

UNCLASSIFIED

SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

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and West Berlin, Washington, Tokyo, Vienna

MY TELEGRAM 1011

FIVE WISE MEN'S ANNUAL REPORT

Summary

1. Pessimistic outlook for real GNP growth at the end of this year
reduces forecast for 1987 to growth of a little over 2%. The rise in
private consumption is expected to slacken slightly to 3% in real
terms and Government consumption to increase by 2% in real terms.
Investment is expected to be stronger in both machinery, up 7.5%, and
buildings, up 4%. After a bleak first half of the year exports are
forecast to rise by 1.5% over the year but imports will jump by 5.5%
in real terms.

2. Unemployment is forecast to fall by only 70,000 or 80,000 in 1987
while the number of employed will rise slightly. Gross wage and
salary increases will slow to 4.5%.

3. Inflation, cost of living index, will average 1%.

4. The report generally supports the Government's economic policies to date and calls on the Bundesbank not to relax its tight monetary restraints. There is agreement on the need for reform both in the level of taxation and in its distribution among the levels of Government.

5. Although the report itself emphasises the need to reduce unemployment, there is also a minority comment attached to it in which one of the five argues for specific fiscal and economic measures to be adopted.

6. A report which tries to be all things to all men and by doing so has attracted criticism and praise in equal measure.

Detail

7. The Council of Economic Advisers presented their annual economic report on the FRG economy to Chancellor Kohl on 24 November. The Council consists of Professor Hans Karl Schneider (Cologne University - Chairman), Professor Dieter Pohmer, Professor Ernst Helmstädter (Munster), Professor Rüdiger Pohl and Professor Helmut Hesse (Göttingen).

8. The report begins by analysing along familiar lines recent developments in the world economy and their effect on the FRG domestic performance. In 1984 and for a large part of 1985 the domestic economy was propelled mainly by external demand. In 1986, however, this initial push coupled with lower oil prices to give impetus to domestic forces with private consumption and investment in machinery, equipment and buildings all showing increases over previous periods. Even residential construction was showing signs of recovering from its recession. But with lower oil prices and improved domestic performance came pressure on the external value of the D-Mark. Import costs fell; in addition to reductions of costs in a year of about a half for mineral oil products and a third for crude oil, other import costs fell by 20% over the year, the greatest drop in 15 years. The high external value of the D-Mark also caused severe difficulties for German exporters, despite compensatory reductions in their profit margins, which were exacerbated by weak economic impulses from important trading partners and a fall in orders from OPEC countries. The decline in export performance would result in an end-year growth in GNP of 2.5%, which would be the fourth year of growth and equal to last year.

/Forecast