	636,580	526,810
<u>Quarterly</u>									
1985 Q2	447,100	255,750	85,160	36,250	55,870	-4,800	18,870	161,880	143,010
Q3	469,200	259,670	87,710	36,400	58,820	11,700	14,900	162,420	147,520
Q4	498,200	282,790	109,520	48,830	54,620	-26,600	29,040	167,300	138,260
1986 Q1	450,300	253,540	86,240	34,030	38,060	14,800	23,630	156,510	132,880
Q2	477,000	268,260	90,230	40,250	58,170	-5,600	25,690	162,340	136,650
Q3	494,600	268,840	92,590	37,590	60,630	10,000	24,950	156,190	131,240
Q4	526,600	290,770	113,060	49,510	58,510	-21,600	36,350	163,570	127,220
1987 Q1	474,000	258,720	89,310	36,340	37,730	24,300	27,600	152,860	125,260
Q2	492,200	276,750	94,100	40,530	59,490	-4,500	25,830	155,560	129,730
Q3	509,700	278,800	95,730	40,470	62,750	10,600	21,350	156,580	135,230
Q4	547,300	305,370	117,620	51,330	59,690	-21,700	34,990	171,580	136,590
1988 Q1	500,300	273,280	92,860	...	45,910	...	26,600*	...	...
Q2	516,500	284,130	96,550	...	63,160	...	29,660*	...	...

Source: Federal Statistical Office, Wiesbaden

... = not available

* = estimate

Table 1b (cont)

FRG - EXPENDITURE ON GNP (Nominal)

% CHANGE ON A YEAR EARLIER (nominal)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Fixed Capital Formation =====	of which:	Mach.& Eqpt =====	Buildings =====	Exports (of goods & services) =====	Imports =====
<u>Annual</u>									
1980	6.3	7.1	8.9	10.7		7.0	13.0	11.9	16.2
1981	4.0	5.6	6.8	-0.2		0.2	-0.4	14.2	9.8
1982	3.4	3.4	2.5	-2.5		-2.2	-2.7	7.3	2.8
1983	5.2	5.0	3.1	5.3		8.7	3.2	1.4	1.4
1984	5.3	4.1	4.2	3.2		1.5	4.2	12.6	10.1
1985	4.3	3.7	4.4	1.7		11.8	-4.7	9.5	5.9
1986	5.6	3.8	4.5	4.4		4.9	4.1	-1.6	-7.6
1987	3.8	3.7	3.8	3.1		4.5	2.0	0.0	0.5
<u>Quarterly</u>									
1985 Q3	5.5	5.0	5.5	3.0		6.7	0.6	12.3	7.6
Q4	4.2	4.6	3.6	1.7		9.2	-3.3	2.9	1.9
1986 Q1	4.7	3.8	3.9	3.1		5.3	1.4	-1.4	-7.9
Q2	6.7	4.9	6.0	7.1		11.0	4.1	0.3	-4.4
Q3	5.4	3.5	5.6	3.2		3.3	3.1	-3.8	-11.0
Q4	5.7	3.0	3.2	4.4		1.4	7.1	-1.6	-7.1
1987 Q1	5.2	2.2	3.5	2.7		6.8	-0.9	-2.2	-5.2
Q2	3.3	3.3	4.3	1.6		0.7	2.3	-3.2	-4.2
Q3	3.0	3.9	3.4	5.1		7.7	3.5	0.5	4.3
Q4	3.9	5.0	4.0	2.8		3.7	2.0	4.9	7.4
1988 Q1	5.5	5.6	4.0	n.a		n.a	21.7	n.a	n.a
Q2	5.3	3.1	2.5	n.a		n.a	5.7	n.a	n.a

Source: Federal Statistical Office, Wiesbaden

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Table 1c

INCOME OF HOUSEHOLDS

	Gross Wages & Salaries DM bn	Disposable Income DM bn	Savings Ratio %	Average Earnings* 1985=100
<u>Annual</u>				
1984	796.7	1 150.5	12.8	96
1985	826.5	1 192.3	12.7	100
1986	867.7	1 246.3	13.4	105
1987	900.9	1 292.6	13.4	110
<u>Quarterly</u> <u>Seasonally adjusted</u>				
1985 Q2	205.0	296.6	12.9	99
Q3	207.3	299.4	12.2	100
Q4	210.0	301.8	12.5	102
1986 Q1	213.4	306.9	13.5	104
Q2	215.8	310.1	12.7	104
Q3	218.5	314.4	13.6	105
Q4	220.0	314.9	13.6	107
1987 Q1	220.9	316.7	14.2	108
Q2	225.2	321.7	13.1	110
Q3	226.4	325.2	13.2	110
Q4	228.4	329.1	13.1	112
1988 Q1	231.0	330.2	13.1	115

* = wages & salaries per man-hour

Source: Deutsche Bundesbank (Reihe 4)

Table 2a

PRODUCTIVITY

	(a) IN THE ECONOMY AS A WHOLE		(b) IN INDUSTRY	
	GNP per working person	Wage & Salary costs per production unit	Output per employed person	Wage & Salary costs per production unit
<u>Annual</u>	<u>1980=100</u>		<u>1985=100</u>	
1984	108.2	108.7	97	100
1985	109.6	110.6	100	100
1986	111.2	113.3	101	104
1987	112.3	115.4	101	107
<u>Quarterly</u>				
Q3	112.0	113.1	101	104
Q4	111.7	114.0	100	106
1987 Q1	110.9	114.6	99	107
Q2	111.6	116.3	101	107
Q3	113.0	115.3	101	107
Q4	113.8	115.5	102	107
1988 Q1	115.1	115.0	104	107
<u>Monthly</u>				
1987 Jan			97	109
Feb			100	106
Mar			100	107
Apr			101	105
May			101	107
Jun			100	108
Jul			100	109
Aug			102	106
Sep			102	107
Oct			102	107
Nov			102	108
Dec			102	106
1988 Jan			102	107
Feb			103	106
Mar			104	107
Apr			103	108
May			103	108

Source: Deutsche Bundesbank

* = provisional

Table 2b INDUSTRIAL PRODUCTION

	INDUSTRIAL PRODUCTION		
	Total	Manufacturing 1985=100	Construction
<u>Annual</u>			
1984	96.5	95.5	108.6
1985	100.0	100.0	100.0
1986	102.4	102.5	106.4
1987	102.6	102.7	106.2
<u>Quarterly</u>			
1986 Q1	101.9	101.9	99.6
Q2	102.2	102.7	105.6
Q3	103.1	103.3	109.3
Q4	102.3	102.2	111.2
1987 Q1	100.8	100.9	94.7
Q2	102.8	102.8	110.1
Q3	103.2	103.1	111.2
Q4	103.9	104.0	108.6
1988 Q1	105.0	105.0	115.9
Q2	105.2	105.9	106.3
<u>Monthly</u>			
1986 Dec	101.7	101.5	113.1
1987 Jan	98.8	98.5	94.3
Feb	101.8	101.9	105.8
Mar	100.9	101.8	85.4
Apr	102.8	103.0	110.0
May	103.4	103.3	110.0
Jun	102.8	102.3	110.3
Jul	101.9	101.7	109.8
Aug	104.4	104.2	112.7
Sep	103.3	103.5	110.8
Oct	103.8	104.0	108.6
Nov	103.9	104.1	108.6
Dec	103.8	104.2	107.3
1988 Jan	104.5	103.6	128.7
Feb	105.5	105.1	123.7
Mar	104.8	105.5	96.6
Apr	104.1	104.8	104.7
May	104.4	105.4	107.4
Jun	107.4	108.3	107.1
Jul*	105.0	105.8	102.0

Source: Deutsche Bundesbank

* = provisional

Table 2c NEW ORDERS

	NEW ORDERS (Volume)		
	Total	Domestic 1980=100	Foreign
1984	103	95	119
1985	109	99	128
1986	108	101	123
1987	108	100	125
1988 Q1	108	100	127
Q2	110	102	125
Q3	109	102	122
Q4	106	99	122
1987 Q1	104	97	119
Q2	107	99	124
Q3	111	103	129
Q4	109	100	129
1988 Q1	112	103	131
Q2	114	105	136
1986 Dec	106	100	120
1987 Jan	103	95	121
Feb	106	99	120
Mar	105	98	119
Apr	109	100	126
May	106	99	122
Jun	106	98	125
Jul	108	100	125
Aug	115	108	129
Sep	111	101	131
Oct	110	101	129
Nov	109	101	129
Dec	108	98	129
1988 Jan	110	102	129
Feb	113	103	132
Mar	113	103	134
Apr	113	103	134
May	114	104	136
Jun	116	106	137
Jul*	116	109	134

Table 3

LABOUR MARKET (Details)

SEASONALLY ADJUSTED (1000's)				UNADJUSTED (actual totals)					
	(a) Employment	(b) Unemployed	(c) Rate %	(d) Unemployed	(e) Rate %	(f) Short-time workers	(g) Unfilled Vacancies	(h) Total men in (d)	(i) Total Women in (d)
<u>Annual</u>									
1981				1,271,574	5.5	346,859	207,928	652,205	619,369
1982				1,833,244	7.5	606,064	104,871	1,021,090	812,154
1983				2,258,235	9.1	675,102	75,797	1,273,115	985,120
1984				2,265,559	9.1	383,700	87,929	1,276,653	988,906
1985				2,304,014	9.3	234,515	109,996	1,289,055	1,014,959
1986				2,228,000	9.0	197,384	154,790	1,200,000	1,028,000
1987				2,228,800	8.9	277,967	170,983	1,207,400	1,021,400
<u>Monthly</u>									
.....									
1987 Jan	25,942	2,203	8.8	2,497,176	10.0	427,496	150,046	1,451,015	1,046,161
Feb	25,947	2,200	8.8	2,487,818	10.0	382,173	164,784	1,453,923	1,033,895
Mar	25,956	2,224	8.8	2,412,379	9.6	462,802	180,047	1,395,975	1,016,404
Apr	25,972	2,222	8.9	2,215,916	8.8	301,861	179,239	1,216,281	999,635
May	25,985	2,217	8.8	2,098,690	8.3	221,734	180,968	1,120,353	978,337
Jun	25,991	2,235	8.9	2,096,918	8.3	184,012	182,169	1,107,235	989,683
Jul	25,998	2,245	9.0	2,175,827	8.7	215,705	180,252	1,133,431	1,042,396
Aug	26,000	2,248	8.9	2,164,618	8.6	175,094	177,425	1,119,201	1,045,417
Sep	26,000	2,250	9.0	2,107,122	8.4	253,098	180,080	1,082,417	1,024,705
Oct	26,003	2,248	8.9	2,092,725	8.3	288,554	171,093	1,071,974	1,020,751
Nov	26,016	2,242	8.9	2,133,061	8.5	204,773	157,127	1,106,500	1,026,561
Dec	26,032	2,259	9.0	2,308,230	9.2	218,298	148,284	1,255,775	1,052,455
1988 Jan	26,054	2,227	8.7	2,518,675	9.9	309,988	161,300	1,426,913	1,091,762
Feb	26,071	2,232	8.7	2,516,508	9.9	350,321	174,015	1,434,134	1,082,374
Mar	26,083	2,247	8.8	2,440,098	9.6	423,597	189,650	1,382,237	1,057,861
Apr	26,095	2,265	8.9	2,261,672	8.9	260,848	193,065	1,218,789	1,042,883
May	26,111	2,269	8.9	2,149,131	8.4	198,098	196,158	1,131,951	1,017,180
Jun	26,129	2,269	8.9	2,131,406	8.4	190,002	201,157	1,110,602	1,020,804
Jul	26,143	2,267	8.9	2,199,266	8.6	159,300	199,276	1,135,860	1,063,406
Aug		2,254	8.8	2,167,109	8.5	133,386	199,759	1,112,339	1,054,770

Source: Bundesanstalt für Arbeit
Deutsche Bundesbank

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Table 4a

PRICES

1980=100

	<u>Cost of Living</u>	<u>Retail Prices</u>	<u>Producer Prices of industrial products</u>	<u>Export Prices</u>	<u>Import Prices</u>
<u>Annual</u>					
1984	118.4	115.6	97.8	116.2	122.8
1985	121.0	117.5	100.0	119.4	124.6
1986	120.7	117.3	97.5	116.8	101.0
1987	121.0	117.8	95.1	115.5	94.4
<u>Monthly</u>					
1986 Apr	120.9	117.7	98.3	117.6	104.4
May	120.9	117.7	97.9	117.4	102.3
Jun	121.1	117.7	97.9	117.1	99.8
Jul	120.5	117.2	97.3	116.6	96.6
Aug	120.2	116.9	97.1	116.2	95.9
Sep	120.4	116.9	97.1	116.1	96.6
Oct	120.0	116.7	95.7	115.6	94.8
Nov	119.9	116.8	95.4	115.4	94.6
Dec	120.1	116.9	95.3	115.3	94.4
1987 Jan	120.6	117.5	95.2	115.0	94.4
Feb	120.7	117.7	94.9	115.0	93.7
Mar	120.7	117.7	94.9	115.1	93.9
Apr	121.0	117.9	94.6	115.2	94.2
May	121.1	118.2	94.7	115.4	94.4
Jun	121.3	118.2	94.8	115.5	94.9
Jul	121.3	118.0	95.1	115.7	95.3
Aug	121.2	117.8	95.2	115.8	95.5
Sep	120.9	117.5	95.1	115.8	94.9
Oct	121.1	117.6	95.4	116.0	95.1
Nov	121.1	117.5	95.4	115.9	93.6
Dec	121.3	117.8	95.4	115.9	93.3
1988 Jan	121.5	118.0	95.4	116.3	93.5
Feb	121.8	118.3	95.4	116.4	93.8
Mar	121.9	118.2	95.5	116.8	93.6
Apr	122.2	118.6	95.8	117.4	94.1
May	122.4	118.7	96.0	117.8	94.6
Jun	122.6	119.0	96.3	118.4	95.5
Jul	122.5	118.6	96.4	118.9	96.2
Aug	122.6	118.4			

* = provisional

Source: Federal Statistical Office, Wiesbaden

Table 4b

PRICES

(% change on a year earlier)

	<u>Cost of Living</u>	<u>Retail Prices</u>	<u>Producer Prices of industrial products</u>	<u>Export Prices</u>	<u>Import Prices</u>
<u>Annual</u>					
1983	3.3	2.4	1.5	1.7	-0.3
1984	2.4	2.1	2.9	3.5	6.0
1985	2.2	1.6	2.2	2.8	1.5
1986	-0.2	-0.2	-2.5	-2.2	-18.9
1987	0.2	0.4	-2.5	-1.1	-6.5
<u>Monthly</u>					
1986 May	-0.2	-0.3	-2.3	-2.3	-19.9
Jun	-0.2	-0.2	-2.3	-2.5	-21.0
Jul	-0.5	-0.3	-3.0	-2.8	-22.4
Aug	-0.4	-0.1	-3.0	-2.8	-21.6
Sep	-0.4	-0.3	-3.1	-2.8	-21.5
Oct	-0.9	-0.5	-4.4	-2.9	-20.7
Nov	-1.2	-0.8	-4.6	-2.8	-20.3
Dec	-1.1	-0.8	-4.5	-2.6	-19.6
1987 Jan	-0.8	-0.3	-4.7	-3.0	-17.8
Feb	-0.5	-0.1	-4.5	-2.5	-15.6
Mar	-0.2	0.1	-4.2	-2.4	-12.1
Apr	0.1	0.2	-3.9	-2.0	-9.8
May	0.2	0.4	-3.4	-1.7	-7.7
Jun	0.2	0.4	-3.3	-1.4	-4.9
Jul	0.7	0.7	-2.3	-0.8	-1.3
Aug	0.8	0.8	-2.0	-0.3	-0.4
Sep	0.4	0.5	-2.1	-0.3	-1.8
Oct	0.9	0.8	-0.3	0.3	0.4
Nov	1.0	0.7	0.0	0.4	-1.1
Dec	1.0	0.8	0.1	0.5	-1.2
1988 Jan	0.7	0.4	0.2	1.1	-1.0
Feb	0.9	0.4	0.5	1.2	0.1
Mar	1.0	0.4	0.6	1.5	-0.3
Apr	1.0	0.6	1.3	1.9	-0.1
May	1.1	0.4	1.4	0.0	0.0
Jun	1.1	0.7	1.6	2.5	0.6
Jul	1.0	0.5	1.4	2.8	0.9
Aug	1.2	0.5			

* = provisional

Source: Federal Statistical Office, Wiesbaden

Table 5

MONETARY AGGREGATES

		Central Bank Money	Currency in circulation	cf which Required Minimum Reserves on domestic liabilities	M1	M2	M3	Monetary Capital Formation DM million
			% change			% change		
Annual				on previous year				
1984		4.8	5.3	4.3	6.2	5.2	4.7	69,734
1985		4.6	3.6	5.6	4.9	4.4	5.0	74,988
1986		6.4	6.7	6.1	7.4	5.9	6.6	69,833
1987		8.1	9.4	6.7	7.4	5.7	5.9	70,723
Monthly								
1986	Jan	6.9	7.3	6.6	9.2	6.2	5.8	11,314
	Feb	6.3	6.9	5.6	9.5	6.2	5.9	6,597
	Mar	6.5	6.8	6.2	11.2	6.7	6.0	7,763
	Apr	7.1	8.9	5.3	9.0	4.7	5.2	4,303
	May	6.5	7.8	5.3	9.6	5.0	5.9	5,755
	Jun	7.2	8.3	6.1	7.2	4.1	5.5	1,136
	Jul	6.0	7.0	5.1	10.3	3.6	5.5	2,492
	Aug	7.2	8.5	5.9	10.3	5.4	6.7	5,919
	Sep	7.6	8.3	6.8	6.1	5.9	7.0	3,332
	Oct	7.4	7.0	7.7	7.5	9.0	8.7	4,589
	Nov	8.9	9.1	8.6	10.2	11.0	9.9	3,790
	Dec	9.3	8.7	9.9	8.1	8.3	8.2	12,843
1987	Jan	9.0	9.6	8.3	7.8	10.1	9.5	8,084
	Feb	8.5	8.8	8.2	8.7	8.9	8.6	7,645
	Mar	8.3	9.3	7.2	8.2	7.5	7.8	8,219
	Apr	8.1	9.6	6.6	9.4	7.0	7.3	1,023
	May	7.9	9.3	6.4	8.9	6.3	6.7	9,337
	Jun	8.1	10.5	5.6	10.7	6.8	7.1	2,017
	Jul	7.9	10.1	5.8	10.6	3.3	4.9	1,162
	Aug	7.5	9.9	5.1	11.8	4.2	5.4	7,222
	Sep	8.0	9.7	6.3	11.0	4.2	5.3	5,785
	Oct	7.6	10.5	4.8	9.0	4.6	5.3	1,341
	Nov	8.3	11.5	5.1	8.1	4.5	5.1	6,238
	Dec	8.4	10.5	6.4	4.9	5.1	5.2	12,650
1988	Jan	7.7	12.0	3.5	6.8	7.8	6.7	7,073
	Feb	9.3	13.7	4.9	9.8	7.2	6.8	281
	Mar	9.4	14.1	4.7	9.5	7.4	6.9	3,294
	Apr	8.2	11.8	4.6	10.9	7.3	7.4	2,530
	May	8.2	11.6	4.8	12.0	7.2	7.5	5,397
	Jun	8.0	11.3	4.5	15.7	7.2	7.7	1,775
	Jul				13.8	4.0	5.4	

* = over last 6 months at annual rate

Source: Deutsche Bundesbank p = provisional

Table 6

EXCHANGE AND INTEREST RATES

	3 month Interbank* % p.a.	Yield on outstanding Public Sector bonds % p.a.	Discount Rate+ % p.a.	Lombard Rate+ % p.a.	DM Effective Exchange rate** End 72=100	DM/\$ Spot Middle Rates (Frankfurt)	DM/£ Rates
<u>Annual</u>							
1983		7.9	4.0	5.5	151.9	2.5552	3.871
1984		7.8	4.5	5.5	149.8	2.8456	3.791
1985	4.82	6.9	4.0	5.5	149.6	2.9424	3.785
1986	4.64	5.9	3.5	5.5	162.6	2.1708	3.184
1987	4.03	5.8	2.5	4.5	172.4	1.7982	2.941
<u>Monthly</u>							
1986 Mar	4.56	5.9	3.5	5.5	159.5	2.2638	3.320
Apr	4.53	5.5	3.5	5.5	159.3	2.2745	3.402
May	4.62	5.8	3.5	5.5	159.7	2.2282	3.388
Jun	4.65	5.9	3.5	5.5	159.8	2.2365	3.369
Jul	4.65	5.9	3.5	5.5	161.4	2.1532	3.251
Aug	4.61	5.7	3.5	5.5	164.4	2.0636	3.067
Sep	4.53	5.8	3.5	5.5	165.7	2.0401	3.004
Oct	4.64	6.0	3.5	5.5	167.8	2.0047	2.862
Nov	4.73	6.1	3.5	5.5	168.0	2.0264	2.886
Dec	4.84	5.9	3.5	5.5	169.2	1.9916	2.859
1987 Jan	4.54	5.8	3.0	5.0	172.9	1.8581	2.798
Feb	4.03	5.7	3.0	5.0	173.6	1.8265	2.788
Mar	4.04	5.6	3.0	5.0	172.0	1.8339	2.920
Apr	3.91	5.4	3.0	5.0	171.2	1.8110	2.953
May	3.81	5.3	3.0	5.0	171.7	1.7863	2.983
Jun	3.73	5.5	3.0	5.0	171.6	1.8184	2.963
Jul	3.85	5.8	3.0	5.0	171.5	1.8470	2.973
Aug	4.00	6.0	3.0	5.0	171.1	1.8581	2.966
Sept	4.04	6.2	3.0	5.0	171.5	1.8129	2.981
Oct	4.74	6.5	3.0	5.0	171.8	1.8021	2.993
Nov	3.98	6.0	3.0	4.5	175.0	1.6812	2.985
Dec	3.72	5.9	2.5	4.5	175.3	1.6332	2.987
1988 Jan	3.53	5.9	2.5	4.5	174.4	1.6517	2.977
Feb	3.37	5.7	2.5	4.5	173.3	1.6976	2.982
Mar	3.44	5.6	2.5	4.5	173.3	1.6780	3.071
Apr	3.43	5.7	2.5	4.5	172.7	1.6733	3.138
May	3.58	6.1	2.5	4.0	171.8	1.6934	3.166
Jun	3.93	6.1	2.5	4.5	170.7	1.7557	3.125
Jul	4.93	6.4	3.0	5.0	169.1	1.8440	3.145
Aug	5.37	6.5	3.5	5.0		1.8874	3.204

* = FIBOR: Frankfurt interbank offered rate (introduced 12.8.85; 1985 = avg Sep-Oct)

+ = End of year/month p = provisional ** = Weighted against 14 industrial countries

Source: Deutsche Bundesbank

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Table 7

FRG - CURRENT ACCOUNT

VALUES IN DM BILLION

	Exports	Imports	Balance	Supplementary trade items	Services	Transfers	Current account
	=====	=====	=====	=====	=====	=====	=====
<u>Annual</u>							
1981	396.9	369.2	27.7	-0.2	-10.7	-24.8	-8.0
1982	427.7	376.5	51.2	0.8	-13.7	-25.9	12.4
1983	432.3	390.2	42.1	3.3	-6.6	-25.2	13.6
1984	488.2	434.3	53.9	-1.1	4.7	-29.7	27.8
1985	537.2	463.8	73.4	-1.3	5.3	-28.9	48.5
1986	526.4	413.7	112.7	-1.5	0.9	-27.0	85.1
1987	527.4	409.6	117.8	-1.5	-7.1	-28.3	80.9
<u>Monthly</u>							
1986 May	40.6	32.5	8.1	-0.5	1.1	-2.0	6.7
Jun	44.4	34.5	9.9	-2.0	-1.5	-2.4	4.0
Jul	45.4	34.5	10.9	-0.4	-1.4	-2.8	6.3
Aug	36.1	28.0	8.1	-0.2	-1.3	-1.8	4.8
Sep	44.4	34.0	10.4	0.8	-0.6	-2.0	8.6
Oct	48.2	37.5	10.7	0.4	-0.6	-2.1	8.4
Nov	42.2	32.0	10.2	0.6	1.6	-2.6	9.8
Dec	44.7	33.1	11.6	-0.2	1.5	-2.6	10.3
1987 Jan	37.6	30.4	7.2	0.1	0.3	-2.0	5.6
Feb	42.6	32.1	10.5	0.5	-0.4	-3.8	6.8
Mar	47.0	36.9	10.1	-0.2	-1.0	-0.3	8.6
Apr	44.4	35.2	9.2	-0.3	0.1	-2.0	7.0
May	43.3	32.8	10.5	-0.2	0.6	-2.5	8.4
Jun	42.1	33.8	8.3	0.2	-2.2	-1.9	4.4
Jul	45.5	35.6	9.9	-0.6	-2.2	-2.3	4.8
Aug	36.1	29.6	6.5	-0.2	-1.4	-2.0	2.9
Sept	45.8	34.3	11.5	-0.3	-2.0	-2.5	6.7
Oct	48.8	38.7	10.1	-0.3	0.1	-2.7	7.2
Nov	45.7	34.7	11.0	0.6	0.9	-2.5	10.0
Dec	48.5	35.5	13.0	-0.9	0.3	-3.6	8.8
1988 Jan	36.3	27.8	8.5	0.3	-1.9	-2.1	4.8
Feb	41.9	33.7	8.2	-0.4	-0.4	-2.2	5.2
Mar	50.1	41.5	8.6	-0.6	-1.0	-2.3	4.7
Apr	43.3	33.8	9.5	0.3	1.0	-2.2	8.6
May	47.6	37.3	10.3	0.0	0.6	-3.3	7.6
Jun	50.3	36.1	14.2	-0.9	-2.8	-1.1	9.4

Source: Deutsche Bundesbank * = provisional

Table 8

FRG/UK TRADE
(Values in DM 1000)

	(a)		(b)		(c)		(d)
	Total Imports from UK	UK share of FRG total	Non-oil imports from UK	UK share of FRG total	Total Exports to UK	UK share of FRG total	Trade Balance* (incl.oil)
1980	22 859 721	6.70%	16 046 733	5.40%	22 917 269	6.54%	57 548
1981	27 502 164	7.45%	17 413 271	5.44%	26 162 907	6.59%	- 1 339 257
1982	27 001 856	7.17%	17 611 058	5.31%	31 316 680	7.32%	4 314 824
1983	27 137 696	6.95%	18 770 607	5.33%	35 400 882	8.19%	8 263 186
1984	33 285 516	7.67%	22 020 970	5.61%	40 579 540	8.31%	7 294 024
1985	37 163 945	8.01%	26 360 816	6.22%	45 967 428	8.56%	8 803 483
1986	29 757 660	7.19%	24 895 371	6.28%	44 599 625	8.47%	14 841 965
1987	29 393 615	7.18%	24 158 307	6.14%	46 632 447	8.84%	17 238 832
12 months ended:							
Apr 88	29 175 897	7.09%	24 324 842	6.14%	47 036 761	8.92%	17 860 864
<u>Monthly</u>							
1986 Aug	1 892 787	6.76%	1 573 950	5.86%	3 093 243	8.57%	1 200 456
Sep	2 340 321	6.87%	2 042 020	6.21%	3 553 123	8.00%	1 212 802
Oct	2 599 535	6.93%	2 242 779	6.15%	3 853 771	7.99%	1 254 236
Nov	2 213 799	6.92%	1 883 230	6.09%	3 662 868	8.67%	1 449 069
Dec	2 308 822	6.98%	2 000 203	6.26%	3 502 068	7.84%	1 193 246
1987 Jan	2 189 335	7.19%	1 598 042	5.50%	3 211 546	8.53%	1 022 211
Feb	2 178 528	6.78%	1 840 925	5.97%	3 600 733	8.46%	1 422 205
Mar	2 640 876	7.15%	2 225 528	6.23%	4 012 970	8.53%	1 372 094
Apr	2 514 005	7.18%	1 985 920	5.89%	3 813 008	8.68%	1 299 003
May	2 439 309	7.45%	1 904 426	6.07%	3 694 662	8.53%	1 255 353
Jun	2 515 211	7.45%	2 100 553	6.46%	3 799 544	9.03%	1 284 333
Jul	2 350 187	6.59%	1 976 544	5.78%	4 250 873	9.33%	1 900 686
Aug	2 075 531	7.01%	1 724 579	6.13%	3 234 242	8.95%	1 158 711
Sep	2 685 804	7.83%	2 189 342	6.66%	3 928 307	8.58%	1 242 503
Oct	2 662 862	6.89%	2 191 591	5.88%	4 384 878	8.99%	1 722 016
Nov	2 437 778	7.02%	2 112 156	6.32%	4 154 397	9.09%	1 716 619
Dec	2 522 133	7.11%	2 112 165	6.16%	4 056 248	8.37%	1 534 115
1988 Jan	1 910 539	6.87%	1 541 937	5.81%	3 235 913	8.92%	1 325 374
Feb	2 486 276	7.37%	2 003 769	6.18%	3 777 909	9.02%	1 291 633
Mar	2 769 026	6.68%	2 461 749	6.10%	4 509 282	9.01%	1 740 256
Apr	2 318 456	6.85%	1 996 006	6.08%	4 011 172	9.26%	1 692 716

*: - = FRG deficit

Source: Federal Statistical Office, Wiesbaden

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FRG ECONOMY

SUMMARY

1. THE GOVERNMENT IS APPARENTLY UNCONCERNED THAT JULY VISIABLE TRADE FIGURES RECORD A SURPLUS FOR THE FIRST SEVEN MONTHS OF THE YEAR DM4.6 BILLION HIGHER THAN LAST YEAR.

STRENGTHENING EXPORTS HAVE BEEN REPRESENTED AS EVIDENCE OF A SOUND ECONOMY. THIS HAS TAKEN THE PRESSURE OFF THE GOVERNMENT TO ADOPT A MORE HANDS-ON APPROACH TO ECONOMIC MANAGEMENT.

2. EXPORT PERFORMANCE HAS BOOSTED INDUSTRIAL CONFIDENCE AND INVESTMENT. BUT WITH THE THREAT OF CONSUMER TAX INCREASES NEXT YEAR THE GROWTH IN RETAIL ACTIVITY SHOWS SIGNS OF LEVELLING OFF AND RAISES AGAIN THE POSSIBLE EFFECT ON GROWTH GENERALLY.

DETAIL.

3. IN THE APPROACH TO THE IMF/IBRD ANNUAL MEETINGS IN BERLIN, ATTENTION WAS ONCE AGAIN DRAWN TO DOMESTIC ECONOMIC ISSUES. IN INTERVIEWS GIVEN BEFORE THE MEETINGS BEGAN THE FEDERAL FINANCE MINISTER EMPHASISED THE STRENGTH OF ECONOMIC GROWTH THIS YEAR, PARTICULARLY IN CAPITAL INVESTMENT AND PRIVATE CONSUMPTION. ON FOREIGN TRADE, STOLTENBERG WELCOMED THE RETURN OF STRONG EXPORT GROWTH. HE SAID THAT GERMANY HAD CONTRIBUTED TO REDUCTIONS IN WORLD TRADE IMBALANCES AND TO INTERNATIONAL MONETARY STABILITY THROUGH IMPROVED COOPERATION WITH OTHER INDUSTRIAL NATIONS.

4. STOLTENBERG WAS COMMENTING BEFORE THE RELEASE OF THE LATEST JULY TRADE FIGURES WHICH INDICATED THAT EXPORTS HAD RISEN TO DM47.1 BILLION, 3.5 PERCENT HIGHER THAN JULY 1987, WHILE IMPORTS ROSE TO DM36 BILLION, ONLY 1.2 PERCENT HIGHER THAN A YEAR EARLIER. THE VISIBLE TRADE SURPLUS FOR THE MONTH WAS DM11.1 BILLION, A 6.4 PERCENT FALL ON JUNE'S RECORD SURPLUS OF DM14.2 BILLION BUT DM2.2 BILLION HIGHER THAN JULY 1987. THE TOTAL SURPLUS FOR THE FIRST SEVEN MONTHS OF THE YEAR NOW STANDS AT DM70.3 BILLION COMPARED TO DM65.7 BILLION FOR THE SAME PERIOD LAST YEAR. THE CURRENT ACCOUNT SURPLUS FOR THE FIRST SEVEN MONTHS WAS ALMOST UNCHANGED AT DM45.4 BILLION.

