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INFO SAVING BMG BERLIN, CGS IN FRG, CG BERLIN.

FRG ECONOMY

SUMMARY

1. THE GOVERNMENT IS APPARENTLY UNCONCERNED THAT JULY VISIBLE 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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