

UNCLASSIFIED  
SAVING TELEGRAM

FROM BCNN  
FRAME ECONOMIC

TO FCO TELNO 14 SAVING OF 15 DECEMBER 1988. Info. Brussels,  
Luxembourg, The Hague, Paris, Rome, UKRep Brussels,  
UKDEL OECD, UKMis Geneva, all Consulates-General in the  
Federal Republic and West Berlin, BMG Berlin,  
Washington, Tokyo, Vienna.

FRG ECONOMY

SUMMARY

1. Strong growth evident in the provisional national accounts figures for Q3. 3.4% real growth of GNP compared to the same quarter last year. Private consumption healthy but has not contributed to growth as strongly as was expected. Investment strong. Net exports DM 7.49bn. (Paras 8 and 9)
2. New Federal Economics Minister, Haussmann, proposes a Commission to study the reform of corporate taxation and local government finance. BDI (CBI equivalent) annual report criticised the lack of movement over company taxes. Chancellor Kohl reiterated the Government's intention to tackle corporate taxation after the next Federal elections. (Para 10)
3. Unadjusted unemployment rose in November to 2.09 million but this was lower than the corresponding figure for November 1987. Employment continued to rise in October with some 170,000 more people in employment than in October last year. (Para 11)
4. The Business climate continues to be healthy and the medium term outlook is optimistic. Despite this new orders fell by 4% in October compared with September, mainly due to a decline in domestic demand. On a two-monthly comparison manufacturing output rose by 1% in September/October. On the same basis, construction output also fell by 1.5%. (Paras 12 to 15)
5. Private consumption appears to have flattened out in the fourth quarter with retail turnover down by 2.2% in real terms in October compared with October 1987. Inflation jumped from 1.3% in October to 1.6% in November while the retail price index rose by 0.3%. (Paras 16 to 18)
6. Stock market activity has picked up again with the major indices breaking through important barriers. Details announced of draft legislation to introduce a Futures Exchange. Interest rates higher as the Bundesbank restricts liquidity. Monetary indicators recorded strong expansion in October. The D-Mark was volatile against sterling and the dollar but stable against the Yen. (Paras 19 to 23)
7. Current account surplus in October rose to DM 7.9bn while the trade surplus eased to DM 10.6bn. Domestic outflows on the capital account remained strong. Details of FRG/UK trade. (Paras 24 to 28)

DETAIL

THE ECONOMY

8. The economy continued to grow strongly in Q3, according to provisional national accounts figures released by the Federal Statistical Office on 30 November (Tables 1 and 2). The results continue to be distorted by the reluctance of the Statistical Office to release details of imports and exports, stocks or equipment investment. Nevertheless, with growth over the first three quarters of this year running nearly 3.7% higher in real terms than for the same period in 1987 and few signs of a slowdown in the last quarter, it now appears that growth comfortably in excess of 3.5% is likely for the year as a whole.

Table 1 Gross National Product (nominal)

% change on a year earlier *****	04 87	01 88	02 88	03 88	1988 Q3 DMbn
GNP .....	+ 3.9	+ 5.9	+ 5.3	+ 5.4	537.00
Private consumption .....	+ 5.3	+ 5.7	+ 3.1	+ 3.3	286.35
Government consumption .....	+ 4.2	+ 3.8	+ 2.5	+ 3.4	99.10
Fixed capital formation:					
a) Machinery & equipment ....	+ 3.7	...	...	...	...
b) Buildings .....	+ 2.1	+22.2	+ 5.7	+ 3.0	65.01
Domestic Demand .....	+ 4.6	+ 6.6	+ 4.8	+ 4.9	512.04
Exports .....	+ 4.7	...	...	...	...
Imports .....	+ 7.7	...	...	...	...
Net exports (DM bn) .....	35.23	26.60	29.66	24.96	24.96

Table 2 Gross National Product (real)

% change on a year earlier *****	04 87	01 88	02 88	03 88	1988 Q3 DMbn
GNP .....	+ 2.4	+ 4.3	+ 3.4	+ 3.4	432.30
Private consumption .....	+ 4.4	+ 4.6	+ 1.8	+ 1.9	234.02
Government consumption .....	+ 1.8	+ 1.6	+ 2.1	+ 1.9	82.75
Fixed capital formation:					
a) Machinery & equipment ....	+ 3.0	...	...	...	...
b) Buildings .....	+ 0.3	+20.8	+ 3.9	+ 0.8	54.89
Domestic Demand .....	+ 3.4	+ 5.5	+ 3.7	+ 3.5	424.81
Exports .....	+ 4.2	...	...	...	...
Imports .....	+ 7.6	...	...	...	...
Net exports (DM bn) .....	17.68	8.24	10.63	7.49	7.49

(NB: ... = not released)

9. It is, however, clear that private consumption has not contributed to growth as much as had been expected. Private consumption for the first three quarters of this year has increased by 2.7% in real terms compared to the same period in 1987. The corresponding comparison for 1987/86 reveals growth of 3.19. On a quarter by quarter comparison the expansion of private consumption has also been slower and, as is shown in Chart 1 below, in Q2 and Q3 private consumption grew at a significantly lower rate than GNP for the first time since 1985.