5. THE GOVERNMENT IS TAKING THE LINE THAT WHILE IN ABSOLUTE TERMS THE SURPLUS IS INCREASING, AS A PERCENTAGE OF GNP IT HAS FALLEN STEADILY SINCE 1985. IN ITS MONTHLY REPORT FOR SEPTEMBER, THE BUNDESBANK ADMITTED THAT THERE WAS LITTLE PROSPECT OF A REDUCTION IN THE NOMINAL SURPLUS. IT CITED THE RECENT RELATIVE WEAKNESS OF THE D-MARK COMBINED WITH A PERIOD OF GROWTH AMONG GERMANY'S MAIN EC TRADING PARTNERS AS REASONS BEHIND THE STRENGTH OF EXPORTS. THE REPORT SAID THAT EXPORTS TO EC COUNTRIES HAVE RISEN BY 9.4 PERCENT IN THE FIRST HALF OF THIS YEAR.

6. IT IS CLEAR THAT THE RISE IN FOREIGN DEMAND HAS HAD A MARKED EFFECT ON CORPORATE INVESTMENT. THOUGH ACCURATE FIGURES ARE NOT AVAILABLE BECAUSE OF DIFFICULTIES ASSOCIATED WITH THE INTRODUCTION OF THE SINGLE ADMINISTRATIVE DOCUMENT, GROSS INVESTMENT IN THE FIRST HALF OF THE YEAR IS THOUGHT TO HAVE RISEN BY 11 PERCENT. THE BUDESBANK REPORT COMMENTED THAT AMONG GERMAN COMPANIES THE PROPENSITY TO INVEST HAD INCREASED STRONGLY THIS YEAR AND THAT IT SHOWED NO INDICATIONS OF SLOWING DOWN. THE IFO INSTITUTE'S LATEST AUGUST BUSINESS CLIMATE SURVEY RECORDED A FIVE-YEAR HIGH.

7. THE HIGHER THAN EXPECTED GROWTH THIS YEAR HAS TAKEN THE HEAT OUT OF THE DEBATE ABOUT THE GOVERNMENT'S HANDLING OF THE ECONOMY. ALL THE MAJOR ECONOMIC INSTITUTES AND BANKS ARE NOW FORECASTING GROWTH IN REAL GNP OF 3 PERCENT THIS YEAR. THE GROWTH OF EXPORTS AND CONSEQUENT SURPLUSES ARE SEEN BY THE PUBLIC AS TANGIBLE EVIDENCE OF THE STRENGTH OF THE ECONOMY. THE RISK OF INTERNATIONAL CRITICISM IS DISCOUNTED. BUT THERE ARE SIGNS OF SOME CONCERN OVER THE LEVELLING OFF OF GROWTH OF PRIVATE CONSUMPTION, HITHERTO THE DRIVING FORCE BEHIND DOMESTIC DEMAND. REPORTS BY DIW INSTITUTE IN BERLIN AND THE MAIN CONSUMER INDEX HAVE POINTED TO A FALL IN RETAIL ACTIVITY OVER THE YEAR. BOTH STRESS THAT THE EFFECT ON PRIVATE CONSUMPTION HAS BEEN A FLATTENING OUT AT A HIGH LEVEL. BUT THE LEVELLING OFF RAISES MORE FUNDAMENTAL QUESTIONS ABOUT WHETHER THE GOVERNMENT'S INSISTENCE ON RAISING CONSUMER TAX NEXT YEAR IS BEGINNING TO AFFECT SPENDING PATTERNS, IF SO HOW MUCH FURTHER THAT WILL EXTEND INTO 1989, AND WHAT EFFECT IT WILL HAVE ON GROWTH GENERALLY. THIS MAY REFUEL THE DEBATE OVER THE NECESSITY OF RAISING TAXES AT ALL FOLLOWING A PROJECTED SHARP INCREASE IN GOVERNMENT TAX REVENUES THIS YEAR.

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CHIEF SECRETARY	
REC.	- 7 OCT 1988
ACTION	Mr Mountfield
COPIES TO	EX: Sir P. M. M. O'Connor
	Mr Anson, Mr Bergner
	Mr Ross, Mr Turnbull
	Mr B. Strick, Mr G. W. Jones

Foreign and Commonwealth Office

London SW1A 2AH

7 October 1988

Den Charles

Mr G. W. Jones

Official credits for UK/FRG Defence Sales

Chancellor Kohl's reply (copied to us under cover of your letter to Brian Hawtin of 13 July) to the Prime Minister's letter of 18 May 1988 agreed to the sale of Tornado to Jordan but refused official credit. This is to the UK's commercial disadvantage and is likely to become an increasing problem affecting Tornado and other defence equipment produced collaboratively with the FRG, such as the European Fighter Aircraft, TRIGAT (an anti-tank gun) and NFR 90 (NATO frigate).

There is no possibility of changing the FRG decision on Jordan, but all Whitehall Departments concerned are agreed that a further letter from the Prime Minister, along the lines of the enclosed draft, is essential if we are to secure Chancellor Kohl's support for the proposal that a practical solution should be worked out by British and German officials. We and other Whitehall Departments concerned are also agreed that, if we are unable to persuade the Germans to change their general policy, which Chancellor Kohl has ruled out on grounds of principle - we should aim for some form of ledger account arrangement. Such an arrangement should enable ECGD credit for the German work-share of a Tornado sale outside NATO to be balanced against official German credit for the UK work-share of defence sales within NATO and for civil sales both inside and outside, and where ECGD's market limits are under pressure. This would be a great improvement on the present situation, in which we are being obliged to take risks associated with the German work-share with no compensating benefit.

But we believe that it would be tactically unwise to put the ledger idea forward in the proposed further letter from the Prime Minister in case that gave Chancellor Kohl an opportunity to reject it outright, referring again to objection of principle. Our first step must be to persuade Chancellor Kohl of the need for a new long term arrangement and to make it difficult for him to refuse a meeting of

/officials.

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officials. We also intend to try to ensure that the lead is taken by foreign, defence and economic policy makers; we want to deny the Head of HERMES, who we know is personally opposed to the idea of a ledger account, the opportunity to build roadblocks in advance of the proposed meeting.

If the Prime Minister agrees, it would be helpful if we could arrange delivery of her proposed letter before 12 October, when there is a meeting of Export Credit Agencies from G7 countries in Munich.

I am copying this letter and enclosure to Brian Hawtin (MOD), Carys Evans (HM Treasury), Neil Thornton (DTI) and to Trevor Woolley (Cabinet Office).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

DSR 1 (Revised Sept 85)

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TYPE: Draft/Final 1 +

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PM

Reference

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TEL. NO:

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Chancellor Kohl

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..... In Confidence

CAVEAT

1. I was pleased to hear that your Government had approved the sale of the Tornado IDS aircraft to Jordan, but I am extremely disappointed that you felt unable to provide official credit support for this sale which we both agree - as do the Americans - is strategically important.

2. I understand the political sensitivity for the Federal Republic of arms sales outside the NATO area. I also believe that we are entitled - indeed have a duty - also to give expression to other important shared policy objectives such as maintaining the viability of our defence industries; keeping down NATO defence costs by increasing production runs; and supporting Western foreign policy objectives beyond as well as within the NATO area. All these considerations mean that it is important for both our countries to be able to export the defence equipment we manufacture collaboratively.

Enclosures flag(s)

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....

In Confidence

3. There is every reason to suppose that further export sales will be forthcoming, not only of this extraordinarily successful aircraft, Tornado, but also of other collaboratively produced defence equipment, such as the European Fighter Aircraft, TRIGAT and the NATO frigate. I am therefore all the more concerned by what has happened so far over credit arrangements in the case of the sale to Jordan. It has not proved possible for MBB to secure all the backing it needs on the normal commercial market. That in turn means that to preserve this valuable order, from which both our industries stand to gain, the UK Government will be obliged to shoulder a considerably larger than expected share of the burden of credit. I must tell you that for the future I would find it difficult to accept such credit arrangements. Risks associated with export sales should be shared according to the work ratio.

4. If we were to instruct our respective officials to find a way of conforming more closely to that principle, I am sure that they ^{could} ~~can~~ work out a practical solution to the problem, which would otherwise cause continuing differences between us. I would welcome your early agreement, so that they might meet and report fairly quickly. Important decisions will need to be made soon on existing and future collaboration.

FROM: MR P MOUNTFIELD

DATE: 10 OCTOBER 1988

CHIEF SECRETARY

cc:

Chancellor - 2nd

Sir P Middleton

Mr Anson

Mr Lankester

Mr Burgner

Mr Robson

Mr Turnbull

Mr Bottrill

Mr Roger

Mr Call

OFFICIAL CREDITS FOR UK/FRG DEFENCE SALES

The draft letter attached to Mr Peirce's letter of 7 October is generally acceptable (it was cleared with us) but you might wish to suggest two tiny changes.

2. You will remember the background. The Ministry of Defence have taken the lead in promoting sales of Tornado aircraft to Jordan. The Prime Minister has, as usual, taken a close personal interest in this case. One of the problems has been the German refusal to provide credit for their share. The Ministry of Defence moved the Prime Minister to intervene with Chancellor Kohl in the early summer, urging him to remove the political block. There was no discussion with us beforehand, and you complained at the time (Private Secretary letter of 2 June) that it was unwise to link German support for Tornado to UK support for airbus. However, it was by then too late.

3. The FRG has consistently refused to provide cover for arms sales to non-NATO markets. We understand privately that this is, in fact, one of the terms of the present coalition. However, it

is usually presented as a matter of commercial judgement. The Memorandum of Understanding which underpins the Tornado collaborative venture is very imprecise about the obligations of the partner governments to provide export credit cover. It seems unlikely that we can shift them. Ministers reluctantly agreed in the late summer that the UK should pick up the missing German share. (We have just avoided having to pick up the Italian share as well.)

4. Faced with this virtual road block, the Chief Executive of ECGD has proposed another route. Granted that the Germans will not provide cover for arms sales, why should they not cover some part of the UK risk on civilian business - particularly, of course, Airbus? He has suggested the creation of a "ledger", offsetting one kind of credit against another. There are obvious objections to this course. One is "chalk and cheese". We might end up covering all the dodgy markets like Jordan, while the Germans provide cover for Airbus exports in the credit worthy countries. There will be timing mismatches, etc. Moreover, we know that the head of the German agency, Hermes is strongly opposed to this scheme: his organisation is privately-owned, but reinsures part of its risks with the Federal Government, so he has a different perspective.

5. Nevertheless, we think the scheme is just about worth a try. The tactics need to be judged carefully, and the draft letter proposed by the FCO is quite skillful.

6. However, there are two tiny points which are worth making (and which I fear I failed to spot when I cleared it at official level). Since they might be used against us if they appear in the letter, it might be well to knock them out. I attach a draft letter accordingly.

RA

P MOUNTFIELD

DRAFT LETTER TO C D POWELL ESQ, 10 DOWNING STREET

Copies to:

R N Peirce Esq, FCO
B Hawtin Esq, MOD
N Thornton Esq, DTI
T Woolley Esq, Cabinet Office

OFFICIAL CREDITS FOR UK/FRG DEFENCE SALES

The Chief Secretary is entirely content with the proposed approach to Chancellor Kohl described in Peirce's letter of 7 October. He suggests two very small drafting changes.

In paragraph 2, line 6, delete the word "viability" and insert "competitiveness". Governments have no obligation to maintain the viability of any industry.

In paragraph 3, delete the reference to the NATO Frigate. The project is too nebulous at the moment to be mentioned in correspondence with Chancellor Kohl.

I am sending copies of this letter to Bob Peirce and the other recipients of his letter.

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FM BONN

TO PRIORITY FCO

TELNO 1007

OF 101225Z OCTOBER 88

INFO PRIORITY UKDEL NATO, UKREP BRUSSELS

INFO ROUTINE EC POSTS, EASI BERLIN, BMG BERLIN, MOSCOW, WASHINGTON

INFO ROUTINE MODUK

INFO SAVING CONSULATES-GENERAL IN THE FEDERAL REPUBLIC

FEDERAL GERMAN POLITICS.

SUMMARY

1. LAMBSDORFF'S ELECTION AS LEADER OF THE FDP, COINCIDEING WITH THE DEATH OF STRAUSS, MEANS THAT TWO OF THE THREE COALITION PARTIES WILL NOW HAVE NEW LEADERS. THERE WILL BE COMPLEX EFFECTS ON FEDERAL POLITICS. THE BIGGEST POINTS ARE THAT GENSCHER MAY HAVE A FREER HAND IN FOREIGN POLICY: AND THAT THE PRESENT COALITION IS EVEN MORE LIKELY TO CONTINUE AFTER THE GENERAL ELECTION IN 1990.

DETAIL.

2. LAMBSDORFF WAS ELECTED CHAIRMAN OF THE FDP BY A NARROW MAJORITY AT A PARTY CONGRESS ON 7 OCTOBER. HIS DEFEATED OPPONENT, FRAU ADAM-SCHWAETZER, MINISTER OF STATE AT THE AUSWAERTIGES AMT, WAS ELECTED ONE OF THE DEPUTY CHAIRMEN BY A BIG MAJORITY.

3. TWO OF THE THREE PARTY LEADERS WHO STEER THE COALITION, AND ARE TOGETHER MORE IMPORTANT THAN THE CABINET, WILL NOW BE NEW. MY LETTER OF 10 OCTOBER TO FRETWELL DISCUSSES THE SIGNIFICANCE OF THESE CHANGES. THE KEY POINTS ARE

(A) LAMBSDORFF HAS INTELLECT, NERVE, EXPERIENCE AND THE GIFT OF THE GAB. FUNDAMENTALLY A MAN OF THE RIGHT AND A STRONG PROPONENT OF FREE MARKET ECONOMICS.

(B) FDP INFLUENCE IN THE COALITION MAY INCREASE, WITH THE PARTY'S TWO MAJOR FIGURES - GENSCHER AND LAMBSDORFF - IN ITS TWO TOP JOBS OF FOREIGN MINISTER AND PARTY LEADER.

(C) BUT FDP SUPPORT WITH THE ELECTORATE COULD SLIP, WITH THE END OF STRAUSS' TAUNTING OF THE PARTY, WHICH HELPED ITS POPULARITY: AND LAMBSDORFF'S POPULAR APPEAL IS LIMITED, PARTLY BECAUSE OF HIS CONVICTION 18 MONTHS AGO FOR ILLEGALITIES CONCERNING DONATIONS TO PARTY FUNDS.

(D) CSU INFLUENCE IN THE COALITION IS LIKELY TO DIMINISH: WHOEVER BECOMES PARTY LEADER WILL NOT HAVE STRAUSS' SPECIAL FORCE.

(E) LAMBSDORFF WILL PROBABLY NOT SEEK TO PLAY A ROLE IN FOREIGN POLICY, RESPECTING THAT AS GENSCHER'S TURF. THE LOSS OF STRAUSS REMOVES A RIGHT WING INFLUENCE IN THIS AREA. GENSCHER IS LIKELY TO HAVE A FREER HAND.

(F) BANGEMANN'S SUCCESSOR AS ECONOMICS MINISTER IS LIKELY TO BE HAUSSMANN (FDP). HE IS YOUNG AND COMPETENT BUT LITTLE KNOWN. LAMBSDORFF'S AND HIS ADVANCEMENT MAY IMPROVE THE PROSPECTS FOR DEREGULATORY ECONOMIC POLICIES.

(G) STRAUSS' TAUNTING OF KOHL AS WELL AS THE FDP WAS A MAJOR CAUSE OF THE COALITION'S IMAGE OF DISUNITY. THAT FACTOR IS GONE AND THE IMAGE SHOULD IMPROVE. BUT LAMBSDORFF WILL NEED TO PROFILE THE FDP AGAINST THE CDU/CSU AND MAY DO SO IN AN ABRASIVE STYLE WHICH COULD CAUSE SOME OF THE IMAGE OF DISUNITY TO REMAIN.

(H) LAMBSDORF WAS THE ARCHITECT OF THE FDP'S SWITCH OF COALITION PARTNERS IN 1982 FROM SPD TO CDU/CSU. HE WOULD SWITCH BACK TO THE SPD IF HE THOUGHT THIS ESSENTIAL IN THE INTERESTS OF THE FDP. BUT HE WOULD MUCH PREFER TO MAINTAIN THE PRESENT COALITION AS LONG AS POSSIBLE. HIS ELECTION CONFIRMS THAT THIS IS THE PREFERENCE OF HIS PARTY. THE CHANCES OF THE COALITION CONTINUING AFTER THE GENERAL ELECTION IN 1990, WHICH WERE ALREADY GOOD, ARE NOW STRONGER.

MALLABY

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FM BONN

TO PRIORITY FCO

TELNO 1009

OF 101614Z OCTOBER 88

INFO PRIORITY UKREP BRUSSELS

INFO ROUTINE OTHER EC POSTS

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PHF

FRAME ECONOMIC

NATIONAL CONFERENCE ON EUROPE

SUMMARY

1. FEDERAL CHANCELLERY THINK IT LIKELY THAT THE FIRST MEETING OF THE CONFERENCE WILL BE CALLED SOON AFTER THE RHODES COUNCIL. INTENTION IS TO BRING TOGETHER BUSINESSMEN, TRADE UNIONS AND PROFESSIONAL BODIES, AND ENCOURAGE THEM TO SEE SINGLE MARKET DEVELOPMENTS IN A POSITIVE LIGHT.

DETAIL

2. LATEST THINKING IN THE FEDERAL CHANCELLERY IS THAT THE FIRST MEETING OF THE NATIONAL CONFERENCE ON EUROPE PROPOSED BY CHANCELLOR KOHL SHOULD TAKE PLACE SHORTLY AFTER THE RHODES EUROPEAN COUNCIL ON 2 AND 3 DECEMBER. THE OBJECTIVE IS TO BRING TOGETHER EMPLOYERS' ORGANISATIONS, TRADE UNIONS AND REPRESENTATIVES OF PROFESSIONAL AND TRADE BODIES WHO ARE LIKELY TO BE AFFECTED BY SINGLE MARKET MEASURES. AS STAVENHAGEN (MINISTER OF STATE, CHANCELLERY) TOLD US ON 5 SEPTEMBER (SEE THORPE'S MINUTE OF THAT DATE, COPIED TO ARTHUR, ECD(I)) THE INTENTION IS TO PRESENT SINGLE MARKET DEVELOPMENTS IN A POSITIVE LIGHT AND NOT TO OFFER A WAILING WALL. REMOVING BARRIERS TO COMPETITION OFFERED CHANCES AS WELL AS RISKS TO SMALL ENTERPRISES. IT HAS NOT YET BEEN DECIDED WHETHER TO SUPPORT THE CONFERENCE BY SPECIALIST WORKING GROUPS, WHICH ARE SEEN AS EXISTING ALREADY IN THE FORM OF REGULAR CONTACTS BETWEEN THE ECONOMICS MINISTRY AND THEIR VARIOUS CLIENTS.

3. WE WILL REPORT FURTHER AS SOON AS DATE AND AGENDA FOR THE CONFERENCE BECOME KNOWN.

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ADDITIONAL 1

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	10 OCT 1988
ACTION	Mr Matthews
COPIES TO	CST, FST, PMG, EST SIR P. Middleton SIR G. Little MR T. Lancaster MR H. P. Evans MR Mountfield

10 October 1988

Dear Lyn,

ANGLO-GERMAN SUMMIT

Dr. Neuer telephoned today to say that Chancellor Kohl's preferred dates for the Anglo-German Summit were 20/21 February. I confirmed that these were still acceptable but suggested that he might like to consider the possibility of 19/20 February (ie. starting on the Sunday afternoon and evening) so that the Prime Minister would be in the country for PM's Questions on 21 February. He will come back to me on this.

I am copying this letter to Alex Allan (H M Treasury), Brian Hawtin (Ministry of Defence), Philip Mawer (Home Office), Neil Thornton (Department of Trade and Industry), Shirley Stagg (Ministry of Agriculture, Fisheries and Foods) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

TO FCO TELNO 10 SAVING OF 13 OCTOBER, 1988. Info. Brussels,
Luxembourg, The Hague, Paris, Rome, UKRep Brussels,
UKDEL OECD, UKMis Geneva, all Consulates-General in the
Federal Republic and West Berlin, Washington, Tokyo,
Vienna.

THE FRG ECONOMY

SUMMARY

1. Optimism has broken out all over. Public opinion polls indicate general satisfaction with the Government's handling of the economy and the Government is itself forecasting real GNP growth above 3% this year. The Bundesbank's latest monthly report was also bullish as are the assessments of all the leading banks and economic institutes. (Paras. 9 and 10)
2. Unemployment in September fell to 2.099 million (8.1%), the second consecutive fall. Cautious optimism that the slight improvement can be maintained but it is generally felt that a dip below the 2 million level is unlikely. (Para 11)
3. Total public sector spending increased by 3.6% to DM 298.3 billion in the first half of the year while revenue rose by only 2.6% to DM 261.6 billion. Federal budget deficit for the period up by DM 6.5 billion to DM 25.1 billion. Details announced of Federal assistance to financially weak Länder. (Para 12)
4. July imports recorded a rise of 1.2% to DM 36 billion and exports rose by 3.5% to DM 47.1 billion. Provisional August details show imports over the first eight months of the year 5.5% higher than the same period last year while exports have risen by 6.5%. August visible trade surplus was DM 9.3 billion and the current account surplus was DM 4.8 billion. (Paras 13 and 14)
5. The Ifo Institute's survey of the business climate recorded a further significant improvement in August with optimism reflected across all sectors. The two-monthly comparison of new orders indicated a 3.5% increase in July/August compared to May/June with domestic orders up 4.5% and foreign demand 2% higher. Provisional August output figures indicate a rise of 5.5% across the board. Construction increased by 7.5% while manufacturing output rose by 6.5%. (Paras 15 to 18)
6. Inflation, cost of living index, for September rose to 1.4% but the moving annual average remained at 1%. Retail trade turnover rose by 5.1% in August to bring the total increase for the first eight months to 3.5%. The GfK consumer climate survey remained strong and a survey of the retail sector by the Ifo Institute indicated growing optimism. (Paras 19 to 21)

7. Interest rates, yield on bonds outstanding eased to 6.3% in September from 6.5% in August. Fibor fell back to 5% from 5.3%. Monetary growth slowed in August with M3 recording a 6.3% rise, only marginally above the target corridor of 3% to 6%. (Paras 22 and 23)

8. Details of FRG/UK trade. (Paras 24 to 26)

DETAIL

THE ECONOMY

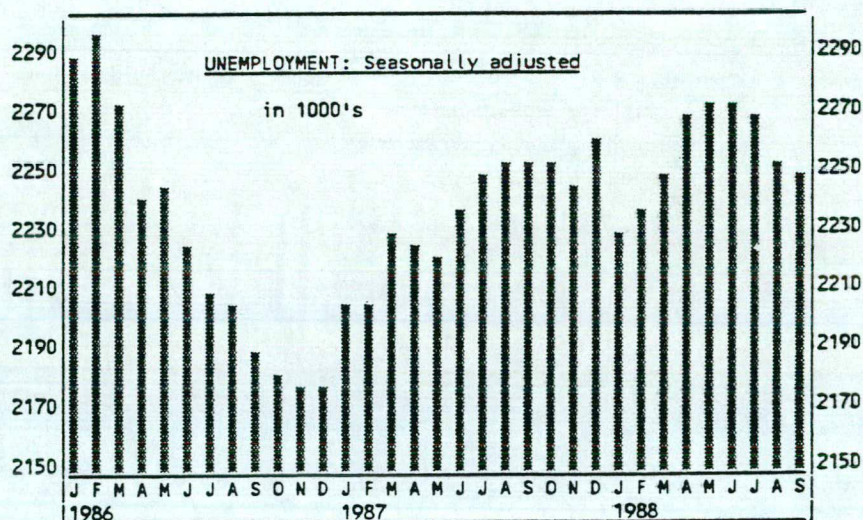
9. The mood of optimism has continued. Results of an opinion poll conducted in late September for one of the television channels showed that 48% of those questioned thought that general economic developments were good. The last such poll conducted in April indicated that only 35% of those questioned were satisfied with the Government's economic record. The Government, which in September held one of its regular consultations with the independent Council of Economic Experts (the Five Wise Men), has increased its forecast for real growth this year to something over 3%. Bangemann, the outgoing Federal Economics Minister, was quoted as forecasting 3.5%. The bullish outlook was supported by the Bundesbank in its latest monthly report for September. In an assessment of the economy so far this year, the Bundesbank reported that business confidence was high and that all forecasts had been revised upwards. Although not given to predicting economic developments the report nevertheless indicated that the annual growth of 4% in real terms in the first half of the year looked to be a trend that would continue, though with the possibility of some slowdown as temporary factors worked through the economy in the second half of the year. The Bundesbank sounded a warning that price increases, mainly through exogenous causes, indicated that inflation was becoming a source of concern. Press comment has also latched onto the 3% growth rate. A leading economic weekly, *Wirtschaftswoche*, reported that its econometric model indicated growth of 3% this year, 2.4% in 1989, 3% in 1990 and 2.4% in 1991. Leading economic institutes and banks have all increased their forecasts to between 2% and 3%.

10. The reasons behind the better than expected economic performance are difficult to isolate. While it is clear that private consumption remains the main force behind the economy, its strong growth appears to be no more than was expected at the turn of the year. Indeed, there is now speculation that consumer spending patterns may be changed by a combination of the return of inflation and uncertainty over the effects of indirect tax increases next year and that as a result growth in private consumption may now have peaked, though it will continue to tick-over at current high levels. But there has been a clear improvement in business confidence, prompted by stronger than expected export performance, which has boosted investment in both machinery and equipment and construction. The Bundesbank September report said that between April and July German exporters received over 10% more foreign orders than a year earlier with manufacturers of capital goods benefitting most. In the construction industry there has reportedly been a strong rise in demand from both the residential and the corporate sector (see para. 17). In its latest September monthly report, however, the Federal Economics Ministry said that between 1982 and 1987 the growth in building activity was almost entirely confined to the corporate sector. On average corporate sector construction grew by 2.9% per year while residential construction fell by 1.6% and government construction fell by 1.4% annually.

11. The Federal Labour Office released on 5 October the latest details of developments in the labour market in September. Noting that unemployment had fallen for the second consecutive month, by 67,000 to 2.099 million, the President of the Labour Office, Franke, expressed cautious optimism although he admitted that he saw little chance of any great reduction in unemployment in the near future. The Government spokesman said that the improvement was further evidence of the continued upturn in the economy. In its monthly report the Bundesbank stressed that improvements in the labour market were taking place against an increasing labour force. It estimated that the labour force has expanded by some 850,000 since 1983. Two-thirds of this increase is estimated to have been caused by the number of women now seeking work while increased immigration into the Federal Republic by refugees from Eastern Europe accounts for a large proportion of the remaining increase. The Bundesbank pointed out that the increase in aggregate employment during the first seven months of this year equalled the total increase for the whole of 1987. Nevertheless, the general consensus among analysts appears to be that the reduction in unemployment is partly the result of the strengthening of traditionally labour-intensive sectors, such as construction, and partly cyclical. As growth is forecast to slow during the second half of the year, it is felt that it remains insufficient to push unemployment below the 2 million level as the Government would like.

* FRG UNEMPLOYMENT *

	Sep 87	Aug 88	Sep 88
a) Unemployment total ...	2,107,122	2,167,109	2,099,863
Rate (%)	(8.4%)	(8.5%)	(8.1%)
b) Adjusted total	2,250,000	2,251,000	2,246,000
c) Short-time working ...	253,098	133,386	154,630
d) Unfilled vacancies ...	180,080	199,759	204,079
e) Total men in a)	1,082,417	1,112,339	1,073,877
f) Total women in a)	1,024,705	1,054,770	1,025,986



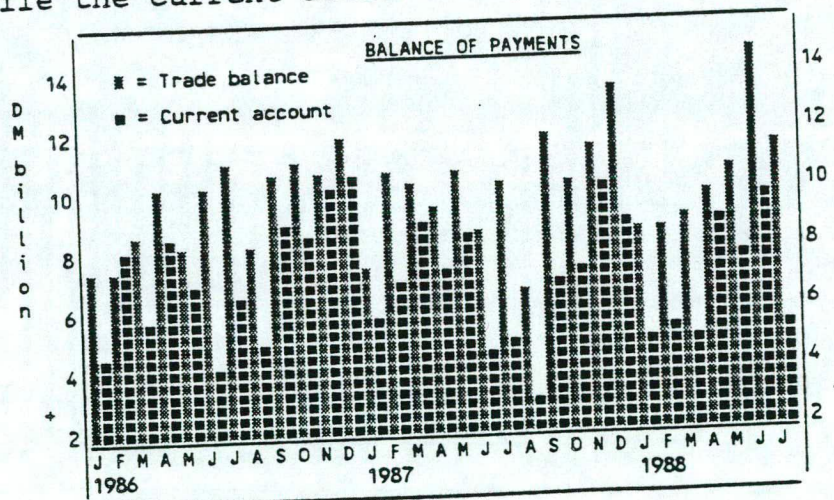
PUBLIC SECTOR BUDGETS

12. The Government released provisional total public sector expenditure figures for the first half of the year. Total public sector spending increased by 3.6% to DM 298.3bn while revenue rose by 2.6% to DM 261.6bn. Federal revenue actually fell by 1.3% but revenue of the Länder rose by 4.5% and that of the municipal authorities grew by 6.8%. As a result, the Federal budget deficit rose to DM 25.1bn, DM 6.5bn higher than last year. The total budget deficits of the Länder fell by DM 1.5bn to DM 10.5bn while the deficits of the municipal authorities also fell by DM 1.5bn to DM 1bn. The Federal Finance Minister announced details of his proposals to assist financially "weak" Länder with high social security burdens. The proposals, approved by the Cabinet on 12 October, envisage additional Federal funding outside the normal financial equalisation system, of DM 2.45bn annually over the next 10 years. The proposed distribution, to be re-assessed in 1992 and 1995, is DM 756 million to North-Rhine Westphalia, DM 652 million to Lower Saxony, DM 272 million to Rhineland Palatinate, DM 252 million to Schleswig-Holstein, DM 158 million to Bavaria, DM 113 million to Hamburg, DM 112 million to Saarland, DM 72 million to Berlin and DM 63 million to Bremen. The inclusion of Bavaria, perceived as relatively prosperous, surprised some and probably owes more to the strength of its farming lobby and the political weight of its former Minister-President, the late Franz Josef Strauss, than to actual need. Two Länder not included in the scheme have threatened to challenge it in the Federal Constitutional Court.

BALANCE OF PAYMENTS

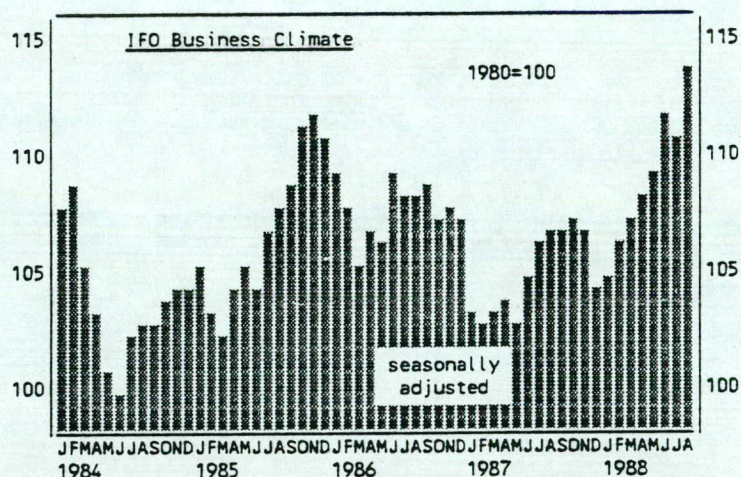
13. July imports rose compared to a year earlier by 1.2% to DM 36bn as did exports by 3.5% to DM 47.1bn. The visible trade surplus fell back to DM 11.1bn from the June record of DM 14.2bn and the current account surplus fell to DM 5.3bn. In the first seven months of the year exports rose by 4.6% to DM 316.5bn and imports rose by 4% to DM 246.2bn. The visible trade surplus was DM 70.3bn compared to DM 65.7bn a year earlier. The current account surplus was practically unchanged at DM 45.4bn.

14. Provisional figures for August indicated exports 23% higher than last year at DM 44.3bn and imports up 18% to DM 35bn. The visible trade surplus fell again to DM 9.3bn as did the current account surplus to DM 4.8bn. In the first eight months total exports were DM 360.8bn, 6.5% higher than last year, and imports were DM 281.2bn, 5.5% higher. The visible trade surplus totalled DM 79.6bn while the current account surplus reached DM 49.5bn.



IFO SURVEY

15. The Ifo survey of the business climate in August recorded a marked improvement, stemming principally from greater optimism with regard to the next six months and favourable export prospects. In industry August saw an upturn in orders accompanied by higher output. The backlog of orders, regarded as too low earlier in the year, is now seen as being satisfactory and production levels are expected to rise further in the coming months. Within the retail trade sector optimism was rife, although prices are expected to accelerate slightly in the next three months. The capital goods sector expects the upturn to continue with export prospects improving further. Both electrical and mechanical engineering report rising orders. Expectations within the construction sector were also brighter with capacity utilisation climbing to 61%.



