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MY TELNO 443: VENICE ECONOMIC SUMMIT: THE FRG ECONOMY

SUMMARY

1. A ROUND-UP OF ECONOMIC DEVELOPMENTS ON THE EVE OF THE VENICE SUMMIT. STATEMENTS BY POEHL, STOLTENBERG AND BANGEMANN CONFIRM THAT THE FRG IS OPPOSED TO FURTHER STIMULATORY MEASURES, ALTHOUGH INTEREST RATES MIGHT BE THE POINT ON WHICH TO PRESS IF WE WANT TO EXTRACT CONCESSIONS. THE LATEST FIGURES FOR INDUSTRIAL OUTPUT AND NEW ORDERS CITED AS EVIDENCE THAT THE GERMAN ECONOMY IS GROWING AGAIN AFTER A SLACK FIRST QUARTER, BUT NOT FAST ENOUGH TO MAKE MUCH OF A DENT IN THE UNEMPLOYMENT FIGURES.

DETAIL

2. THE PUBLIC STANCE OF FRG MINISTERS BEFORE THE VENICE SUMMIT WAS REPORTED IN TUR. THE FOLLOWING IS AN OVERVIEW OF THE ECONOMIC SCENE, PLUS SOME LATER PUBLIC COMMENTS. WHILE GROWTH FORECASTS FOR 1987 HAVE BEEN STEADILY REVISED DOWNWARDS SINCE THE BEGINNING OF THE YEAR AND THE FIVE WISE MEN SAW CHANCELLOR KOHL ON 1 JUNE TO WARN HIM THAT THEIR GROWTH FORECAST OF 2.5 PER CENT TO 3 PER CENT LAST NOVEMBER HAD NOW BEEN REVISED TO 1.5 PER CENT TO 2 PER CENT, THE LATEST ECONOMIC INDICATORS INDICATE SOME SIGNS OF RECOVERY. FIGURES FOR INDUSTRIAL OUTPUT ISSUED ON 4 JUNE SHOW STRONG MONTH ON MONTH INCREASES IN APRIL IN VIRTUALLY ALL SECTORS. PRODUCTION ROSE BY 3.5 PER CENT WITH CONSTRUCTION OUTPUT SURGING BY 28.5 PER CENT. OVERALL NEW ORDERS JUMPED BY 5 PER CENT MAINLY BECAUSE OF AN INCREASE IN FOREIGN DEMAND OF 8.5 PER CENT. ON THE OTHER HAND, DOMESTIC DEMAND CONTINUED TO BE WEAK, INCREASING BY ONLY 2 PER CENT. INFLATION JUST BROKE BACK TO POSITIVE FIGURES IN APRIL WITH A RISE OF 0.1 PER CENT (AN UNDERLYING RATE OF 0.4 PER CENT). THE MAY UNEMPLOYMENT FIGURES RELEASED ON 3 JUNE SHOWED THAT THE IMPROVEMENT IN UNEMPLOYMENT SLOWED IN MAY TO REACH 2.099 MILLION (UNADJUSTED), A RATE OF 8.3 PER CENT COMPARED TO 8.5 PER CENT IN THE SAME PERIOD LAST YEAR.

3. IN A STATEMENT ON 4 JUNE, THE PRESIDENT OF THE BUNDESBANK, POEHL, CITED THE LATEST INDUSTRIAL OUTPUT FIGURES TO POINT UP THE BRIGHTER SIDE OF THE ECONOMY. HE REPEATED COMMENTS WHICH HE AND HIS VICE-PRESIDENT SCHLESINGER HAVE FORCEFULLY PUT IN RECENT DAYS THAT THE FRG HAS LITTLE SCOPE FOR FURTHER STIMULATION OF ITS ECONOMY AND THAT CURRENCY STABILITY IS THE MAIN CONDITION FOR IMPROVED ECONOMIC GROWTH. FOR THIS REASON, A REAFFIRMATION OF THE LOUVRE AGREEMENT IS EXPECTED TO BE THE MAIN ACHIEVEMENT OF THE VENICE SUMMIT. THE FEDERAL FINANCE MINISTER STOLTENBERG, WHO HAS CONTINUALLY REITERATED THE GOVERNMENT'S DETERMINATION TO MAINTAIN ITS FISCAL

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STRATEGY, MADE A SIMILAR STATEMENT YESTERDAY, EMPHASISING THE IMPORTANCE OF INTERNATIONAL COOPERATION ON MONETARY POLICY. IN AN INTERVIEW ON 3 JUNE, BANGEMANN (FEDERAL ECONOMICS MINISTER) ALSO REJECTED ANY SUGGESTION OF ARTIFICIAL MEASURES FOR THE SAKE OF SHORT-TERM STIMULATION.

4. THE FRG GOVERNMENT ARE THEREFORE OPPOSED TO ANY MAJOR REVISION OF THEIR FISCAL AND ECONOMIC STRATEGY, AND STAND BY THE TAX REFORM PACKAGE PLANNED FOR 1990. BUT THIS IS LESS IMPRESSIVE THAN MIGHT AT FIRST APPEAR. ONLY SOME DM 11 BILLION (0.55 PER CENT OF GNP) HAS SO FAR BEEN BROUGHT INTO FORCE. THE NEXT STAGE DUE TO BE IMPLEMENTED IN JANUARY 1988, AMOUNTS TO ONLY DM 13.7 BILLION (0.65 PER CENT OF GNP). THE REST OF THE PACKAGE - DM 20.2 BILLION (0.85 PER CENT OF GNP) - WILL NOT BE IMPLEMENTED BEFORE 1990 AND THE GOVERNMENT HAS STILL NOT DECIDED HOW THESE CUTS WILL BE ACHIEVED. ATTENTION IS ALSO BEING DRAWN TO THE REDUCTION IN THE SEASONALLY-ADJUSTED VISIBLE TRADE SURPLUS, BUT IN NOMINAL TERMS THIS HAS RISEN BY 17.7 PER CENT OVER THE SAME PERIOD LAST YEAR.

5. PRESS REPORTS AND OUR CONTACTS WITH THE BUNDESBANK INDICATE SOME SOFTENING OF THE BUNDESBANK'S PREVIOUS OPPOSITION TO INTEREST RATE CUTS. WHILE THE SCHLESINGER CAMP REMAINS OPPOSED TO FURTHER CUTS, POEHL IS THOUGHT TO BE MORE AMBIVALENT. IF, THEREFORE, THE GERMANS FIND THEMSELVES UNDER SUCH PRESSURE AT VENICE THAT SOME CONCESSION MUST BE MADE FOR PRESENTATIONAL REASONS, THE LEAST DIFFICULT AREA TO MAKE IT MAY BE MONETARY POLICY, IE. BY AGREEING TO A SMALL CUT IN THE OFFICIAL DISCOUNT RATE (CURRENTLY 3 PER CENT).

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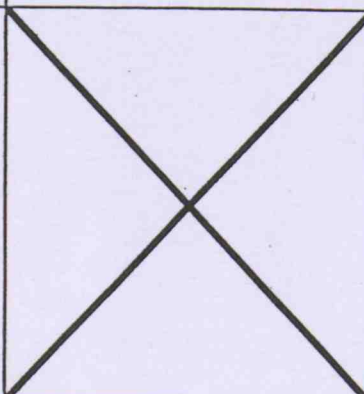
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