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## Germany: Chances of a prolonged upswing

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## Germany: Chances of a Prolonged Upswing

According to the present position of the available data — no analysis can do any more without such a qualificatory suggestion — the economic expansion has doubtlessly continued in the Federal Republic of Germany. The fact that during the first months of 1977 the comparatively high pace of autumn 1976 could not be reached again does not require a revision of this opinion on the basic tendency of the cyclical trend. This confirms only the moderateness of the upswing. Even if the pace of growth (current annual growth rate of GNP in real terms) of 6 p.c. in the 4th quarter of 1976 should have declined to 4 p.c. in the 1st quarter of 1977 — as can be calculated at present — this would remain within the scope of usual fluctuations. For, in view of the problems of establishing the periodicity of economic time series, three months periods are a much too arbitrary phase for permitting pace fluctuations of this magnitude to be significant. This applies of course even more to monthly results. The common inclination to judge the cyclical trend more or less by the last monthly result is completely inadequate to the subject. The process which can be sensibly interpreted as "cyclical trend" does not happen with such fluctuations from month to month as are shown even by time series adjusted for seasonal variation.

External and consumer demand have been the most important supports of the expansion.

The reincrease of orders from abroad during the last months has been so pronounced that the sag in the trend early this year can now definitely be qualified as a "runaway". Should the steep decline in the booking of new orders be caused only by a readjustment of statistics, and should the renewed increase thus in part not be a mere compensation for an actual temporary decline of orders, the strength of the reincrease would be all the more remarkable. Only the future development of exports can show which interpretation is right. Regarding consumer demand now as before a tendency towards underestimating the actual increase is to be observed in the public. This is to be explained mainly by the false equation of the development of retail trade with that of consumption. In reality, however, only 40 p.c. of consumer expenditure are undertaken via the retail trade and its turnover rises less than that of the services sectors. Investments increased, too, but only slightly. Domestic demand for capital goods has grown again recently and according to the observations of Ifo-Institut the investment plans of industry have slightly been revised upwards, but the propensity to invest is on the whole sluggish.

### Subdued Investment Perspectives

Even if this trend should not change markedly during the fur-

ther course of the year, the present stimulating forces would suffice to justify for 1977 the further expectation of a growth rate of real GNP of about 4.5 p.c. This is indicated above all by the tendencies of exports and private consumption.

The longer the upswing lasts, the more questionable becomes the hope that a strong recovery of the propensity to invest could finally come about. True, the utilisation of capacities is growing, and with that the inducement to invest. But it is to be feared that the following — here overdrawn — reciprocal effect will be operating: the expansion remains moderate due to the low propensity to invest while the propensity to invest remains low due to the moderate expansion. Of course, the propensity to invest is also influenced by other factors. The general speed of expansion is however of major importance as a necessary condition.

### Upswing Still Possible in 1978 . . .

A moderate upswing has also positive aspects. It works in favour of stability; it must be doubted that a strong expansion would have been accompanied by the same low rates of price increase. Moreover, it supports also long continuance of the up-trend. Former upswing phases, i.e. phases of an increasing utilisation of the overall productive capacity, did seldom last longer than two years. They ended because of the termination of extremely strong upward trends of investment — e.g. after investors had reached their capacity targets — or as a result of stabilising measures of economic policy; frequently both factors coincided. This time neither of them will operate. Therefore the pros-

pects are good that the present upswing which has now been lasting for two years will substantially surpass in duration all its predecessors. Admittedly, it can not be ruled out that a general slackening of the world business trend could bring about the end of the current upswing in the Federal Republic. For the time being, however, there are no indications of such a development. Thus the upswing may well outlast the next year. At any rate it is by no means cogent that — in accordance with former experiences — its end must be near.

#### **... but no Major Increase in Employment**

Opposite to the positive aspects there is, however, a weighty negative one: at the low speed of the upswing employment increases only slightly, while unemployment — with the

growing number of persons earning, or seeking to earn, a living by gainful activity — shows no significant decline. It is only too easy to understand that this aspect — in view of the high unemployment figures — is regarded as much more important than the stabilisation and extension effect which after all brought the business cycle near to the long strived for ideal of "steadiness". A continuation of the upswing in the next year will certainly not be connected with a higher rate of growth of the real GNP compared with 1977. More likely is a slower expansion. The expansion of consumption, for instance, will be weaker since the increase in social insurance pensions has been cancelled and the saving ratio can be expected to increase again. Thus a fundamental improvement of the labour market situation in the next year seems unlikely.

#### **Increasing Unemployment**

The strike was also directed against an aggravating failure of economic policy — the increasing unemployment. Adjusted for seasonal variation the number of unemployed has again increased noticeably during the course of this year. The unemployment ratio (unemployed persons as percentage of all wage and salary earners) was above 6 p.c. in June. This development reflects in particular the weakening of the cyclical expansion which is to be traced back mainly to a slackening of the growth of domestic demand. Thus the expansion of private consumption declined together with a slower increase of wages, and the investments of enterprises should hardly have grown any more. Now as before external demand rose most strongly. Since, on the one hand, the increase of imports flattened similar to domestic demand, the aimed at reduction of the balance of the trade deficit was the so far most visible success of economic policy.

## **France: Suspended Targets**

In France the chance is dwindling that the Barre-programme as announced last autumn will obtain its targets. This applies above all to the main target — the slowing down of the price increase. The weakening of the upward trend of prices brought about by the price freeze in force until the end of December and the following reduction of the added value tax was succeeded by an unexpectedly strong acceleration. The programme itself contributed to this development as far as the price freeze applying to public utility undertakings up to the end of March led to a concentration of rate increases in April. The unfavourable price trend was partially also the result of extremely high price increases of fruit, vegetables and semi-luxuries.

True, there are good chances of a renewed calming down of the upward trend of prices originating from the ceasing of special factors and the reintroduction of a selective price freeze. But until the end of the year it will be difficult to reduce it even to the guideline recently revised from 6.5 to 8.5 p.c. To achieve this a diminution of the current annual rate of more than 10 p.c. during the last months to about 7 p.c. in the second half of the year would be required. Whether such a slowing down will be obtained is decisively depending on the further wage developments. Recently the labour force demonstrated their rejection of the policy of freezing real wages, which plays a central role in the Barre-plan, by a one-day general strike.

#### **Weak Investment Activities Continuing**

Due to the in general hesitating development of demand the Government could not maintain its growth target. It now expects for this year a growth rate of real GNP of 3.5 p.c. (previously 4.8 p.c.). This revision was particularly required owing to the only small increase of investments. During the winter-half of the year the propensity to invest deteriorated noticeably. In spite of the provision of additional investment credits an increase of only 1.5 p.c. in industrial fixed investments in real terms is anticipated for 1977. The recent release of ffrs 1 bn from the Fund for the Support of Economic Activity will not change much in this respect if only for temporal reasons. In addition it is difficult to anticipate to