***** Ifo - BUSINESS CLIMATE *****							
: 1980=100	: 1984	: 1985	: 1986	: 1987	: 1988	: 1989	:
: January	107.7	104.9	109.2	102.9	104.6	:	:
: February	108.4	102.8	107.5	102.4	105.9	:	:
: March	105.2	102.2	105.1	103.0	107.0	:	:
: April	103.1	104.0	106.4	103.7	107.9	:	:
: May	100.3	104.9	106.0	102.9	108.9	:	:
: June	99.4	104.1	108.8	104.6	111.3	:	:
: July	102.2	106.7	108.0	106.1	110.5	:	:
: August	102.3	107.6	108.1	106.6	113.4	:	:
: September	102.5	108.4	108.5	106.3	:	:	:
: October	103.4	111.2	107.0	107.2	:	:	:
: November	104.0	111.3	107.3	106.7	:	:	:
: December	103.8	110.3	106.9	103.8	:	:	:
Seasonally adjusted						Source: Ifo	:

NEW ORDERS

16. The marked increase in demand seen since the beginning of the year accelerated further in August with total orders up by 5% on July. Foreign orders, which had slipped 2 per cent in July, recorded an 8% increase while domestic orders moved ahead 1%. Demand for consumer goods was particularly strong, up 8.5%. The two-monthly comparison, July/August on May/June, shows overall new orders advancing 3.5 per cent with domestic orders up 4.5 per cent and foreign demand up 2 per cent. With the exception of the basic and producer goods sector, where orders were unchanged on their level in the preceding two months, orders in other major sectors were buoyant with the capital goods sector recording a 5.5% increase while consumer goods orders expanded by 3.5%. Compared to the corresponding two-month period a year earlier overall demand was 6.4 per cent higher in volume terms, with domestic demand up 4.9 per cent and foreign demand 9.3 per cent higher. On this comparison capital goods orders showed a rise of 8 per cent, basic and producer goods orders were 5 per cent higher and orders for consumer goods rose by 4.4 per cent.

NEW ORDERS 1980=100

Seasonally adjusted

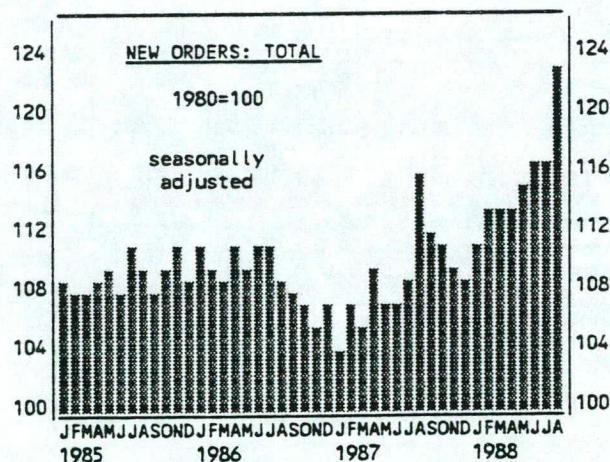
	Total		Domestic		Foreign	
	Value	Volume*	Value	Volume	Value	Volume
1987 May	126	106	118	99	144	122
Jun	126	106	116	98	148	125
Jul	128	108	119	100	148	125
Aug	137	115	129	108	154	129
1988 May	138	114	126	104	164	136
Jun	140	116	129	106	166	137
Jul	141	116	132	109	163	134
Aug(p)	148	122	135	110	178	145

Quarterly

Q187	124	104	116	97	141	119
Q287	127	107	117	99	147	124
Q387	132	111	123	103	153	129
Q487	131	109	120	100	154	129
Q188	134	112	123	103	157	131
Q288	138	114	126	105	164	136

* = at constant prices

p = provisional

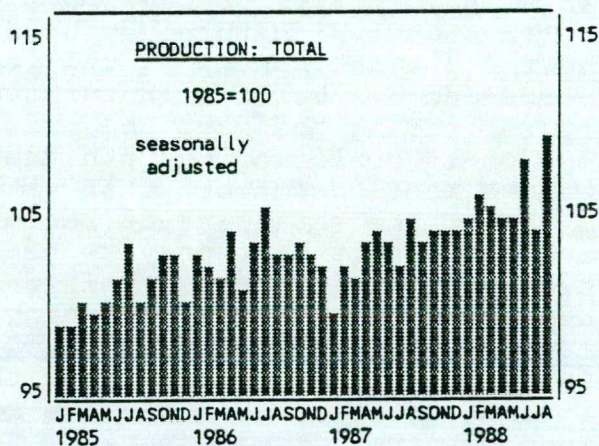


PRODUCTION

17. Following the sharp drop in output in July, with revised figures showing a 3.5% decline compared to June, provisional production figures for August reveal a marked recovery with output rising by 5.5%. Manufacturing output recorded a 6.5% increase, while construction activity was 7.5% higher. The two-monthly comparison, July/August on May/June, reveals an increase in total output of only 0.5% but this comparison is effected by the concentration of holidays in July. Overall manufacturing output was stable, helped by a 3% upturn in basic and producer goods output while consumer goods production fell 2.5% and capital goods production was down by 0.5%. Compared to the corresponding two-month period a year earlier, overall manufacturing output was 3.8% higher with the strongest increase reported in the basic and producer goods sector (+ 5.9%), followed by capital goods (+ 4%) and consumer goods (+ 0.1%).

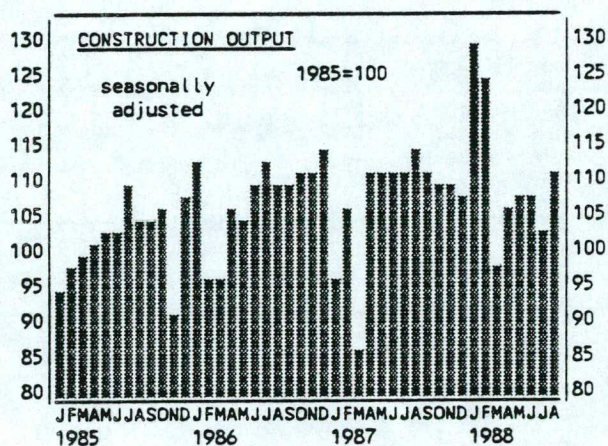
PRODUCTION 1985=100						
	Total	Manufacturing sector	Basic & producer goods	Capital goods	Consumer goods	Construction
	=====	=====	=====	=====	=====	=====
1987 May	103.6	103.4	99.7	105.9	104.1	110.0
Jun	102.7	102.4	98.9	104.9	102.9	110.3
Jul	101.8	101.7	99.8	102.5	102.6	109.8
Aug	104.3	104.2	102.3	106.1	105.8	112.7
1988 May	104.4	105.4	103.2	107.3	105.3	107.4
Jun	107.4	108.3	104.8	111.1	108.8	107.1
Jul	103.4	103.6	105.3	103.5	101.4	101.8
Aug*	109.2	110.3	108.9	113.9	107.4	109.3
Quarterly						
Q187	100.8	100.9	96.8	103.1	102.3	94.7
Q287	102.8	102.8	99.0	105.3	103.2	110.1
Q387	103.2	103.1	100.4	104.8	103.9	111.2
Q487	103.9	104.0	101.1	106.3	103.9	108.6
Q188	105.0	105.0	103.6	106.1	105.9	115.9
Q288	105.2	105.9	103.4	108.2	106.4	106.3

* = provisional



CONSTRUCTION

18. Construction output picked up again in the month of August although the level over the summer as a whole was actually lower than a year earlier following the surge in activity at the beginning of the year. Employment in the construction sector is also on the decline with July figures showing a 3.8% drop on a year earlier to 979,500. Nevertheless, most commentators agree that, spurred by the favourable start to the year, the performance of the construction sector in 1988 as a whole will outstrip original expectations. A report by the Bayerische Landesbank described the construction sector this year as the "forecasters' Waterloo". At the end of April the five institutes were still predicting only 1.5% growth and it was not until the end of August that Ifo pushed up its forecast to 3%. The Landesbank considers even this forecast now too pessimistic and is itself prepared to venture a real increase in construction investment of 6%. It bases its reasoning on the high level of demand currently evident in the construction sector where overall orders in the first half of the year were up 11% with residential demand alone up 16.7%. Building permits were up 10.5% in the first half of the year - the lag effect should bolster output in the latter part of the year and into 1989.



PRIVATE CONSUMPTION

19. Private consumption continues to fulfill expectations as a motor of current economic growth. Retail trade turnover, the most readily available indicator of consumer activity, registered a marked increase in August with turnover up 5.1% real on a year earlier. In the first eight months of the year the retail trade sector has experienced a 3.5% rise in turnover in real terms with cars and furniture leading the way. The present strength of private consumption is confirmed by both the GfK consumer climate survey, which shows confidence more than 4% up on a year earlier, and the Ifo survey of the retail trade sector reflecting growing optimism. However, the fact that private consumption merely continues to tick over at forecast levels has triggered the question whether it is not perhaps beginning to run out of steam. As annual inflation returns to rates over 1%, with 2% generally assumed for 1989, and tax increases around the corner, there is a growing fear in some quarters that private consumption is in danger of losing momentum.

PRICES

20. In September the annual rate of inflation, cost of living index, rose to 1.4 per cent from 1.2 per cent in August. Month-on-month prices were stable. The moving average for the year so far remains at 1 per cent. Consensus forecasts for inflation in 1989 suggest an acceleration to over 2 per cent.

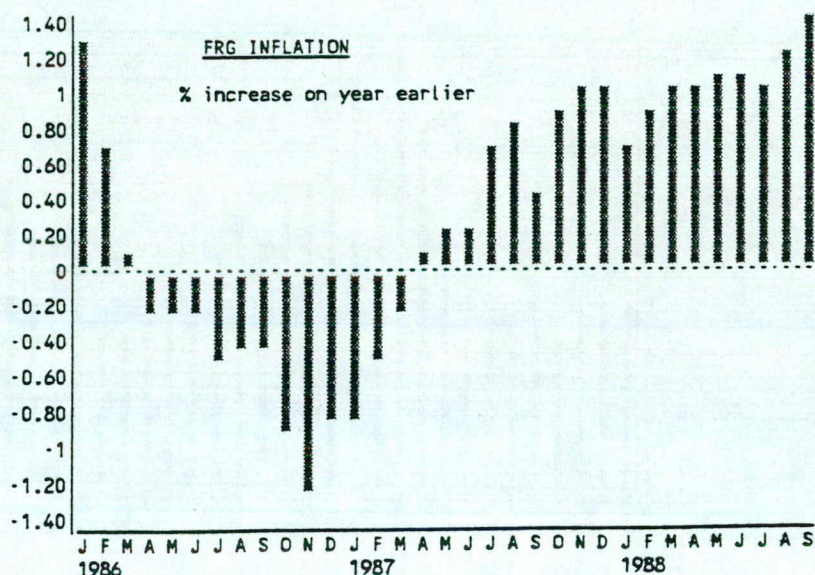
21. Other price indicators are for August. The retail price index in August fell for the second consecutive month with the annual increase unchanged at 0.5 per cent. Wholesale prices were 1 per cent up on a year earlier. The annual increase in industrial producer prices remained steady at 1.4 per cent. Import prices in August were 0.5 per cent up on July to stand 1.3 per cent higher than a year earlier after 0.9 per cent in July. The annual rise in export prices was unchanged at 2.8 per cent. Agricultural producer prices, available up to July only, rose 0.3 per cent on their May level, to stand unchanged on a year earlier.

PRICES 1980=100

	Cost of living	Industrial producer prices**	Agricultural producer prices	Retail prices	Import prices	Export prices
	=====	=====	=====	=====	=====	=====
1987 Jun	121.3	94.8	93.8	118.2	94.9	115.5
Jul	121.3	95.1	92.3	118.0	95.3	115.7
Aug	121.2	95.2	92.9	117.8	95.5	115.8
Sep	120.9	95.1	93.4	117.5	94.9	115.8
1988 Jun	122.6	96.3	92.8*	119.0	95.5	118.4
Jul	122.5	96.4	93.1*	118.6	96.2	118.9
Aug	122.6	96.5	.	118.4	96.7	119.1
Sep	122.6					
<u>% change on a year earlier:</u>						
1988 Jan	+ 0.7	+ 0.1	+ 1.8	+ 0.4	- 1.0	+ 1.1
Feb	+ 0.9	+ 0.4	- 0.1	+ 0.5	+ 0.1	+ 1.2
Mar	+ 1.0	+ 0.6	- 1.6	+ 0.4	- 0.3	+ 1.5
Apr	+ 1.0	+ 1.3	- 3.1	+ 0.6	- 0.1	+ 1.9
May	+ 1.1	+ 1.4	- 2.7*	+ 0.4	+ 0.2	+ 2.1
Jun	+ 1.1	+ 1.6	- 1.1*	+ 0.7	+ 0.6	+ 2.5
Jul	+ 1.0	+ 1.4	+ 0.0*	+ 0.5	+ 0.9	+ 2.8
Aug	+ 1.2	+ 1.4		+ 0.5	+ 1.3	+ 2.8
Sep	+ 1.4					

* = provisional

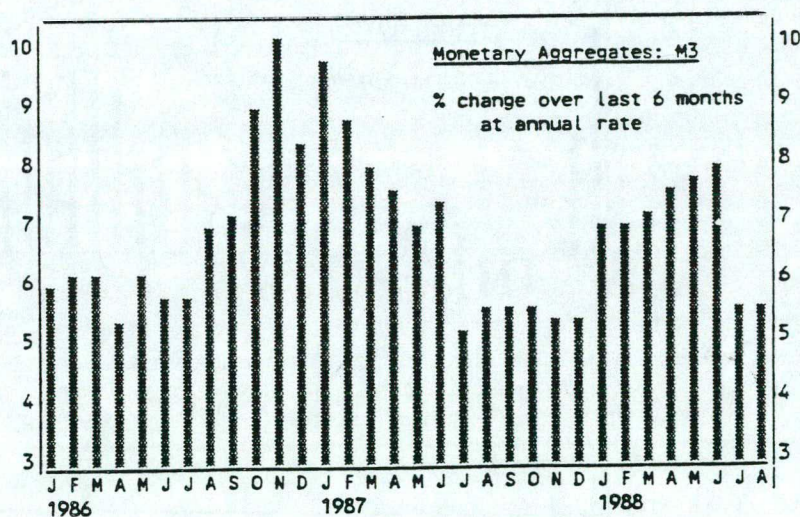
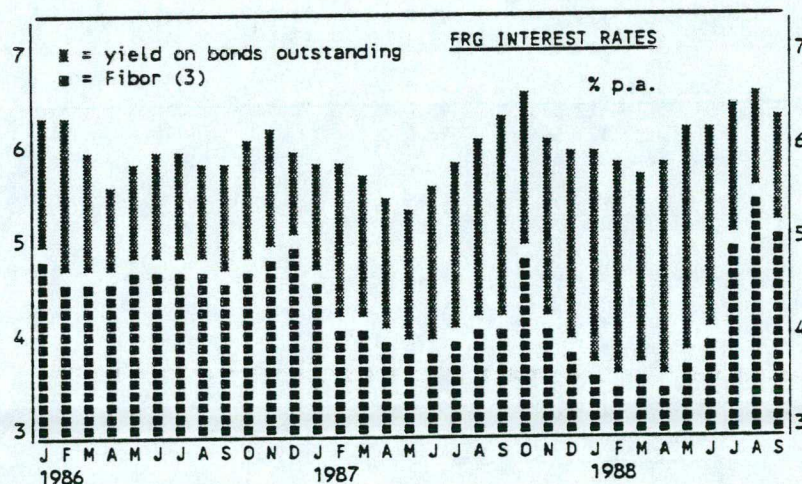
**= 1985=100



MONETARY

22. Since the increases in leading interest rates during the month of August, both the Discount and the Lombard rates have remained unchanged at 3.5% and 5% respectively. Other interest rates have also eased following the steady rise up until August, with the yield on public sector bonds falling back to 6.3% in September from 6.5% and the three-month interbank rate (Fibor) declining to 5% from 5.3%. The Bundesbank rate for securities repurchase agreements has been maintained at 4.25%.

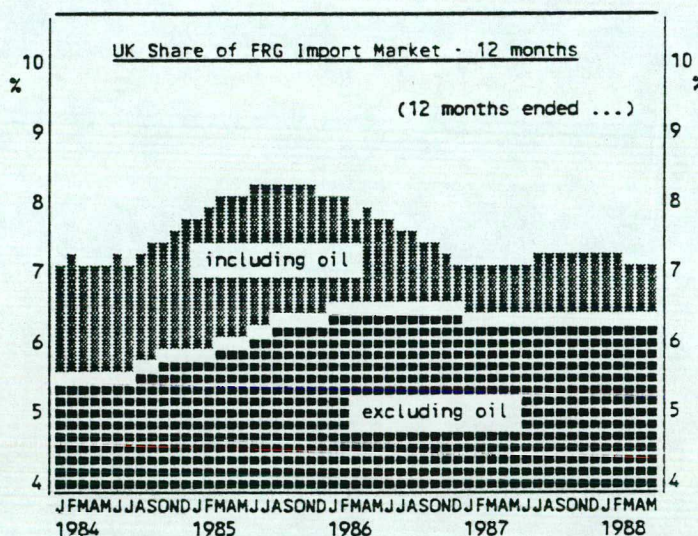
23. Despite a reacceleration in monetary expansion in August, examination of the two-month period July/August reveals only moderate monetary growth. The M3 monthly mean (calculated by taking the average of end-of-month levels in July and August) recorded a seasonally adjusted annual increase over Q4 1987 of 6.3% after 6.7% in July and 7.4% in June, representing a further reining in towards the target corridor of 3-6%. Compared to the end of August 1987 M3 was 6 per cent higher while M2 was also up by 6 per cent and M1 by 9 per cent. Private sector credit in August was stronger than in July, with the emphasis on long-term credit, but the overall level was lower than a year earlier at DM 5.2bn (August 87:DM 8.2bn). Over the last twelve months total private sector credit has risen by 5%. Monetary capital formation strengthened in August.



FRG/UK TRADE

PERIOD: 12 months ended MAY 1988

24. In the twelve months to the end of May 1988 FRG imports from the UK totalled DM 29.4 billion, 7.1 per cent of total FRG imports. This represents no change on the market share twelve months previously. While total FRG imports rose by 3.8 per cent on the preceding twelve month period, imports from the UK recorded a 4 per cent increase. FRG oil imports from the UK rose by 2.2 per cent year-on-year with the UK share of total oil imports slipping slightly to 30.3 per cent from 31.8 per cent. Excluding oil, total FRG imports rose by 3.7 per cent, while non-oil imports from the UK were up by 4.4 per cent with the UK share of the non-oil import market edging upwards to 6.2 per cent.



25. FRG exports to the UK over the period rose by 7.5 per cent year-on-year against a rise of 2.2 per cent in total FRG exports so that the proportion of FRG exports destined for the UK climbed from 8.6 per cent to 9 per cent.

26. The trade gap in favour of the FRG rose from DM 16.3 billion to DM 18.5 billion.

MALLABY

FRAME ECONOMIC 189.

ECD (1)

FRG: STATISTICAL SUMMARY

	1986	1987	%change					
				Q2 87	Q1 88	Q2 88	%change on prev.	
				Seasonally adjusted			qtr/month	yr
1.EXPENDITURE ON GNP (DM bn)								
(current prices)								
a) Gross National Product	1,948.8	2,023.2	3.8	501.0	526.1	527.5	0.3	5.3
b) Private consumption	1,081.1	1,119.6	3.6	278.2	285.5	286.8	0.5	3.1
c) Government consumption	382.1	396.8	3.8	99.8	100.5	102.3	1.8	2.5
d) Fixed capital formation	376.8	388.4	3.1	97.8	103.7	104.1	0.4	6.4
- Machinery & Equipment	161.4	168.7	4.5	41.9	43.0*	45.0*	4.7	7.4
- Construction	215.4	219.7	2.0	55.9	60.7	59.1	-2.6	5.7
e) Change in stocks	-3.1	8.6		-1.6	n/a	n/a		
f) Exports of goods & services	636.3	636.6	0.0	157.7	n/a	n/a	n/a	n/a
g) Imports of goods & services	524.4	526.8	0.5	130.9	n/a	n/a	n/a	n/a
h) Net exports	111.9	109.8		26.8	n/a	n/a		
2.EXPENDITURE ON GNP (DM bn)								
(constant prices)								
a) Gross National Product	1,618.4	1,645.6	1.7	407.9	422.6	421.9	-0.2	3.4
b) Private consumption	903.5	931.3	3.1	231.0	236.4	235.1	-0.5	1.8
c) Government consumption	322.9	327.9	1.5	81.6	82.7	83.4	0.8	2.2
d) Fixed capital formation	324.9	330.6	1.8	83.4	88.0	87.6	-0.5	5.0
- Machinery & Equipment	135.9	141.3	4.0	35.2	36.0*	37.5*	4.2	6.5
- Construction	189.0	189.3	0.2	48.2	52.0	50.1	-3.7	3.9
e) Change in stocks	0.8	7.9		0.1	n/a	n/a		
f) Exports of goods & services	544.4	548.8	0.8	136.5	n/a	n/a	n/a	n/a
g) Imports of goods & services	478.1	500.9	4.8	124.7	n/a	n/a	n/a	n/a
h) Net exports	66.3	47.9		11.8				
3. DISTRIBUTION OF NATIONAL INCOME								
a) National Income	1,513.4	1,571.4	3.8	389.4	410.4	411.0	0.1	5.5
b) Gross wage & salary income	1,041.3	1,080.7	3.8	270.5	278.0	278.9	0.3	3.1
- as % of National Income	68.8%	68.8%		69.5%	67.7%	67.9%		
c) Gross entrepreneurial & property income	472.2	490.7	3.9	118.9	132.5	132.1	-0.3	11.1
- as % of National Income	31.2%	31.2%		30.5%	32.3%	32.1%		
4.INCOME OF HOUSEHOLDS								
a) Gross wages & salaries	867.7	900.9	3.8	225.5	231.7	232.4	0.3	3.1
b) Disposable income	1,246.3	1,292.6	3.7	320.3	328.4	331.2	0.9	3.4
c) Savings as a % of b)	13.4	13.4		13.1	13.0	13.4		
1980=100								
5.PRODUCTIVITY								
a) In the economy as a whole								
i) GNP per working person (1980 prices)	111.2	112.3	1.0	111.3	114.9	114.6	-0.3	3.0
ii) wage and salary costs per production unit	113.3	115.5	1.9	116.5	115.4	116.0	0.5	-0.4
1985=100								
b) In industry								
i) output per employed person	101.0	101.0	0.0	100.0	103.0	106.0	2.9	6.0
ii) wage and salary costs per production unit	104.0	107.0	2.9	108.0	107.0	106.0	-0.9	-1.9
1980=100								
6.INDUSTRIAL PRODUCTION								
a) Total	102.3	102.6	0.3	104.3	103.4	109.2	5.6	-4.7
b) Manufacturing industry	102.5	102.7	0.2	104.2	103.6	110.3	6.5	5.9
i) Producer goods	99.4	99.3	-0.1	102.3	105.3	108.9	3.4	6.5
ii) Capital goods	104.5	104.9	0.4	106.1	103.5	113.9	10.0	7.4
iii) Consumer goods	102.3	103.3	1.0	105.8	101.4	107.4	5.9	1.5
c) Construction	106.4	106.0	-0.4	112.7	101.8	109.3	7.4	-3.0
1980=100								
7.NEW ORDERS (volume)								
a) Total	108.0	108.0	0.0	115.0	116.0	122.0	5.2	6.1
i) Capital goods	113.0	111.0	-1.8	121.0	124.0	126.0	1.6	-4.1
ii) Consumer goods	100.0	101.0	1.0	108.0	105.0	114.0	8.6	5.6
b) Domestic	101.0	100.0	-1.0	108.0	109.0	110.0	0.9	1.9
i) Capital goods	107.0	105.0	-1.9	117.0	119.0	115.0	-3.4	-1.7
ii) Consumer goods	94.0	95.0	1.1	101.0	97.0	106.0	9.3	5.0
c) Foreign	123.0	125.0	1.6	129.0	134.0	145.0	8.2	12.4
i) Capital goods	123.0	122.0	-0.8	127.0	132.0	144.0	9.1	13.4
ii) Consumer goods	135.0	137.0	1.5	145.0	149.0	156.0	4.7	7.6

* = Bundesbank estimate

	1986	1987	%change				%change on	
				Sep 87	Aug 88	Sep 88	month	
				Unadjusted				
8. UNEMPLOYMENT (1000's)								
a) i) unemployed	2,228.0	2,228.8	0.0	2,107.1	2,167.1	2,099.9	-3.1	-0.3
ii) as a % of the working population	9.0	8.9		8.4	8.5	8.1		
b) Short-time workers	197.4	278.0	40.8	253.1	133.4	154.6	15.9	-38.9
c) Vacancies	154.8	171.0	10.5	180.1	199.8	204.1	2.2	13.3
				1980=100				
9. PRICES								
a) Cost of living of all private households	120.7	121.0	0.2	120.9	122.6	122.6	0.0	1.4
				Aug 87	Jul 88	Aug 88		
b) Retail prices	117.3	117.8	0.4	117.8	118.6	118.4	-0.2	0.5
c) Wholesale prices	108.8	104.7	-3.8	104.9	105.8	106.0	0.2	1.0
d) Producer prices of (1985 industrial products =100)	118.2	115.6	-2.2	95.2	96.4	96.5	0.1	1.4
e) Export prices	116.8	115.5	-1.1	115.8	118.9	119.1	0.2	2.8
f) Import prices	101.0	94.4	-6.5	95.5	96.2	96.7	0.5	1.3
				May 86	Apr 87	May 87		
Terms of Trade	112.2	116.4	3.7	117.3	114.1	115.8	1.5	-1.3
				DM bn				
				Jul 87	Jun 88	Jul 88		
10. BALANCE OF PAYMENTS								
a) Visible trade								
i) exports	526.4	527.0	0.1	45.5	50.3	47.1	-6.4	3.5
ii) imports	413.7	409.5	-1.0	35.6	36.1	36.0	-0.3	1.1
iii) balance	112.7	117.5		9.9	14.2	11.1		
b) Supplementary trade items	-1.5	-0.9		-0.6	-0.9	-0.3		
c) Services	0.9	-7.8		-2.2	-2.8	-2.9		
d) Transfers	-27.0	-28.4		-2.3	-1.1	-2.6		
e) Current account	85.1	80.4		4.8	9.4	5.3		
11. NET FOREIGN RESERVES (+/-)	2.8	31.9		-0.7	-0.8	-10.8		
				Aug 87	Jul 88	Aug 88		
				Seasonally adjusted				
12. MONEY STOCK (change in year/month)								
M1	24.7	27.0		5.5	0.9	2.2		
M2	34.3	35.5		4.2	-2.7	5.2		
M3	65.7	62.6		6.4	-1.2	7.2		
				Unadjusted				
13. MONETARY CAPITAL FORMATION	69.8	70.7		7.2	-0.1	5.7		
				Sep 87	Aug 88	Sep 88		
14. INTEREST RATES								
a) Yield on bonds outstanding (public sector) (%pa)	5.9%	5.8%		6.2%	6.5%	6.3%		
b) Bank Rates: (previous level)								
Since 26.08.88 Discount Rate: 3.5% (3.0)								
Since 29.07.88 Lombard Rate: 5.0% (4.5)								
				May 87	Apr 88	May 88		
15. FRG/UK TRADE (DM million)								
a) FRG Imports from UK	29,757.7	29,211.6	-1.8	2,440.4	2,318.5	2,689.1	16.0	10.2
- UK Share of total	7.2%	7.1%		7.4%	6.9%	7.2%		
b) FRG Exports to UK	44,599.6	46,141.4	3.5	3,694.7	4,011.2	4,564.3	13.8	23.5
- UK Share of total	8.5%	8.8%		8.5%	9.3%	9.6%		
c) FRG/UK Trade Balance (FRG deficit = -)	14,841.9	16,929.8		1,254.3	1,692.7	1,875.2		
				Sep 87	Aug 88	Sep 88		
16. EXCHANGE RATES								
a) DM/£	3.184	2.941	-7.6%	2.981	3.204	3.143	-1.9%	3.4%
b) DM/\$	2.171	1.798	-17.2%	1.813	1.887	1.867	-1.1%	3.0%

Sources: Federal Statistical Office, Wiesbaden;
Deutsche Bundesbank, Frankfurt ajm
Discrepancies in totals due to rounding 110/23

FRG: DETAILED STATISTICAL ANNEX
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Table

Gross National Product (Real)	1a
Gross National Product (Nominal)	1b
Income of Households	1c
Productivity	2a
Industrial Production	2b
New Orders	2c
Labour Market	3
Prices	4a/b
Monetary Aggregates	5
Exchange & Interest Rates	6
Current Account	7
FRG/UK Trade	8

Economic Section
British Embassy, Bonn

Date: 14/10/88

Table 1a

FRG - EXPENDITURE ON GNP (Real)

Values in DM million (1980 prices)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Capital formation Mach. & Buildings Eq't =====		Change in Stocks =====	Net Exports =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1981	1,485,300	836,380	303,290	121,810	197,880	-10,700	36,640	456,730	420,090
1982	1,471,000	825,230	300,740	113,590	189,290	-9,600	51,750	471,450	419,700
1983	1,498,900	839,600	301,440	119,900	192,540	-1,500	46,920	469,010	422,090
1984	1,548,100	852,290	308,820	119,360	195,540	5,500	66,590	511,110	444,520
1985	1,579,600	866,420	315,300	130,530	184,550	-1,500	84,300	545,360	461,060
1986	1,618,400	903,490	322,880	135,850	189,040	900	66,240	544,360	478,120
1987	1,645,600	931,340	327,920	141,300	189,260	7,900	47,880	548,790	500,910
<u>Quarterly</u>									
1985 Q2	387,600	211,950	77,000	30,690	50,050	-3,800	21,710	135,940	114,230
Q3	403,100	215,880	77,800	30,790	52,540	10,000	16,090	136,370	120,280
Q4	412,400	235,790	85,020	41,430	48,530	-24,100	25,730	141,060	115,330
1986 Q1	382,100	210,960	77,060	28,770	33,390	12,800	19,120	132,890	113,770
Q2	401,100	224,160	79,270	33,830	51,250	-2,200	14,790	138,650	123,860
Q3	412,200	224,610	80,240	31,610	53,290	11,100	11,350	133,940	122,590
Q4	422,700	244,510	86,230	41,640	51,110	-21,000	20,210	140,740	120,530
1987 Q1	390,300	216,470	79,020	30,600	32,430	20,100	11,680	132,360	120,680
Q2	403,900	229,370	80,160	34,010	51,440	-2,200	11,120	134,730	123,610
Q3	418,900	231,160	81,110	33,780	54,170	11,000	7,680	134,700	127,020
Q4	432,500	254,340	87,630	42,910	51,220	-21,000	17,400	147,000	129,600
1988 Q1	406,700	226,350	80,420	...	38,920	...	8,240*	...	...
Q2	417,000	232,450	81,960	...	53,640	...	10,630*	...	...

