

UNCLASSIFIED
SAVING TELEGRAM

FR BONN

FRAME ECONOMIC

TO FCO TELNO 03 SAVING OF 17 FEBRUARY 1989. 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.

FRG ECONOMY

SUMMARY

1. The release of more statistics from the real economy indicate strong growth in industrial output and demand at the end of 1988. Business confidence high, but one analysis suggests that domestic demand as well as growth will slow in 1989. Foreign demand expected to remain high leading to strong export growth. (Paras 7 and 8)
2. Unadjusted unemployment fell in January to 2.335 million (9%), just over 2 million seasonally adjusted. Employment rose by 184,100 (7%) in the year to January. Greatest improvements were in youth unemployment and employment in the services sectors. (Para 9)
3. Capacity utilisation climbed to 88.7% in December and order books lengthened to 3 months. But warnings that price rises are on the way. New orders rose by 4.5% in December with domestic demand growing by 5% and foreign orders increasing by 3.5%. Total new orders for the year rose by 7.3%. Industrial production grew by 0.5% with consumer goods outpacing other sectors. Construction fell by 2% on a two-monthly comparison, but overall growth for the year nevertheless reached 7%. (Paras 10 to 14)
4. Inflation, cost of living index, shot up by 2.6% in January mainly as a consequence of increases in consumer taxes from the beginning of the year. Average for the year as a whole expected to be around 2.5%. Retail price index rose by 0.7% in January and wholesale prices increased by 1.7%. (Paras 15 and 16)
5. Stock markets continued firm despite some nervousness about interest rates. The FAZ index briefly came within striking distance of the levels last seen before "Black Monday" but all indices tailed off towards the middle of the month. December money supply figures were mixed with growth of M3 slackening off. But growth in the final quarter of the year averaged 6.7%, outside the target range of 3% to 6%. M2 ended 7.5% higher and M1 finished 10.1% up. Monetary policy remained tight and short-term and long-term market interest rates continued to climb. Despite this the Bundesbank avoided a further rise in official interest rates. Downward pressure on the D-Mark eased, though the dollar remained strong. (Paras 17 to 21)
6. Visible trade surplus reached DM 128 billion in 1988, a new record. Current account surplus also rose to DM 85 billion. At DM 567.8 billion, exports were 7.7% higher than a year earlier while imports rose by 7.4% to DM 439.7 billion. In the capital account, final figures for the net capital outflow in 1988 suggest that it reached DM 128 billion with sales of domestic bonds falling and net sales on the D-Mark foreign bonds market rising. FRG/UK trade figures for the 12 months to October, the latest available, show a surplus in favour of the FRG of DM 21.4 billion. (Paras 22 to 26)

DETAIL

THE ECONOMY

7. The continuing flow of statistics from different sectors of the economy at the end of 1988 have underlined the broad-based strength of German growth. Production and output figures for December remained at a high level. The business climate, as measured by the Munich based Ifo Institute, indicated marked optimism over medium term prospects. Provisional indications at the beginning of the year are that the strong economic performance is continuing into 1989.

8. Despite this economic forecasters have been reluctant to revise their predictions for overall growth this year. Most commentators agree with the RWI Institute in Essen which in an analysis released in January forecast growth between 2 per cent and 2.5 per cent this year (Table 8). Putting this into an international context, the Institute assessed that the US, Japan, Spain, the UK and Italy will all outpace the Federal Republic in 1989. The Institute was particularly concerned about the comparative weakness of domestic demand. It estimated that demand in the Federal Republic would grow by 2% this year compared to 4.25% growth in the UK and 3.75% in Italy and Japan. But the Institute reported that the strength of foreign demand at the end of 1988 indicated that exports would reach a new record level this year and that the visible trade surplus would continue to rise.

LABOUR AND SOCIAL AFFAIRS

9. Unemployment in January was estimated to be 2.335 million unadjusted, 144,100 higher than in December but well below the total recorded in January 1988 (Figs. 1 and 2). The unemployment rate was also lower, 9% compared to 9.9% a year earlier. In seasonally adjusted terms unemployment fell to just over 2 million, continuing the downward trend evident since the middle of last year. The improvement was particularly noticeable in youth unemployment. A total of 92,400 young people under 20 years of age were unemployed in January, some 27% lower than the same period last year. The numbers of employed persons also continued to improve rising by 184,100, or 7%, compared with the same period a year earlier. While stressing the welcome improvement in the labour market, the President of the Federal Labour Office, Franke, pointed out that much of the gains in employment continued to be made in the services sectors.

Fig.1

***** * FRG UNEMPLOYMENT * *****			
	Jan 88	Dec 88	Jan 89
a) Unemployment total ...	2,518,675	2,190,496	2,334,613
- Rate (%)	(9.9%)	(8.5%)	(9.0%)
b) Adjusted total	2,243,000	2,149,000	2,077,000
c) Short-time working ...	309,988	108,130	170,804
d) Unfilled vacancies ...	161,300	178,572	196,246
e) Total men in a)	1,426,913	1,180,055	1,298,952
f) Total women in a)	1,091,762	1,010,441	1,035,661