

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

TO FCO TELNO 8 SAVING OF 16 June 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. Provisional Q1 results indicate real growth in GNP of 4.2%. Investment, particularly construction activity, led. Export growth high at 9.9% in real terms.
2. Unemployment fell below 2 million in May to 1,947,000 (7.6%), the lowest since Autumn 1982. Employment expanded strongly in April to 27.4 million, 319,000 higher than a year earlier.
3. The business climate improved again in April with the medium term assessment of output and expansion good. New orders rose strongly in March by 3.5% with the greatest improvement in the capital goods sector. Industrial output in April increased by a seasonally adjusted 1%. Manufacturing output rose by 1.5%. Following strong growth since the end of last year, construction output fell in April by 15.5%.
4. Expectations for private consumption remain low. Retail turnover rose by 2.1% in real terms in the first four months of the year. Inflation in May edged up to 3.1%.
5. The current account surplus in April eased to DM 7.9 billion while the visible trade surplus also fell back to DM 9.9 billion. Long term outflows on capital account dropped sharply to DM 1.7 billion.
6. German stock markets reached new highs in June before falling back on profit taking. Bond markets remained lacklustre. The Bundesbank did not change to the official interest rates but market rates eased. Sterling took a battering on the Frankfurt foreign exchange while the US dollar climbed strongly. Money supply fell back further.
7. FRG imports from the UK totalled DM 31.5 billion in the 12 months to March while exports to the UK in the same period were DM 55.9 billion.

/DETAIL

DETAIL

ECONOMIC DEVELOPMENTS

8. The Federal Statistical Office released provisional growth figures for Q1. The figures were generally welcomed by the business and financial communities. The Bundesverband der Deutschen Industrie (CBI equivalent) stressed the important role played by manufacturing industry, in which output increased at almost double the average rate for the economy as a whole. Favourably mild weather had also helped the construction industry respond quickly to increased demand from the residential and industrial sectors. The strength of exports was also acknowledged, particularly capital goods which were estimated to comprise over 50% of total exports. The following tables record the nominal and real growth during the quarter.

GNP Growth (real)	% change on a year earlier			
	<u>Q2 88</u>	<u>Q3 88</u>	<u>Q4 88</u>	<u>Q1 89</u>
GNP	+ 3.4	+ 3.4	+ 2.7	+ 4.2
Private consumption	+ 1.4	+ 2.5	+ 1.2	+ 1.3
Government consumption	+ 2.1	+ 2.2	+ 1.2	+ 0.4
Fixed capital formation:				
a) Machinery & equipment	+ 6.8	+ 7.0	+ 8.8	+ 7.5
b) Buildings	+ 3.3	- 0.2	+ 0.4	+10.8
Domestic Demand	+ 3.2	+ 3.4	+ 3.0	+ 2.3
Exports	+ 5.6	+ 5.4	+ 5.3	+ 9.9
Imports	+ 5.2	+ 5.3	+ 6.5	+ 4.6
Net exports (DMbn)	12.5	8.3	17.0	19.9

GNP Growth (nominal)	% change on a year earlier			
	<u>Q2 88</u>	<u>Q3 88</u>	<u>Q4 88</u>	<u>Q1 89</u>
GNP	+ 4.9	+ 5.0	+ 4.7	+ 6.8
Private consumption	+ 2.8	+ 4.1	+ 2.8	+ 4.5
Government consumption	+ 2.5	+ 3.6	+ 2.7	+ 3.0
Fixed capital formation:				
a) Machinery & equipment	+ 7.3	+ 8.2	+10.0	+ 9.1
b) Buildings	+ 5.0	+ 2.3	+ 3.0	+13.6
Domestic Demand	+ 4.5	+ 4.8	+ 4.6	+ 5.3
Exports	+ 7.3	+ 7.6	+ 7.9	+13.6
Imports	+ 6.2	+ 7.1	+ 8.3	+10.0
Net exports (DMbn)	29.6	23.7	37.5	37.7