Source: Federal Statistical Office, Wiesbaden

... = Not available

* = estimate

Table 1a (cont)

FRG - EXPENDITURE ON GNP (Real)

% CHANGE ON A YEAR EARLIER (real)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Fixed Capital Formation =====	of which:	Mach.& Eqpt =====	Buildings =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1980	1.5	1.2	2.6	2.8		2.6	2.9	5.3	3.7
1981	0.0	-0.5	1.8	-4.8		-4.3	-5.1	8.2	-1.2
1982	-1.0	-1.3	-0.8	-5.3		-6.7	-4.3	3.2	-0.1
1983	1.9	1.7	0.2	3.1		5.5	1.7	-0.5	0.6
1984	3.3	1.5	2.4	0.8		-0.5	1.6	9.0	5.3
1985	2.0	1.7	2.1	0.1		9.4	-5.6	6.7	3.7
1986	2.5	4.3	2.4	3.1		4.1	2.4	-0.2	3.7
1987	1.7	3.1	1.6	1.7		4.0	0.1	0.8	4.8
<u>Quarterly</u>									
1985 Q3	3.0	2.9	3.0	1.8		4.2	0.2	9.1	5.7
Q4	1.7	3.0	2.3	0.5		7.6	-4.1	1.6	4.2
1986 Q1	1.7	3.5	2.2	2.0		4.3	0.2	-1.4	-1.6
Q2	3.5	5.8	2.9	5.5		9.7	2.6	2.0	8.4
Q3	2.3	4.0	3.1	1.9		2.5	1.3	-1.8	1.9
Q4	2.5	3.8	1.4	3.1		0.5	5.3	0.4	5.5
1987 Q1	2.1	2.8	2.5	1.4		6.4	-2.9	-0.3	6.5
Q2	0.7	2.4	1.1	0.4		0.5	0.4	-1.9	0.5
Q3	1.6	3.0	1.0	3.6		6.9	1.7	0.8	4.7
Q4	2.3	4.0	1.6	1.5		3.0	0.2	4.4	7.5
1988 Q1	4.2	4.6	1.8	n.a		n.a	20.0	n.a	n.a
Q2	3.4	1.8	2.1	n.a		n.a	3.9	n.a	n.a

Source: Federal Statistical Office, Wiesbaden

Table 1b

FRG - EXPENDITURE ON GNP (Nominal)

Values in DM million (Current prices)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Capital Formation Mach.& Buildings Eq't =====		Change in Stocks =====	Net Exports =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1981	1,545,100	887,850	318,160	127,650	207,590	-11,400	15,250	482,110	466,860
1982	1,597,100	918,050	326,190	124,900	201,990	-11,500	37,470	517,540	480,070
1983	1,680,400	964,160	336,210	135,600	208,220	-1,800	38,010	524,830	486,820
1984	1,769,900	1,003,570	350,230	137,580	217,050	6,600	54,870	590,780	5,359,610
1985	1,845,600	1,040,970	365,550	153,850	206,950	-1,400	79,680	646,950	567,270
1986	1,948,800	1,081,140	382,140	161,380	215,370	-2,100	111,870	636,280	524,410
1987	2,023,200	1,119,640	396,760	168,670	219,660	8,700	109,770	636,580	526,810
<u>Quarterly</u>									
1985 Q2	447,100	255,750	85,160	36,250	55,870	-4,800	18,870	161,880	143,010
Q3	469,200	259,670	87,710	36,400	58,820	11,700	14,900	162,420	147,520
Q4	498,200	282,790	109,520	48,830	54,620	-26,600	29,040	167,300	138,260
1986 Q1	450,300	253,540	86,240	34,030	38,060	14,800	23,630	156,510	132,880
Q2	477,000	268,260	90,230	40,250	58,170	-5,600	25,690	162,340	136,650
Q3	494,600	268,840	92,590	37,590	60,630	10,000	24,950	156,190	131,240
Q4	526,600	290,770	113,060	49,510	58,510	-21,600	36,350	163,570	127,220
1987 Q1	474,000	258,720	89,310	36,340	37,730	24,300	27,600	152,860	125,260
Q2	492,200	276,750	94,100	40,530	59,490	-4,500	25,830	155,560	129,730
Q3	509,700	278,800	95,730	40,470	62,750	10,600	21,350	156,580	135,230
Q4	547,300	305,370	117,620	51,330	59,690	-21,700	34,990	171,580	136,590
1988 Q1	500,300	273,280	92,860	...	45,910	...	26,600*	...	...
Q2	516,500	284,130	96,550	...	63,160	...	29,660*	...	...

Source: Federal Statistical Office, Wiesbaden

... = Not available

* = estimate

Table 1b (cont)

FRG - EXPENDITURE ON GNP (Nominal)

% CHANGE ON A YEAR EARLIER (nominal)

	GNP ===	Private Consumption =====	Gov't Consumption =====	Fixed Capital Formation =====	of which:	Mach.& Eq't =====	Buildings =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1980	6.3	7.1	8.9	10.7		7.0	13.0	11.9	16.2
1981	4.0	5.6	6.8	-0.2		0.2	-0.4	14.2	9.8
1982	3.4	3.4	2.5	-2.5		-2.2	-2.7	7.3	2.8
1983	5.2	5.0	3.1	5.3		8.7	3.2	1.4	1.4
1984	5.3	4.1	4.2	3.2		1.5	4.2	12.6	10.1
1985	4.3	3.7	4.4	1.7		11.8	-4.7	9.5	5.9
1986	5.6	3.8	4.5	4.4		4.9	4.1	-1.6	-7.6
1987	3.8	3.7	3.8	3.1		4.5	2.0	0.0	0.5
<u>Quarterly</u>									
1985 c3	5.5	5.0	5.5	3.0		6.7	0.6	12.3	7.6
Q4	4.2	4.6	3.6	1.7		9.2	-3.3	2.9	1.9
1986 Q1	4.7	3.8	3.9	3.1		5.3	1.4	-1.4	-7.9
Q2	6.7	4.9	6.0	7.1		11.0	4.1	0.3	-4.4
Q3	5.4	3.5	5.6	3.2		3.3	3.1	-3.8	-11.0
Q4	5.7	3.0	3.2	4.4		1.4	7.1	-1.6	-7.1
1987 Q1	5.2	2.2	3.5	2.7		6.8	-0.9	-2.2	-5.2
Q2	3.3	3.3	4.3	1.6		0.7	2.3	-3.2	-4.2
Q3	3.0	3.9	3.4	5.1		7.7	3.5	0.5	4.3
Q4	3.9	5.0	4.0	2.8		3.7	2.0	4.9	7.4
1988 Q1	5.5	5.6	4.0	n.a		n.a	21.7	n.a	n.a
Q2	5.3	3.1	2.5	n.a		n.a	5.7	n.a	n.a

Source: Federal Statistical Office, Wiesbaden

Table 1c

INCOME OF HOUSEHOLDS

	Gross Wages & Salaries DM bn	Disposable Income DM bn	Savings Ratio %	Average Earnings* 1985=100
<u>Annual</u>				
1984	796.7	1,150.5	12.8	96
1985	826.5	1,192.3	12.7	100
1986	867.7	1,246.3	13.4	105
1987	900.9	1,292.6	13.4	110
<u>Quarterly</u>				
1985 Q2	204.9	296.0	12.9	99
Q3	207.3	298.5	12.2	100
Q4	210.0	301.1	12.5	102
1986 Q1	213.4	304.3	13.6	104
Q2	215.7	307.1	12.8	104
Q3	218.5	311.6	13.7	105
Q4	220.0	311.9	13.8	107
1987 Q1	221.1	314.9	14.3	108
Q2	225.5	320.3	13.1	110
Q3	226.6	323.4	13.3	111
Q4	228.6	326.6	13.2	112
1988 Q1	231.7	328.4	13.0	112
Q2	232.4	331.2	13.4	114

* = wages & salaries per man-hour

Source: Deutsche Bundesbank (Reihe 4)

Table 2a

PRODUCTIVITY

	(a) IN THE ECONOMY AS A WHOLE		(b) IN INDUSTRY	
	GNP per working person	Wage & Salary costs per production unit	Output per employed person	Wage & Salary costs per production unit
<u>Annual</u>	<u>1980=100</u>		<u>1985=100</u>	
1984	108.2	108.7	97	100
1985	109.6	110.6	100	100
1986	111.2	113.3	101	104
1987	112.3	115.4	101	107
<u>Quarterly</u>				
1986 Q3	111.7	113.3	101	104
Q4	111.4	114.2	100	106
1987 Q1	110.6	114.9	99	107
Q2	111.3	116.5	101	106
Q3	112.8	115.4	101	107
Q4	113.6	115.6	102	107
1988 Q1	114.9	115.4	103	107
Q2	114.6	116.0	104	107
<u>Monthly</u>				
1987 Jan			97	109
Feb			99	106
Mar			99	107
Apr			102	104
May			101	106
Jun			100	108
Jul			99	109
Aug			102	106
Sep			101	107
Oct			102	107
Nov			102	108
Dec			102	107
1988 Jan			102	107
Feb			103	107
Mar			104	107
Apr			104	108
May			103	107
Jun			106	106

Source: Deutsche Bundesbank

* = provisional

Table 2b INDUSTRIAL PRODUCTION

	INDUSTRIAL PRODUCTION		
	Total	Manufacturing 1985=100	Construction
<u>Annual</u>			
1984	96.5	95.5	108.6
1985	100.0	100.0	100.0
1986	102.4	102.5	106.4
1987	102.6	102.7	106.2
<u>Quarterly</u>			
1986 Q1	101.9	101.9	99.6
Q2	102.2	102.7	105.6
Q3	103.1	103.3	109.3
Q4	102.3	102.2	111.2
1987 Q1	100.8	100.9	94.7
Q2	102.8	102.8	110.1
Q3	103.2	103.1	111.2
Q4	103.9	104.0	108.6
1988 Q1	105.0	105.0	115.9
Q2	105.2	105.9	106.3
<u>Monthly</u>			
1987 Jan	98.8	98.5	94.3
Feb	101.8	101.9	105.8
Mar	100.9	101.8	85.4
Apr	102.8	103.0	110.0
May	103.4	103.3	110.0
Jun	102.8	102.3	110.3
Jul	101.9	101.7	109.8
Aug	104.4	104.2	112.7
Sep	103.3	103.5	110.8
Oct	103.8	104.0	108.6
Nov	103.9	104.1	108.6
Dec	103.8	104.2	107.3
1988 Jan	104.5	103.6	128.7
Feb	105.5	105.1	123.7
Mar	104.8	105.5	96.6
Apr	104.1	104.8	104.7
May	104.4	105.4	107.4
Jun	107.4	108.3	107.1
Jul	103.4	103.6	101.8
Aug*	109.2	110.3	109.3

Table 2c NEW ORDERS

	NEW ORDERS (Volume)		
	Total	Domestic 1980=100	Foreign
1984	103	95	119
1985	109	99	128
1986	108	101	123
1987	108	100	125
1986 Q1	108	100	127
Q2	110	102	125
Q3	109	102	122
Q4	106	99	122
1987 Q1	104	97	119
Q2	107	99	124
Q3	111	103	129
Q4	109	100	129
1988 Q1	112	103	131
Q2	114	105	136
1987 Jan	103	95	121
Feb	106	99	120
Mar	105	98	119
Apr	109	100	126
May	106	99	122
Jun	106	98	125
Jul	108	100	125
Aug	115	108	129
Sep	111	101	131
Oct	110	101	129
Nov	109	101	129
Dec	108	98	129
1988 Jan	110	102	129
Feb	113	103	132
Mar	113	103	134
Apr	113	103	134
May	114	104	136
Jun	116	106	137
Jul	116	109	134
Aug*	122	110	145

Source: Deutsche Bundesbank

* = provisional

Table 3

LABOUR MARKET (Details)

SEASONALLY ADJUSTED (1000's)			UNADJUSTED (actual totals)						
(a) Employment	(b) Unemployed	(c) Rate %	(d) Unemployed	(e) Rate %	(f) Short-time workers	(g) Unfilled Vacancies	(h) Total men in (d)	(i) Total Women in (d)	
<u>Annual</u>									
1981			1,271,574	5.5	346,859	207,928	652,205	619,369	
1982			1,833,244	7.5	606,064	104,871	1,021,090	812,154	
1983			2,258,235	9.1	675,102	75,797	1,273,115	985,120	
1984			2,265,559	9.1	383,700	87,929	1,276,653	988,906	
1985			2,304,014	9.3	234,515	109,996	1,289,055	1,014,959	
1986			2,228,000	9.0	197,384	154,790	1,200,000	1,028,000	
1987			2,228,800	8.9	277,967	170,983	1,207,400	1,021,400	
<u>Monthly</u>									
1987 Jan	25,941	2,202	8.8	2,497,176	10.0	427,496	150,046	1,451,015	1,046,161
Feb	25,947	2,200	8.8	2,487,818	10.0	382,173	164,784	1,453,923	1,033,895
Mar	25,956	2,224	8.8	2,412,379	9.6	462,802	180,047	1,395,975	1,016,404
Apr	25,971	2,222	8.9	2,215,916	8.8	301,861	179,239	1,216,281	999,635
May	25,985	2,217	8.8	2,098,690	8.3	221,734	180,968	1,120,353	978,337
Jun	25,991	2,235	8.9	2,096,918	8.3	184,012	182,169	1,107,235	989,683
Jul	25,999	2,244	9.0	2,175,827	8.7	215,705	180,252	1,133,431	1,042,396
Aug	26,001	2,247	8.9	2,164,618	8.6	175,094	177,425	1,119,201	1,045,417
Sep	26,000	2,252	9.0	2,107,122	8.4	253,098	180,080	1,082,417	1,024,705
Oct	26,003	2,248	8.9	2,092,725	8.3	288,554	171,093	1,071,974	1,020,751
Nov	26,016	2,242	8.9	2,133,061	8.5	204,773	157,127	1,106,500	1,026,561
Dec	26,032	2,259	9.0	2,308,230	9.2	218,298	148,284	1,255,775	1,052,455
1988 Jan	26,053	2,227	8.7	2,518,675	9.9	309,988	161,300	1,426,913	1,091,762
Feb	26,071	2,232	8.7	2,516,508	9.9	350,321	174,015	1,434,134	1,082,374
Mar	26,083	2,247	8.8	2,440,098	9.6	423,597	189,650	1,382,237	1,057,861
Apr	26,095	2,265	8.9	2,261,672	8.9	260,848	193,065	1,218,789	1,042,883
May	26,110	2,269	8.9	2,149,131	8.4	198,098	196,158	1,131,951	1,017,180
Jun	26,129	2,268	8.9	2,131,406	8.4	190,002	201,157	1,110,602	1,020,804
Jul	26,141	2,265	8.9	2,199,266	8.6	159,300	199,276	1,135,860	1,063,406
Aug	26,144	2,251	8.8	2,167,109	8.5	133,386	199,759	1,112,339	1,054,770
Sep		2,246		2,099,863	8.1	154,630	204,079	1,073,877	1,025,986

Source: Bundesanstalt für Arbeit
Deutsche Bundesbank

Table 4a

PRICES

1980=100

	<u>Cost of Living</u>	<u>Retail Prices</u>	<u>Producer Prices of industrial products**</u>	<u>Export Prices</u>	<u>Import Prices</u>
<u>Annual</u>					
1984	118.4	115.6	97.8	116.2	122.8
1985	121.0	117.5	100.0	119.4	124.6
1986	120.7	117.3	97.5	116.8	101.0
1987	121.0	117.8	95.1	115.5	94.4
<u>Monthly</u>					
1986 Jun	121.1	117.7	97.9	117.1	99.8
Jul	120.5	117.2	97.3	116.6	96.6
Aug	120.2	116.9	97.1	116.2	95.9
Sep	120.4	116.9	97.1	116.1	96.6
Oct	120.0	116.7	95.7	115.6	94.8
Nov	119.9	116.8	95.4	115.4	94.6
Dec	120.1	116.9	95.3	115.3	94.4
1987 Jan	120.6	117.5	95.2	115.0	94.4
Feb	120.7	117.7	94.9	115.0	93.7
Mar	120.7	117.7	94.9	115.1	93.9
Apr	121.0	117.9	94.6	115.2	94.2
May	121.1	118.2	94.7	115.4	94.4
Jun	121.3	118.2	94.8	115.5	94.9
Jul	121.3	118.0	95.1	115.7	95.3
Aug	121.2	117.8	95.2	115.8	95.5
Sep	120.9	117.5	95.1	115.8	94.9
Oct	121.1	117.6	95.4	116.0	95.1
Nov	121.1	117.6	95.4	115.9	93.6
Dec	121.3	117.8	95.4	115.9	93.3
1988 Jan	121.5	118.0	95.4	116.3	93.5
Feb	121.8	118.3	95.4	116.4	93.8
Mar	121.9	118.2	95.5	116.8	93.6
Apr	122.2	118.6	95.8	117.4	94.1
May	122.4	118.7	96.0	117.8	94.6
Jun	122.6	119.0	96.3	118.4	95.5
Jul	122.5	118.6	96.4	118.9	96.2
Aug	122.6	118.4	96.5	119.1	96.7
Sep	122.6				

* = provisional

** = 1985=100

Source: Federal Statistical Office, Wiesbaden

Table 4b

PRICES

(% change on a year earlier)

	Cost of Living	Retail Prices	Producer Prices of industrial products	Export Prices	Import Prices
<u>Annual</u>					
1983	3.3	2.4	1.5	1.7	-0.3
1984	2.4	2.1	2.9	3.5	6.0
1985	2.2	1.6	2.2	2.8	1.5
1986	-0.2	-0.2	-2.5	-2.2	-18.9
1987	0.2	0.4	-2.5	-1.1	-6.5
<u>Monthly</u>					
1986 Jun	-0.2	-0.2	-2.3	-2.5	-21.0
Jul	-0.5	-0.3	-3.0	-2.8	-22.4
Aug	-0.4	-0.1	-3.0	-2.8	-21.6
Sep	-0.4	-0.3	-3.1	-2.8	-21.5
Oct	-0.9	-0.5	-4.4	-2.9	-20.7
Nov	-1.2	-0.8	-4.6	-2.8	-20.3
Dec	-1.1	-0.8	-4.5	-2.6	-19.6
1987 Jan	-0.8	-0.3	-4.7	-3.0	-17.8
Feb	-0.5	-0.1	-4.5	-2.5	-15.6
Mar	-0.2	0.1	-4.2	-2.4	-12.1
Apr	0.1	0.2	-3.9	-2.0	-9.8
May	0.2	0.4	-3.4	-1.7	-7.7
Jun	0.2	0.4	-3.3	-1.4	-4.9
Jul	0.7	0.7	-2.3	-0.8	-1.3
Aug	0.8	0.8	-2.0	-0.3	-0.4
Sep	0.4	0.5	-2.1	-0.3	-1.8
Oct	0.9	0.8	-0.3	0.3	0.4
Nov	1.0	0.7	0.0	0.4	-1.1
Dec	1.0	0.8	0.1	0.5	-1.2
1988 Jan	0.7	0.4	0.2	1.1	-1.0
Feb	0.9	0.4	0.5	1.2	0.1
Mar	1.0	0.4	0.6	1.5	-0.3
Apr	1.0	0.6	1.3	1.9	-0.1
May	1.1	0.4	1.4	0.0	0.0
Jun	1.1	0.7	1.6	2.5	0.6
Jul	1.0	0.5	1.4	2.8	0.9
Aug	1.2	0.5	1.4	2.8	1.3
Sep	1.4				

* = provisional

Source: Federal Statistical Office, Wiesbaden

Table 5

MONETARY AGGREGATES

	Central Bank Money	Currency in circulation % change	of which Required Minimum Reserves on domestic liabilities	M1	M2 % change	M3	Monetary Capital Formation DM million
<u>Annual</u>			on previous year				
1984	4.8	5.3	4.3	6.2	5.2	4.7	69,734
1985	4.6	3.6	5.6	4.9	4.4	5.0	74,988
1986	6.4	6.7	6.1	7.4	5.9	6.6	69,833
1987	8.1	9.4	6.7	7.4	5.7	5.9	70,723
<u>Monthly</u>							
1986 Jun	7.2	8.3	6.1	7.2	4.1	5.5	1,136
Jul	6.0	7.0	5.1	10.3	3.6	5.5	2,492
Aug	7.2	8.5	5.9	10.3	5.4	6.7	5,919
Sep	7.6	8.3	6.8	6.1	5.9	7.0	3,332
Oct	7.4	7.0	7.7	7.5	9.0	8.7	4,589
Nov	8.9	9.1	8.6	10.2	11.0	9.9	3,790
Dec	9.3	8.7	9.9	8.1	8.3	8.2	12,843
1987 Jan	9.0	9.6	8.3	7.8	10.1	9.5	8,084
Feb	8.5	8.8	8.2	8.7	8.9	8.6	7,645
Mar	8.3	9.3	7.2	8.2	7.5	7.8	8,219
Apr	8.1	9.6	6.6	9.4	7.0	7.3	1,023
May	7.9	9.3	6.4	8.9	6.3	6.7	9,337
Jun	8.1	10.5	5.6	10.7	6.8	7.1	2,017
Jul	7.9	10.1	5.8	10.6	3.3	4.9	1,162
Aug	7.5	9.9	5.1	11.8	4.2	5.4	7,222
Sep	8.0	9.7	6.3	11.0	4.2	5.3	5,785
Oct	7.6	10.5	4.8	9.0	4.6	5.3	1,341
Nov	8.3	11.5	5.1	8.1	4.5	5.1	6,238
Dec	8.4	10.5	6.4	4.9	5.1	5.2	12,650
1988 Jan	7.7	12.0	3.5	6.8	7.8	6.7	7,073
Feb	9.3	13.7	4.9	9.8	7.2	6.8	281
Mar	9.4	14.1	4.7	9.5	7.4	6.9	3,294
Apr	8.2	11.8	4.6	10.9	7.3	7.4	2,530
May	8.2	11.6	4.8	12.0	7.2	7.5	5,422
Jun	8.0	11.3	4.5	15.7	7.2	7.7	1,913
Jul	8.8	11.4	6.0	13.4	3.7	5.3	-160
Aug				8.2	4.5	5.3	

* = over last 6 months at annual rate

Source: Deutsche Bundesbank p = provisional

Table 6

EXCHANGE AND INTEREST RATES

	3 month Interbank* % p.a.	Yield on outstanding Public Sector bonds % p.a.	Discount Rate+ % p.a.	Lombard Rate+ % p.a.	DM Effective Exchange rate** End 72=100	DM/\$ Spot Middle Rates (Frankfurt)	DM/£ Rates
<u>Annual</u>							
1983		7.9	4.0	5.5	151.9	2.5552	3.871
1984		7.8	4.5	5.5	149.8	2.8456	3.791
1985	4.82	6.9	4.0	5.5	149.6	2.9424	3.785
1986	4.64	5.9	3.5	5.5	162.6	2.1708	3.184
1987	4.03	5.8	2.5	4.5	172.4	1.7982	2.941
<u>Monthly</u>							
1986 Aug	4.61	5.7	3.5	5.5	164.4	2.0636	3.067
Sep	4.53	5.8	3.5	5.5	165.7	2.0401	3.004
Oct	4.64	6.0	3.5	5.5	167.8	2.0047	2.862
Nov	4.73	6.1	3.5	5.5	168.0	2.0264	2.886
Dec	4.84	5.9	3.5	5.5	169.2	1.9916	2.859
1987 Jan	4.54	5.8	3.0	5.0	172.9	1.8581	2.798
Feb	4.03	5.7	3.0	5.0	173.6	1.8265	2.788
Mar	4.04	5.6	3.0	5.0	172.0	1.8339	2.920
Apr	3.91	5.4	3.0	5.0	171.2	1.8110	2.953
May	3.81	5.3	3.0	5.0	171.7	1.7863	2.983
Jun	3.73	5.5	3.0	5.0	171.6	1.8184	2.963
Jul	3.85	5.8	3.0	5.0	171.5	1.8470	2.973
Aug	4.00	6.0	3.0	5.0	171.1	1.8581	2.966
Sept	4.04	6.2	3.0	5.0	171.5	1.8129	2.981
Oct	4.74	6.5	3.0	5.0	171.8	1.8021	2.993
Nov	3.98	6.0	3.0	4.5	175.0	1.6812	2.985
Dec	3.72	5.9	2.5	4.5	175.3	1.6332	2.987
1988 Jan	3.53	5.9	2.5	4.5	174.4	1.6517	2.977
Feb	3.37	5.7	2.5	4.5	173.3	1.6976	2.982
Mar	3.44	5.6	2.5	4.5	173.3	1.6780	3.071
Apr	3.43	5.7	2.5	4.5	172.7	1.6733	3.138
May	3.58	6.1	2.5	4.0	171.8	1.6934	3.166
Jun	3.93	6.1	2.5	4.5	170.7	1.7557	3.125
Jul	4.93	6.4	3.0	5.0	169.1	1.8440	3.145
Aug	5.37	6.5	3.5	5.0	168.1	1.8874	3.204
Sep	5.01	6.3	3.5	5.0		1.8669	3.143

* = FIBOR: Frankfurt interbank offered rate
(introduced 12.8.85; 1985 = avg Sep-Oct)

+ = End of year/month p = provisional

** = Weighted against 14 industrial countries

Source: Deutsche Bundesbank

Table 7

FRG - CURRENT ACCOUNT

VALUES IN DM BILLION

	Exports	Imports	Balance	Supplementary trade items	Services	Transfers	Current account
	=====	=====	=====	=====	=====	=====	=====
<u>Annual</u>							
1981	396.9	369.2	27.7	-0.2	-10.7	-24.8	-8.0
1982	427.7	376.5	51.2	0.8	-13.7	-25.9	12.4
1983	432.3	390.2	42.1	3.3	-6.6	-25.2	13.6
1984	488.2	434.3	53.9	-1.1	4.7	-29.7	27.8
1985	537.2	463.8	73.4	-1.3	5.3	-28.9	48.5
1986	526.4	413.7	112.7	-1.5	0.9	-27.0	85.1
1987	527.4	409.6	117.8	-1.5	-7.1	-28.3	80.9
<u>Monthly</u>							
1986 Jul	45.4	34.5	10.9	-0.4	-1.4	-2.8	6.3
Aug	36.1	28.0	8.1	-0.2	-1.3	-1.8	4.8
Sep	44.4	34.0	10.4	0.8	-0.6	-2.0	8.6
Oct	48.2	37.5	10.7	0.4	-0.6	-2.1	8.4
Nov	42.2	32.0	10.2	0.6	1.6	-2.6	9.8
Dec	44.7	33.1	11.6	-0.2	1.5	-2.6	10.3
1987 Jan	37.6	30.4	7.2	0.1	0.3	-2.0	5.6
Feb	42.6	32.1	10.5	0.5	-0.4	-3.8	6.8
Mar	47.0	36.9	10.1	-0.2	-1.0	-0.3	8.6
Apr	44.4	35.2	9.2	-0.3	0.1	-2.0	7.0
May	43.3	32.8	10.5	-0.2	0.6	-2.5	8.4
Jun	42.1	33.8	8.3	0.2	-2.2	-1.9	4.4
Jul	45.5	35.6	9.9	-0.6	-2.2	-2.3	4.8
Aug	36.1	29.6	6.5	-0.2	-1.4	-2.0	2.9
Sept	45.8	34.3	11.5	-0.3	-2.0	-2.5	6.7
Oct	48.8	38.7	10.1	-0.3	0.1	-2.7	7.2
Nov	45.7	34.7	11.0	0.6	0.9	-2.5	10.0
Dec	48.5	35.5	13.0	-0.9	0.3	-3.6	8.8
1988 Jan	36.3	27.8	8.5	0.3	-1.9	-2.1	4.8
Feb	41.9	33.7	8.2	-0.4	-0.4	-2.2	5.2
Mar	50.1	41.5	8.6	-0.6	-1.0	-2.3	4.7
Apr	43.3	33.8	9.5	0.3	1.0	-2.2	8.6
May	47.6	37.3	10.3	0.0	0.6	-3.3	7.6
Jun	50.3	36.1	14.2	-0.9	-2.8	-1.1	9.4
Jul	47.1	36.0	11.1	-0.3	-2.9	-2.6	5.3
Aug*	44.2	34.9	9.3	.	.	.	4.8

Source: Deutsche Bundesbank * = provisional

Table 8

FRG/UK TRADE
(Values in DM 1000)

	(a)		(b)		(c)		(d)
	Total Imports from UK	UK share of FRG total	Non-oil imports from UK	UK share of FRG total	Total Exports to UK	UK share of FRG total	Trade Balance* (incl.oil)
1980	22 859 721	6.70%	16 046 733	5.40%	22 917 269	6.54%	57 548
1981	27 502 164	7.45%	17 413 271	5.44%	26 162 907	6.59%	1 339 257
1982	27 001 856	7.17%	17 611 058	5.31%	31 316 680	7.32%	4 314 824
1983	27 137 696	6.95%	18 770 607	5.33%	35 400 882	8.19%	8 263 186
1984	33 285 516	7.67%	22 020 970	5.61%	40 579 540	8.31%	7 294 024
1985	37 163 945	8.01%	26 360 816	6.22%	45 967 428	8.56%	8 803 483
1986	29 757 660	7.19%	24 895 371	6.28%	44 599 625	8.47%	14 841 965
1987	29 393 615	7.18%	24 158 307	6.14%	46 632 447	8.84%	17 238 832
12 months ended:							
May 88	29 424 602	7.07%	24 770 301	6.18%	47 906 372	9.01%	18 481 770
<u>Monthly</u>							
1986 Oct	2 599 535	6.93%	2 242 779	6.15%	3 853 771	7.99%	1 254 236
Nov	2 213 799	6.92%	1 883 230	6.09%	3 662 868	8.67%	1 449 069
Dec	2 308 822	6.98%	2 000 203	6.26%	3 502 068	7.84%	1 193 246
1987 Jan	2 189 335	7.19%	1 598 042	5.50%	3 211 546	8.53%	1 022 211
Feb	2 178 528	6.78%	1 840 925	5.97%	3 600 733	8.46%	1 422 205
Mar	2 640 876	7.15%	2 225 528	6.23%	4 012 970	8.53%	1 372 094
Apr	2 514 005	7.18%	1 985 920	5.89%	3 813 008	8.68%	1 299 003
May	2 439 309	7.45%	1 904 426	6.07%	3 694 662	8.53%	1 255 353
Jun	2 515 211	7.45%	2 100 553	6.46%	3 799 544	9.03%	1 284 333
Jul	2 350 187	6.59%	1 976 544	5.78%	4 250 873	9.33%	1 900 686
Aug	2 075 531	7.01%	1 724 579	6.13%	3 234 242	8.95%	1 158 711
Sep	2 685 804	7.83%	2 189 342	6.66%	3 928 307	8.58%	1 242 503
Oct	2 662 862	6.89%	2 191 591	5.88%	4 384 878	8.99%	1 722 016
Nov	2 437 778	7.02%	2 112 156	6.32%	4 154 397	9.09%	1 716 619
Dec	2 522 133	7.11%	2 112 165	6.16%	4 056 248	8.37%	1 534 115
1988 Jan	1 910 539	6.87%	1 541 937	5.81%	3 235 913	8.92%	1 325 374
Feb	2 486 276	7.37%	2 003 769	6.18%	3 777 909	9.02%	1 291 633
Mar	2 769 026	6.68%	2 461 749	6.10%	4 509 282	9.01%	1 740 256
Apr	2 318 456	6.85%	1 996 006	6.08%	4 011 172	9.26%	1 692 716
May	2 689 148	7.22%	2 358 259	6.54%	4 564 318	9.59%	1 875 170

*: - = FRG deficit

Source: Federal Statistical Office, Wiesbaden

28

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN
FRAME ECONOMIC

TO FCO TELNO 11 SAVING OF 27 OCTOBER 1988. Info. Brussels,
Luxembourg, The Hague, Paris, Rome, UKRep Brussels,
UKDEL OECD, UKMis Geneva, all Consulates-General in the
Federal Republic and West Berlin, Washington, Tokyo,
Vienna.

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THE FIVE INSTITUTES' AUTUMN REPORT

SUMMARY

1. The latest report of the five leading German economic institutes was published on 24 October. It presents an optimistic outlook for the world economy this year with strong growth in the major industrialised economies and some improvement in world trade imbalances. It stresses the dangers of instability posed by rising inflation, exchange rate volatility and the threat of tighter monetary policy. Lower growth forecast for 1989.
2. For the FRG economy, the report confirms forecasts of strong growth this year, particularly in investment and foreign trade. GNP is expected to grow by 3.5%. Some complaints about continued increases in Government spending at the regional level, due mainly to higher costs of social security commitments and industrial subsidies. Agreement that monetary policy is on the right lines.
3. The forecast for 1989 expects lower growth of 2%. Private consumption will be affected by higher inflation and consumer tax increases. Investment will remain strong, including construction which is expected to grow by 2.5%. Foreign trade will provide the main impulse for growth. Little change in the labour market.
4. Criticism of "zig-zag" fiscal policy. A call for increases in indirect taxes next year to be shelved and/or the cuts in direct taxes planned for 1990 to be brought forward. A majority view that the Bundesbank should tighten the target range for monetary growth in order to combat inflation. Ritual call for deregulation and for greater privatisation.
5. Good but standard press coverage. Growth forecast for next year generally considered too low. Concern about fiscal policy reflects wide-spread disquiet with Government plans. Dismissive reaction from Government which rejected calls for change of policy.

DETAIL

International developments

6. The five leading economic institutes in the Federal Republic -- Munich (whose turn it was in the chair), Berlin, Essen, Hamburg and Kiel - published their latest bi-annual report on the German economy on 24 October. Opening with an overview of international developments, the report notes that the world economy had not suffered as much as was feared from the events of last October. Economic growth in western Europe, the USA and Japan had been stronger in the second half of last year than had been realised. Some progress had been made in the adjustment of world trade imbalances. There had also been an improvement in the US budget deficit. But the report notes the dangers to continued economic growth in the world economy posed by inflation, exchange rate volatility and unnecessary tightening of monetary policy.

