

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

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THE FIVE INSTITUTES AUTUMN REPORT

SUMMARY

1. The Autumn Report on the German economy was published by the five leading economic institutes on 2 November. It stresses repeatedly the dangers posed to the world economy by the current turbulence on international financial markets. It calls for increased international cooperation and comments favourably on the stability achieved under the Louvre Accord. The report forecasts the US balance of payments deficit to rise slightly this year before falling noticeably in 1988. It expects GNP growth in Japan to be 3% this year and next and the balance of payments surplus to decrease as imports pick up.
2. On developments in the German economy (see summary table below), the authors believe that growth has now picked up after a slow start. Nevertheless, growth in 1988 will not exceed 2%. Domestic demand, especially private consumption, will again provide the main motor for growth. The introduction of the second stage of the tax reduction programme in January will provide a stimulus for the economy. The report calls for the third stage scheduled for 1990 to be brought forward. The majority of the institutes recognise excess monetary growth as one of the main dangers to non-inflationary growth and call for the target range for the key monetary indicator to be reduced. One institute dissents.
3. The report is a competent, generally convincing but unexciting piece of work. But there has been no attempt to take account of the recent declines on world stock markets in the forecast. It has attracted little substantive comment and is unlikely to influence the Government to make any major changes to fiscal or monetary policy.

KEY FIGURES

| | Absolute values | | | % change on previous year | | |
|-----------------------------------|-----------------|---------|---------|---------------------------|------|------|
| | 1986 | 1987 | 1988 | 1986 | 1987 | 1988 |
| Real GNP (DMbn) | 1 617.7 | 1 644.5 | 1 676.0 | 2.5 | 1.75 | 2.0 |
| Real Domestic Demand (DMbn) | 1 552.2 | 1 597.5 | 1 636.0 | 3.7 | 3.0 | 2.5 |
| Real Total Demand (DMbn) | 2 099.4 | 2 145.5 | 2 203.0 | 2.7 | 2.0 | 2.5 |
| Dependent labour force (1000s) | 22 431 | 22 575 | 22 655 | 1.1 | 0.6 | 0.4 |
| Unemployed (1000s) | 2 228 | 2 230 | 2 270 | . | . | . |
| Unemployment Rate (%) | 9.0 | 9.0 | 9.1 | . | . | . |
| Consumer prices* | . | . | . | -0.5 | 0.5 | 2.0 |
| Balance on Current Account (DMbn) | 80.6 | 75.0 | 65.0 | . | . | . |
| General Gov't Deficit (DMbn) | -23.5 | -38.0 | -45.0 | . | . | . |

* = private consumption deflator

DETAIL

4. The five leading German economic institutes - Berlin (in the chair this time), Essen, Hamburg, Munich and Kiel - published their latest bi-annual report on the German economy on 2 November. Publication had been delayed because of the turbulence on world financial markets.

GENERAL

5. The report opens with an overview of the international economic scene. It blames the current disturbances on world markets on the unresolved problems of debt, high external trade imbalances, rising inflation in the US causing higher interest rates, and a noticeable weakening in world growth. It notes also earlier friction caused by attempts to solve the US balance of payments problem through the depreciation of the dollar. The institutes comment favourably on increased economic cooperation since the Louvre Accord in February.

The US Economy

6. Commenting on the US economy, the institutes note the improvements which have been made in the Federal budget deficit since fiscal year 1985/86. They forecast growth in real GNP of 2.75% for 1987 and of 2.5% in 1988. Consumer prices are expected to rise by 5% during 1988 from 4% this year. The balance of payments deficit is forecast to grow slightly in 1987 but to be reduced noticeably next year.