

UNCLASSIFIED
SAVING TELEGRAM

BY BAG
FROM BONN
FRAME ECONOMIC

TO FCO TELNO 10 SAVING OF 30 JUNE 1987. 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. Kohl went to the Venice Summit determined not to be forced to change the direction of domestic fiscal and economic policy and appeared to have achieved that aim. Some scepticism about other aspects of the Summit.
2. Unwelcome confirmation from the OECD that forecasts for growth in 1987 need to be scaled down. Consensus developing among domestic analysts that growth in real GNP will be between 1.5% and 2% but prospects for the remaining months of the year are far from gloomy. Signs of a revival of private consumption and in the construction industry. Investment and foreign trade prospects seen as less downbeat than in recent months. Despite this the May IFO business climate survey recorded a large fall mainly because of uncertainties about consumer demand.
3. Disappointing Q1 results indicate a 1% fall in GNP compared with Q4 1986 (2.4% up on Q1 1986). Capital investment better than expected at 3% (+6.1% on Q1 1986) but construction investment fell by 13.5% (-3.1% on Q1 1986). Exports down 1% (+0.4% on Q1 1986) and imports also down by 1.5% (5.9% on Q1 1986).
4. General Government deficit projected to rise to DM 64.5 billion in 1990: Federal deficit forecast to reach DM 27 billion in 1989. Draft budget for 1988 expected to show a rise in Federal spending of 2.4% to DM 275 billion.

5. Pöhl reappointed President of the Bundesbank with Schlesinger his deputy. Bundesbank allows private use of the ecu by residents.

6. Interest rates, yield on bonds outstanding rise, in a series of erratic jumps to a monthly average of 5.5%.

7. New orders rose strongly in April by 5.1% over March although 1% down on a year earlier. Industrial output rose by 3.5% month on month but this was also lower than a year earlier by 1.5%. Private consumption rose by 5% in May compared to April.

8. Unemployment stood at 2.09 million (8.3%) in May. Employment rose to 25.93 million but there are clear signs of a slowdown in the monthly rate of increase. There was trouble in the steel industry when unions and employers combined to try to get financial help from the Government to stave off mass redundancies. DM 180 million was offered to assist in the adjustment but the employers want a further DM 700 million on which the Government has delayed a decision until the Autumn.

9. Inflation, cost of living index, in May stood at 0.2% and provisional figures for June indicate no change.

10. The current account surplus totalled DM 5.9 billion in April, down from DM 7.9 billion a year earlier. The total surplus stood at DM 25.3 billion compared to DM 23.5 billion a year earlier. The visible trade surplus fell to DM 8.9 billion after DM 10.1 billion a year earlier.

/DETAIL