7. Looking to the future, the report forecasts 4% growth of real GNP in the USA this year, falling to 2.5% growth in 1989; 3% real growth in domestic demand this year and 2% in 1989; inflation accelerating from 4% this year to 5.5% in 1989. The current account deficit is expected to fall to US\$ 135 billion this year but there will be little change next year. For Japan, the report forecasts real GNP growth of 5.5% this year slowing to 4% in 1989; domestic demand will rise by 7% in real terms this year and by 4.5% in 1989; inflation will increase slightly next year in line with proposed changes in Japanese taxation. The current account surplus will reduce marginally. In western Europe, real GNP is forecast to grow by 3.5% this year and by 2.5% in 1989, within which UK GNP will grow by 4% and 2.5% respectively, France by 3% and 2.5% and Italy by 3.5% and 3%. Private consumption, which remains strong this year, will slow in 1989. Domestic demand will average 4% real growth in 1988 and 2.5% growth in 1989, though the UK is expected to exceed this with 6% growth this year and 3% growth in 1989. The labour market will see little improvement. Inflation will average 3.5% this year, rising to 4% in 1989.

The FRG economy in 1988

8. The report says that at the beginning of the year financial markets were faced with a weaker dollar, strong expansion of the money supply and lower interest rates. As attention turned from the dollar, the D-Mark lost ground against other currencies. This combined with the lower exchange rate risk tempted domestic and foreign investors to look outside Germany for investment. Strong growth in the domestic money supply helped neutralise the effect of large capital outflows which resulted. The situation changed during the course of the year as central banks intervened to halt a strong surge in the dollar's value. In parallel the Bundesbank also increased interest rates thereby rectifying an imbalance in interest rate structure.

9. On fiscal policy, the report says that the income tax cuts implemented in January this year had a marked effect on disposable incomes and on private consumption. But the pressures on Government finances to which the tax reform programme contributed have not restrained Government spending. The costs associated with social security commitments and increased subsidies to industry will drive general government expenditure over 4% higher this year while income will increase by only 3.5%. As a result, the deficit of the Federal, Länder and municipal authorities together will rise by DM 7 billion to DM 50 billion. In addition, the Federal Labour Office will have a shortfall of DM 6 billion. When reserves are taken into account this will leave it with a deficit of DM 1.5 billion which the Federal Government must cover.

10. Most of the report's comments concerning domestic demand are reserved for fixed capital formation. The retreat of the D-Mark from the high external values seen in 1987 has improved the sales and profit expectations of German companies and led to increased investment. As a result, real growth in machinery and equipment investment this year is expected to be in excess of 5%. Construction activity which had boomed by 10% in the first half of the year, has slowed but firms' order books indicate that there is sufficient momentum to ensure a real increase for the year as a whole of 5%. Much of the activity is in the industrial sector, though the residential sector is also strong and public sector construction investment will probably increase by 4%.

11. The report stresses the boost which foreign demand has given the economy, though it admits that data for foreign trade is incomplete. Reports from the basic and producer goods industries, however, particularly iron and steel producers, indicate strong foreign demand. Real export growth is expected to be 5.5%. Imports have been boosted by high demand for capital goods and from the consumer sector and they are expected to be 7% to 8% higher in real terms than in 1987.

12. Real GNP is expected to grow by 3.5%, greater than the growth in production potential. But the report does not expect growth to contribute greatly to improvement in the labour market. Although by the end of the year some 150,000 more people will be in employment, average unemployment will be 2.25 million, slightly higher than last year. Ending this section with a note on prices, the report says that while lower oil costs will dampen inflationary tendencies, the overall effect of rising import prices and increases in social housing rents will push inflation to 1.5% on average for the year.

The FRG economy: forecast for 1989

13. The report forecasts a continuation of economic expansion in 1989 but for reasons both external and domestic some momentum will be lost. Cyclical elements such as lower stock building will also affect growth. The report makes the following assumptions:-

- demand and output in industrial countries will continue to increase but not as rapidly as hitherto

- the price of crude oil will settle around \$15 per barrel; industrial raw material prices will ease slightly
- monetary policy in the FRG, as in other major countries, will slowly bring down monetary expansion. As a result interest rates will edge upwards. Exchange rates will remain unchanged in real terms
- fiscal policy will continue to concentrate on budgetary consolidation, finding its expression in the plans to increase revenue and cut expenditure
- wage increases will be up on this year's level.

Fiscal policy

14. In contrast to this year when stage two of the tax reform provided a boost to the economy, fiscal policy next year will be contractive. The planned increases in consumer taxes and taxes on diesel vehicles and property insurance together with the VAT effect will lead to additional revenue of DM 9.5 billion. The introduction of a withholding tax on interest yields will bring in approximately DM 4 billion. As a result overall tax revenue will rise by 6.5%. Despite an increase in pensioners' contribution rates, social security fund revenue will increase by only half as much due to reform of the statutory health insurance leading to cuts in contributions. General government revenues are set to rise by 6%, assisted by a sizeable Bundesbank profit of around DM 10 billion.

15. Growth in state expenditure of 2.5% will be below nominal GNP growth, mainly because of expected savings of some DM 5.5 billion through the planned reform of the health system. Nominal growth in government consumption will be moderate, remaining practically unchanged in real terms. The general government deficit will fall sharply in 1989, by almost DM 30 billion to DM 15 billion.

Private consumption

16. The increase in gross wages and salaries will be below 1988 levels. National income will record only 2.5% growth. Disposable income is forecast to grow by 3.5%. Due to stronger inflation real income will rise by only 1%. Empirical evidence indicates that private households will respond to this low increase in real disposable income by curtailing savings activity. The report expects the savings ratio to drop by almost one percentage point. Nevertheless, private consumption growth will fall to 2%.

Machinery & equipment investment

17. Machinery & equipment investment activity will slow only marginally compared to this year. The current high levels of capacity utilisation achieved in many sectors point towards a continuation of the marked rise in investment. The investment picture will be confused, however, with continued significant expansion in the manufacturing, construction and transport sectors contrasting with stagnating investment within the retail sector and cuts in investment in agriculture and mining. Weaker demand and a moderate rise in interest rates will lead to lower stockbuilding.

Construction investment

18. The underlying trend in construction investment will continue to point upwards but will lose speed in 1989. Commercial building investment, although remaining lively, will slacken in the course of the year to record year-on-year growth of 2%. On public sector construction investment, expectations of lower revenue in 1990 are likely to make public sector authorities reticent in commissioning new projects. Public sector construction investment overall is unlikely to exceed its 1988 level by more than 1%. The outlook for the residential sector is more optimistic with recent strong expansion expected to continue. The effect of recent growth of real incomes and the expectation of a return to rising house prices and interest rates will persuade many to bring forward construction plans. A recent upturn in rents with a consequent improvement in yields on property will also provide an incentive and the housing programme for refugees from Eastern Europe will give an added boost to the sector. Growth of 3% is expected which will expand overall construction investment 2.5%.

Exports

19. The expected slowdown in world trade will cause the rise in exports to lose pace. Continued buoyant investment activity abroad will, however, benefit German exports of capital goods and the slackening off will be lower than in overall world trade. In addition the problems arising from the strength of the D-Mark against the \$ are fading. Exports to Western Europe, which account for 70% of German exports, will decline in line with the slowdown in economic activity in these countries. Exports to the USA will increase marginally. Raw material exporting developing countries will have to restrict imports due to lower revenue and increased debt servicing caused by higher interest rates. Only exports to ASEAN countries are likely to continue to record lively expansion. Overall, exports in real terms are expected to rise by 4.5%.

Imports

20. Imports, in particular of consumer goods, will also lose momentum. Falling world raw material prices and rising interest rates will remove the incentive to boost stocks of basic industrial products so that imports in this area are likely to expand more slowly. Over the year as a whole the percentage increase in imports will probably match that of exports but with exports at a higher level this will lead to a further rise in real net exports. Despite a slight worsening in the terms of trade the visible trade surplus will also grow and while the deficit on services will increase, the overall current account surplus will exceed this year's level.

GNP

21. With private consumption rising at a markedly slower rate than in 1988, exports and machinery & equipment investment will lead demand. On an annual average overall output is likely to grow by just under 2%.

Labour market

22. The weakening of economic growth will cause the increase in the number of people employed to slow down, amounting to just over 100,000. The employment increase will continue to be restricted to the private services sector while both the public sector and the manufacturing sector will refrain from taking on additional employees. The potential labour force is set to rise by some 200,000. Under these circumstances the number of unemployed will climb by some 100,000 in 1989. On an annual average the figure will be almost 50,000 higher than in 1988 at 2.3 million.

Inflation

23. The impact of the planned consumer tax increases on the price level is estimated by the institutes to be 0.6%. As a result inflation next year is forecast to reach 2.5%.

Policy recommendations

24. The 5 institutes point out that despite the length of the current upswing, growth has failed to become self-sustaining. Neither investment promotion measures nor tax cuts nor the drastic fall in oil prices have led to sustainably faster growth. Uncertainties about exchange rates and the course of economic policy have had a negative effect on the economy and above all on corporate investment behaviour. Incentives have too often been confused by negative policies which has led to an irregular growth pattern with only modest overall expansion. Despite the favourable outturn this year this assessment remains true as there has been no change in the underlying factors for growth. The economy has benefitted from the tax reform, the renewed fall in oil prices, the buoyant investment climate abroad, a tolerant monetary policy and a weaker D-Mark. International disputes about the correct course of economic policy have been avoided. All these factors triggered a marked expansion of corporate investment against a backdrop of lively consumer demand.

25. These are unlikely to continue next year. The boost to private consumption provided by tax cuts in 1988 is to be replaced by the dampening effect of tax increases. Monetary policy is being tightened, the price of oil is more likely to rise than fall. Growth in the international economy will no longer be as strong. Under these circumstances growth in the FRG is set to become more modest. The report stresses the need to avoid a decline in corporate investment, listing the following concerns: -

- the low level of investment in recent years has meant that despite only moderate growth capacity utilisation is high;
- with demand now encountering capacity constraints, there is the danger of plentiful liquidity leading to higher prices;
- as investors have stood to gain little from creating jobs, unemployment has remained high;
- with domestic investment providing unsatisfactory yields massive outflows of capital have resulted.

26. The report warns that the international debate on reducing trade imbalances could flare up again. Despite a marked reduction in the FRG's trade surplus with the USA, the surplus with its European neighbours has risen sharply. While these economies have flourished this has been accepted but there is considerable potential for conflict when European growth begins to falter. In order to facilitate the process of adjustment, the institutes believe that a realignment of EMS rates should be considered.

Economic and fiscal policy

27. The Institutes point out that they have persistently called for a bringing forward of tax reform in order to support the economy. The Federal Government has clung firmly to its original timetable claiming that a medium-term, consistent fiscal policy served best to stabilise the economy. Yet the Government's decision to increase consumer taxes next year contradicts its policy of consistency. The policy of alternate tax cuts and increases results in economic fluctuations. It would be preferable, the institutes argue, to forego the tax increases completely or failing that at least to bring forward the cuts in direct taxes planned for 1990. The institutes suggest that the budgetary deficit next year is likely to be well below original estimates and that tax increases are therefore not necessary for budgetary consolidation. Government success should not be measured solely by its ability to reduce deficits but also by its progress in improving the FRG's attractiveness for investors. The report calls for the urgent reform of corporate taxation (although the Berlin institute abstains on this point). With the realisation of the Single Market in 1992 tax considerations could persuade many companies to move abroad. The financing of such a reform should be achieved by further reductions in tax breaks and industrial subsidies. Any deficit increase which might occur would be temporary as in the long-term such measures are self-financing through the promotion of growth and employment.

28. The institutes criticise the lack of progress on privatisation. Although the Federal Government has successfully sold a number of companies and holdings in others to the private sector, there has been little movement on the municipal level where private sector companies are unable to compete fairly in certain sector with public sector companies. The institutes propose a system whereby Federal and Länder grants to municipalities are made dependent on the privatisation of at least those public sector firms which make a loss. Efforts to reform the Deutsche Bundespost also come under attack as being inadequate. The ritual call for urgent deregulation in the transport, energy and insurance sectors is repeated. The institutes believe that German policy in this area has fallen behind that of its European neighbours and that the Single Market could place the German economy under considerable competitive pressure.

Monetary policy

29. With the exception of Berlin, the institutes praise the Bundesbank for acting quickly last summer to tighten monetary policy in reaction to increased fears of inflation. The majority of the institutes believe that the target range for growth of M3 should be tightened further to 3% to 5% instead of the current 3% to 6% in the fight against inflation. They do not see any significance in the change of indicator from Central Bank Money to M3. In a minority opinion, the DIW believes that the Bundesbank acted prematurely in stepping on the brakes and warns against any further restriction which in its view could choke investment and endanger any further progress in reducing foreign trade imbalances. The DIW dissents from the majority assessment of inflationary dangers. Longer-term wage agreements give no indication that there is a danger of a surge in domestic unit labour costs. In the DIW's view the Bundesbank needs to keep monetary policy flexible in order to be in a position to respond to any sudden changes in either domestic monetary demand or in international demand for the D-Mark. The present corridor of 3-6% would be in line with this objective.

Reactions

30. The report received good coverage by the media but the general consensus is that the forecast for next year is too pessimistic. When presenting the report the President of the Munich institute stressed that this was largely because of what he termed the Government's "zig-zag" fiscal policy. Nevertheless, leading institutions such as the Federation of German Industry (BDI), the Federation of German Chambers of Commerce (DIHT), banking organisations and industrial associations have all commented that growth in excess of 2% is probable. The Government, in a joint statement put out under the names of the Federal Finance and Economic Ministers, have rejected the calls for changes in policy. They claimed that the report supported their forecasts for growth.

Comment

31. The tenor of the report is a triumph for the supply-siders in the institutes. Its arguments against tax increases are well argued and reflect general disquiet with the Government's plans. But as with previous reports from this source, the Government is not constitutionally bound to take action on it, and it is unlikely to make any adjustment to its policies.

32. I attach the detailed tables from the report.

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FRAME ECONOMIC 189

ECD (1) I-]

ADDITIONAL

FRAME

*** FIVE INSTITUTES' ECONOMIC REPORT ***

1987 1988 1989 H1 88 H2 88 H1 89 H2 89

1. Origin of GNP

% Change on previous year

Labour force	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Hours worked (per working day)	-1.0	0.0	-1.0	0.3	-0.5	-1.0	-1.0
Working days	0.2	0.5	0.0	0.7	0.0	0.0	-0.5
Hours worked (monthly)	-0.1	0.5	-1.0	1.5	-0.5	-0.5	-1.0
Productivity	2.0	2.5	2.5	2.3	3.0	2.5	2.5
Gross Domestic Product (at 1980 prices)	1.90	3.50	2.00	3.90	3.00	2.00	1.50

2. Use of GNP at current prices

a) DM billion

Priv. consumption	1,112.0	1,160.0	1,213.5	555.6	604.5	585.0	628.5
Gov't. consumption	397.2	410.0	415.0	189.2	221.0	193.0	222.0
Fixed capital formation	389.3	416.5	441.0	190.3	226.5	197.5	243.5
Machinery & Eqpt	168.7	179.5	193.0	80.9	99.0	86.5	106.5
Buildings	220.6	237.0	248.0	109.4	127.5	111.0	137.0
Change in stocks	10.5	19.0	16.0	25.9	-7.0	24.0	-8.0
Net exports	111.1	117.5	124.0	56.3	61.5	61.5	62.5
Exports	638.3	682.5	725.5	331.2	351.5	357.0	368.5
Imports	527.2	565.0	601.5	274.9	290.0	295.5	306.0
GNP	2,020.1	2,123.0	2,209.5	1,017.2	1,106.0	1,061.0	1,148.5

b) % Change on previous year

Priv. consumption	4.1	4.6	4.6	4.4	4.0	5.5	4.0
Gov't. consumption	3.8	3.0	1.0	3.1	3.5	2.0	0.5
Fixed capital formation	3.1	7.0	6.0	9.1	6.5	4.0	7.5
Machinery & Eqpt	4.6	6.5	7.5	5.2	7.5	7.0	7.5
Buildings	2.1	7.6	4.5	12.1	3.8	1.5	7.5
Exports	0.0	7.0	6.5	7.0	7.0	8.0	6.0
Imports	0.7	7.0	6.5	7.8	6.6	7.8	5.5
GNP	3.9	5.0	4.0	5.8	4.5	4.6	4.0

3. Use of GNP at 1980 prices

a) DM billion

Priv. consumption	924.7	952.5	971.0	466.9	485.6	469.5	501.5
Gov't. consumption	328.3	334.0	334.5	162.3	172.0	163.8	171.8
Fixed capital formation	331.3	349.5	381.6	160.5	189.0	183.0	198.6
Machinery & Eqpt	141.3	149.0	158.5	67.6	81.5	70.6	88.0
Buildings	190.0	200.5	205.0	92.9	107.5	92.5	112.5
Change in stocks	9.9	18.0	15.0	24.5	-6.5	22.6	-7.5
Net exports	49.0	44.0	47.5	18.9	25.0	23.0	24.6
Exports	550.2	577.5	601.5	282.4	295.0	297.6	304.0
Imports	501.2	533.5	554.0	263.5	270.0	274.6	279.5
GNP	1,643.2	1,698.0	1,730.0	823.1	875.0	841.0	888.5
Domestic Demand	1,594.2	1,654.0	1,682.0	804.2	849.5	818.0	864.0

b) % Change on previous year

Priv. consumption	3.5	3.0	2.0	3.2	3.0	2.5	1.0
Gov't. consumption	1.6	2.0	0.0	1.9	1.5	0.5	-0.5
Fixed capital formation	1.8	5.5	3.5	7.9	3.5	1.5	5.0
Machinery & Eqpt	4.0	5.5	5.0	4.6	6.0	4.5	5.5
Buildings	0.2	5.5	2.5	10.4	1.5	-0.5	5.0
Exports	0.8	5.0	4.0	5.4	4.5	5.5	3.0
Imports	4.9	6.5	4.0	7.8	5.0	4.0	3.5
GNP	1.8	3.5	2.0	3.9	3.0	2.0	1.5
Memorandum:							
Domestic Demand	3.1	3.5	1.5	4.6	3.0	1.5	1.5

4. Income & Use of Income of Households

a) DM billion

Net wages/salaries	580.6	603.5	618.5	287.3	316.0	294.5	324.0
Current transfers	326.9	341.5	353.0	168.8	173.0	1,752.0	178.0
Distributed profits & property income	414.1	429.5	454.0	204.1	225.5	220.0	234.5
Deductions:							
Interest	17.4	17.0	17.5	8.6	8.5	8.5	9.0
Outgoing transfers	35.2	35.8	37.0	17.3	18.5	18.0	19.0
Disposable income	1,269.0	1,322.0	1,371.0	634.4	687.5	682.5	708.5
Priv. consumption	1,112.0	1,160.0	1,213.5	555.5	604.5	585.0	628.5
Savings	157.0	162.0	157.5	78.9	83.0	77.6	80.0
Savings ratio	12.4	12.5	11.5	12.4	12.0	11.5	11.6

b) % Change on previous year

Net wages/salaries	2.8	4.0	2.5	4.1	3.5	2.5	2.5
Current transfers	5.0	4.5	3.5	4.5	4.5	3.8	3.0
Distributed profits & property income	4.8	3.5	5.5	2.4	6.0	7.5	4.0
Disposable income	4.2	4.0	3.5	3.8	4.5	4.5	3.0
Priv. consumption	4.1	4.5	4.5	4.4	4.0	5.5	4.0
Savings	5.5	3.0	-3.0	0.3	6.0	-1.5	-4.0

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KOHL'S VISIT TO THE SOVIET UNION : OVERALL ASSESSMENT

SUMMARY

1. A SOLID SUCCESS. WESTERN INTERESTS PROTECTED. CONSIDERABLE PROGRESS IN BILATERAL RELATIONS: TOP-LEVEL DIALOGUE RE-ESTABLISHED. NO PROGRESS ON BERLIN DURING THE VISIT. GERMANS NOW PREPARING FOR GORBACHEV'S VISIT, LIKELY NEXT MAY.

DETAIL

WHAT KOHL SET OUT TO ACHIEVE

1. KOHL'S OBJECTIVES WERE TO PUT THE FEDERAL REPUBLIC BACK ON CENTRE STAGE IN THE WEST'S DIALOGUE WITH THE SOVIET UNION: TO KEEP THE 'GERMAN QUESTION' OPEN, AND SOUND OUT THE POSSIBILITIES FOR SOVIET MOVEMENT ON BERLIN: AND TO GIVE A BIG IMPULSE TO BILATERAL CONTACTS, UNDERLINING THE IMPORTANCE OF REASONABLE TREATMENT FOR THE GERMAN MINORITY IN THE USSR AND CREATING OPPORTUNITIES FOR GERMAN COMPANIES TO PARTICIPATE IN MODERNISING THE SOVIET ECONOMY.

DOMESTIC IMPACT

3. THE JUDGEMENT OF THE GERMAN MEDIA (MY TELNO 1082) IS THAT KOHL DID ALL OF THIS, AND DID IT WELL. THE POLITICAL PARTIES HAVE BEEN UNANIMOUS IN THEIR APPROVAL. THE GERMAN PUBLIC, FASCINATED BY GORBACHEV AND WELL AWARE OF THE SOVIET UNION'S IMPORTANCE FOR GERMANY, WERE UNDOUBTEDLY KEEN ON SEEING TOP-LEVEL CONTACT RESTORED, PARTICULARLY SINCE THE USA AND THE UK HAD DRAWN AHEAD IN TALKS WITH GORBACHEV.

4. TELTSCHIK, KOHL'S DIPLOMATIC ADVISER, HAS TOLD ME THAT FRG-SOVIET RELATIONS ARE NOW 'BACK ON TRACK'. HE SAID EVERYTHING THAT HAD BEEN INTENDED HAD BEEN ACHIEVED. THERE HAD BEEN NO SETBACKS, AND NO SOVIET PLOYS DESIGNED TO CAUSE DIFFICULTY BETWEEN THE FRG AND OTHER WESTERN COUNTRIES: 'THEY TREATED US SERIOUSLY'. KASTRUP, POLITICAL DIRECTOR DESIGNATE AT THE AUSWAERTIGES AMT, HAS DESCRIBED THE VISIT TO ME AS 'GOOD, SUCCESSFUL AND NECESSARY'. I BELIEVE THAT THE BULK OF THE GERMAN PUBLIC WOULD SUPPORT THESE JUDGEMENTS. THE EXCITEMENT

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IN THE GERMAN MEDIA BEFORE AND DURING THE VISIT WAS REPLACED, EVEN BEFORE KOHL'S RETURN, BY A MORE SOBER FEELING OF SATISFACTION.

WHAT KOHL ACHIEVED

5. KOHL DID NOT HOWEVER HAVE UNIFORM SUCCESS IN THE OBJECTIVES LISTED IN PARA 3. THE ECONOMIC SIDE OF THE VISIT WENT WELL. THE GERMANS HAVE CONFIRMED THEIR STATUS AS THE SOVIET UNION'S MOST IMPORTANT WESTERN TRADING PARTNER AND DID SO ON TERMS (EG RATES OF INTEREST) WHICH DID NOT BREAK THE RULES (THOUGH COCOM ASPECTS WILL HAVE TO BE WATCHED). ON HUMAN RIGHTS, THE VERDICT IS ALSO POSITIVE, IF LESS SIGNIFICANT THAN KOHL BELIEVED WHEN HE MADE HIS CLAIM ABOUT IMPENDING RELEASE OF ALL SOVIET POLITICAL PRISONERS. WE ARE INVESTIGATING WHAT EXACTLY HE OBTAINED FOR THE GERMAN ETHNIC MINORITY. THE POLITICAL ASPECTS ARE HARDER TO ASSESS: ON THE INFORMATION PROVIDED BY THE FRG, NOTHING OF MUCH IMPORTANCE HAPPENED ON MULTILATERAL SUBJECTS. KOHL PUT DOWN PUBLIC MARKERS ABOUT THE GERMAN QUESTION AND STRESSED THE FRG'S WESTERN ALLEGIANCE, THUS UNDERLINING THE DIFFERENCES BETWEEN THE TWO GOVERNMENTS AND WARNING THE SOVIET UNION AT THE OUTSET THAT PLOYS WOULD BE FRUITLESS. GENSCHER WOULD NOT HAVE STARTED THE VISIT THIS WAY: AND KOHL'S ACHIEVEMENT OF SPEAKING FRANKLY YET MAKING PROGRESS MAKES IT NONSENSE TO TALK OF THE VISIT AS A TRIUMPH OF GENSCHERISM AS THE FRENCH PRESS HAVE DONE (PARIS TELNO 1073). THAT SAID, IT IS ALSO TRUE, AS SUBSEQUENT BRIEFINGS FROM GERMAN FOREIGN MINISTRY OFFICIALS HAVE SHOWN, THAT THE AUSWAERTIGES AMT ANALYSIS OF HOW TO APPROACH RELATIONS WITH THE SOVIET UNION SEEMS TO HAVE BEEN LEFT UNTOUCHED BY THE VISIT.

BERLIN

6. KOHL MUST HAVE KNOWN THAT HIS REMARKS ON THE GERMAN QUESTION COULD FURTHER COMPLICATE THE DIFFICULT TASK OF GETTING MOVEMENT ON BERLIN. THIS SHOWS HIS WILLINGNESS TO STICK TO PRINCIPLES ON MAJOR MATTERS AT THE EXPENSE OF TACTICAL ADVANTAGE. NEVERTHELESS, WHATEVER THEY MAY BE SAYING NOW, THE GERMAN PARTY HAD SEEN THIS BEFOREHAND AS A TOUCHSTONE ISSUE AND HAD HOPED TO MAKE MORE HEADWAY ON BERLIN THAN THEY SECURED (EG BY ACHIEVING PROGRESS ON THE TWO SHIPPING AGREEMENTS, WHERE THE BERLIN ISSUE REMAINS UNRESOLVED).

DEFENCE MINISTERS

7. THE PERFORMANCE OF DEFENCE MINISTER SCHOLZ IN MOSCOW HAS GONE DOWN PARTICULARLY WELL IN THE GERMAN MEDIA. HIS STRAIGHTFORWARD APPROACH GOT GOOD MARKS. LIKE KOHL, HE DOES NOT SEEM TO HAVE PULLED PUNCHES IN DEALING WITH THE RUSSIANS. WHATEVER OUR GENERAL RESERVATIONS ABOUT CONTACTS BETWEEN WESTERN AND SOVIET DEFENCE

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MINISTERS AND MINISTRIES, THE ACTIVE INVOLVEMENT OF SCHOLZ IN GERMAN-SOVIET RELATIONS AT LEAST HELPS TO BALANCE GENSCHER.

SUMMING UP AND PROSPECTS

8. A SOLIDLY RATHER THAN TRAMATICALLY SUCCESSFUL VISIT. A LOT WAS ACHIEVED, IF NOT EVERYTHING HOPED FOR. GORBACHEV'S VISIT HERE NEXT YEAR COULD BE MORE DIFFICULT FROM OUR POINT OF VIEW. BUT KOHL HAS SHOWN THAT HE DOES NOT GET CARRIED AWAY BY THE DOMESTIC APPEAL OF LOVE-INS WITH THE RUSSIANS. AS TO THE TIMING OF GORBACHEV'S VISIT, TELTSCHIK TELLS ME THAT GORBACHEV PROPOSED FEBRUARY 1989. BUT THIS WAS TOO SOON FROM THE POINT OF VIEW OF GERMAN PREPARATIONS. TELTSCHIK'S GUESS IS THAT IT WILL BE MAY.

9. GENSCHER AND SHEVARDNADZE WILL PROBABLY MEET THREE TIMES BEFORE GORBACHEV COMES: IN A BILATERAL AT THE BEGINNING OF 1989, AT THE FINAL SESSION (IF ACHIEVED) OF CSCE IN VIENNA, AND AT THE CONFERENCE IN PARIS EARLY NEXT YEAR ABOUT THE 1925 GENEVA PROTOCOL ON CHEMICAL WEAPONS. THIS MEANS THAT THE BILATERAL RELATIONSHIP WILL STAY IN HIGH G3EAR. IT ALSO MEANS THAT GENSCHER WILL HAVE A CHANCE TO INJECT OPTIMISTIC COLOUR AGAIN. BUT I SEE GROUNDS FOR HOPING THAT GERMAN PUBLIC OPINION WILL NOW BE SOMEWHAT MORE REALISTIC ABOUT THE SCOPE FOR AND PACE OF DEVELOPMENT OF GERMAN/SOVIET AND EAST WEST RELATIONS.

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FROM: D SAVAGE
DATE: 4 NOVEMBER 1988

Pyp

1. ~~MR EVANS~~ HPE 4/11
2. MR HUDSON

cc Sir G Littler
PS/PMG
Sir P Middleton
Mr Lankester
Mr R I G Allen
Mr Matthews
Mr A C S Allan
Mr Gieve
Ms Simpson
Mr Forman MP
Mr Call
Mrs Chaplin
Mr Tyrie

INVITATION FROM GERMAN SOCIETY FOR FOREIGN POLITICS

The Chancellor received an invitation on 16 September to address this society - the German equivalent of Chatham House. The invitation was open as to date and subject.

2. The society is of the very highest standing - the most important platform in Germany for speakers on foreign affairs. Recent speakers have included King Hussein of Jordan, Sir Geoffrey Howe, Lord Carrington and Rajiv Gandhi. Minutes to you of 21 September from Messrs Call, Cropper and Tyrie recommended that the Chancellor look favourably on the invitation. We strongly agree.

3. The Foreign Secretary will be writing to the Chancellor shortly summarising some work by the Embassy in Bonn, who have been looking at ways in which we might seek to encourage structural reform ideas in Germany. The Embassy sees great advantage in more frequent Ministerial visits to Germany. (Visits by Treasury Ministers have been especially rare.)

4. The German Society for Foreign Politics would provide an outstanding platform for the Chancellor to speak on structural policy, drawing attention to UK achievements and stressing the

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community of interest in all countries pursuing reforms to improve economic performance. The challenge of 1992 might be another theme. Tone and presentation would be important of course: the Chancellor would of course not wish to appear to be lecturing the Germans, singling them out for criticism, or asking them to do things which are not in their own interests.

JS.

D SAVAGE

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KOHL'S SPEECH AT EUROPEAN PEOPLE'S PARTY CONGRESS.

SUMMARY.

1. CHANCELLOR KOHL REPEATS CALL FOR FURTHER ECONOMIC AND POLITICAL UNIFICATION.

DETAIL.

2. WE UNDERSTAND THAT CHANCELLOR KOHL'S SPEECH TO THE EUROPEAN PEOPLE'S PARTY (EVP), COMPRISING THE FOURTEEN CHRISTIAN DEMOCRAT PARTIES OF THE EC IN LUXEMBOURG ON 8 NOVEMBER, WAS MADE FROM NOTES AND THAT NO TEXT IS AVAILABLE. A ROUND-UP OF GERMAN PRESS REPORTING MAY THEREFORE BE OF USE.

3. KOHL IS REPORTED TO HAVE MADE AN IMPASSIONED APPEAL FOR FURTHER ECONOMIC AND POLITICAL UNIFICATION IN THE COMMUNITY, SAYING THAT THERE WAS NOW NO ALTERNATIVE AND NO GOING BACK. HE WARNED THAT SOME PEOPLE HAD YET TO REALISE HOW FAST TIME WAS PASSING AND WHAT THIS SIGNIFIED AND HE SPOKE OUT AGAINST NATIONAL EGOTISM, WHICH HAD TO BE OVERCOME. ONE NEWSPAPER REFERS TO HIM ADVOCATING A UNITED STATES OF EUROPE, A CALL ENDORSED BY MARTENS AND SANTER.

4. STAVENHAGEN, MINISTER OF STATE IN THE AUSWAERTIGES AMT, ALSO SPOKE. HE ADVOCATED A NEW QUALITY OF EUROPEAN UNION, THE CREATION OF A COMMON SOCIAL AND MONETARY SPACE AND THE DEVELOPMENT IN STAGES OF A COMMON FOREIGN AND SECURITY POLICY.

5. IN A COMMENT ON KOHL'S SPEECH THE FRANKFURTER ALLGEMEINE ZEITUNG EMPHASISES THE DIFFERENCE BETWEEN HIS VISION AND THAT OF MRS THATCHER. ON THE OTHER HAND, THE SAME EDITION CARRIES A LENGTHY PIECE BY PETER HORT, THEIR BRUSSELS CORRESPONDENT, IN WHICH HE ARGUES THE CASE FOR CONCENTRATING ON PRACTICAL STEPS, PARTICULARLY THE CONSTRUCTION OF THE SINGLE MARKET, RATHER THAN, AS HE PUTS IT, ISSUING SLOGANS FOR TOMORROW BEFORE TODAY'S HOMEWORK HAS BEEN DONE.

