

UNCLASSIFIED  
SAVING TELEGRAM

FROM BONN  
FRAME ECONOMIC  
TO FCO TELNO 01 SAVING OF 16 JANUARY 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.

FEDERAL GERMAN ECONOMY

SUMMARY

1. Provisional national accounts results for 1988 recorded 3.4% real growth in GNP, the highest since 1979. Private consumption weaker than expected with real growth of 2.7% but investment strong at 8.3%. Exports rose by 5.1% while imports climbed by 6.3%. (para 9)
2. Unemployment (unadjusted) rose in December to 2.19 million (8.5%) compared to November. The seasonally adjusted figure fell for the sixth consecutive month to 2.16 million. Employment rose by 170,000 in the year to November 1988. (para 10)
3. Surveys of the business climate by two leading economic institutes showed continued widespread optimism. Provisional new order figures for November indicated a 2% rise in overall demand, with demand for capital goods flattening out. Production in November slowed as manufacturing output eased back by 0.2%, particularly in the consumer and capital goods sectors. Construction output slumped by 4.5% compared with November. (paras 11 to 14)
4. Inflation, cost of living index, was 1.6% in December and 1.2% for the year as a whole. Month on month the retail price index rose by 0.3% in December. Retail turnover rose by 4.2% in November compared to a year earlier. (paras 15 to 17)
5. End of year report from the Federation of German Stock Exchanges showed that turnover increased by 26% to DM 2,557.2 billion, with fixed interest securities taking the lion's share. The firm tone continued into the new year and all the main indices recorded their highest levels for 13 months. (para 18 and 19)
6. The Bundesbank relaxed slightly its monetary policy by fully funding expiring securities repurchase agreements, but it made it clear that it will continue to take measures to restrict liquidity as necessary. As a result, short-term interest rates remained firm at 5.6%. Yields on bonds outstanding eased to 6.49%. Money supply growth remained strong in November with M3 growing by 6.8% at an annual rate. The D-Mark continued to weaken against major currencies. (paras 20 to 22)
7. Provisional current account figures for November showed a rise in the surplus to DM 10.4 billion. The visible trade surplus reached DM 13.1 billion, the second highest on record. Long-term capital outflows remained steady in November at DM 3.5 billion but there were signs of weakening foreign demand for domestic securities. (paras 23 and 24)

8. FRG imports from the UK totalled DM 30 billion in the twelve months to October 1988, while exports to the UK reached DM 51.4 billion, pushing the trade gap in favour of the FRG up to DM 21.4 billion. (paras 25 to 27)

#### DETAIL

#### THE ECONOMY

9. The Federal Statistical Office released provisional national accounts results for 1988 on 11 January (Figs. 1, 2 and 3). The details were greeted with satisfaction by the Government which emphasised that real GNP growth of 3.4% was the highest since 1979. Ignoring the marked slowdown compared to 1987 in the growth of private consumption, the Government spokesman stressed the boost given to this component by the cuts in income tax last January. It would appear however that the tax cuts did no more than slow down an already declining trend. Another target of comment has been the further fall in real net exports, despite a return to strong export growth. The sharp rise in imports has been portrayed as a further contribution to the expansion of other European economies.

Fig.1

X change on previous year (real)						1988
	1984	1985	1986	1987	1988	DMbn
GNP .....	+ 3.3	+ 1.9	+ 2.3	+ 1.8	+ 3.4	1699.40
Private consumption ..	+ 1.5	+ 1.4	+ 3.4	+ 3.5	+ 2.7	949.89
Government consumption	+ 2.4	+ 2.1	+ 2.5	+ 1.6	+ 1.8	334.16
Gross investment .....	+ 3.0	- 1.9	+ 5.0	+ 3.4	+ 8.3	369.60
Fixed capital formation	+ 0.8	+ 0.1	+ 3.3	+ 1.8	+ 5.4	349.07
a) Machinery & eqpt ..	- 0.5	+ 9.4	+ 4.1	+ 4.0	+ 6.6	150.57
b) Buildings .....	+ 1.6	- 5.6	+ 2.7	+ 0.2	+ 4.5	198.50
Change in stocks .....	x	x	x	x	x	20.53
Domestic Demand .....	+ 2.0	+ 0.8	+ 3.6	+ 3.1	+ 3.7	1653.65
Exports .....	+ 9.0	+ 6.8	+ 0.0	+ 0.8	+ 5.1	578.51
Imports .....	+ 5.3	+ 3.7	+ 3.6	+ 4.9	+ 6.3	532.76
Net exports (DM bn) ....	66.59	84.63	68.20	49.01	45.75	45.75

Fig.2

