

BY BAG
FROM BONN

FRAME ECONOMIC

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UKDel OECD, UKMis Geneva, all Consulates-General
in the Federal Republic, Washington, Tokyo, Vienna

FEDERAL GERMAN ECONOMY

Summary

1. In January the Government could report with satisfaction that the economic view had improved in both directions; provisional figures for 1984 were better than predicted and growth in 1985 should be higher.
2. 1984 had seen real growth of 2.6% despite the strikes of the early summer. Inflation had averaged 2.4%, the lowest level for 15 years. Unemployment had remained high at an average 2.3 million. But while domestic demand had grown by only 1.9%, exports had increased by 9% real so that the visible trade surplus reached a record DM 54 billion. The current account surplus soared way above expectations to DM 17.9 billion. Monetary growth at 4.5% remained around the middle of its target band. Net federal borrowing, provisional figures, declined by DM 3.2 billion to DM 28.3 billion, and public sector borrowing (excluding state owned industries) declined some DM 5 billion to DM 50 billion or around 2.5% of GNP.
3. The annual economic report published right at the end of the month occasioned no surprise with its positive predictions for 1985 of growth of "2.5% or more", inflation stable at 2% and a fall of 100,000 or more in the number of unemployed bringing the rate down to under 9%. Exports would continue to be the main motor backed up by stronger industrial investment at home.
4. Talk of an increase in FRG interest rates, as a curb on capital outflows, was countered by concerns, including from within the Government, that the continuing pattern of growth should not be impeded (see para 13).
5. The automotive industry struck a discordant note about the disastrous effect on their sales of customer uncertainty about catalysators. Figures revealed that the proportion of newly

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registered foreign cars in the FRG had climbed to 30% in 1984, the Japanese share being 12% after 10.6% in 1983.

6. But the Government had few troubles this month. Contact was renewed between the Federal Chancellor and the Trades Union leadership: it was good that there was a meeting, if no meeting of minds on how to tackle unemployment. The long promised decisions on privatisation were put back to February among signs that coalition agreement was nearer. Bundestag deputies awarded themselves a pay increase of 2.3% against some mutterings that the announcement of new increases in pensioners' contributions for health insurance is likely to mean that the effective increase in old age pensions will be below 2%. The Government also gave renewed indications of its intention to introduce further reforms and reductions in taxation, both business and private.

Detail

7. Exports were the main motor of the West German economy in 1984, increasing by 13% nominal compared with the previous year. The high dollar was an obvious plus but FRG price stability and, it must be supposed, traditional German strength on non-price factors, also played their part. Seasonally adjusted industrial orders increased in October and November by 1% on the previous two months or by 8% on the previous year. Within this export orders increased by more than 14% on the previous year and domestic orders by 4.5%. Moreover, there are signs that German industries' own orders are increasingly directed to investment to increase capacity.

8. The relatively disappointing trend of domestic orders in recent months is attributed by the Government almost entirely to customer hesitation about ordering new motor vehicles, the figures being worse in contrast with the surge in orders after the early summer strikes. It is also recognised that the introduction of measures to encourage cleaner vehicle emissions have added to the uncertainty and Bangemann as Economics Minister has made his own sales pitch for the industry by giving his opinion that one should buy now before the second hand value of one's present unequipped car falls later this year.

COP

REPORT

FROM THE FEDERAL REPUBLIC OF GERMANY

Jan 21, 1985.

ECONOMIC REPORT FOR DECEMBER 1984

The following are extracts in unofficial translation from the monthly report by the Federal Ministry of Economics in Bonn. They should be read in conjunction with the table at the end.

Economic development in the Federal Republic of Germany was adversely affected in the first half of 1984 by the industrial conflict in the metal and print industries, but it recovered considerable momentum in the second half.

Gross national product -- which gives the most comprehensive picture of what is happening in the economy -- rose sharply after the middle of the year. Excluding seasonal influences, it was up in the third quarter by 2.5 per cent on the second quarter in real terms and 2.8 per cent up on a year ago.

Greater investment in industrial equipment, as well as higher exports, stimulated growth. Expansion was further spurred in the second half of the year by the recovery, at least in part, of orders and deliveries lost in the strikes. Latest indicators show the upward economic trend has not lost its momentum: both entrepreneurs and consumers regard the economic future with confidence. Manufacturing industry is planning a considerable increase in investment during 1985.