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FRAME ECONOMIC

TO FCO TELNO 12 SAVING OF 17 NOVEMBER 1988. Info. Brussels, Luxembourg, The Hague, Paris, Rome, UKRep Brussels, UKDEL OECD, UKMis Geneva, all Consulates-General in the Federal Republic and West Berlin, Washington, Tokyo, Vienna.

FRG ECONOMY

SUMMARY

1. Broad based growth continues. Federal Finance Minister forecast nominal GNP growth of 5.3% this year and 4.2% in 1989. Consensus of most other analysts is for 3% real growth this year falling to 1.5% to 2% in 1989. Unemployment expected to rise slightly next year. (Para. 9)
2. 1989 budget approved in the Committee stage in Parliament allowing a 5.4% increase in expenditure to DM 290.3bn. Final reading in the lower house later this month and in the upper house on 16 December. Tax revenue estimates for this year and next year revised upwards to DM 488.1bn and DM 512.7bn respectively. But confusion remains about tax increases and the introduction of new taxes next year. (Paras. 10 to 12)
3. Unemployment in October fell by 25,000 to 2.07 million (8%). Employment in September rose to 26.44 million. Seasonally adjusted unemployment has now fallen for four consecutive months. (Para. 13)
4. Business climate now reported to be higher than at any time since 1973. Manufacturing sector reports demand outpacing production. Capacity utilisation for the quarter ending September estimated at 87.4%. New orders rose by 4% in August/September on a two month comparison, with foreign orders alone up 5.5%. On the same basis, production grew by 3.5% and construction sector output rose by 2.5%. (Paras. 14 to 17)
5. Private consumption remains buoyant with retail trade turnover up 5.4% in real terms in September. Inflation, cost of living index, slowed to 1.3% in October but the moving annual average edged up to 1.1%. (Paras. 18 to 20)
6. Stronger activity on German stock markets. In Frankfurt the Commerzbank index reached the year's high point of 1641.6 before falling back in the wake of the US elections. Capital outflows appear to have been reversed. On the money markets, short term interest rates moved higher as the Bundesbank adjusted its monetary policy. Long term interest rates eased to 6.1%. The money supply expanded strongly once again in September with M3 growing by 6.6%. (Paras. 21 to 24)

7. The D-Mark continued to fall against the Yen having fallen some 9% since the end of 1987. Against the dollar the D-Mark has continued to appreciate. Pressures have eased within the EMS.
(Para. 25)

8. The visible trade surplus in September climbed to DM 11.3bn and the current account surplus to DM 6.1bn. Imports from the UK in the 12 months to June, the latest month for which details are available, reached DM 29.4bn, and the trade surplus in favour of the FRG rose to DM 19.5bn. (Paras. 26 to 28)

DETAIL

THE ECONOMY

9. The strength of the economy continues to be a source of satisfaction to the Government. In its October monthly report, the Federal Economics Ministry stressed the broad base of the domestic recovery with higher demand, production, orders and investment all contributing to industrial confidence. The Federal Finance Minister later revealed that he expected nominal growth of GNP of 5.3% (almost 3% real) to DM 2.127bn this year and 4.2% (around 2% real) to DM 2.217bn in 1989. The Dresdner Bank in its latest report forecast real GNP growth of 3.5% this year, based on continuing strong private consumption (3%), the return of high fixed capital investment (6.5%) and modest inflation. The bank noted that this strength was likely to continue into next year though at a lower level: real GNP growth of 2%; private consumption to rise by 2%; and capital investment to grow by 3.5%. This view was supported by the Commerzbank which in its October report forecast 3% real GNP growth this year and 1.5% to 2% in 1989. For the economic institutes, the DIW in Berlin confirmed the strong recovery and stressed that it was due as much to domestic consumption as to foreign demand. The trades union-funded WSI institute also forecast 3% real growth in GNP this year falling to 1.5% in 1989. But the bullish mood does not extend to the labour market with all sources echoing the WSI's prediction that, while numbers in employment will continue to grow, unemployment will average around 2.25 million (8.1%) this year and rise to 2.28 million (9.1%) next year.

1989 BUDGET

10. The Budget Committee of the Bundestag passed the draft 1989 budget on 10 November. The draft allows a 5.4% increase in expenditure to DM 290.3bn. The main change made by the Committee to the draft put forward by the Government was an increase of DM 839 million in allocations for capital investment which now total DM 37.4bn. The draft foresees tax revenue of DM 240.3bn and Bundesbank profits of DM 5bn. With only one privatisation planned - the Bonn-based DSL Bank - privatisation proceeds will amount to only DM 300 million, of which DM 100 million will have been spent to increase the bank's capital. The Federal budget deficit is planned to be DM 27.9bn. The draft will now go forward for the final readings in the Bundestag on 22 to 24 November and to the upper house, the Bundesrat, on 16 December.

TAXATION

11. The Federal Finance Ministry's Working Group on Tax Estimates released the results of its regular November meeting on 8 November. The Group meets formally three times a year and its decisions form the basis for the Government's budgetary policy and for the annual economic report. The Group revised its estimates of tax revenue sharply upwards in view of the stronger than anticipated economic growth this year. The Group estimated that tax revenue this year will be DM 7.5bn higher than expected at DM 488.1bn, 4.1% higher than last year. Of this, DM 220.3bn will be apportioned to the Federal budget, DM 175.3bn to the Länder, DM 68.8bn to the local authorities and DM 23.7bn to the EC. For 1989, the Group anticipated that total tax revenue will increase by a further 5% to DM 512.7bn, of which DM 232.5bn will accrue to the Federal budget, DM 185bn to the Länder, DM 71.3bn to the local authorities and DM 23.9bn to the EC. The Government claimed that when planned increases in consumer taxes, now before Parliament, are taken into account, its total tax revenue next year will amount to DM 240.5bn.

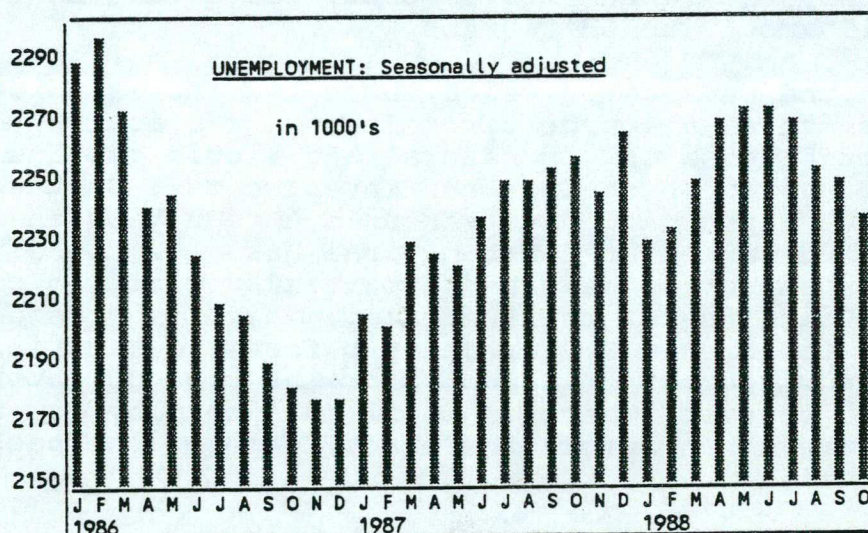
12. But the package in which those tax increases are included continues to be a source of confusion, particularly the planned introduction of a tax on natural and liquid gas and the 10% Withholding Tax on savings and investments. On the first, the Government appears to have conceded a reduction in the rate of the planned tax on at least natural gas. On the Withholding Tax, the banks appear to have had a partial victory in convincing the Finance Committee of the Bundestag, which is considering the package, to agree a 3 year delay before the tax will be applied to accrued interest on bonds. For the various interest groups involved, however, there is still much to play for and it will be late in the month before the exact shape of the package becomes clear.

LABOUR AND SOCIAL AFFAIRS

13. Unemployment in October fell by 25,500 or 1% to 2,074,346 with the unemployment rate falling to 8%. Compared to a year earlier unemployment was 18,400 lower. Franke, President of the Federal Labour Institute, welcomed the figures which continued the steady decline since the summer. There was a sharp drop in the number of short-time workers, down to 98,109 from 288,554 a year earlier, reflecting the high level of capacity utilisation in broad sectors of the economy. There was also more positive news on the employment scene with the number of people in employment in September some 168,000 higher than a year earlier representing an acceleration in the process of job creation. Franke underlined once again that the upturn in employment was not mirrored by a corresponding decline in unemployment. He attributed this to the sharp rise in the overall labour supply, caused not only by the number of women but also by the influx of ethnic Germans from Eastern Europe now entering the labour market. In seasonally adjusted terms the unemployment figure recorded the fourth consecutive monthly fall, as illustrated by the graph overleaf.

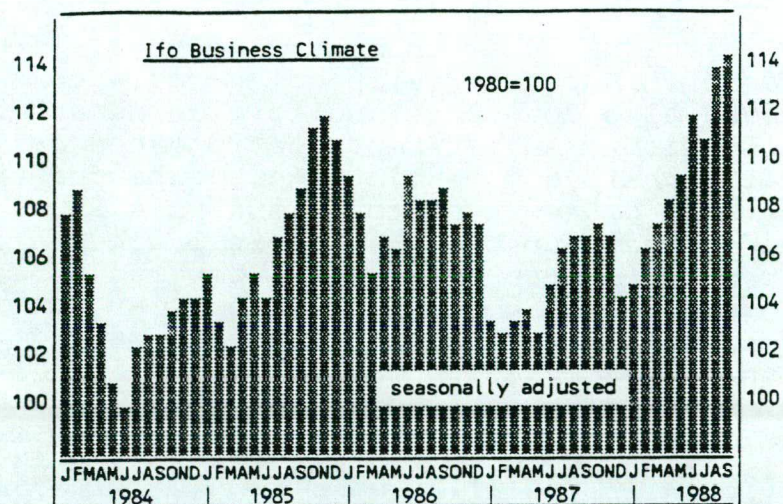
 * FRG UNEMPLOYMENT *

	Oct 87	Sep 88	Oct 88
a) Unemployment total ...	2,092,725	2,099,863	2,074,346
- Rate (%)	(8.3%)	(8.1%)	(8.0%)
b) Adjusted total	2,252,000	2,244,000	2,235,000
c) Short-time working ...	288,554	154,630	98,109
d) Unfilled vacancies ...	171,063	204,079	196,406
e) Total men in a)	1,071,974	1,073,877	1,057,811
f) Total women in a)	1,020,751	1,025,986	1,016,535



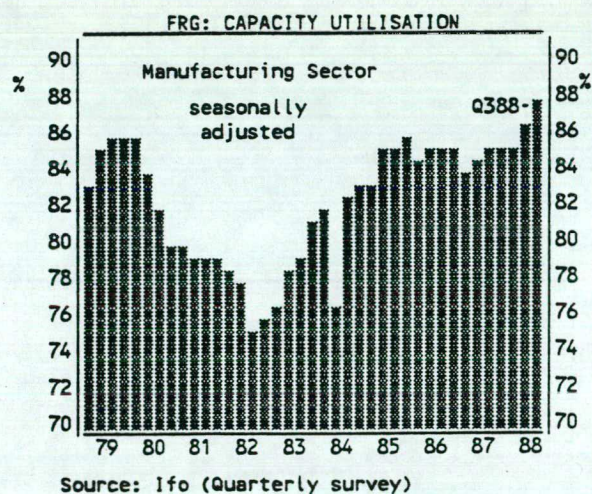
BUSINESS CLIMATE

14. Business climate indicators continue to reflect the widespread mood of optimism. The BMWi monthly report speaks of the most favourable business climate recorded since 1973 with strong growth continuing into Q3. The Ifo survey recorded a further improvement in September with the manufacturing sector reporting expanding order books as demand continues to outpace high production levels. Some sectors are even experiencing supply difficulties. The current buoyancy is confirmed by the quarterly capacity utilisation survey which shows a rise from 85.9% in June to 87.4% in September; capacity utilisation is now at a higher level than during the last peak in 1979/80. Export prospects remain favourable and production plans for the coming months indicate further expansion. A more cautious note is sounded by the Westdeutsche Landesbank in its 1988/89 sector survey. WestLB maintains that following the significant 3.5% increase in production this year, industrial growth next year is likely to drop to 1%. They warn that exports will weaken noticeably and that private consumption will suffer as a result of tax increases, hitting consumer goods manufacturers in particular. By contrast, however, healthy order books in both the mechanical and electrical engineering sectors will ensure continued high growth into 1989.



***** Ifo - BUSINESS CLIMATE *****

: 1980=100	: 1984	: 1985	: 1986	: 1987	: 1988	: 1989
: January	107.7	104.9	109.2	102.9	104.6	:
: February	108.4	102.8	107.5	102.4	105.9	:
: March	105.2	102.2	105.1	103.0	107.0	:
: April	103.1	104.0	106.4	103.7	107.9	:
: May	100.3	104.9	106.0	102.9	108.9	:
: June	99.4	104.1	108.8	104.6	111.3	:
: July	102.2	106.7	108.0	106.1	110.4	:
: August	102.3	107.6	108.1	106.6	113.4	:
: September	102.5	108.4	108.5	106.3	114.1	:
: October	103.4	111.2	107.0	107.2	:	:
: November	104.0	111.3	107.3	106.7	:	:
: December	103.8	110.3	106.9	103.8	:	:
Seasonally adjusted						Source: Ifo

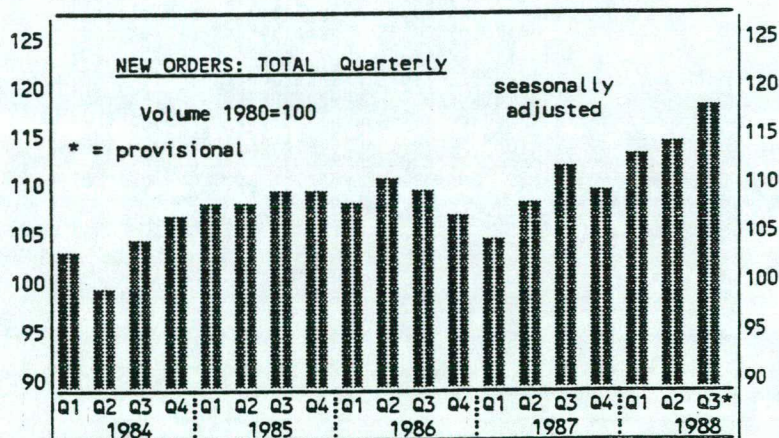


NEW ORDERS

15. Following the sharp 5% increase in overall demand in August, incoming orders in September slipped in real terms by 2.5% with domestic demand also down 2.5% and foreign demand down 3%. On a two-month comparison, August/September on June/July, overall demand was 4% higher as domestic orders expanded by 2% and foreign orders by 5.5%. A sectoral analysis shows basic and producer goods orders up by 3.5%, capital goods orders up by 3% and consumer goods orders up by 4%. Compared to the corresponding two-month period a year earlier, overall demand was 9.1% higher in volume terms, with domestic demand up 7.3% and foreign demand 12.3% higher. Capital goods led the way with orders up by 9.8% followed by basic and producer goods orders (+ 9.5%) and consumer goods (+ 6.6%). The graph below showing quarterly figures clearly traces the steady rise in demand since the end of last year.

NEW ORDERS 1980=100						
Seasonally adjusted						
	Total		Domestic		Foreign	
	Value	Volume*	Value	Volume	Value	Volume
=====						
1987 Jul	128	108	119	100	148	125
Aug	137	115	129	108	154	129
Sep	132	111	121	101	156	131
1988 Jul	141	116	132	109	163	134
Aug	149	122	135	111	178	145
Sep(p)	145	119	132	108	172	141
Quarterly						
Q187	124	104	116	97	141	119
Q287	127	107	117	99	147	124
Q387	132	111	123	103	153	129
Q487	131	109	120	100	154	129
Q188	135	112	123	103	157	131
Q288	138	114	126	105	164	136
Q388	144	118	133	109	171	140

* = at constant prices
p = provisional

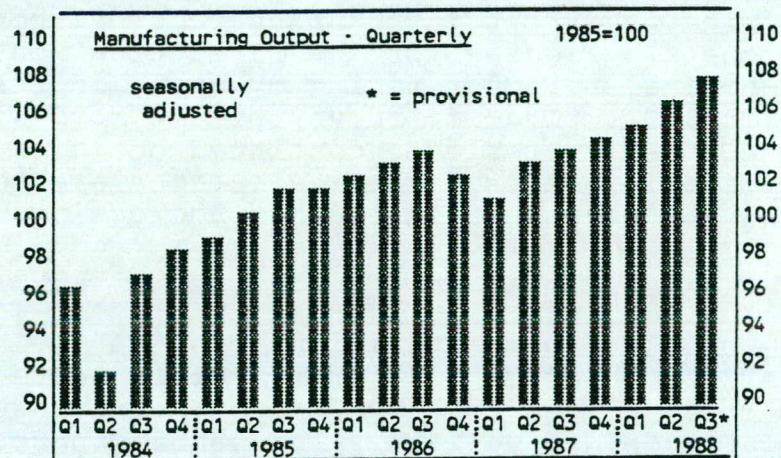


PRODUCTION

16. Recent production figures have shown severe fluctuations, influenced by the school holiday period the effects of which even seasonal adjustment does not eliminate. Provisional September figures show a 3% decline in overall output after the 6.5% surge in August. Manufacturing output was also 3% lower. The two-monthly comparison, August/September on June/July, revealed an increase in total output of 3% with manufacturing output up 3.5%. Capital goods production was particularly strong, recording a rise of 5%, while basic and producer goods output was 2.5% higher and consumer goods output was up by 2%. Compared to the corresponding two-month period a year earlier, overall manufacturing output was 5.9% higher with the strongest increase reported in the basic and producer goods sector (+ 7.6%), followed by capital goods (+ 6.2%) and consumer goods (+ 2.4%). The graph below showing quarterly figures since 1984 helps to highlight the steady rise in output since 1987Q1.

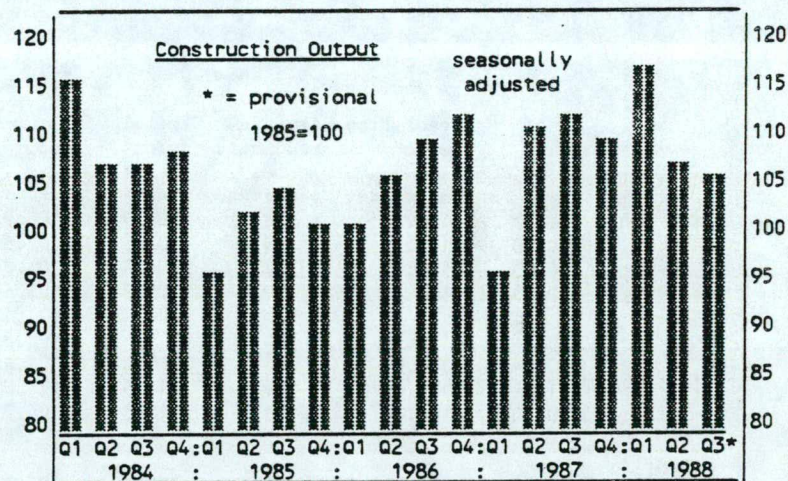
PRODUCTION 1985=100						
	Total	Manufacturing sector	Basic & producer goods	Capital goods	Consumer goods	Construction goods
1987 Jun	102.7	102.4	98.9	104.9	102.9	110.3
Jul	101.8	101.7	99.8	102.5	102.6	109.8
Aug	104.3	104.2	102.3	106.1	105.8	112.7
Sep	103.3	103.4	99.2	105.7	103.6	110.8
1988 Jun	107.4	108.3	104.8	111.1	108.8	107.1
Jul	103.4	103.6	105.3	103.5	101.4	101.8
Aug	110.2	111.4	109.1	114.5	111.0	109.1
Sep*	107.0	107.8	106.5	110.3	103.2	105.4
Quarterly						
Q187	100.8	100.9	96.8	103.1	102.3	94.7
Q287	102.8	102.8	99.0	105.3	103.2	110.1
Q387	103.2	103.1	100.4	104.8	103.9	111.2
Q487	103.9	104.0	101.1	106.3	103.9	108.6
Q188	105.0	105.0	103.6	106.1	105.9	115.9
Q288	105.2	105.9	103.4	108.2	106.4	106.3
Q388*	106.9	107.5	106.8	109.3	104.9	105.5

* = provisional



CONSTRUCTION

17. Provisional September results indicate a 3.5% drop in construction output. The two-monthly comparison, August/September on June/July, shows an increase of 2.5%. Although current construction levels are 3.2% below corresponding levels a year earlier the picture for the year as a whole remains favourable, boosted by the exceptional first quarter. The mood within the sector continues to reflect optimism, with a survey by the Construction Association for October summing up the situation as "satisfactory to good". Demand in both the residential and commercial sectors rose again although public sector demand fell back. The survey suggests that both output and employment maintained their September level. According to the survey the backlog of orders is declining - in the building sector down to 2.5 months from 2.7 months, road-building down to 2 months from 2.4 months while remaining stable in the civil engineering sector. Capacity utilisation is described as "surprisingly good", reaching 64%.



PRIVATE CONSUMPTION

18. Consumer demand remains buoyant confirmed by the continuation of the upwards trend in retail trade turnover into September. In nominal terms turnover was 6.3% up on on a year earlier, in real terms a rise of 5.4%. For the second time this year all nine major retail branches recorded both nominal and real increases. Figures for the first nine months of the year now show nominal turnover rising by 4.4%, in real terms an increase of 3.9%. The Ifo survey of the mood within the retail sector in September reflects continued optimism. Prices remain generally stable although the indications are that increases are more likely to be pushed through in the coming months.

PRICES

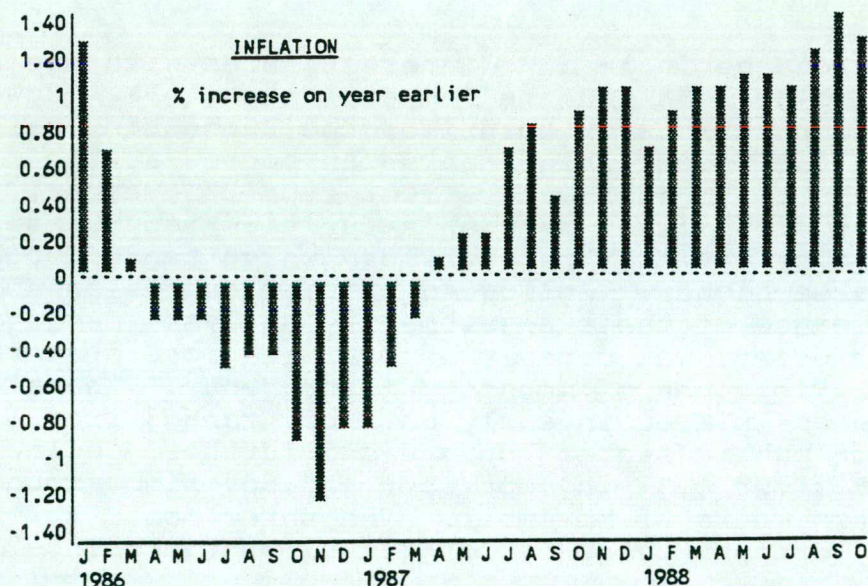
19. The annual rate of inflation, cost of living index, in October slipped back to 1.3% from 1.4% in September. Month-on-month prices rose by 0.1%. The moving average for the year so far edged up to 1.1%. The annual increase in prices excluding oil products remained steady at 1.5%. Most commentators are agreed that inflation in 1989 will accelerate to over 2% with the consumer tax increases adding around 0.5%.

20. The retail price index in October also rose by 0.1% on the previous month with the annual increase unchanged at 0.7%. Other price indicators are for September. The year-on-year rise in wholesale prices jumped to 2% from only 1% in August. The annual increase in industrial producer prices moved up to 1.7% from 1.4%. Import prices fell 0.6% on August to remain 1.3% higher than a year earlier. The annual rise in export prices climbed to 3.1%. Agricultural producer prices, available up to August only, were down on their July level, to stand 0.8 lower than a year earlier.

PRICES							
1980=100							
		Cost of living	Industrial producer prices**	Agricultural producer prices	Retail prices	Import prices	Export prices
		=====	=====	=====	=====	=====	=====
1987	Jul	121.3	95.1	92.3	118.0	95.3	115.7
	Aug	121.2	95.2	92.9	117.8	95.5	115.8
	Sep	120.9	95.1	93.4	117.5	94.9	115.8
	Oct	121.1	95.4	93.9	117.6	95.1	116.0
1988	Jul	122.5	96.4	93.1*	118.6	96.2	118.9
	Aug	122.6	96.5	92.4*	118.4	96.7	119.1
	Sep	122.6	96.7	.	118.3	96.1	119.4
	Oct	122.7			118.4		
<u>% change on a year earlier:</u>							
1988	Apr	+ 1.0	+ 1.3	- 3.1	+ 0.6	- 0.1	+ 1.9
	May	+ 1.1	+ 1.4	- 2.7*	+ 0.4	+ 0.2	+ 2.1
	Jun	+ 1.1	+ 1.6	- 1.1*	+ 0.7	+ 0.6	+ 2.5
	Jul	+ 1.0	+ 1.4	+ 0.0*	+ 0.5	+ 0.9	+ 2.8
	Aug	+ 1.2	+ 1.4	- 0.8*	+ 0.5	+ 1.3	+ 2.8
	Sep	+ 1.4	+ 1.7		+ 0.7	+ 1.3	+ 3.1
	Oct	+ 1.3			+ 0.7		

* = provisional

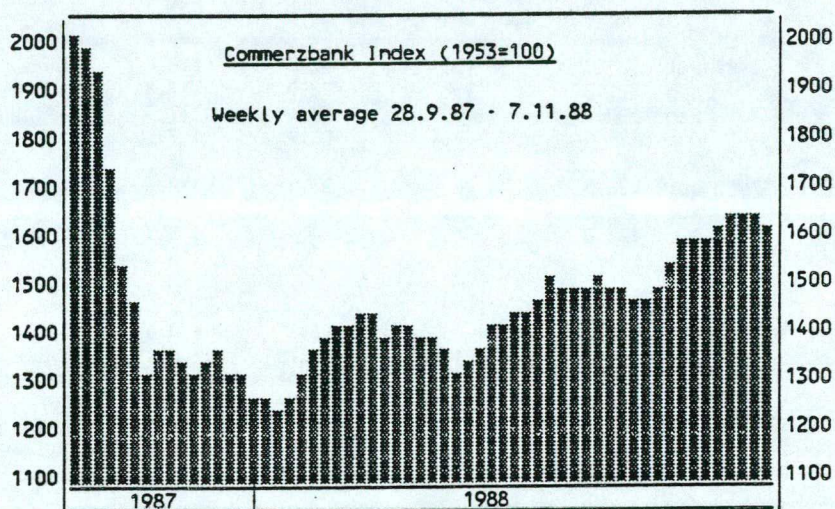
**= 1985=100



FINANCIAL MARKETS

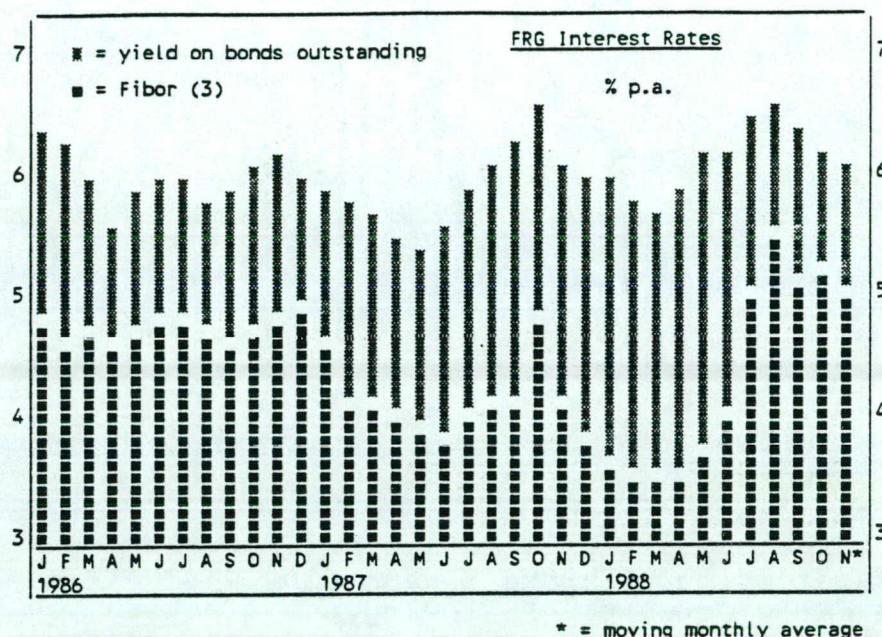
21. Confidence on German stock exchanges has increased steadily since the summer, reaching a 1988 high in the last week of October with the Commerzbank index touching 1641.6. Early November has seen a slight pause as markets digested the outcome of the US election. An uncertain dollar caused some irritation and the index shed some 80 points on its October high. On average, however, share prices were almost 30% up on the

beginning of the year but they remain some 15% below levels seen in October 1987. The improvement seen on equity markets in recent months has been boosted by a renewal of foreign interest in German stocks which analysts attribute to the visible upturn in FRG economic prospects. After nine consecutive months of heavy net foreign selling of German shares, the balance has been reversed in favour of net foreign purchases since July. Overall turnover has also gathered pace since the summer and over the year so far has exceeded last year's level by 15%. Most commentators agree that the present outlook for German shares is favourable with corporate profits expected to rise by 11% this year and by 6% in 1989. The Commerzbank has warned that the rapid rise over recent weeks could slacken pace but the bank still predicts a further 10% rise in the medium-term.



INTEREST RATES

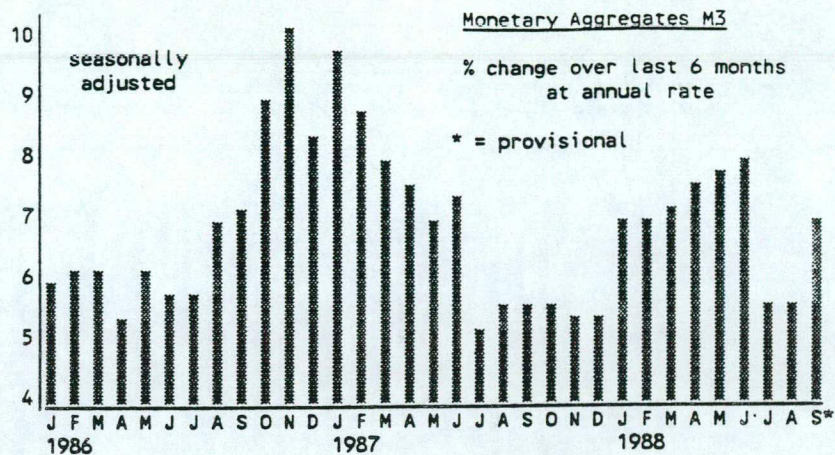
22. No change in leading interest rates with the discount rate remaining at 3.5% and the Lombard rate at 5%. However, in a move which took markets by surprise, the Bundesbank raised rediscount quotas (the amount which banks can borrow at the discount rate) by DM 5bn to DM 55bn with effect from 2 November. At the same time the 4.25% fixed rate on securities repurchase agreements was replaced by a tender rate, a move which tended to push very short term rates higher. Following initial confusion about the significance of these adjustments, analysts decided that the overall effect was broadly neutral and most dealers welcomed the more flexible use of monetary instruments. The allotment rate for tenders placed in early November ranged from 4.40-4.75%. The yield on public sector bonds eased further, declining to 6.1% in October after 6.3% in September and hovering around 6% in the first two weeks of November. The three-month interbank rate (Fibor) dropped below 5% for the first time since July.



