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BY 606

SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

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UKDEL OECD, UKMis Geneva, all Consulates-General in the
Federal Republic and West Berlin, Washington, Tokyo,
Vienna

FEDERAL GERMAN ECONOMY

Summary

1. Q3 growth in real GNP slowed to a rise of 2.4% with private consumption up by 3.8%, government consumption up by 3.1%, investment in machinery up by 4.8% and buildings up 1.2%.
2. Net exports in Q3 at lowest quarterly level of the year at DM 10.9 billion, a fall in real terms of 1.5%. Imports rose by 2%.
3. The domestic debate has intensified over projections for growth next year. Some recent reports revise forecasts down to 2%-2.5%. In recent statements the Federal Finance Minister has made the favourable economic climate a central platform of the Government's election campaign.
4. Central Bank Money target for 1987 fixed at a range of 3% to 6%. November Central Bank Money increased at an annual rate of 7.8% exceeding the 1986 target yet again.
5. Possibility of further EMS realignment in the new year and a reduction in interest rates.
6. The current account surplus in November totalled DM 9.8 billion after DM 8.3 billion in October. The visible trade surplus declined slightly to DM 10.2 billion from DM 10.7 billion in October, bringing the total for January to November to DM 100.6 billion.
7. Total employment continues to rise and unemployment to fall.
8. Domestic demand dropped back sharply in October at -3% while foreign orders rose by 1.5%. New orders down 2% month on month. Production unchanged.
9. Inflation, cost of living index, reached -1.2% in November after -0.9% in October.

/General

General

10. The Federal Statistical Office has released provisional GNP figures for the third quarter. The growth in real GNP in Q3 slowed to 2.4% over the same quarter last year after 3.3% in Q2 and 1.75% in Q1. Private consumption was again a major component of growth rising by 3.8% over Q3 1985 following 4.8% in Q2 and 3.2% in Q1 over the same periods last year. Government consumption increased by 3.1%. Investment in machinery and equipment rose less dramatically in Q3 after the good outturn in Q2. Figures for the first three quarters of the year are Q3 4.8%, Q2 10.8% and Q1 4.2% up over the same quarters in 1985. Investment in buildings continued its slow growth, up 1.2% over Q3 1985 after rising by 1.9% in Q2 over Q2 1985 and falling by 0.2% in Q1 over Q1 1985. This brought the overall level of domestic demand up by 3.6% over the same quarter last year after 5.3% in Q2 and 1.8% in Q1.

11. The report also comments on import/export performance. The volume of net exports was at its lowest quarterly level of the year at DM 10.9 billion, a fall in real terms of 1.5% over Q3 1985. Imports on the other hand rose by 2% over the same quarter last year, although this was not as worrying as the leap of 8.1% recorded in the previous quarter over Q2 1985. Nevertheless, these figures will not calm the fears which are being expressed by many sectors of industry over the effect on exports in the coming months of the high external value of the currency.

12. These worries have been heightened by the October figures for industrial production which showed the level unchanged on the revised September figures. Although the October result is likely to be revised upwards in due course, it is unlikely to make a lot of difference to the poor two-monthly comparison which in September and October showed a 1.5% drop over July and August. On the same comparison, manufacturing output was 1% down and construction activity fell by 0.5%. This latter figure stands out starkly against the general claim that the construction sector is picking up after an abysmal year and that construction investment next year will provide a major stimulus to domestic demand. Such claims were given authority by, for example, the annual report of the Council of Economic Experts (our telno 16 Saving of 28 November) which foresaw a turnaround particularly in the residential sector. There are, however, few indications to support this view despite claims in the December report of the Deutsche Bundesbank that orders received in Q3 were 12% up on a year earlier, mainly in the industrial sector. Employment figures, for example, show no increase in the size of the construction sector workforce as might be expected with a rise in activity; and with a traditionally low period now upon us, there is little hope of any major change in the coming few months.