By contrast, the building industry has for some time been in a weak condition, due mainly to a sharp drop in the demand for new private homes. Orders are now failing to come forward that only a year ago were still being placed thanks to government subsidies. On the other hand, orders from industry and public authorities are on the increase again.

Employment trends

Since the late summer there have been signs of a gradual recovery in the labour market. When cleaned of seasonal influences there was an actual drop in the number of unemployed over September, October and November of about 54,000, making the situation slightly better than it was a year ago. The decline in the number of people on short time has continued: in November it was nearly half of what it was a year ago and only a quarter of what it was in 1982. This, as well as the increase in the number of registered vacancies, shows a recovery in the demand for workers.

During the autumn prices stayed generally stable, even though in certain areas of industry and commerce the high dollar rate led to higher prices. In November, as in October, the cost-of-living index was only 2.1 per cent up on a year ago. The year 1984 will show the lowest price increases for 15 years

Exports expansion

More exports have meant a greater surplus on foreign trade. Even though there was an increased deficit on invisibles such as transfers and service payments, the surplus on current account for the first 10 months of 1984 was DM 5,900 million, DM 1,600 million more than for the same period in 1983.

Exports for September/October 1984 were 4.5 per cent up on July/August. Given the generally favourable position of German industry in international competition and the improving prospects for the world economy -- which should affect Western Europe as the main market -- it is to be expected that exports will be a major factor in economic growth in 1985 as they were in 1984.

Imports have risen sharply, too, since the beginning of 1983. They reflect the economic revival at home -- and this trend continues. In September/October the total was up by 1.5 per cent on July/August. Since the end of 1982 goods imports have gone up by 22 per cent. The German economy has therefore made a contribution to the economic recovery of its trading partners that is not to be underestimated: the Federal Republic of Germany accounts for 12 per cent of all imports from Western industrial countries.

In the first 10 months of 1984 exports were up by 13.5 per cent and imports by 13 per cent on the same period in 1983. Exports of chemical products and of iron and steel showed above-average increases, but there was also remarkable growth in the export of consumer goods such as textiles and clothing. The Federal Republic of Germany is the world's second largest exporter and in industrial exports it leads the field.

Parallel with general economic growth there has been an increase in liquidity in recent months, largely due to a sharp expansion of bank credits to firms and private consumers. From August to October the indebtedness of the private sector grew at an annual rate of 6.5 per cent when cleaned of seasonal influences. In this period M3 grew at an annual rate of six per cent; M1 by seven per cent; and M2 by 7.5 per cent.

(Please see overleaf for table)

ECONOMIC INDICATORS

	August	Sept	Oct.	Nov.
Value of orders in manufacturing industry* compared with same month last year in %	+12.2	+3.8	+15.6(a)	---
Of that, home market orders	+10.2	+1.7	+11.8(a)	---
Orders from abroad	+16.2	+7.8	+22.5(a)	---
Value of retail trade turnover compared with same month last year in %	+5.2	-0.8	+3.9	---
Industrial output compared with same month last year in %	+4.7	+0.4	+7.4(a)	---
Job vacancies (in 1000's)	89	92	96	99
People unemployed (in 1000's)	2,311	2,301	2,275	2,257
% unemployment	9.3	9.3	9.2	9.1
Unemployment compared with previous month (1000's)	+2	-10	-26	-18
Imports compared with same month last year in %	+14.2	+3.1	+16.9	---
Exports compared with same month last year in %	+17.0	+7.3	+27.4	---
Balance of trade compared with same month last year in DM million	+1,300	+1,700	+4,600	---
Balance on current account compared with same month last year in DM million	+700	+500	+2,700	---
Money in circulation (M3) compared with same month last year in %	+3.7	+4.2	+3.7(a)	---
Cost of living index+ compared with previous month in %	-0.2	+0.1	+0.6	---
compared with same month last year in %	+1.7	+1.5	+2.1	---

*1980 = 100 (a) provisional figure +All private households

Forthcoming events

March 2 - 8 19th International Tourist Fair in Berlin
 May 2 - 4 11th world economic summit in Bonn