MONEY SUPPLY

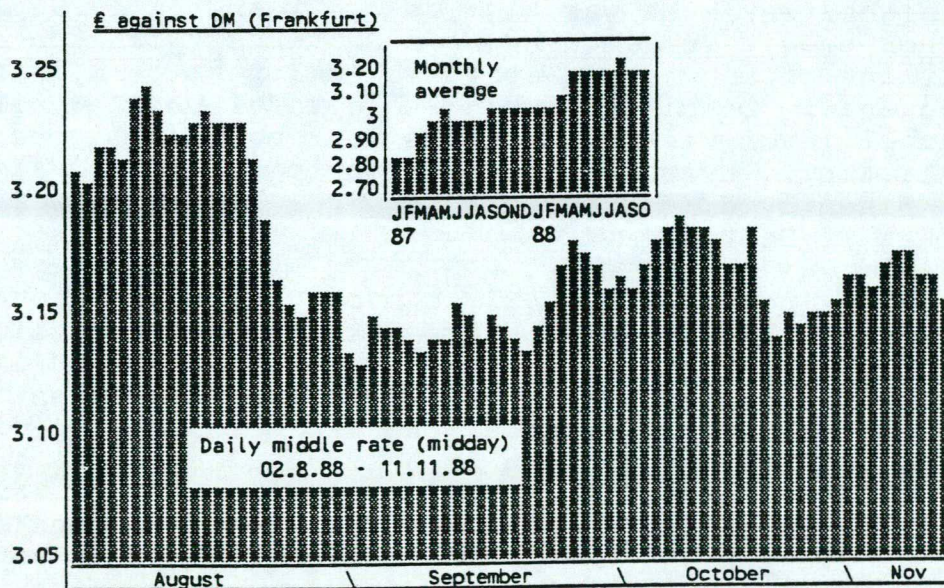
23. Monetary expansion in September was strong with particularly rapid growth in short-term funds and currency in circulation. Savings deposits at statutory notice recorded moderate growth. As a result of this strong growth the gap between M3 expansion and the target corridor of 3-6% widened again, having narrowed in the preceding two months. The seasonally adjusted increase over 1987Q4 at an annual rate rose from 6.3% in August to 6.6% in September. Compared to the end of September 1987 M3 was almost 7% higher while M2 was also up by 7% and M1 by 9%. Private sector credit remained high in September with the emphasis shifting to short-term loans while longer-term credit demand slackened. Despite climbing to a total DM 12.6 billion the overall level was lower than a year earlier (September 1987: DM 14.4bn). Over the last six months total private sector credit has risen by 5.5%. Monetary capital formation was markedly weaker in September.

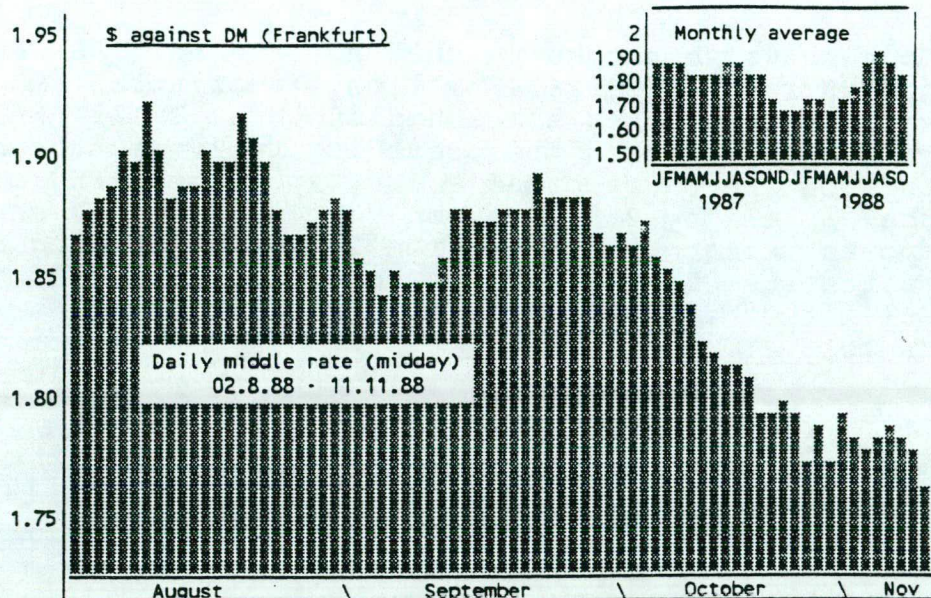
24. Looking ahead to 1989, a member of the directorate of the Bundesbank, Herr Gaddum, warned that monetary policy will need to pay particular attention to the dangers posed by increased inflationary pressures. He pointed out that even though M3 expansion is currently near the projected 3-6% growth, the 8% increase recorded in both 1986 and 1987 exceeded growth in production potential. He said that next year's tax increases will push up inflation and defined the Bundesbank's objective as seeking to prevent a wage-price spiral. But he emphasised that the Bundesbank supported the decision to increase taxes because it believed that priority should be given to budgetary consolidation.



EXCHANGE RATES

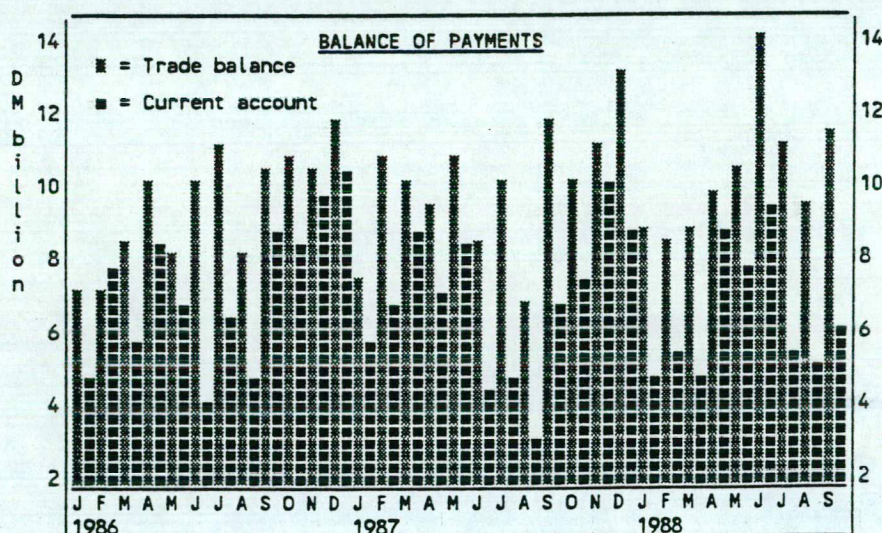
25. Currency markets focussed on \$ developments in the run-up to the US election with the \$ weakening markedly against the DM since early October. Following the election results it plunged sharply to DM 1.7395 but has since settled around DM 1.75. However, market observers remain uncertain as to the future direction of the \$ with much depending on the next set of US trade figures. The DM/£ relationship has remained relatively stable since September ranging from DM 3.125 to DM 3.183. Within the EMS the DM has been steady, gaining only 0.4% since the beginning of the year. The movement against the Yen continues to tend downwards, with the DM in early November some 9% lower than at end-1987.





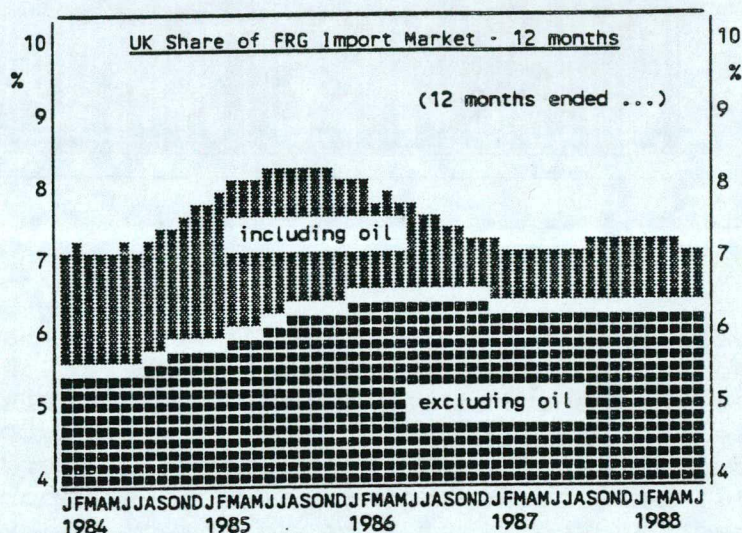
BALANCE OF PAYMENTS

26. September balance of payments figures indicate a rise in the current account surplus to DM 6.1bn from DM 4.9bn in August. In September 1987 the surplus was DM 6.7bn. The visible trade surplus in September climbed to DM 11.3bn after DM 9.3bn in August, practically unchanged on a year earlier. Compared to September 1987 exports were 4% higher while imports expanded by 5.5%. Figures for the first nine months of the year show a rise in both the visible trade and current account surplus. The visible trade surplus looks set to reach a new record over the year as a whole, totalling DM 90.9bn to the end of September compared to DM 83.6bn a year earlier. The current account surplus has risen from DM 54.9bn to DM 56.8bn. Monthly capital account figures indicate a slowdown in the level of long-term capital outflows but overall capital account figures for the first nine months show net outflows of DM 89.6bn compared to DM 34.2bn in the corresponding period 1987.



FRG/UK TRADE (12 months ended JUNE 1988)

27. In the twelve months to the end of June 1988 FRG imports from the UK reached DM 29.4 billion, 7% of total FRG imports. A year earlier the market share had stood at 7.1%. While total FRG imports rose by 4.6% on the preceding twelve month period, imports from the UK recorded a 3.8% increase. FRG oil imports from the UK fell by 2.5% year-on-year with the UK share of total oil imports falling to 29.6% from 32.5%. Excluding oil, total FRG imports rose by 4.5%, while non-oil imports from the UK were up by 5% with the UK share of the non-oil import market edging upwards to 6.2%.



28. FRG exports to the UK over the period rose by 10.2% year-on-year against a rise of 4.2% in total FRG exports so that the proportion of FRG exports destined for the UK climbed from 8.6% to 9.1%. The trade gap in favour of the FRG rose from DM 16 billion to DM 19.5 billion.

MALLABY

FRG: STATISTICAL SUMMARY

	1986	1987	%change	Seasonally adjusted			% change on prev. qtr/month yr	
				Q2 87	Q1 88	Q2 88		
1. EXPENDITURE ON GNP (DM bn)								
(current prices)								
a) Gross National Product	1,948.8	2,023.2	3.8	501.0	526.1	527.5	0.3	5.3
b) Private consumption	1,081.1	1,119.6	3.6	278.2	285.5	286.8	0.5	3.1
c) Government consumption	382.1	396.8	3.8	99.8	100.5	102.3	1.8	2.5
d) Fixed capital formation	376.8	388.4	3.1	97.8	103.7	104.1	0.4	6.4
- Machinery & Equipment	161.4	168.7	4.5	41.9	43.0	45.0	4.7	7.4
- Construction	215.4	219.7	2.0	55.9	60.7	59.1	-2.6	5.7
e) Change in stocks	-3.1	8.6		-1.6	n/a	n/a		
f) Exports of goods & services	636.3	636.6	0.0	157.7	n/a	n/a	n/a	n/a
g) Imports of goods & services	524.4	526.8	0.5	130.9	n/a	n/a	n/a	n/a
h) Net exports	111.9	109.8		26.8	n/a	n/a		
2. EXPENDITURE ON GNP (DM bn)								
(constant prices)								
a) Gross National Product	1,618.4	1,645.6	1.7	407.9	422.6	421.9	-0.2	3.4
b) Private consumption	903.5	931.3	3.1	231.0	236.4	235.1	-0.5	1.8
c) Government consumption	322.9	327.9	1.5	81.6	82.7	83.4	0.8	2.2
d) Fixed capital formation	324.9	330.6	1.8	83.4	88.0	87.6	-0.5	5.0
- Machinery & Equipment	135.9	141.3	4.0	35.2	36.0	37.5	4.2	6.5
- Construction	189.0	189.3	0.2	48.2	52.0	50.1	-3.7	3.9
e) Change in stocks	0.8	7.9		0.1	15.5	15.8		
f) Exports of goods & services	544.4	548.8	0.8	136.5	n/a	n/a	n/a	n/a
g) Imports of goods & services	478.1	500.9	4.8	124.7	n/a	n/a	n/a	n/a
h) Net exports	66.3	47.9		11.8	n/a	n/a		
3. DISTRIBUTION OF NATIONAL INCOME								
a) National Income	1,513.4	1,571.4	3.8	389.4	410.4	411.0	0.1	5.5
b) Gross wage & salary income	1,041.3	1,080.7	3.8	270.5	278.0	278.9	0.3	3.1
- as % of National Income	68.8%	68.8%		69.5%	67.7%	67.9%		
c) Gross entrepreneurial & property income	472.2	490.7	3.9	118.9	132.5	132.1	-0.3	11.1
- as % of National Income	31.2%	31.2%		30.5%	32.3%	32.1%		
4. INCOME OF HOUSEHOLDS								
a) Gross wages & salaries	867.7	900.9	3.8	225.5	231.7	232.4	0.3	3.1
b) Disposable income	1,246.3	1,292.6	3.7	320.3	328.4	331.2	0.9	3.4
c) Savings as a % of b)	13.4	13.4		13.1	13.0	13.4		
5. PRODUCTIVITY								
1980=100								
a) In the economy as a whole								
i) GNP per working person (1980 prices)	111.2	112.3	1.0	111.3	114.9	114.6	-0.3	3.0
ii) wage and salary costs per production unit	113.3	115.5	1.9	116.5	115.4	116.0	0.5	-0.4
1985=100								
b) In industry				Aug 87	Jul 88	Aug 88		
i) output per employed person	101.0	101.0	0.0	102.0	101.0	109.0	7.9	6.9
ii) wage and salary costs per production unit	104.0	107.0	2.9	106.0	111.0	102.0	-8.1	-3.8
1980=100								
				Sep 87	Aug 88	Sep 88		
6. INDUSTRIAL PRODUCTION								
a) Total	102.3	102.6	0.3	103.3	110.2	107.0	-2.9	3.6
b) Manufacturing industry	102.5	102.7	0.2	103.4	111.4	107.8	-3.2	4.3
i) Producer goods	99.4	99.3	-0.1	99.2	109.1	106.5	-2.4	7.4
ii) Capital goods	104.5	104.9	0.4	105.7	114.5	110.3	-3.7	4.4
iii) Consumer goods	102.3	103.3	1.0	103.6	111.0	103.2	-7.0	-0.4
c) Construction	106.4	106.0	-0.4	110.8	109.1	105.4	-3.4	-4.9
7. NEW ORDERS (volume)								
1980=100								
a) Total	108.0	108.0	0.0	111.0	122.0	119.0	-2.5	7.2
i) Capital goods	113.0	111.0	-1.8	114.0	127.0	124.0	-2.4	8.8
ii) Consumer goods	100.0	101.0	1.0	103.0	114.0	106.0	-7.0	2.9
b) Domestic	101.0	100.0	-1.0	101.0	111.0	108.0	-2.7	6.9
i) Capital goods	107.0	105.0	-1.9	106.0	116.0	115.0	-0.9	8.5
ii) Consumer goods	94.0	95.0	1.1	96.0	107.0	98.0	-8.4	2.1
c) Foreign	123.0	125.0	1.6	131.0	145.0	141.0	-2.8	7.6
i) Capital goods	123.0	122.0	-0.8	126.0	144.0	138.0	-4.2	9.5
ii) Consumer goods	135.0	137.0	1.5	145.0	157.0	152.0	-3.2	4.8

	1986	1987	%change	Oct 87	Sep 88	Oct 88	% change month	prev. yr
Unadjusted								
8.UNEMPLOYMENT (1000's)								
a) i) unemployed	2,228.0	2,228.8	0.0	2,092.7	2,099.9	2,074.3	-1.2	-0.9
ii) as a % of the working population	9.0	8.9		8.3	8.1	8.0		
b) Short-time workers	197.4	278.0	40.8	288.6	154.6	98.1	-36.5	-66.0
c) Vacancies	154.8	171.0	10.5	171.1	204.1	196.4	-3.8	14.8
1980=100								
9.PRICES								
a) Cost of living of all private households	120.7	121.0	0.2	121.1	122.6	122.7	0.1	1.3
b) Retail prices	117.3	117.8	0.4	117.6	118.3	118.4	0.1	0.7
Sep 87 Aug 88 Sep 88								
c) Wholesale prices	108.8	104.7	-3.8	104.1	106.0	106.2	0.2	2.0
d) Producer prices of (1985 industrial products =100)	118.2	115.6	-2.2	95.1	96.5	96.7	0.2	1.7
e) Export prices	116.8	115.5	-1.1	115.8	119.1	119.4	0.3	3.1
f) Import prices	101.0	94.4	-6.5	94.9	96.7	96.1	-0.6	1.3
Aug 87 Jul 88 Aug 88								
Terms of Trade	112.2	116.4	3.7	116.9	117.9	115.0	-2.5	-1.6
DM bn								
Sep 87 Aug 88 Sep 88								
10.BALANCE OF PAYMENTS								
a) Visible trade								
i) exports	526.4	527.0	0.1	45.8	44.2	47.5	7.5	3.7
ii) imports	413.7	409.5	-1.0	34.3	34.9	36.2	3.7	5.5
iii) balance	112.7	117.5		11.5	9.3	11.3		
b) Supplementary trade items	-1.5	-0.9		-0.3	-0.4	-0.4		
c) Services	0.9	-7.8		-2.0	-0.9	-2.1		
d) Transfers	-27.0	-28.4		-2.5	-3.1	-2.7		
e) Current account	85.1	80.4		6.7	4.9	6.1		
11.NET FOREIGN RESERVES (+/-)	2.8	31.9		1.6	-7.8	-2.4		
Seasonally adjusted								
12.MONEY STOCK (change in year/month)								
M1	24.7	27.0		0.2	2.2	0.4		
M2	34.3	35.5		0.2	5.2	8.5		
M3	65.7	62.6		1.9	7.2	10.0		
Unadjusted								
13.MONETARY CAPITAL FORMATION	69.8	70.7		5.8	5.8	0.9		
Oct 87 Sep 88 Oct 88								
14.INTEREST RATES								
a) Yield on bonds outstanding (public sector) (%pa)	5.9%	5.8%		6.5%	6.3%	6.1%		
b) Bank Rates: (previous level)								
Since 26.08.88 Discount Rate: 3.5% (3.0)								
Since 29.07.88 Lombard Rate : 5.0% (4.5)								
Jun 87 May 88 Jun 88								
15.FR/UK TRADE (DM million)								
a) FRG Imports from UK	29,757.7	29,211.6	-1.8	2,516.8	2,689.1	2,495.8	-7.2	-0.8
- UK Share of total	7.2%	7.1%		7.5%	7.2%	6.9%		
b) FRG Exports to UK	44,599.6	46,141.4	3.5	3,799.4	4,564.3	4,765.0	4.4	25.4
- UK Share of total	8.5%	8.8%		9.0%	9.6%	9.5%		
c) FRG/UK Trade Balance (FRG deficit = -)	14,841.9	16,929.8		1,282.6	1,875.2	2,269.2		
Oct 87 Sep 88 Oct 88								
16.EXCHANGE RATES								
a) DM/£	3.184	2.941	-7.6%	2.993	3.143	3.161	0.6%	5.6%
b) DM/\$	2.171	1.798	-17.2%	1.802	1.867	1.820	-2.5%	1.0%

Sources: Federal Statistical Office, Wiesbaden;
Deutsche Bundesbank, Frankfurt ajm
Discrepancies in totals due to rounding 111/24

FRG: DETAILED STATISTICAL ANNEX
=====

Table

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Economic Section
British Embassy, Bonn

Date: 18/11/88

Table 1a

FRG - EXPENDITURE ON GNP (Real)

Values in DM million (1980 prices)

NB: Major revision since last release

	GNP ===	Private Consumption =====	Gov't Consumption =====	Capital Formation Mach. & Buildings Eq't =====		Change in Stocks =====	Net Exports =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1981	1,485,300	836,380	303,290	121,810	197,880	-10,700	36,640	456,730	420,090
1982	1,471,000	825,230	300,740	113,590	189,290	-9,600	51,750	471,450	419,700
1983	1,498,900	839,600	301,440	119,900	192,540	-1,500	46,920	469,010	422,090
1984	1,548,100	852,290	308,820	119,360	195,540	5,500	66,590	511,110	444,520
1985	1,578,100	863,980	315,310	130,530	184,550	-900	84,630	545,740	461,110
1986	1,614,700	893,390	323,210	135,850	189,550	4,500	68,200	545,880	477,680
1987	1,643,200	924,720	328,280	141,300	189,990	9,900	49,010	550,210	501,200
<u>Quarterly</u>									
1985 Q2	387,200	211,310	77,010	30,690	50,050	-3,800	21,940	135,020	113,080
Q3	402,700	214,870	77,800	30,790	52,540	9,600	17,100	136,050	118,950
Q4	412,400	234,880	85,030	41,430	48,530	-23,500	26,030	140,280	114,250
1986 Q1	381,000	208,240	77,080	28,770	33,440	13,600	19,870	132,960	113,090
Q2	400,100	221,710	79,510	33,830	51,410	-1,200	14,840	137,810	122,970
Q3	411,400	221,880	80,400	31,610	53,450	11,400	12,660	133,710	121,050
Q4	422,200	241,560	86,220	41,640	51,250	-19,300	20,830	141,400	120,570
1987 Q1	389,300	214,560	79,030	30,600	32,510	20,400	12,200	132,670	120,470
Q2	403,200	228,330	80,240	34,010	51,630	-2,400	11,390	135,310	123,920
Q3	418,200	229,720	81,210	33,780	54,450	11,300	7,740	134,840	127,100
Q4	432,500	252,110	87,800	42,910	51,400	-19,400	17,680	147,390	129,710
1988 Q1	406,100	224,470	80,320	...	39,280	...	8,240*	...	...
Q2	417,000	232,450	81,960	...	53,640	...	10,630*	...	...

Source: Federal Statistical Office, Wiesbaden

... = not available

* = estimate

Table 1a (cont)

FRG - EXPENDITURE ON GNP (Real)

% CHANGE ON A YEAR EARLIER (real)

NB: Major revision since last release

	GNP ===	Private Consumption =====	Gov't Consumption =====	Fixed Capital Formation =====	of which:	Mach.& Eqp't =====	Buildings =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1980	1.5	1.2	2.6	2.8		2.6	2.9	5.3	3.7
1981	0.0	-0.5	1.8	-4.8		-4.3	-5.1	8.2	-1.2
1982	-1.0	-1.3	-0.8	-5.3		-6.7	-4.3	3.2	-0.1
1983	1.9	1.7	0.2	3.1		5.5	1.7	-0.5	0.6
1984	3.3	1.5	2.4	0.8		-0.5	1.6	9.0	5.3
1985	1.9	1.4	2.1	0.1		9.4	-5.6	6.8	3.7
1986	2.3	3.4	2.5	3.3		4.1	2.7	0.0	3.6
1987	1.8	3.5	1.6	1.8		4.0	0.2	0.8	4.9
<u>Quarterly</u>									
1985 Q3	2.9	2.5	3.0	1.4		3.8	0.0	9.0	4.3
Q4	1.7	2.5	2.5	1.2		8.3	-4.2	1.1	3.3
1986 Q1	1.4	2.6	2.1	1.9		4.2	0.0	-1.1	-1.5
Q2	3.3	4.9	3.2	5.6		10.2	2.7	2.1	8.7
Q3	2.2	3.3	3.3	2.1		2.7	1.7	-1.7	1.8
Q4	2.4	2.8	1.4	3.3		0.5	5.6	0.8	5.5
1987 Q1	2.2	3.0	2.5	1.4		6.4	-2.8	-0.2	6.5
Q2	0.8	3.0	0.9	0.5		0.5	0.4	-1.8	0.8
Q3	1.7	3.5	1.0	3.7		6.9	1.9	0.8	5.0
Q4	2.4	4.4	1.8	1.5		3.0	0.3	4.2	7.6
1988 Q1	4.3	4.6	1.6	n.a		n.a	20.8	n.a	n.a
Q2	3.4	1.8	2.1	n.a		n.a	3.9	n.a	n.a

Source: Federal Statistical Office, Wiesbaden

Table 1b

FRG - EXPENDITURE ON GNP (Nominal)

Values in DM million (Current prices)

NB: Major revision since last release

	GNP ===	Private Consumption =====	Gov't Consumption =====	Capital Formation Mach. & Buildings Eqp't =====		Change in Stocks =====	Net Exports =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1981	1,545,100	887,850	318,160	127,650	207,590	-11,400	15,250	482,110	466,860
1982	1,597,100	918,050	326,190	124,900	201,990	-11,500	37,470	517,540	480,070
1983	1,680,400	964,160	336,210	135,600	208,220	-1,800	38,010	524,830	486,820
1984	1,769,900	1,003,570	350,230	137,580	217,050	6,600	54,870	590,780	535,910
1985	1,844,300	1,038,340	365,660	153,850	206,950	-700	80,200	647,480	567,280
1986	1,945,200	1,068,610	382,590	161,380	216,010	2,100	114,510	638,180	523,670
1987	2,020,100	1,112,030	397,180	168,670	220,600	10,500	111,120	638,310	527,190
<u>Quarterly</u>									
1985 Q2	446,600	254,900	85,210	36,250	55,870	-4,900	19,270	160,780	141,510
Q3	468,900	258,600	87,720	36,400	58,820	11,100	16,260	162,030	145,770
Q4	498,400	281,570	109,560	48,830	54,620	-25,700	29,520	166,380	136,860
1986 Q1	449,200	250,290	86,390	34,030	38,140	15,700	24,650	156,600	131,950
Q2	475,600	265,130	90,380	40,250	58,340	-4,500	26,000	161,340	135,340
Q3	494,000	265,710	92,730	37,590	60,840	10,500	26,630	155,880	129,250
Q4	526,400	287,480	113,090	49,510	58,690	-19,600	37,230	164,360	127,130
1987 Q1	472,800	256,700	89,310	36,340	37,840	24,400	28,210	153,220	125,010
Q2	490,700	275,570	94,150	40,530	59,730	-5,500	26,220	156,240	130,020
Q3	509,700	277,110	95,850	40,470	63,110	11,700	21,460	156,750	135,290
Q4	546,900	302,650	117,870	51,330	59,920	-20,100	35,230	172,100	136,870
1988 Q1	500,700	271,420	92,860	...	46,230	...	26,600	...	...
Q2	516,500	284,130	96,550	...	63,160	...	29,660

Source: Federal Statistical Office, Wiesbaden

... = not available

* = estimate

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Table 1b (cont)

FRG - EXPENDITURE ON GNP (Nominal)

% CHANGE ON A YEAR EARLIER (nominal)

NB: Major revision since last release

	GNP ===	Private Consumption =====	Gov't Consumption =====	Fixed Capital Formation =====	of which:	Mach.& Eq't =====	Buildings =====	Exports (of goods & services) =====	Imports (of goods & services) =====
<u>Annual</u>									
1980	6.3	7.1	8.9	10.7		7.0	13.0	11.9	16.2
1981	4.0	5.6	6.8	-0.2		0.2	-0.4	14.2	9.8
1982	3.4	3.4	2.5	-2.5		-2.2	-2.7	7.3	2.8
1983	5.2	5.0	3.1	5.3		8.7	3.2	1.4	1.4
1984	5.3	4.1	4.2	3.1		1.5	4.2	12.6	10.1
1985	4.2	3.5	4.4	1.7		11.8	-4.7	9.6	5.9
1986	5.5	2.9	4.6	4.6		4.9	4.4	-1.4	-7.7
1987	3.9	4.1	3.8	3.1		4.5	2.1	0.0	0.7
<u>Quarterly</u>									
1985 Q3	5.4	4.6	5.5	2.8		6.4	0.7	12.1	6.1
Q4	4.3	4.0	3.9	2.6		9.8	-3.1	2.4	0.9
1986 Q1	4.4	2.9	3.9	3.1		5.1	1.3	-1.1	-7.8
Q2	6.5	4.0	6.1	7.0		11.0	4.4	0.3	-4.4
Q3	5.4	2.7	5.7	3.4		3.3	3.4	-3.8	-11.3
Q4	5.6	2.1	3.2	4.6		1.4	7.5	-1.2	-7.1
1987 Q1	5.3	2.6	3.4	2.8		6.8	-0.8	-2.2	-5.3
Q2	3.2	3.9	4.2	1.7		0.7	2.4	-3.2	-3.9
Q3	3.2	4.3	3.4	5.2		7.7	3.7	0.6	4.7
Q4	3.9	5.3	4.2	2.8		3.7	2.1	4.7	7.7
1988 Q1	5.9	5.7	3.8	n.a		n.a	22.2	n.a	n.a
Q2	5.3	3.1	2.5	n.a		n.a	5.7	n.a	n.a

Source: Federal Statistical Office, Wiesbaden

Table 1c

INCOME OF HOUSEHOLDS

	Gross Wages & Salaries DM bn	Disposable Income DM bn	Savings Ratio %	Average Earnings* 1985=100
<u>Annual</u>				
1984	796.7	1,150.5	12.8	96
1985	826.5	1,192.3	12.7	100
1986	867.7	1,246.3	13.4	105
1987	900.9	1,292.6	13.4	110
<u>Quarterly</u>				
1985 Q2	204.9	296.0	12.9	99
Q3	207.3	298.5	12.2	100
Q4	210.0	301.1	12.5	102
1986 Q1	213.4	304.3	13.6	104
Q2	215.7	307.1	12.8	104
Q3	218.5	311.6	13.7	105
Q4	220.0	311.9	13.8	107
1987 Q1	221.1	314.9	14.3	108
Q2	225.5	320.3	13.1	110
Q3	226.6	323.4	13.3	111
Q4	228.6	326.6	13.2	112
1988 Q1	231.7	328.4	13.0	112
Q2	232.4	331.2	13.4	114

* = wages & salaries per man-hour

Source: Deutsche Bundesbank (Reihe 4)

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Table 2a

PRODUCTIVITY

	(a) IN THE ECONOMY AS A WHOLE		(b) IN INDUSTRY	
	GNP per working person	Wage & Salary costs per production unit	Output per employed person	Wage & Salary costs per production unit
<u>Annual</u>	<u>1980=100</u>		<u>1985=100</u>	
1984	108.2	108.7	97	100
1985	109.6	110.6	100	100
1986	111.2	113.3	101	104
1987	112.3	115.4	101	107
<u>Quarterly</u>				
1986 Q3	111.7	113.3	101	104
Q4	111.4	114.2	100	106
1987 Q1	110.6	114.9	99	107
Q2	111.3	116.5	101	106
Q3	112.8	115.4	101	107
Q4	113.6	115.6	102	107
1988 Q1	114.9	115.4	103	107
Q2	114.6	116.0	104	107
<u>Monthly</u>				
1987 Jan			97	109
Feb			99	106
Mar			99	107
Apr			102	104
May			101	106
Jun			100	108
Jul			99	109
Aug			102	106
Sep			101	107
Oct			102	107
Nov			102	108
Dec			102	107
1988 Jan			102	107
Feb			103	107
Mar			104	107
Apr			104	108
May			103	107
Jun			106	106
Jul			101	111
Aug			109	102

Source: Deutsche Bundesbank

* = provisional

Table 2b INDUSTRIAL PRODUCTION

	INDUSTRIAL PRODUCTION		
	Total	Manufacturing 1985=100	Construction
<u>Annual</u>			
1984	96.5	95.5	108.6
1985	100.0	100.0	100.0
1986	102.4	102.5	106.4
1987	102.6	102.7	106.2
<u>Quarterly</u>			
1986 Q1	101.9	101.9	99.6
Q2	102.2	102.7	105.6
Q3	103.1	103.3	109.3
Q4	102.3	102.2	111.2
1987 Q1	100.8	100.9	94.7
Q2	102.8	102.8	110.1
Q3	103.2	103.1	111.2
Q4	103.9	104.0	108.6
1988 Q1	105.0	105.0	115.9
Q2	105.2	105.9	106.3
Q3*	106.9	107.5	105.5
<u>Monthly</u>			
1987 Jan	98.8	98.5	94.3
Feb	101.8	101.9	105.8
Mar	100.9	101.8	85.4
Apr	102.8	103.0	110.0
May	103.4	103.3	110.0
Jun	102.8	102.3	110.3
Jul	101.9	101.7	109.8
Aug	104.4	104.2	112.7
Sep	103.3	103.5	110.8
Oct	103.8	104.0	108.6
Nov	103.9	104.1	108.6
Dec	103.8	104.2	107.3
1988 Jan	104.5	103.6	128.7
Feb	105.5	105.1	123.7
Mar	104.8	105.5	96.6
Apr	104.1	104.8	104.7
May	104.4	105.4	107.4
Jun	107.4	108.3	107.1
Jul	103.4	103.6	101.8
Aug	110.2	111.4	109.1
Sep*	107.0	107.8	105.4

Table 2c NEW ORDERS

	NEW ORDERS (Volume)		
	Total	Domestic 1980=100	Foreign
<u>Annual</u>			
1984	103	95	119
1985	109	99	128
1986	108	101	123
1987	108	100	125
<u>Quarterly</u>			
1986 Q1	108	100	127
Q2	110	102	125
Q3	109	102	122
Q4	106	99	122
1987 Q1	104	97	119
Q2	107	99	124
Q3	111	103	129
Q4	109	100	129
1988 Q1	112	103	131
Q2	114	105	136
Q3*	118	109	140
<u>Monthly</u>			
1987 Jan	103	95	121
Feb	106	99	120
Mar	105	98	119
Apr	109	100	126
May	106	99	122
Jun	106	98	125
Jul	108	100	125
Aug	115	108	129
Sep	111	101	131
Oct	110	101	129
Nov	109	101	129
Dec	108	98	129
1988 Jan	110	102	129
Feb	113	103	132
Mar	113	103	134
Apr	113	103	134
May	114	104	136
Jun	116	106	137
Jul	116	109	134
Aug	122	111	145
Sep*	119	108	141

