

UNCLASSIFIED  
SAVING TELEGRAM

FROM BONN  
FRAME ECONOMIC

TO FCO TELNO 14 SAVING OF 04 December 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

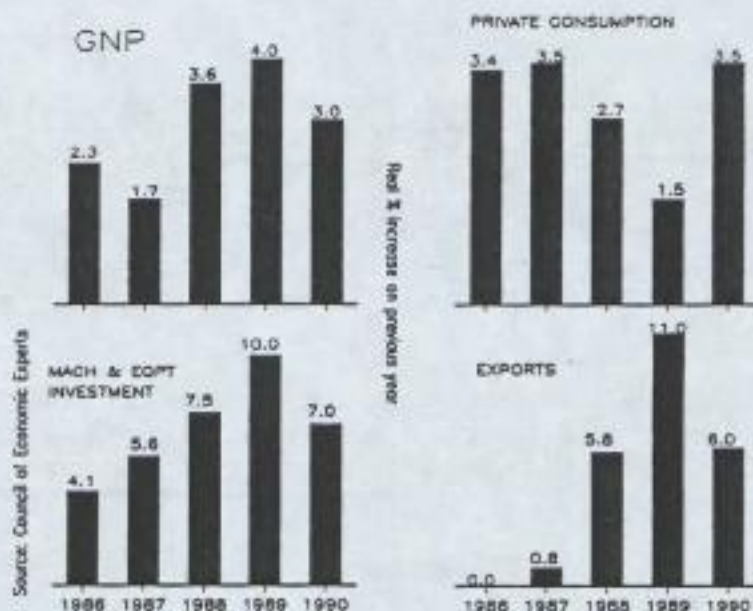
SUMMARY

1. GNP growth slows in third quarter, but economy still on course for highest growth this decade. Annual report of Council of Economics Experts forecasts GNP growth of 4% in 1989, slowing to 3% in 1990. (Para 9)
2. Labour market has so far coped well with influx of resettlers from the GDR and Eastern Europe. Unemployment remains below 1.9 million. (Para 10)
3. Business climate remains favourable. Upward trends in capacity utilisation, investment plans, incoming orders and industrial output. Strong demand in construction sector. Retail sector optimistic. (Paras 12 to 16)
4. Inflation jumped to 3.2% in October but annual average unlikely to exceed 2.8%. (Para 17)
5. Key interest rates unchanged. M3 growth remains within target. (Paras 20 to 21)
6. Strong DM causes growing strain within ERM. Renewed calls for realignment. (Para 22)
7. Stock markets benefit from developments in the GDR and the likely consequences for the FRG economy. Extension of trading hours approved. Bond market nervous. (Para 23)
8. Current account and visible trade surplus set to reach record level in 1989. UK trade gap with FRG widens further. (Paras 24 to 26)

## DETAIL

### GROWTH

9. The Federal Economics Ministry estimated that GNP growth in Q3 1989 eased to 3.5% from 4.9% in Q2 and 4.4% in Q1. The DIW Economic Institute (Berlin) also issued a report suggesting that there had been a pause in growth in the summer, giving a figure of 3.1%. The economy nevertheless remains on course to achieve the highest growth rate this decade of at least 4%. This was confirmed by the annual report of the Council of Economic Experts (the Five Wise Men), the statutory precursor to the Government's economic analysis due early next year. In line with the Autumn report of the Five Institutes, the Council forecasts 4% growth for 1989, slowing to 3% in 1990. In agreement with most other commentators, the Council is of the opinion that the main impetus to growth will shift away from exports to private consumption which is expected to expand by 3.5% after only 1.5% this year. Investment activity will remain brisk and the creation of some 400,000 jobs will help reduce unemployment further.



### LABOUR AND SOCIAL AFFAIRS

10. Developments on the labour market are currently in the shadow of the influx of resettlers from Eastern Europe and the GDR. There is some concern that the continued flow of refugees, estimated at up to 4000 a day, could soon adversely affect the labour market, but this has not yet begun to happen. The number of newly-registered unemployed in October was only just below the record level seen in the recession year 1982. However, the current strength of the economy continues to push up demand for labour so that the number of newly-registered jobs reached its highest level since 1972. The unadjusted unemployment figure fell by 7,100 to 1,873,700 with the unemployment rate unchanged on September at 7.3% but well down on the 8.1% of October 1988. The seasonally adjusted unemployment figure fell for the fifth consecutive month, dropping below 2 million. Short-time working remained practically negligible, at 50,200 almost 50% down on a year earlier. The number of vacancies in October was 53% higher than a year earlier. September estimates for employment indicate a new high of 27.95 million, a rise of 332,000 on September 1988.