Source: Deutsche Bundesbank

* = provisional

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Table 3

LABOUR MARKET (Details)

SEASONALLY ADJUSTED (1000's)				UNADJUSTED (actual totals)					
	(a) Employment	(b) Unemployed	(c) Rate %	(d) Unemployed	(e) Rate %	(f) Short-time workers	(g) Unfilled Vacancies	(h) Total men in (d)	(i) Total Women in (d)
<u>Annual</u>									
1981				1,271,574	5.5	346,859	207,928	652,205	619,369
1982				1,833,244	7.5	606,064	104,871	1,021,090	812,154
1983				2,258,235	9.1	675,102	75,797	1,273,115	985,120
1984				2,265,559	9.1	383,700	87,929	1,276,653	988,906
1985				2,304,014	9.3	234,515	109,996	1,289,055	1,014,959
1986				2,228,000	9.0	197,384	154,790	1,200,000	1,028,000
1987				2,228,800	8.9	277,967	170,983	1,207,400	1,021,400
<u>Monthly</u>									
1987 Jan	25,941	2,203	8.9	2,497,176	10.0	427,496	150,046	1,451,015	1,046,161
Feb	25,947	2,199	8.8	2,487,818	10.0	382,173	164,784	1,453,923	1,033,895
Mar	25,956	2,224	8.8	2,412,379	9.6	462,802	180,047	1,395,975	1,016,404
Apr	25,971	2,222	8.8	2,215,916	8.8	301,861	179,239	1,216,281	999,635
May	25,985	2,217	8.8	2,098,690	8.3	221,734	180,968	1,120,353	978,337
Jun	25,991	2,235	8.9	2,096,918	8.3	184,012	182,169	1,107,235	989,683
Jul	25,999	2,244	8.9	2,175,827	8.7	215,705	180,252	1,133,431	1,042,396
Aug	26,000	2,246	8.9	2,164,618	8.6	175,094	177,425	1,119,201	1,045,417
Sep	25,999	2,251	9.0	2,107,122	8.4	253,098	180,080	1,082,417	1,024,705
Oct	26,003	2,252	9.0	2,092,725	8.3	288,554	171,063	1,071,974	1,020,751
Nov	26,016	2,243	8.9	2,133,061	8.5	204,773	157,127	1,106,500	1,026,561
Dec	26,032	2,260	9.0	2,308,230	9.2	218,298	148,284	1,255,775	1,052,455
1988 Jan	26,053	2,227	8.7	2,518,675	9.9	309,988	161,300	1,426,913	1,091,762
Feb	26,071	2,231	8.7	2,516,508	9.9	350,321	174,015	1,434,134	1,082,374
Mar	26,083	2,246	8.8	2,440,098	9.6	423,597	189,668	1,382,237	1,057,861
Apr	26,095	2,264	8.9	2,261,672	8.9	260,848	193,065	1,218,789	1,042,883
May	26,110	2,269	8.9	2,149,131	8.4	198,098	196,158	1,131,951	1,017,180
Jun	26,129	2,268	8.9	2,131,406	8.4	190,002	201,157	1,110,602	1,020,804
Jul	26,142	2,265	8.9	2,199,266	8.6	159,300	199,276	1,135,860	1,063,406
Aug	26,151	2,250	8.8	2,167,109	8.5	133,386	199,759	1,112,339	1,054,770
Sep	26,166	2,244	8.7	2,099,863	8.1	154,630	204,079	1,073,877	1,025,986
Oct		2,235	8.6	2,074,346	8.0	98,109	196,406	1,057,811	1,016,535

Source: Bundesanstalt für Arbeit
Deutsche Bundesbank

Table 4a

PRICES

1980=100

	<u>Cost of Living</u>	<u>Retail Prices</u>	<u>Producer Prices of industrial products</u>	<u>Export Prices</u>	<u>Import Prices</u>
<u>Annual</u>					
1984	118.4	115.6	97.8	116.2	122.8
1985	121.0	117.5	100.0	119.4	124.6
1986	120.7	117.3	97.5	116.8	101.0
1987	121.0	117.8	95.1	115.5	94.4
<u>Monthly</u>					
1986 Jun	121.1	117.7	97.9	117.1	99.8
Jul	120.5	117.2	97.3	116.6	96.6
Aug	120.2	116.9	97.1	116.2	95.9
Sep	120.4	116.9	97.1	116.1	96.6
Oct	120.0	116.7	95.7	115.6	94.8
Nov	119.9	116.8	95.4	115.4	94.6
Dec	120.1	116.9	95.3	115.3	94.4
1987 Jan	120.6	117.5	95.2	115.0	94.4
Feb	120.7	117.7	94.9	115.0	93.7
Mar	120.7	117.7	94.9	115.1	93.9
Apr	121.0	117.9	94.6	115.2	94.2
May	121.1	118.2	94.7	115.4	94.4
Jun	121.3	118.2	94.8	115.5	94.9
Jul	121.3	118.0	95.1	115.7	95.3
Aug	121.2	117.8	95.2	115.8	95.5
Sep	120.9	117.5	95.1	115.8	94.9
Oct	121.1	117.6	95.4	116.0	95.1
Nov	121.1	117.6	95.4	115.9	93.6
Dec	121.3	117.8	95.4	115.9	93.3
1988 Jan	121.5	118.0	95.4	116.3	93.5
Feb	121.8	118.3	95.4	116.4	93.8
Mar	121.9	118.2	95.5	116.8	93.6
Apr	122.2	118.6	95.8	117.4	94.1
May	122.4	118.7	96.0	117.8	94.6
Jun	122.6	119.0	96.3	118.4	95.5
Jul	122.5	118.6	96.4	118.9	96.2
Aug	122.6	118.4	96.5	119.1	96.7
Sep	122.6	118.3	96.7	119.4	96.1
Oct	122.7	118.4			

* = provisional

Source: Federal Statistical Office, Wiesbaden

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Table 4b

PRICES

(% change on a year earlier)

	<u>Cost of Living</u>	<u>Retail Prices</u>	<u>Producer Prices of industrial products</u>	<u>Export Prices</u>	<u>Import Prices</u>
<u>Annual</u>					
1983	3.3	2.4	1.5	1.7	-0.3
1984	2.4	2.1	2.9	3.5	6.0
1985	2.2	1.6	2.2	2.8	1.5
1986	-0.2	-0.2	-2.5	-2.2	-18.9
1987	0.2	0.4	-2.5	-1.1	-6.5
<u>Monthly</u>					
1986 Jul	-0.5	-0.3	-3.0	-2.8	-22.4
Aug	-0.4	-0.1	-3.0	-2.8	-21.6
Sep	-0.4	-0.3	-3.1	-2.8	-21.5
Oct	-0.9	-0.5	-4.4	-2.9	-20.7
Nov	-1.2	-0.8	-4.6	-2.8	-20.3
Dec	-1.1	-0.8	-4.5	-2.6	-19.6
1987 Jan	-0.8	-0.3	-4.7	-3.0	-17.8
Feb	-0.5	-0.1	-4.5	-2.5	-15.6
Mar	-0.2	0.1	-4.2	-2.4	-12.1
Apr	0.1	0.2	-3.9	-2.0	-9.8
May	0.2	0.4	-3.4	-1.7	-7.7
Jun	0.2	0.4	-3.3	-1.4	-4.9
Jul	0.7	0.7	-2.3	-0.8	-1.3
Aug	0.8	0.8	-2.0	-0.3	-0.4
Sep	0.4	0.5	-2.1	-0.3	-1.8
Oct	0.9	0.8	-0.3	0.3	0.4
Nov	1.0	0.7	0.0	0.4	-1.1
Dec	1.0	0.8	0.1	0.5	-1.2
1988 Jan	0.7	0.4	0.2	1.1	-1.0
Feb	0.9	0.4	0.5	1.2	0.1
Mar	1.0	0.4	0.6	1.5	-0.3
Apr	1.0	0.6	1.3	1.9	-0.1
May	1.1	0.4	1.4	2.1	0.2
Jun	1.1	0.7	1.6	2.5	0.6
Jul	1.0	0.5	1.4	2.8	0.9
Aug	1.2	0.5	1.4	2.8	1.3
Sep	1.4	0.7	1.7	3.1	1.3
Oct	1.3	0.7			

* = provisional

Source: Federal Statistical Office, Wiesbader

Table 5

MONETARY AGGREGATES

	Central Bank Money	of which Currency in circulation	Required Minimum Reserves on domestic liabilities	M1	M2	M3	Monetary Capital Formation DM million
	% change		on previous year	% change			
<u>Annual</u>							
1984	4.8	5.3	4.3	6.2	5.2	4.7	69,734
1985	4.6	3.6	5.6	4.9	4.4	5.0	74,988
1986	6.4	6.7	6.1	7.4	5.9	6.6	69,833
1987	8.1	9.4	6.7	7.4	5.7	5.9	70,723
<u>Monthly</u>							
1986 Jan	6.9	7.3	6.6	9.2	6.2	5.8	11,314
Feb	6.3	6.9	5.6	9.5	6.2	5.9	6,597
Mar	6.5	6.8	6.2	11.2	6.7	6.0	7,763
Apr	7.1	8.9	5.3	9.0	4.7	5.2	4,303
May	6.5	7.8	5.3	9.6	5.0	5.9	5,755
Jun	7.2	8.3	6.1	7.2	4.1	5.5	1,136
Jul	6.0	7.0	5.1	10.3	3.6	5.5	2,492
Aug	7.2	8.5	5.9	10.3	5.4	6.7	5,919
Sep	7.6	8.3	6.8	6.1	5.9	7.0	3,332
Oct	7.4	7.0	7.7	7.5	9.0	8.7	4,589
Nov	8.9	9.1	8.6	10.2	11.0	9.9	3,790
Dec	9.3	8.7	9.9	8.1	8.3	8.2	12,843
1987 Jan	9.0	9.6	8.3	7.8	10.1	9.5	8,084
Feb	8.5	8.8	8.2	8.7	8.9	8.6	7,645
Mar	8.3	9.3	7.2	8.2	7.5	7.8	8,219
Apr	8.1	9.6	6.6	9.4	7.0	7.3	1,023
May	7.9	9.3	6.4	8.9	6.3	6.7	9,337
Jun	8.1	10.5	5.6	10.7	6.8	7.1	2,017
Jul	7.9	10.1	5.8	10.6	3.3	4.9	1,162
Aug	7.5	9.9	5.1	11.8	4.2	5.4	7,222
Sep	8.0	9.7	6.3	11.0	4.2	5.3	5,785
Oct	7.6	10.5	4.8	9.0	4.6	5.3	1,341
Nov	8.3	11.5	5.1	8.1	4.5	5.1	6,238
Dec	8.4	10.5	6.4	4.9	5.1	5.2	12,650
1988 Jan	7.7	12.0	3.5	6.8	7.8	6.7	7,073
Feb	9.3	13.7	4.9	9.8	7.2	6.8	281
Mar	9.4	14.1	4.7	9.5	7.4	6.9	3,294
Apr	8.2	11.8	4.6	10.9	7.3	7.4	2,530
May	8.2	11.6	4.8	12.0	7.2	7.5	5,422
Jun	8.0	11.3	4.5	15.7	7.2	7.7	1,913
Jul	8.8	11.4	6.0	13.4	3.7	5.3	-67
Aug	6.6	8.5	4.7	8.2	4.5	5.3	(p) 5,750
Sep	6.4	8.8	3.8	(p) 8.6	7.1	6.7	

* = over last 6 months at annual rate

Source: Deutsche Bundesbank p = provisional

Table 6

EXCHANGE AND INTEREST RATES

	3 month Interbank* % p.a.	Yield on outstanding Public Sector bonds % p.a.	Discount Rate+ % p.a.	Lombard Rate+ % p.a.	DM Effective Exchange rate** End 72=100	DM/\$ Spot Middle Rates (Frankfurt)	DM/£ Rates
<u>Annual</u>							
1983		7.9	4.0	5.5	151.9	2.5552	3.871
1984		7.8	4.5	5.5	149.8	2.8456	3.791
1985	4.82	6.9	4.0	5.5	149.6	2.9424	3.785
1986	4.64	5.9	3.5	5.5	162.6	2.1708	3.184
1987	4.03	5.8	2.5	4.5	172.4	1.7982	2.941
<u>Monthly</u>							
1986 Sep	4.53	5.8	3.5	5.5	165.7	2.0401	3.004
Oct	4.64	6.0	3.5	5.5	167.8	2.0047	2.862
Nov	4.73	6.1	3.5	5.5	168.0	2.0264	2.886
Dec	4.84	5.9	3.5	5.5	169.2	1.9916	2.859
1987 Jan	4.54	5.8	3.0	5.0	172.9	1.8581	2.798
Feb	4.03	5.7	3.0	5.0	173.6	1.8265	2.788
Mar	4.04	5.6	3.0	5.0	172.0	1.8339	2.920
Apr	3.91	5.4	3.0	5.0	171.2	1.8110	2.953
May	3.81	5.3	3.0	5.0	171.7	1.7863	2.983
Jun	3.73	5.5	3.0	5.0	171.6	1.8184	2.963
Jul	3.85	5.8	3.0	5.0	171.5	1.8470	2.973
Aug	4.00	6.0	3.0	5.0	171.1	1.8581	2.966
Sept	4.04	6.2	3.0	5.0	171.5	1.8129	2.981
Oct	4.74	6.5	3.0	5.0	171.8	1.8021	2.993
Nov	3.98	6.0	3.0	4.5	175.0	1.6812	2.985
Dec	3.72	5.9	2.5	4.5	175.3	1.6332	2.987
1988 Jan	3.53	5.9	2.5	4.5	174.4	1.6517	2.977
Feb	3.37	5.7	2.5	4.5	173.3	1.6976	2.982
Mar	3.44	5.6	2.5	4.5	173.3	1.6780	3.071
Apr	3.43	5.7	2.5	4.5	172.7	1.6733	3.138
May	3.58	6.1	2.5	4.0	171.8	1.6934	3.166
Jun	3.93	6.1	2.5	4.5	170.7	1.7557	3.125
Jul	4.93	6.4	3.0	5.0	169.1	1.8440	3.145
Aug	5.37	6.5	3.5	5.0	168.1	1.8874	3.204
Sep	5.01	6.3	3.5	5.0	169.5	1.8669	3.143
Oct	5.10	6.1	3.5	5.0		1.8200	3.161

* = FIBOR: Frankfurt interbank offered rate
(introduced 12.8.85; 1985 = avg Sep-Oct)

+ = End of year/month p = provisional

** = Weighted against 14 industrial countries

Source: Deutsche Bundesbank

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Table 7

FRG - CURRENT ACCOUNT

VALUES IN DM BILLION

	Exports	Imports	Balance	Supplementary trade items	Services	Transfers	Current account
	=====	=====	=====	=====	=====	=====	=====
<u>Annual</u>							
1981	396.9	369.2	27.7	-0.2	-10.7	-24.8	-8.0
1982	427.7	376.5	51.2	0.8	-13.7	-25.9	12.4
1983	432.3	390.2	42.1	3.3	-6.6	-25.2	13.6
1984	488.2	434.3	53.9	-1.1	4.7	-29.7	27.8
1985	537.2	463.8	73.4	-1.3	5.3	-28.9	48.5
1986	526.4	413.7	112.7	-1.5	0.9	-27.0	85.1
1987	527.4	409.6	117.8	-1.5	-7.1	-28.3	80.9
<u>Monthly</u>							
1986 Aug	36.1	28.0	8.1	-0.2	-1.3	-1.8	4.8
Sep	44.4	34.0	10.4	0.8	-0.6	-2.0	8.6
Oct	48.2	37.5	10.7	0.4	-0.6	-2.1	8.4
Nov	42.2	32.0	10.2	0.6	1.6	-2.6	9.8
Dec	44.7	33.1	11.6	-0.2	1.5	-2.6	10.3
1987 Jan	37.6	30.4	7.2	0.1	0.3	-2.0	5.6
Feb	42.6	32.1	10.5	0.5	-0.4	-3.8	6.8
Mar	47.0	36.9	10.1	-0.2	-1.0	-0.3	8.6
Apr	44.4	35.2	9.2	-0.3	0.1	-2.0	7.0
May	43.3	32.8	10.5	-0.2	0.6	-2.5	8.4
Jun	42.1	33.8	8.3	0.2	-2.2	-1.9	4.4
Jul	45.5	35.6	9.9	-0.6	-2.2	-2.3	4.8
Aug	36.1	29.6	6.5	-0.2	-1.4	-2.0	2.9
Sept	45.8	34.3	11.5	-0.3	-2.0	-2.5	6.7
Oct	48.8	38.7	10.1	-0.3	0.1	-2.7	7.2
Nov	45.7	34.7	11.0	0.6	0.9	-2.5	10.0
Dec	48.5	35.5	13.0	-0.9	0.3	-3.6	8.8
1988 Jan	36.3	27.8	8.5	0.3	-1.9	-2.1	4.8
Feb	41.9	33.7	8.2	-0.4	-0.4	-2.2	5.2
Mar	50.1	41.5	8.6	-0.6	-1.0	-2.3	4.7
Apr	43.3	33.8	9.5	0.3	1.0	-2.2	8.6
May	47.6	37.3	10.3	0.0	0.6	-3.3	7.6
Jun	50.3	36.1	14.2	-0.9	-2.8	-1.1	9.4
Jul	47.1	36.0	11.1	-0.3	-2.9	-2.6	5.3
Aug	44.2	34.9	9.3	-0.4	-0.9	-3.1	4.9
Sep	47.5	36.2	11.3	-0.4	-2.1	-2.7	6.1

Source: Deutsche Bundesbank * = provisional

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Table 8

FRG: ECONOMIC FORECASTS

% change over previous year (real)

		GNP	Private Consumption	Gov't Consumption	Capital Formation Mach. & Buildings Eq't		Exports (of goods & services)	Imports
====		===	=====	=====	=====		=====	=====
1988	Release Date							
====								
DIW Berlin	Jul 88	2.5	3	1.5	3.5	2	3.5	4

HWMA Hamburg	Jul 88	2	3.5	1.5	2.5	2	3	4.5

Kiel Institute	Jul 88	2.5	3	2	2.5	3	3	5

Commerzbank	Oct 88	3	3	1.5	6	5	4	5.5

Dresdner Bank	Oct 88	3.5	3	2	7	6	5.5	6.5

5 Institutes	Oct 88	3.5	3	2	5.5	5.5	5	6.5

====								
1989								
====								
DIW Berlin	Jul 88	1.5	1.5	1	3	1.5	4	4

HWMA Hamburg	Jul 88	1.5	1.5	0.5	2	2	3	3.5

Kiel Institute	Jul 88	2	2	0.5	3	1	3.5	4.5

Commerzbank	Oct 88	1.5-2.0	2	1.5	4	1.5	3.5	4

Dresdner Bank	Oct 88	2	2	1.5	5	2	4	5

5 Institutes	Oct 88	2	2	0	5	2.5	4	4

Table 9

FRG/UK TRADE
(Values in DM 1000)

	(a)		(b)		(c)		(d)
	Total Imports from UK	UK share of FRG total	Non-oil imports from UK	UK share of FRG total	Total Exports to UK	UK share of FRG total	Trade Balance* (incl.oil)
1980	22 859 721	6.70%	16 046 733	5.40%	22 917 269	6.54%	57 548
1981	27 502 164	7.45%	17 413 271	5.44%	26 162 907	6.59%	1 339 257
1982	27 001 856	7.17%	17 611 058	5.31%	31 316 680	7.32%	4 314 824
1983	27 137 696	6.95%	18 770 607	5.33%	35 400 882	8.19%	8 263 186
1984	33 285 516	7.67%	22 020 970	5.61%	40 579 540	8.31%	7 294 024
1985	37 163 945	8.01%	26 360 816	6.22%	45 967 428	8.56%	8 803 483
1986	29 757 660	7.19%	24 895 371	6.28%	44 599 625	8.47%	14 841 965
1987	29 393 615	7.18%	24 158 307	6.14%	46 632 447	8.84%	17 238 832
12 months ended:							
June 88	29 403 517	7.02%	24 815 329	6.16%	48 871 920	9.05%	19 468 403
<u>Monthly</u>							
1986 Oct	2 599 535	6.93%	2 242 779	6.15%	3 853 771	7.99%	1 254 236
Nov	2 213 799	6.92%	1 883 230	6.09%	3 662 868	8.67%	1 449 069
Dec	2 308 822	6.98%	2 000 203	6.26%	3 502 068	7.84%	1 193 246
1987 Jan	2 189 335	7.19%	1 598 042	5.50%	3 211 546	8.53%	1 022 211
Feb	2 178 528	6.78%	1 840 925	5.97%	3 600 733	8.46%	1 422 205
Mar	2 640 876	7.15%	2 225 528	6.23%	4 012 970	8.53%	1 372 094
Apr	2 514 005	7.18%	1 985 920	5.89%	3 813 008	8.68%	1 299 003
May	2 439 309	7.45%	1 904 426	6.07%	3 694 662	8.53%	1 255 353
Jun	2 515 211	7.45%	2 100 553	6.46%	3 799 544	9.03%	1 284 333
Jul	2 350 187	6.59%	1 976 544	5.78%	4 250 873	9.33%	1 900 686
Aug	2 075 531	7.01%	1 724 579	6.13%	3 234 242	8.95%	1 158 711
Sep	2 685 804	7.83%	2 189 342	6.66%	3 928 307	8.58%	1 242 503
Oct	2 662 862	6.89%	2 191 591	5.88%	4 384 878	8.99%	1 722 016
Nov	2 437 778	7.02%	2 112 156	6.32%	4 154 397	9.09%	1 716 619
Dec	2 522 133	7.11%	2 112 165	6.16%	4 056 248	8.37%	1 534 115
1988 Jan	1 910 539	6.87%	1 541 937	5.81%	3 235 913	8.92%	1 325 374
Feb	2 486 276	7.37%	2 003 769	6.18%	3 777 909	9.02%	1 291 633
Mar	2 769 026	6.68%	2 461 749	6.10%	4 509 282	9.01%	1 740 256
Apr	2 318 456	6.85%	1 996 006	6.08%	4 011 172	9.26%	1 692 716
May	2 689 148	7.22%	2 358 259	6.54%	4 564 318	9.59%	1 875 170
Jun	2 495 760	6.92%	2 147 215	6.19%	4 764 960	9.47%	2 269 200

*: - = FRG deficit

Source: Federal Statistical Office, Wiesbaden

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FRG ECONOMY : ANNUAL REPORT OF THE FIVE WISE MEN

SUMMARY

1. FORECAST OF SOME SLOWDOWN IN THE ECONOMY NEXT YEAR FOLLOWING THE STRONG RECOVERY THIS YEAR. STRESS ON THE NEED FOR MORE DEREGULATION. CRITICISM OF THE GOVERNMENT FOR RAISING TAXES INSTEAD OF GETTING TO GRIPS WITH THE HIGH LEVEL OF SUBSIDIES. NEVERTHELESS, A PREDICTABLE REPORT FROM WHICH THE GOVERNMENT CAN DRAW COMFORT.

DETAIL

2. THE ANNUAL REPORT OF THE COUNCIL OF INDEPENDENT EXPERTS (THE FIVE WISE MEN) WAS RELEASED TODAY. ACCORDING TO PRESS REPORTS, THE REPORT CONFIRMS GOVERNMENT FORECASTS OF 2.5 PER CENT GROWTH IN REAL GNP NEXT YEAR AND 3.5 PER CENT THIS YEAR. INCREASES IN CONSUMER TAXES IN 1989 ARE EXPECTED TO PUSH INFLATION UP TO 2 PER CENT BUT PRIVATE CONSUMPTION WILL REMAIN STRONG. BOTH EXPORTS AND IMPORTS SHOULD CONTINUE TO GROW STRONGLY, THOUGH AT SLIGHTLY LOWER LEVELS THAN THIS YEAR, WITH LITTLE CHANGE IN THE VISIBLE TRADE AND CURRENT ACCOUNT SURPLUSES. ON THE LABOUR MARKET, THE FIVE WISE MEN FORECAST THE NUMBER OF EMPLOYED TO INCREASE BY SOME 200,000 IN 1989 BUT THIS WILL HAVE LITTLE EFFECT ON THE LEVEL OF UNEMPLOYMENT.

3. THE REPORT CALLS FOR CONTINUED RESTRAINT IN PAY NEGOTIATIONS. IT AGAIN STRESSES THE NEED FOR GREATER DEREGULATION, RECOGNISING THAT IN SOME SECTORS OF INDUSTRY THIS WILL NECESSITATE SOME PAINFUL ADJUSTMENTS. THOUGH GENERALLY SUPPORTIVE OF GOVERNMENT POLICIES, THE REPORTS MAIN CRITICISM IS DIRECTED AT THE PURSUIT OF BUDGETARY CONSOLIDATION THROUGH INCREASES IN CONSUMER TAXATION RATHER THAN THROUGH CUTS IN SUBSIDIES.

COMMENT

4. AT FIRST GLANCE, AN UNEXCITING REPORT WITH WHICH THE GOVERNMENT CAN HAPPILY LIVE.

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From the Private Secretary

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ACTION	Mr S.W. MATTHEWS
COPIES TO	CST, FST, MAG, EST, Sir P. MIDDLETON, Sir G. LITTLE, Mr LANKESTER, Mr H.P. EVANS, Mr MOUNTFIELD.

2 December 1988

Dear Stephen,

Ch. NB Kohl reported as saying "all work" on German share of export credit financing for Turners for Jordan.

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL
AT THE RODOS PALACE HOTEL IN RHODES ON 2 DECEMBER

The Prime Minister had a discussion with Chancellor Kohl over breakfast at the Rodos Palace Hotel this morning. The Chancellor was accompanied by Herr Hartmann and Dr. Neuer. It was a very friendly meeting lasting some one and a half hours with broad agreement on all the main points.

Bilateral Relations

The Chancellor confirmed that the next bilateral summit in February would be in Frankfurt. He hoped that the Prime Minister would come over the night before. They might go to a concert together or something similar. The Prime Minister said she would be very glad to come: she had never been to Frankfurt.

The Chancellor continued that she would also like to invite the Prime Minister to spend a weekend privately with him and his wife at their home near Ludwigshafen later in the Spring, when the weather was better. The Prime Minister could fly to Ramstein from where it was only 30 minutes drive. The Prime Minister said this was very kind of the Chancellor and she accepted with great pleasure.

The Chancellor said he would very much like to be able to talk to the Prime Minister more often on the telephone, even if there was no particular subject to discuss. A general talk for a quarter of an hour every fortnight or so would be very helpful. He wanted them to be seen to be in regular touch. The Prime Minister said that she would be very ready for this. But it would be important to have a secure line. The Chancellor suggested that perhaps a special line should be installed. It was agreed to look at the possibilities for this.

NATO Summit

Chancellor Kohl said that he was very much in favour of a NATO Summit in London to mark the Alliance's 40th anniversary. His preferred time was between mid April and mid May. After that there were already a large number of international meetings to fit in, as well as the European elections.

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The Prime Minister said that she thought it very important that the new American President should be seen to have an early meeting with other NATO Heads of Government. She had thought it might be more convenient for him if the meeting were close to the Economic Summit so that he did not have to make two journeys to Europe. Chancellor Kohl said that if he and the Prime Minister both asked President-Elect Bush to come earlier, he believed he would do so. The Prime Minister added that she had mentioned the idea of a NATO Summit to President Mitterrand who said he would reflect on it. He was not opposed.

Arms Control

Chancellor Kohl said that an early NATO Summit would help him push through agreement within the German Government on a comprehensive concept for arms control. There would be an internal German meeting in early January and he intended to set a target of agreement in NATO by mid March. The Prime Minister said the sooner the comprehensive concept was agreed the better. Some people seemed to want to slow down discussion for political reasons. It was necessary to take decisions on modernisation of NATO's nuclear weapons by the middle of the year, in particular on the replacement of LANCE. Chancellor Kohl agreed: he wanted both issues - the comprehensive concept and the modernisation decision - out of the way before the European elections.

European Council

Chancellor Kohl asked how the Prime Minister saw the Rhodes Council. The Prime Minister said it should be a reasonably gentle occasion. The Council should take note of the Commission's internal market report and confirm the priorities agreed at the Hanover European Council. If necessary she would have to make clear our firm opposition to harmonisation of indirect taxes. When it came to the social dimension, she could not accept some of the proposals being discussed, such as worker participation. We had done a survey of our industrialists and they were opposed to it. If there was to be a European Company Statute, it must be a minimal one. She did not expect monetary issues to feature: that was a matter for the Madrid Council. It was important that Britain and Germany should give a strong lead in ensuring that the European market remained open to the world after 1992.

Chancellor Kohl agreed with the Prime Minister's analysis. He thought there would be little appetite for discussion on the internal market. A European Company Statute should be a framework or an umbrella, under which countries could preserve their own practices on matters such as worker participation. He also agreed that monetary matters should be left over for Madrid. He would indeed speak up strongly for keeping Europe's markets open.

South Africa

Chancellor Kohl said he had seen Mr. Leutwiler who would be happy to act as a joint emissary and use the agreed speaking note. That said, he was not particularly optimistic of movement. But it was important to try. He had found President Botha frustrated, bitter and tense when they had met at Strauss' funeral. Botha had asked what the West would give him if he were to release Mandela. The Chancellor had replied that they would get nothing specific, only a considerable improvement in the psychological climate. He had warned Botha that he and the Prime Minister were the only two people prepared to stand firm against sanctions. They must therefore have something to show for their efforts.

The Prime Minister said that there were some hopeful signs in the present situation, such as the reprieve of the Sharpeville Six and the announcement that Mandela would not be returned to prison. She thought Mandela's release would lead to less international pressure for sanctions and more for negotiations. The agreement on Angola and Namibia was also an important step forward. She would be seeing Mr. Leutwiler next week. If news of his mission were to leak then, she and the Chancellor should agree a line for public use. The Prime Minister added that, if President Botha were to travel to New York for the signature of the Angola agreement, she would probably agree to see him.

Chancellor Kohl noted with satisfaction that he and the Prime Minister were absolutely at one on this issue. They should discuss the situation again when Leutwiler returned from South Africa.

Tornado for Jordan

The Prime Minister said that she would be seeing King Hussein on 5 December and must be in a position to tell him where matters stood on credit for Tornado. Chancellor Kohl said that the Prime Minister could tell him all was well: an agreement had been reached with the German banks.

The Prime Minister referred to Oman's difficulties over Tornado because of the drop in oil prices. She had promised the United Kingdom would look at ways to alleviate the burden. But it would be essential for Germany to help as well. Chancellor Kohl made no comment.

Arab/Israel

Chancellor Kohl asked whether the Prime Minister had any intelligence of an intention on the part of the Greek Presidency to seek a new statement at the European Council on Arab/Israel. The Prime Minister said that she saw absolutely no need for this. We should stick to the text already agreed by the Foreign Ministers. She had given a cautious welcome to the communique issued by the Palestine National Council,

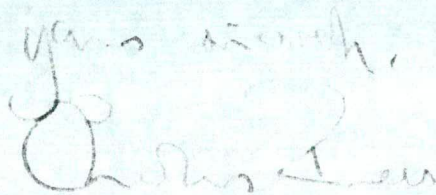
even though it was unsatisfactory in many respects. The key to the future was to persuade the new United States Administration to bring pressure to bear on Israel. One of our motives in abstaining on the recent United Nations resolution on granting a hearing to Arafat was our wish to preserve our influence with the United States on these matters.

Chancellor Kohl very much agreed that no further statement was needed from the European Council. There were rumours in the Greek press of an invitation to Arafat to come to Rhodes. He would be strongly opposed to this, although he did not take the possibility at all seriously. He agreed that both Britain and Germany should press the new United States Administration to give a high priority to Middle East questions. But he was pessimistic about the prospects for negotiations. Israel was growing steadily away from European traditions and it would become progressively more difficult to persuade them to negotiate.

Libya

The Prime Minister referred to reports that German firms had supplied chemicals to Libya which could be used in the manufacture of chemical weapons. When we had encountered similar problems with British companies in the past, we had introduced export licensing for certain destinations, so that we could exercise some control. The Germans ought surely to do the same. Chancellor Kohl said that the Federal Republic did intend to legislate. There were suspicions about the activities of one particular German firm. He would find it very helpful to have details of our legislation so that the Germans could copy our example. The Prime Minister undertook that we would arrange for the necessary details to be given to the Federal Chancellery.

I am copying this letter to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).



(C.D. POWELL)

J.S. Wall, Esq.,
Foreign and Commonwealth Office.